# Developments on ESG Reporting and Role of Professionals

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## <u>What is Sustainability and ESG?</u>

Sustainability is a buzz word today. In common parlance, it means "Meeting the needs of the present without compromising the ability of future generations to meet their needs". However, in business and policy context, limits to sustainability are determined by physical and natural resources, environmental degradation, and social resources. Sustainable policies place emphasis on the future effect of any given policy or business practice on humans, the economy, and ecology. The concept often corresponds to the belief that without major changes to the way the planet is run, it will suffer irreparable degradation.

To measure sustainability, ESG or 'Environmental, Social and Governance' has evolved. Thus, entities report on:

- Environmental Factors – Impact of company's operation on the environment, both direct and indirect;
- Social Factors – relationship of the company with the employees, labour, consumers, suppliers, and other stakeholders; and
- Governance – the diversity in the Board, leadership, engagement of the stakeholders, and independence in matters of financial auditing and reporting.

## <u>Reporting in ESG – recent global developments</u>

There is a growing relevance in reporting on Sustainability and ESG. Such reporting has moved from '*nice to report*' to '*must report*' reflecting increasing expectation of stakeholders. Stakeholders now expect companies to report on sustainability – whether it is regulators, investors or customers. Companies giving information on Sustainability are now <u>perceived</u> as 'trustworthy' and 'caring for the environment' than carrying on activities 'only for profit'.

Global ESG disclosures and frameworks such as the Global Reporting Initiative (GRI), Integrated Reporting (IR), Sustainability Accounting Standards Board (SASB), United Nations Global Compact, Task Force on Climate-related Financial Disclosures (TCFD) and Customer Data Platform require businesses to disclose their sustainability performance as per their key performance indicators (KPIs) and principles. Many countries around the world have also introduced and mandated some form of ESG-related disclosures.

In September 2020, the International Financial Reporting Standards (IFRS) Foundation published a consultation paper on sustainability reporting to assess the current situation, examine the options – maintain status quo, facilitate existing initiatives, create a Sustainability Standards Board and become a standard-setter working with existing initiatives, build upon their work, reduce level of complexity and achieve greater consistency in sustainability reporting.

In November 2021, the IFRS Foundation Trustees announced the creation of a new standard-setting board – the International Sustainability Standards Board (ISSB). The intention for set up of ISSB was to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions. ISSB also enabled the consolidation of various global ESG frameworks existing at that time.

On 23 June 2023, ISSB issued 2 standards namely;

- IFRS S1 – General Requirements for Sustainability related disclosures and
- IFRS S2 – Climate related disclosures

S1 and S2 complement the GRI and are influenced by and work alongwith TCFD. The International Organization of Securities Commissions (IOSCO) has endorsed S1 and S2. In due course, IOSCO may require all its members, including SEBI to follow these standards.

S1 provides general requirements for disclosing sustainability-related risks and opportunities whereas S2 provides specific requirements for climate-related disclosures. The standards aim to enable companies to communicate to investors and other stakeholders how sustainability issues affect their financial performance and value creation. The standards are designed to be applied by companies that report under IFRS Standards and also by companies that apply other accounting frameworks. These standards are effective for reporting periods beginning on or after 1 Jan 2024.

**Assurance for Sustainability Reporting**

Auditors now need to understand how climate-related risks relate to their responsibilities under professional standards, and applicable laws and regulations. The International Federation of Accountants (IFAC), which issues International Standards on Auditing (ISAs), took the lead in developing guidance to give independent assurance on Sustainability Reporting. In October 2020, IAASB highlighted areas of focus related to consideration of climate-related risks when conducting audit of financial statements in accordance with ISA by issue of document "Consideration of Climate-related risks in an audit of Financial Statements". The International Standard on Assurance Engagements (ISAE) 3000(R) issued by IFAC is the most used standard when dealing with sustainability information assurance.

The European Commission (EC) adopted a proposal for the Corporate Sustainability Reporting Directive to strengthen sustainability reporting. This is fundamental to achieve a sustainable economy. It requires companies to report comparable, targeted, reliable as well as easily accessible information as basis for sustainable decision-making. The EC also introduced an EU-wide requirement for limited assurance on sustainability information. According to the EC's proposal, independent external assurance enhances the reported sustainability information's credibility. This helps meet the growing demands for reliable information on sustainability matters.

The IAASB at its June 2023 meeting approved and has subsequently released the globally anticipated exposure draft of proposed International Standard on Sustainability Assurance ISSA 5000 General Requirements for Sustainability Assurance Engagements. Proposed ISSA 5000 provides a comprehensive, initial global baseline for sustainability assurance engagements that intend to enhance trust and confidence in reported sustainability information. It is applicable to information about all sustainability topics prepared in accordance with any sustainability reporting framework, regardless of the mechanism for reporting the information (e.g., in an integrated report, the annual report, or a stand-alone sustainability report). The proposed ISSA is also relevant to limited and reasonable assurance engagements which any assurance practitioner can use.

**Reporting in ESG – developments in India**

The evolution of sustainability and ESG reporting in India can be summarized as under:

| 2009 | 2012 | 2014 | 2015 | 2017 | 2019 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|
| National Voluntary Guidelines (NVGs) *(MCA issued NVGs on corporate social responsibility)* | Business Responsibility Report (BRR) *The top 100 listed companies file BRR based on NVGs along with their annual reports* | Corporate social responsibility (CSR) *CSR is mandated, and CSR Rules come into force* | Extension to top 500 listed companies for filing BRR | Integrated Reporting (IR) *IR may be adopted on a voluntary basis from FY 2017–18 by the top 500 companies which are required to prepare BRR* | - National Guidelines on Responsible Business Conduct (NGRBC) released - Extension to the top 1,000 listed companies for filing BRR | Business Responsibility and Sustainability Report (BRSR) *Introduction of BRSR in May 2021* | Mandatory reporting of top 1,000 listed companies to file BRSR along with the annual reports | **Mandatory Assurance required for the top 150 listed companies. Core BRSR Principles disclosed** |

**What is Business Responsibility and Sustainability Reporting (BRSR)?**

BRSR provides a standard and a consistent framework to capture the performance of companies on a globally recognized and locally relevant indicators. Value chain, labour welfare and women's participation in economic activity are recognized as the 3 key pillars for inclusive development. BRSR formats are drawn upon to remain consistent with the 17 sustainability development goals adopted by the United Nations in 2015. BRSR also provides for inter-operability of reporting i.e. the entities which prepare sustainability reports based on internationally accepted reporting frameworks (such as the GRI, SASB, TCFD, IR) can cross-reference the disclosures sought under the BRSR to the disclosures made under such frameworks.

BRSR lays considerable emphasis on quantifiable metrics, for easy measurement and comparability across companies, sectors and time periods. Disclosures on climate and social (employees, consumers and communities) and related issues have been significantly enhanced and made more granular. Disclosures under the BRSR are segregated into essential (mandatory) and leadership (voluntary) indicators.

BRSR was made mandatory from FY 2022-23 for the top 1,000 listed entities by market capitalization (calculated as on 31st March of every financial year) and voluntary for other companies and companies listed on SME exchange.

From FY 2023–24, the top 1000 listed entities are mandated to make disclosures in the updated BRSR format. Listed entities as under are required to mandatorily undertake limited assurance of the said report and reasonable assurance of BRSR Core:

| Financial Year | Applicability of BRSR Core to top listed entities |
|---|---|
| 2023 – 24 | Top 150 |
| 2024 – 25 | Top 250 |
| 2025 – 26 | Top 500 |
| 2026 – 27 | Top 1000 |

Disclosures for value chain are also to be made by listed companies as per BRSR Core. For this purpose, value chain should encompass the top upstream and downstream partners of a listed entity, cumulatively comprising 75% of its purchases/ sales (by value) respectively.

For value chain, reporting on the KPIs in the BRSR Core is required to the extent it is attributable to their business with that value chain partner. Such reporting can be segregated for upstream and downstream partners or can be reported on an aggregate basis. The ESG disclosures for the value chain are applicable to the top 250 listed entities, on a comply-or-explain basis from FY 2024-25 and limited assurance is applicable on the same basis from FY 2025-26.

**<u>Developments at the ICAI</u>**

In February 2020, the ICAI constituted Sustainability Reporting Standards Board (SRSB). The mission of the SRSB is to take appropriate measures to increase awareness and implement measures towards responsible business conduct, developing audit guidance for IR. Since its formation, SRSB has:

- Introduced India's first award to celebrate the business practice of IR;
- Started a Certificate Course on Sustainable Development Goals (SDGs), Business Responsibility Reporting (BRR), IR;
- Proposed an ICAI Executive Development Program on BRR;
- Held several webinars on Sustainability Reporting;
- Initiated an Online Certificate Course on BRSR; and
- Issued publications on BRSR and SDGs.

**Opportunities for Chartered Accountants**

Reporting and providing assurance on ESG and BRSR offers tremendous scope for professionals to widen their horizon of services. By partnering with environmentalists and social experts, Chartered Accountants can render the following services:

- Setting up and/ or validating the processes for collation of data under the BRSR framework and preparation of the report;
- Providing Assurance (reasonable or limited) on the BRSR and BRSR Core as required;
- Validating (and providing assurance, if required) the processes of value chain partners for the BRSR framework.

**Conclusion**

As can be concluded from the above, reporting on Sustainability and ESG and Assurance is fast evolving and maturing. ISSB and IFAC are moving to have global standards for such reporting and providing assurance thereon. This also offers professionals esp. Chartered Accountants a great opportunity to diversify their services into this exciting field.