SEBI Framework for ESG Disclosures

March 2023

Background

In the area of ESG disclosures, SEBI felt the need for assurance and expanding the scope of disclosures beyond the stand-alone listed entity. SEBI also felt the need for ESG Rating providers to factor in the local / domestic context while assigning ESG ratings.

Whereas in the area of ESG Investing, SEBI felt the need to ensure robustness of disclosures and undertake measures to mitigate the potential risk of green-washing and mis-selling

To address the above concerns SEBI, in May 2022, constituted the ESG Advisory ("EAC / Committee"). The committee gave its recommendations in the areas of ESG Disclosures, ESG Ratings and ESG Investing.

The committee identified few critical areas for mandatory assurance and also deliberated on other areas such as enhancing of BRSR by shifting few leadership indicators to essential, sector specific disclosures to bring in greater standardization in reporting, reporting boundaries including segment wise disclosures for conglomerates operating in multiple segments & disclosures on a consolidated basis, along-with assurance of the entire BRSR

The aforementioned areas in the reporting format are recommended to be taken up at a later stage once the existing disclosures have stabilized.

Accordingly SEBI issued a consultation Paper seeking public comments on the areas of assurance of certain key ESG Disclosures by corporates along with reporting and assurance of ESG footprint of the supply chain of companies.

In this regard large companies in India may be needed to provide assurance on their ESG reporting and supply chain-level ESG disclosures, while ESG investing funds will face stricter portfolio and stewardship criteria.

The paper is divided into three parts - Part A, Part B and Part C on ESG Disclosures, ESG Ratings and ESG Investing, respectively.

PART A - ESG Disclosures

As SEBI has mandated the top 1,000 listed companies in India by market capitalization to file Business Responsibility and Sustainability Reporting (BRSR) starting in FY23. In FY22, over 175 companies voluntarily reported on the BRSR framework.

To achieve the two circular goals of improving credibility and lowering compliance costs, SEBI developed BRSR Core for reasonable assurance, which consisted of choosing Key Performance Indicators (KPIs) under each E, S, and G area that needs to be reasonably assured.

The BRSR Core framework also specifies the methodology for corporate reporting and data verification by an assurance provider.

Some of the KPIs sought in the BRSR Core

- One of the metrics recommended by the Committee is ‘gross wages by gender’ which is reflective of whether a Company has gender diversity practices which attract and retain women in its workforce.
- Under the ‘S’ parameters, attributes such as job creation, and inclusive development are considered.
- The ‘G’ parameters include open-ness/ concentration of business including related party transactions.

·It also includes a number of intensity ratios, such as the intensity of Green-House Gas (GHG) emissions, water consumption, and waste generation, to aid comparability regardless of company size. These intensity ratios are calculated using revenue and volume.

The comprehensive BRSR shall be modified to include KPIs from the BRSR Core that are currently missing from the comprehensive BRSR.

BRSR Core Assurance Time Line

The markets regulator has proposed a directional path approach that provides reasonable assurance that KPIs in BRSR Core can be mandated gradually. SEBI has made BRSR reporting mandatory for the top 1,000 companies in FY23, with no mandatory requirements in the assurance area. For FY24, SEBI has proposed making reasonable assurance in BRSR Core mandatory for the top 250 companies, top 500 firms, and top 1,000 firms from 2024-25 and 2025-26, respectively.

ESG disclosures for supply chain

It is also proposed to introduce a limited set of ESG disclosures for supply chain i.e. BRSR Core in a gradual manner and on a “comply-or-explain” basis.

FY 2024 -25

- ESG disclosures as per BRSR Core, for supply chain for top 250 companies (by market cap) on a "comply-or-explain "basis
- Assurance not mandatory

FY 2025 -26

- ESG disclosures as per BRSR Core, for supply chain for top 250 companies (by market cap),on a" comply-or-explain" basis
- Assurance on' comply-or-explain' basis

PART B - ESG Ratings

In addition, the regulator has proposed list of 15 ESG parameters that are relevant to the Indian context and could be included in at least one of the ESG ratings for Indian companies. Because the proposed BRSR Core requires the disclosure of assured KPIs, SEBI proposed that, in regards to their other products, ESG Rating Providers (ERPs) provide a Core ESG rating based on assured information.

ESG Ratings are usually applied based on corporate self-reported data, with no third-party assurance of such data. "Because investors are increasingly relying on these ratings to make investment decisions, it is critical that these ratings are reliable," SEBI stated in a discussion paper.

PART C - ESG Investment

Increasing disclosure standards for ESG Investment

The regulator has recommended that ESG funds' disclosure standards be expanded, as well as measures to improve transparency, with a particular emphasis on mitigating the risks of mis-selling and greenwashing, among other things. It has proposed improved ESG stewardship reporting.

SEBI has proposed that asset management companies (AMCs) provide better clarity on 'in favour' or 'against' votes cast on resolutions in a year by disclosing whether or not the resolution was supported for environmental, social, or governance reasons.

To reduce greenwashing at the scheme level, SEBI has recommended that ESG schemes invest at least 65 percent of their asset under management (AUM) in companies that report on comprehensive BRSR and provide assurance on BRSR Core disclosures. The scheme's remaining investments should be in companies that report on BRSR.

In the area of ESG investing, SEBI's consultation paper presents an array of proposals to expand disclosure for ESG funds, and other measures to improve transparency, "with a special emphasis on mitigation of risks of mis-selling and greenwashing and other related areas. Proposals include providing more clarity on votes cast on resolutions at AGMs, as well as case studies on stewardship activities, such as reporting on engagements and outcomes that are aligned with the fund's objectives.

Additional proposed rules for ESG funds include having at least 65% of AUM invested providing assurance on BRSR Core disclosures, with the remaining assets in companies reporting on BRSR, providing third party assurance that the portfolio is in compliance with its stated strategy or objective, and a mandated internal ESG audit to ensure that funds' Scheme Information Documents, Stewardship Reporting, and Responsible Investment Policy documents are accurate.

SEBI also proposes rules for fund names and requires funds to provide annual manager commentary on factors such as how the ESG strategy is being implemented, how engagements are carried out, and tracking of investee company ESG ratings. The regulator's consultation paper also includes proposals for ESG ratings providers, such as a list of ESG parameters with an Indian context and the provision of a "Core ESG Rating" based on information that has been assured or audited.

SEBI has requested community comments on the proposals till March 6.

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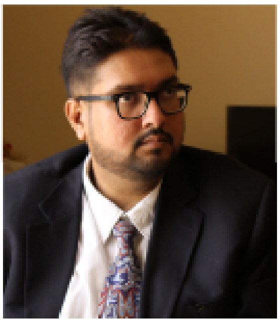

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