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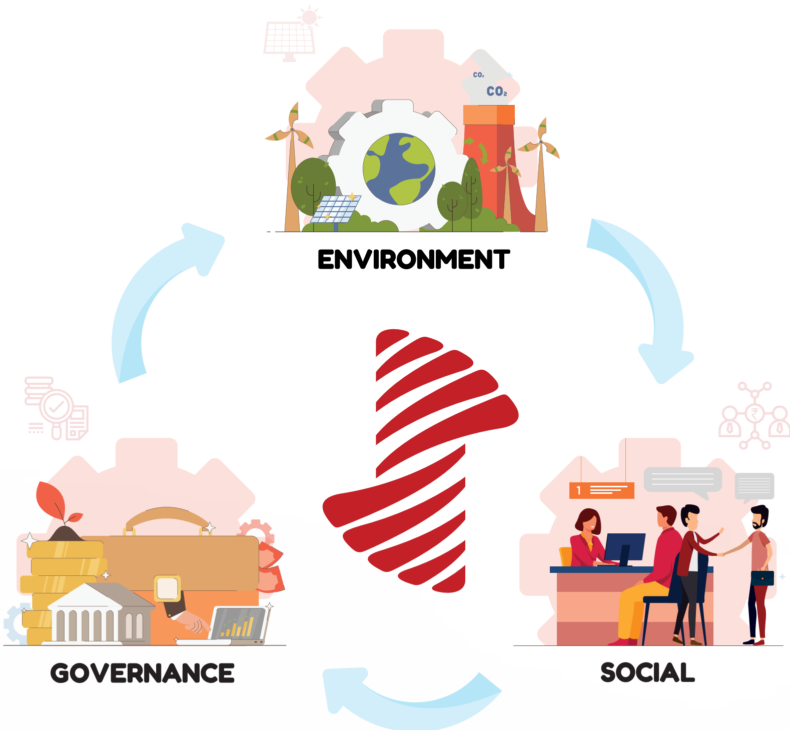
BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORTING (BRSR)



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BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORTING (BRSR)

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"Creating a strong business and building a better world are not conflicting goals – they are both essential ingredients for long term success" - **William Clay Ford Jr.**

The "SIB Students' Economic Forum" is designed to kindle interest in the minds of younger generation. We highlight one theme in every monthly publication. Topic of discussion for this month is **"Business Responsibility and Sustainability Reporting (BRSR)"**

Introduction:

Around the world, there is an increase in awareness and activism amongst stakeholders who are demanding business accountability for the social and environmental impacts on issues such as climate change, gender equality, environmental degradation, etc. Sustainability Reporting is an emerging discipline encompassing the disclosure and communication of an entity's non-financial - environmental, social, and governance (ESG) performance and its overall impact. There is an increased focus of investors and other stakeholders seeking businesses to be responsible and sustainable towards the environment and society.

ESG

ESG (environmental, social, and governance) is a framework designed to be embedded into an organization's strategy that considers the needs and ways in which to generate value for all of organizational stakeholders (such as employees, customers and suppliers and financiers). Investors are increasingly applying these non-financial factors as part of their analysis process to identify material risks and growth opportunities. ESG is a set of standards for a company's behavior used by socially conscious investors to screen potential investments. ESG metrics are not commonly part of mandatory financial reporting, though companies are increasingly making disclosures in their annual report or in a standalone sustainability report. Numerous institutions, such as the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), and the Task Force on Climate-related Financial Disclosures (TCFD) are working to form standards and define materiality to facilitate incorporation of these factors into the investment process.

Environmental (Conservation of the natural world)

- Climate change and carbon emissions
- Air and water pollution
- Biodiversity
- Deforestation
- Energy efficiency
- Waste management
- Water scarcity

Social (Consideration of people & relationships)

- Customer satisfaction
- Data protection and privacy
- Gender and diversity
- Employee engagement
- Community relations
- Human rights
- Labor standards

Governance (Standards for running a company)

- Audit committee structure
- Bribery and corruption
- Executive compensation
- Lobbying
- Political contributions
- Whistleblower schemes

Globally well-recognized Sustainability Reporting Frameworks

- United Nations Global Compact (UNGC)
- Global Reporting Initiative (GRI).
- Integrated Reporting (IR)
- CDP (formerly Carbon Disclosure Project)
- ISO 26000
- Sustainability Accounting Standards Board (SASB)

Background

In 2009, MCA issued the 'Voluntary Guidelines on Corporate Social Responsibility' as a step towards mainstreaming the concept of business responsibility. In June 2011, the United Nations Human Rights Council (UNHRC) adopted the United Nations Guiding Principles on Business and Human Rights (UNGPs) which India endorsed. In July 2011, MCA issued the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011' (NVGs). The NVGs were developed through extensive consultations with businesses, academia, civil society organizations, and the government and contained a Business Responsibility Reporting framework.

In 2012, the Securities and Exchange Board of India (SEBI) mandated the top 100 listed companies by market Capitalisation to file Business Responsibility Reports (SEBI-BRRs/ BRR) through the Listing Agreement. These disclosures were intended to enable businesses to engage more meaningfully with their stakeholders, and encourage them to go beyond regulatory financial compliance and report on their social and environmental impacts. The requirement for filing BRRs was extended to the top 500 listed companies by market Capitalisation from the financial year 2015-16. In March 2019, the updated NVGs were released as the 'National Guidelines for Responsible Business Conduct' (NGRBCs). In December 2019, SEBI extended the BRR requirement to the top 1000 listed companies by market Capitalisation, from the financial year 2019-20.

Business Responsibility and Sustainability Reporting (BRSR)

Over the last few years, more and more entities are now preparing and disclosing their sustainability reports either under a mandate or voluntarily as per the reporting frameworks/ standards provided by standard-setting bodies/ regulators. According to the amended SEBI (Listing Obligations and Disclosure Requirements) Regulations, the existing Business Responsibility Report (BRR) shall be replaced by a more detailed and comprehensive Business Responsibility & Sustainability Report (BRSR) in two phases, a voluntary phase effective from FY2021-22 and a mandatory phase for the top 1000 companies effective from FY2022-23 in a prescribed format specified by the SEBI.

Overview of BRSR

- In November 2018, the MCA constituted a Committee on Business Responsibility Reporting (the Committee) to finalize business responsibility reporting formats for listed and unlisted companies, based on the framework of the National Guidelines for Responsible Business Conduct (NGRBC). Through its 'Report of the Committee on Business Responsibility Reporting' (the Committee Report), the Committee recommended that Business Responsibility Report (BRR) be replaced with BRSR, where disclosures are based on ESG parameters, compelling organizations to holistically engage with stakeholders and go beyond regulatory compliances in terms of business measures and their reporting.
- During May, 2021 SEBI has issued circular introducing new reporting requirements on ESG parameters called the Business Responsibility and Sustainability Report (BRSR). The BRSR is accompanied with a guidance note to enable the companies to interpret the scope of disclosures. The format was stipulated by SEBI as part of the circular.

Structure of the BRSR Framework

The BRSR has three sections and the purpose and structure of each of these three sections is given below:

Section A: General Disclosures

The objective of this section is to obtain basic information about the company – size, location, products, number of employees, CSR activities, etc. The proposed formats include additional disclosures on proximity of a company's operations to environmentally sensitive sites such as protected areas, water-stressed zones, etc.

Section B: Management and Process.

In this section, the company is required to disclose information on policies and processes relating to the NGRBC Principles concerning leadership, governance, and stakeholder engagement. Wherever relevant, companies have been asked to provide links to their websites where these policies are available. The purpose of this section is to understand whether the company has the building blocks in place that will enable and ensure responsible business conduct. It reflects the belief that policies and processes are foundational in nature to ensuing action.

Section C: Principle-wise performance.

Responses to Section C indicate how a company is performing in respect of each Principle and Core Element of the NGRBCs. This section requires companies to demonstrate their intent and commitment to responsible business conduct through actions and outcomes. The questions in this section have been divided into two categories:

1. Essential: Those that are mandatory for all companies.
2. Leadership: Those that are voluntary and which provide an opportunity for companies to present their impacts and outcomes. It is expected that in the next cycle of review, questions from the Leadership category would be moved to the Essential category and so companies should see this as a pathway to transitioning to a more comprehensive disclosures regime.

Principles of NGRBC

The National Guidelines on Responsible Business Conduct comprises nine thematic pillars of business responsibility that are known Principles. These principles are interdependent, interrelated and non-divisible and all business are urged to address them holistically.

Principle 1: Businesses should conduct and govern themselves with integrity and in a manner that is ethical, transparent and accountable.

The principle ensures ethical behavior in all operation, functions and processes, is the basic of businesses that are guiding their governance of economic, social and environmental responsibilities. It considers that businesses are an integral part of society and they will hold themselves accountable for the effective adoption, the implementation and the making of disclosures on their performance.

Principle 2: Businesses should provide goods and service in a manner that is sustainable and safe.

The principle emphasizes that businesses have to focus on safety and resource-efficiency in the design and manufacture of their products. These products have to be manufactured in such a way, by which it creates value by minimizing and mitigating its adverse impacts in the environment and society through all stages of its life cycle, from design to final disposal. This principle encourages businesses to understand every material sustainability issues across their product life cycle and value chain.

Principle 3: Businesses should respect and promote the well-being of all employees, including those in their value chains.

The principle encloses all policies and practices that are about the equity, dignity and well-being and the provision of decent work, for every employee that who are engaged within a business or in its value chain, without any discrimination and in a way that contributes to the diversity. The principle identifies the well-being of an employee and the welfare of his/ her family.

Principle 4: Businesses should respect the interests of and be responsive to all its stakeholders.

This principle recognizes the businesses operate in an eco-system that consists of some stakeholders, being shareholders and investors and their activities affect natural resources, habitats, communities and the environment. The principle brings into light that businesses have a responsibility to maximize the positive effects and minimize and mitigate the negative impacts of the products, operations and practices on their stakeholders.

Principle 5: Businesses should respect and promote human rights.

This principle identifies the human rights are rights that have to be inherent to all human beings and these guidelines are applied without discrimination. These human rights are considered to be inherent, inalienable, interrelated, interdependent and indivisible. This principle is inspired, informed and guided by the Constitution of India and the International Bill of Rights, and recognizes the primacy of the State's duty to protect and fulfil human rights.

Principle 6: Businesses should respect and make efforts to protect and restore the environment.

This principle gives preference to environmental issues that are inter-connected at the local, regional and global levels doing businesses to address the problems like pollution, biodiversity conservation, sustainable use of natural resources and climate change in a comprehensive and systematic manner. The principle encourages firms to adopt environmental practices and processes that minimize or eliminates the harmful effects of their operations across the value chain. Moreover, it also persuades businesses to follow the Precautionary Principle in all its actions.

Principle 7: Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.

This principle concedes that businesses operate within a specified national and international legislative and policy framework that guide their growth and also provides specific restrictions and boundaries. The principle recognizes the legitimacy of businesses to engage with governments for redressal of a grievance or for influencing public policy. In addition to this, the law demands that public policy advocacy has to expand public good.

Principle 8: Businesses should promote inclusive growth and equitable development.

The principle identifies the challenges of the social and economic development that are faced by the country and enhances the national and development agenda according to the government policies and priorities. This is significant in zones that are affected by social disharmony and low human development. The principle mentioned the need for collaboration amongst businesses, government agencies and civil society in this development agenda.

This principle reiterates that business success, inclusive growth and equitable development are interdependent.

Principle 9: Businesses should engage with and provide value to their consumers in a responsible manner.

The principle is based on the fact that the primary aim of a business entity is to supply goods and services to its consumers that are safe to use, creating value for both. It recognizes consumers having freedom of choice for the usage of goods and services, and the enterprises strive to provide the products that are safe, competitively priced, easy to use and safe to dispose-off, for the benefit of their consumers. The businesses play a significant role with other relevant stakeholders, in mitigating the adverse effects from excessive consumption of its products that have overall well-being of individuals and society.

Conclusion:

As banks are swiftly expanding into new areas to embrace customers who insist for incessant deliverance of banking services, it brings to focus the environmental impact of operations to enable banks to be compliant, resilient and sustainable institutions for all operations including deposit mobilisation and lending focusing on ESG commitments, backed by digital technology. The end result is long-lasting, and capable of proactively rebuilding trust in banking institutions, backed by technology. It also provides a stage for the institution to maturely draw on natural resources so as to enable sustainable growth.

ESG also helps banks to handle sensitive customer data tactfully and

also use technology to guarantee seclusion and security. It also sets a benchmark standard for the organisation to make itself ESG compliant, bringing out transparent reporting to all stakeholders.
ESG-compliant banks are proven to be less vulnerable and more stable. The ESG commitment to trim down the environmental footprint of banking operations will propel banks to be more innovative and embark upon imperative societal challenges, by delivering sustainable and environment friendly solutions to meet customer needs. By following this essential paradigm change, banking can now engineer vital banking services to be more sustainable and ESG compliant.

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