

PRI RESPONSE TO THE SECURITIES AND EXCHANGE BOARD OF INDIA'S CALL FOR COMMENTS ON BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORTING

October 16, 2020

INTRODUCTION

The United Nations-backed Principles for Responsible Investment (PRI)¹ is the world's leading initiative on responsible investment. The PRI has over 3000 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US \$90 trillion in assets under management.

Responsible investment explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors in investment decision-making for the long-term health and stability of financial markets.

The PRI welcomes the opportunity to respond to the Securities and Exchange Board of India's (SEBI) call for comments on the consultation paper for Business Responsibility and Sustainability Reporting (BRSR).

ABOUT THIS CONSULTATION

The Ministry of Corporate Affairs (MCA), Government of India, released the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs), in 2011. In 2012, the Securities and Exchange Board of India mandated the top 100 listed companies by market capitalisation to make disclosures on business responsibility and sustainability indicators contained in the NVGs through the Business Responsibility Reporting (BRR). The requirement for filing BRRs was extended to the top 500 listed companies from the financial year 2015-16 and to the top 1000 listed companies from the financial year 2019-20. In March 2019, the NVGs were updated to include the Sustainable Development Goals (SDGs), and the United Nations Guiding Principles on Business & Human Rights (UNGPs) and were released as the National Guidelines for Responsible Business Conduct (NGRBC).

The [proposed new disclosures](#) (for which SEBI has invited public comments) are an update on the existing BRR to incorporate the NGRBCs as well as an attempt to improve the data quality and utility of these disclosures based on lessons learnt from several years of BRR filings by companies as well as stakeholder consultations.

Some of the key proposed updates by the Committee on Business Responsibility (constituted under the Chairmanship of Joint Secretary, MCA) include the following:

¹ <https://www.unpri.org/>

- The format would be called 'Business Responsibility and Sustainability Report (BRSR)' instead of Business Responsibility Report, to better convey the thrust on sustainability as well as business responsibility
- Implementation of the reporting requirements will be done in a gradual and phased manner (effective from the financial year 2021-2022)
- Questions will be divided into Essential and Leadership categories, with the latter being voluntary
- Quantitative disclosures will be increased in this version, to enable comparability
- With regard to listed entities, reporting may be done by top 1000 listed companies and reporting requirements will also be extended by MCA to unlisted companies above specified thresholds of turnover and/or paid-up capital
- Further, the Committee recommended that smaller unlisted companies below this threshold may, to begin with, adopt a 'Lite' version of the format, on a voluntary basis
- BRSR is recommended to be integrated with reporting under the Companies Act, 2013 on the MCA21 portal, preferably in XBRL formats

The Committee hopes that the proposed formats gain acceptability and credence among global frameworks as a singular source of non-financial/sustainability information for companies reporting in India. They also hope that as non-financial/sustainability disclosures grow in eminence, this information would be used by banks, credit rating agencies, and other financial institutions, along with financial information to assess the credibility of a company/business.²

KEY RECOMMENDATIONS

The PRI welcomes the enhanced scope of the disclosures as indicated by the proposed renaming of the existing Business Responsibility Report (BRR) to the Business Responsibility and Sustainability Report (BRSR). It also welcomes the transformative role the BRR has played over the years to develop sustainability disclosures of Indian companies. The PRI welcomes in particular:

- the proposed BRSR content as well as the formats of disclosures including the 'Lite' version for smaller companies;
- the integration of the BRSR with the MCA21 portal, provided there is no significant duplication of reporting efforts for the companies
- the intention to develop a Business Responsibility-Sustainability Index for ensuring better quality reporting and comparability between companies.

In order to make the BRSR more effective to investors, there is a need for "decision-useful" disclosures that effectively assess the impact of ESG risks and opportunities on individual investees' financial positions. There are three core components which provide the path to comprehensively understanding an entity's ESG risks and opportunities, environmental and social performance, and contribution to wider outcomes:

- ESG risks and opportunities - ESG factors likely to impact the financial condition or operating performance of an entity (financial materiality).
- Sustainability performance – How an entity's operations and products impact (positively and negatively) stakeholders and the environment.

² http://mca.gov.in/Ministry/pdf/BRR_11082020.pdf

- Social goals and planetary thresholds – Nationally, regionally, or internationally recognised environmental and social targets, norms and responsibilities within which entities operate from a sustainability perspective.³

The PRI's key recommendations to SEBI on the update of BRSR are:

- BRSR disclosure requirements should lead to data that is consistent, comparable and reliable. In this regard, we recommend aligning the BRSR with global reporting frameworks like The Task Force on Climate-related Financial Disclosures (TCFD), on a voluntary basis to start with and making it mandatory over a reasonable, clearly defined timeframe.
- SEBI should also contribute to the international dialogue on ESG reporting harmonisation and standardisation, which is currently underway. We recommend that SEBI works with other national and multilateral reporting stakeholders to create a global, standardised and comparable corporate ESG reporting framework, including standardised ESG indicators and underlying methodologies. Once such an international standard is defined, SEBI should align its reporting requirements with the internationally agreed reporting framework and metrics.
- SEBI could consider a sustainable taxonomy consistent with efforts underway in Europe, Canada and South Africa, and continue to contribute to global efforts to align sustainable finance activities through the IPSF.
- BRSR should include questions that encourage companies to disclose forward-looking targets (dated and quantified) that will allow for tracking progress not only at the company and sector level but also in the broader context of India's environmental and social goals (including the Paris Agreement and the SDGs).
- BRSR should include guidance on data assurance.
- BRSR should encourage companies to disclose not only how ESG issues have impacted companies' operations (positively or negatively) but also the impact of companies' operations on the environment and society.
- BRSR should require companies to disclose all material issues and all high-risk locations of plants/operations, as opposed to only the top 3 as currently prescribed. Especially manufacturing companies and conglomerates should report all relevant data points that can be material for investment analysis.

³ <https://www.unpri.org/driving-meaningful-data/driving-meaningful-data-financial-materiality-sustainability-performance-and-sustainability-outcomes/6446.article>

DETAILED RECOMMENDATIONS

Name: UN-backed Principles for Responsible Investment				
Sr No	Recommendation in the business responsibility and sustainability reporting format to which the comment pertains	Comment	Rationale for the comment	Revisions to the recommendations, if any
1	Overall	The PRI recommends an alignment of the BRSR with the TCFD framework on a voluntary basis to start with and making it mandatory within a clearly defined timeline, to give the market clarity.	In order for information to be useful for investors, the information should be consistent, reliable and comparable. If the ESG data that feed into investor analyses are not standardised or comparable, a fundamental input in the ESG integration process is flawed. Data sought through the TCFD ensures that the output is usable by global investors in decision-making.	Leadership Indicators should encourage companies to report against the TCFD on an optional basis, to start with. Key metrics could include: <ul style="list-style-type: none"> • % or absolute value of companies' operations exposed to identified key indicators of physical climate risk in specific geographic areas; • Weather-related operational losses • Disclose the results of scenario analysis from a range of scenarios, including the potential impact on AUM/expected revenues
2	Overall	The PRI recommends that SEBI adds to the BRSR the setting of targets to improve sustainability performance. Companies should be encouraged to map these targets against India's Nationally Determined Contributions and the SDGs.	The information sought in the BRSR could include questions on science-based targets and Key Performance Indicators, ensuring better comparability across time periods and peers. This would also align companies with the Paris Agreement and SDGs.	In describing their targets, entities should consider including the following: <ul style="list-style-type: none"> • Whether the target is absolute or intensity based or a combination of the two, • Time frames over which the target applies, • Base year from which progress is measured,

				<ul style="list-style-type: none"> • Key performance indicators used to assess progress against targets. • Including key ESG targets in executive remuneration.
3	Overall	The PRI recommends that guidance is provided to ensure reliability and accuracy of the data.	<p>Lack of reliable sustainability data is a primary barrier to responsible investment. Steps should be taken to validate the information reported. BRSR report could encourage such steps so that investors gain confidence on data provided.</p> <p>Having accountability with regards to the BRSR data is one way to address this. While the report seeks information on the Director responsible for the BRSR, it is recommended that just like the CSR function, the Sustainability function also reports to the Board so that not only the quality of report is taken care of but also that material sustainability issues are discussed at the top management level and percolated down.</p>	BRSR data, like financial data, should have an assurance statement either by an internal audit or external assurance team. Guidance should be provided on how to assure the quality of reporting by third party auditors.
4	Overall	BRSR should encourage companies to report on how sustainability-considerations have positively impacted their operations as well as if poor management/overlooking of ESG issues have negatively impacted the company in the recent past.	<p>ESG-related activities can drive investments, generate returns, create new sources of revenue, reduce operating costs and enable strategies. Conversely, overlooking key ESG issues might also negatively impact the company's bottom lines or reputation.</p> <p>This question would help in going beyond a compliance-based approach and increase awareness on the benefits of sustainability and reporting in India.</p>	We recommend including a question on the positive impact sustainability considerations have had on company operations/financials and a question on whether on-the-ground ESG issues (for example water scarcity, farmers' protests) have negatively impacted the company's operations/financials in the recent past (and how they are addressing it).

		<p>BRSR should also include a question on whether the company's operations have negatively impacted the environment or society in the last 3 years/recent past. This could include <i>inter alia</i> incidents as reported in the media or in other public domains including findings from EIA/SIA monitoring reports.</p>	<p>This would help investors get a better sense of the company's actual sustainability performance beyond its policies and self-reported data.</p>	<p>Suggestion to include a question on the negative impact of the company's operations and how they are addressing it.</p>
5	<p>Section A/ 30</p> <p>Overview of the company's high priority responsible business conduct issues.</p> <p>Please indicate, up to three, high priority responsible business conduct and sustainability issues pertaining to environmental, social and governance matters that present a risk OR an opportunity to your business and outline the approach that your company is taking to address them.</p>	<p>This question gives the company leeway to report only on opportunities (positive) while potentially letting the companies ignore the material risks (negative).</p>	<p>Companies should be encouraged to discuss all the material ESG risks they have identified. These risks should include ESG issues that could have a significant impact on a company's business model and value drivers, such as revenue and growth, margins, required capital and risk.</p> <p>While we note that BRSR asks a question specifically on material environment risks in Principle 6, there is no such question on material social risks (going beyond CSR issues).</p> <p>Depending on the response to this question, investors can make informed decisions on the ability of the company to manage key material risks.</p>	<p>Section A/30 should include opportunity and risk analyses. Companies should report on all material environmental and social risks to their business and outline their approach to mitigating them. Companies should also report on how ESG factors may impact their financial condition or operating performance.</p> <p>Companies should also be given the option to add more than 3 responses to this question as well as in Section A/17, as manufacturing businesses and conglomerates might have more than 3 points to report.</p> <p>Companies should also be encouraged to discuss the process to identify these material issues.</p>

This response was prepared by Joslyn Chittilapally, Consultant.

The PRI has experience of public policy on sustainable finance policies and responsible investment across multiple markets and stands ready to further support the work of the SEBI to enhance ESG disclosures in India. Any question or comments can be sent to policy@unpri.org.