LODHA & CO

Framework for BRSR Assurance And Value Chain ESG Disclosures

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Summary

The Securities Exchange Board of India (SEBI) on May 10, 2021, introduced new reporting requirements for the top 1000 listed entities (based on their market capitalization) on Environment Social and Governance (ESG) parameters called the Business Responsibility and Sustainability Report (BRSR). The disclosures under BRSR are sought on the listed entities' performance against the 9 principles of the National Guidelines on Responsible Business Conduct (NGRBC) issued by the Ministry of Corporate Affairs of India. Reporting under each principle is divided into essential (mandatory disclosures) and Leadership indicators (voluntary disclosures). Filing of the BRSR is mandated from Financial Year 2022-23.

BRSR Core for Assurance

In order to enhance the disclosures made in the BRSR and to generate investor confidence SEBI constituted an ESG Advisory committee to recommend obtaining assurance of the BRSR. The committee recommended that obtaining a reasonable assurance for the entire BRSR report would be an expensive exercise for the companies and thereby it considered identifying critical areas of mandatory assurance. Hence the BRSR Core was introduced to achieve the twin objective of improving credibility and reducing the cost of compliance. The BRSR Core also specifies the methodology to facilitate reporting by corporates and verification of the reported data by an assurance provider.

Key Performance Indicators (KPIs)

- The BRSR Core consists of Key Performance Indicators under each E, S and G attributes/ areas that need to be reasonably assured.
- The KPIs sought in the BRSR Core consist of quantifiable metrics that indicate sustainable outcomes in companies.
- Relevant to both manufacturing and service sectors.
- Consists of intensity ratios based on economic value adjusted for Purchasing Power Parity (PPP) for global comparability.
- Following are the 9 attributes/areas under which the KPIs are issued:

1. Greenhouse gas (GHG) footprint
2. Water footprint
3. Energy footprint
4. Embracing circularity - details related to waste management by the entity
5. Enhancing Employee Well-being and Safety
6. Enabling Gender Diversity in Business
7. Enabling Inclusive Development
8. Fairness in Engaging with Customers and Suppliers
9. Open-ness of business

Difference between BRSR Core and BRSR Report

The BRSR Core is the subset of the BRSR Report. BRSR Core consists of 9 KPIs for which entities shall obtain reasonable assurance from the third-party assurance providers whereas the BRSR Report consists of approx. 112 indicators which include the KPIs mentioned in the BRSR Core. Hence an entity is required to obtain reasonable assurance for the 9 KPIs mentioned in the BRSR Core by law and for the remaining indicators entities can either resort to limited assurance or go for reasonable assurance of the entire BRSR Report to demonstrate good corporate governance.

Applicability of BRSR Core for Assurance

A glide path is prescribed for applicability of BRSR Core, beginning with the top 150 listed entities (by market capitalization) from FY 2023 – 24 which shall be gradually extended to the top 1000 listed entities by FY 2026 - 27.

Financial Year	Applicability of BRSR Core to top listed entities (by market capitalization)
2023 – 24	Top 150 listed entities
2024 – 25	Top 250 listed entities
2025 – 26	Top 500 listed entities
2026 – 27	Top 1000 listed entities

Revised Format of BRSR

The current BRSR format issued by SEBI on May 10, 2022 has been updated to incorporate the KPIs of the BRSR Core which were not present earlier.

Following are the amendments made in the current BRSR format:

<u>Section A</u>

Apart from providing general disclosures about the entity, business activity, employees & workers, markets, and risk and opportunities, the entities are also required to disclose the name of the assurance provider and the type of assurance obtained.

<u>Section B</u>

This section consists of management disclosures on entity's policy commitment towards NGRBCs, its actual implementation and entity's engagement with the value chain partners. There are no changes made in this section.

<u>Section C</u>

This section consists of disclosures of the performance of the entity against the 9 NGRBC principles.

Revised Format of BRSR

SR No	NGRBC Principles	BRSR Core KPIs to be assured	New Essential Indicators (Mandatory Disclosure) in the revised BRSR
1	Principle 1 - Businesses should conduct and govern themselves with integrity, and in a manner that is Ethical, Transparent and Accountable.	Openness of Business	1. Number of days of accounts payables - (Accounts payable *365) / Cost of goods/services procured) 2. Provide details of the concentration of purchases and sales with trading houses, dealers, and related parties, along with loans and advances & investments with related parties.
2	Principle 2 - Businesses should provide goods and services in a manner that is sustainable and safe	-	No changes
3	Principle 3 - Businesses should respect and promote the well-being of all employees, including those in their value chains	Enhancing Employee Wellbeing and Safety	Cost incurred on well-being measures as a percentage of total revenue of the company
4	Principle 4 - Businesses should respect the interests of and be responsive to all its stakeholders	-	No changes
5	Principle 5 - Businesses should respect and promote human rights	Enabling Gender Diversity in Business	1. Gross wages paid to females as a percentage of total wages 2. Complaints filed under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013, including details of complaints on POSH as a percentage of female employees/workers

6	Principle 6 - Businesses should respect and make efforts to protect and restore the environment	1. Greenhouse gas (GHG) footprint 2. Water footprint 3. Energy footprint 4. Embracing circularity - details related to waste management by the entity	1. Bifurcation of energy use into non-renewable and renewable 2. Energy intensity per rupee of turnover adjusted for Purchasing Power Parity (PPP) 3. Water intensity per rupee of turnover adjusted for Purchasing Power Parity (PPP) 4. Details of water discharge by destination and level of treatment 5. Total Scope 1 and Scope 2 emission intensity per rupee of turnover adjusted for Purchasing Power Parity (PPP) 6. Total Scope 1 and Scope 2 emission intensity in terms of physical output 7. Waste intensity per rupee of turnover adjusted for Purchasing Power Parity (PPP) 8. Waste intensity in terms of physical output
7	Principle 7 - Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent	-	No changes
8	Principle 8 - Businesses should promote inclusive growth and equitable development	Enabling Inclusive Development	1. Percentage of input material (inputs to total inputs by value) sourced from suppliers directly from within India 2. Job creation in smaller towns - Disclose wages paid as a percentage of total wage cost in rural, semi-urban, urban & metropolitan areas
9	Principle 9 - Businesses should engage with and provide value to their consumers in a responsible manner	Fairness in Engaging with Customers and Suppliers	1. Number of instances of data breaches 2. Percentage of data breaches involving personally identifiable information of customers 3. Impact, if any, of the data breaches

ESG disclosures of value chain participants by Companies

SEBI in its guidance note on BRSR defined value chain as an organization's full range of upstream and downstream activities that convert input into output by adding value. It includes entities with which the organization has a direct or indirect business relationship and which either (a) supply products or services that contribute to the organization’s own products or services, or (b) receive products or services from the organization.

The ESG Committee found that investors are increasingly seeking disclosures of value chain entities as a number of companies have significant ESG footprints in the value chain which can enable them to get a complete picture of ESG risks and the impact associated with them. However, they also identified practical challenges of data availability from the value chain entities as most of them are small, unlisted firms and for certain companies, there are multiple tiers of suppliers within their supply chains.

Considering the above factors from the financial year 2024-25 Top 250 Listed companies (by market capitalization) are required to report, as a part of their annual report, the KPIs in the BRSR Core for their value chain on a comply or explain basis where an entity shall provide the disclosures on its value chain entities or mention the reason for not being able to do so. Only significant Value chain partners in the upstream and downstream that form part of 75% of purchases/sales (by value) shall be covered for making such disclosures. These disclosures can be segregated for upstream and downstream partners or can be reported on an aggregate basis. The said companies are also required to obtain a Limited level of assurance on the KPIs disclosed for the value chain entities on comply or explain basis.

Due Diligence of the Assurance Provider

- The ultimate responsibility lies on the Board of Directors of the listed company to ensure that the assurance provider of the BRSR Core has the necessary expertise, for undertaking reasonable assurance.
- No conflict of interest should exist between the listed entity and the assurance provider
- The Listed company shall ensure that the assurance provider or any of its associates does not sell its products or provide any non-audit / non-assurance related service including consulting services, to the listed entity or its group entities.

Conclusion

Globally regulators and standard setters have realized the need for assurance of sustainability data reported by corporates. As part of a global policymaker roundtable through the International Organization of Securities Commissions (IOSCO), policymakers stressed that voluntary disclosure would not be enough and hence supported clear pathways towards mandatory reporting requirements along with robust frameworks for audit and assurance. In September 2022, IOSCO announced the next steps to support its members and other stakeholders in improving the consistency, comparability, and reliability of corporate sustainability-related reporting, including the assurance of sustainability-related information.

The shift to a sustainability-focused economy affects supply chains, finance flows and education systems – and proper audits are one of the main value drivers. Hence entities are required to prepare themselves with respect to data quality, audit trail, forward-looking statements, risk management processes, policies and procedures to ensure that auditors can verify each data reported and issue an independent assurance statement on the same.

If business, investors and other stakeholders cannot trust published sustainability information, from both the financial and impact perspectives, it will be hard to demonstrate how they are contributing to a better world for everyone.

References

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