



भारतीय प्रतिभूति और विनियम बोर्ड
Securities and Exchange Board of India

THE ESG CONUNDRUM

Pradeep Ramakrishnan

AGENDA

- ESG & Sustainable Investment
- Greenhouse Gases, Nuclear Waste & Emissions
- ESG Rating – issues and examples
- World Regulatory Initiatives & SEBI Policy
- Green Bonds, Blue bonds & Sustainable Investing
- BRSR & Road Ahead



THREE PILLARS



Environment

Increasing waste – disposables – invention and prevalent use of plastic – Paris Accord – UN SDGs

Society

Women, Children, specially abled people – pay gap

Governance

Ethics, Codes

EVOLUTION OF RESPONSIBLE INVESTING

- Concept of Joint Stock company - Early 1600s, Europe
- Maximisation of wealth – *more bang for the buck* - since the days of Adam Smith
- More return on investment – an indicator of a good stock, blue chip companies



EVOLUTION OF RESPONSIBLE INVESTING

- 1975 - US scientist Wallace Broecker puts the term "global warming"
- 1979 - US National Academy of Science study on carbon dioxide – term "Climate Change"
- 1980s - UN – *Responsible Investing*
- A May 2014 Yale University study found that while "climate change" is preferred by scientists, "global warming" evokes stronger emotions for some groups of people – Dick Cheney, US VP 'advocated' Climate change as opposed to Global warming
- 2006 - ESG first mentioned in UN Principles for Responsible Investment (PRI)
- Institutional Investors movement – move from wealth maximization to responsible investing



"Call the lawyers and ask if ethical and social responsibility is a legal requirement."

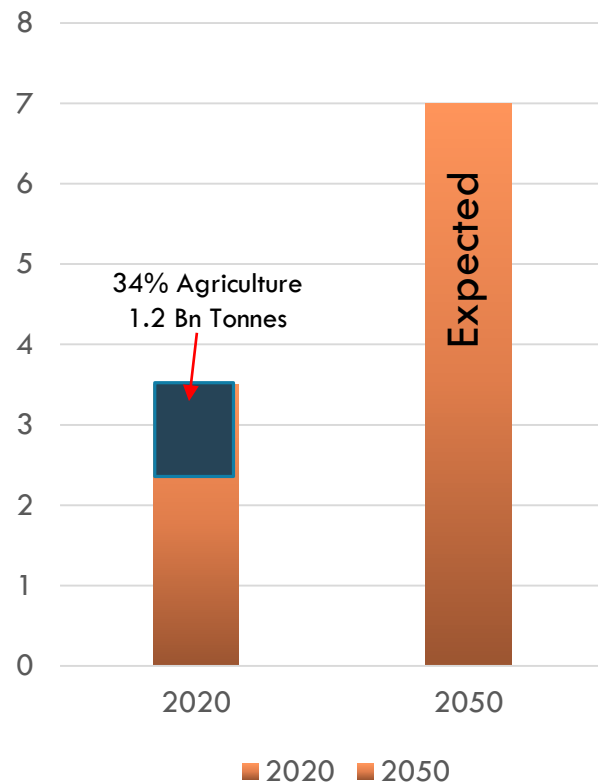
GREENHOUSE GASES, GREENHOUSE EFFECT

- ▶ 30% of sunlight is reflected back to space
- ▶ 70% passes on to the earth's surface – in turn absorbed by the land, oceans, and atmosphere, and heats the planet. This heat is then radiated back up in the form of invisible infrared light.
 - ▶ Infrared light – 10% back to space
 - ▶ Infrared light – 90% absorbed by atmospheric gases (GHGs); redirected back toward the earth, causing further warming.
- ▶ *Greenhouse effect – natural warming of the earth*
- ▶ *Main gases responsible for the greenhouse effect - **carbon dioxide, methane, nitrous oxide, and water vapor** (which all occur naturally), and fluorinated gases (which are synthetic)*
- ▶ *Burning of fossil fuels, deforestation etc. add to heat on earth*



“Stop fretting about global warming. Mother Nature is going through menopause, but her hot flashes won’t last forever.”

TOWARDS NET ZERO



Power - Installed capacity is around 400 GW,

- Of which Coal is 245 GW & Renewable is 170 GW (40 GW under construction)

For Net zero by need 2070, we need 300 GW of renewable energy

- EVs → 1/3rd should be EVs by 2050 & 40% should be EVs by 2070

Renewable energy sources should increase - from 15% to 60%

INDIA INDCs

Intended National Determined Contributions (INDCs)

- improve the emissions intensity total amount of greenhouse gas (emissions emitted for every unit of GDP) by 33% - 35% by 2030 below 2005 levels.
- increase the share of non-fossil fuels-based electricity to 40% by 2030.
- agreed to enhance its forest cover which will absorb 2.5 to 3 billion tonnes of carbon dioxide (CO₂, the main gas responsible for global warming) by 2030.

Represent the framework for India's transition to cleaner energy for the period 2021-2030.

(Transition bonds have to be used for INDCs)

TOWARDS CARBON NEUTRALITY



Carbon Neutrality Balance between emitting carbon & absorbing carbon so, emissions of greenhouse gases should be counterbalanced by carbon sequestration - Removing Co₂ from the atmosphere

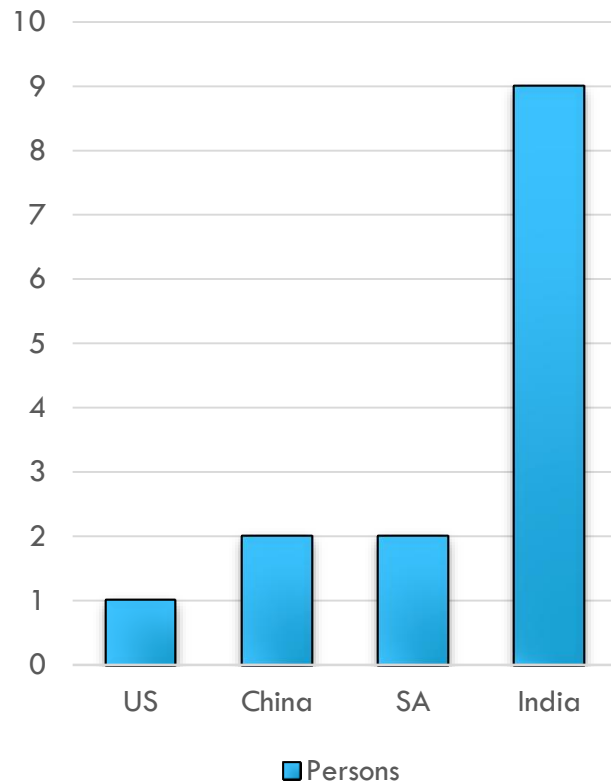
EU - 2050 - Carbon neutral (Sweden by 2045)

Phase out all direct /indirect Subsidies to fossil fuel by 2025

Cans to Vans - 15% of emissions

UK - GBP 20m package: 35% of cars from 2030 to be electric/ hybrid

EMISSION COMPARISON



Major Global Polluters

- US, UK, EU-27, Australia, Japan, Canada, Russia
- China + US + EU27 (minus UK) → 50% of World CO₂

Minor Contributors

- Africa + India → 7%+4% of world's Co₂
- 1870 to 2019, India has contributed to 4%. of the global total

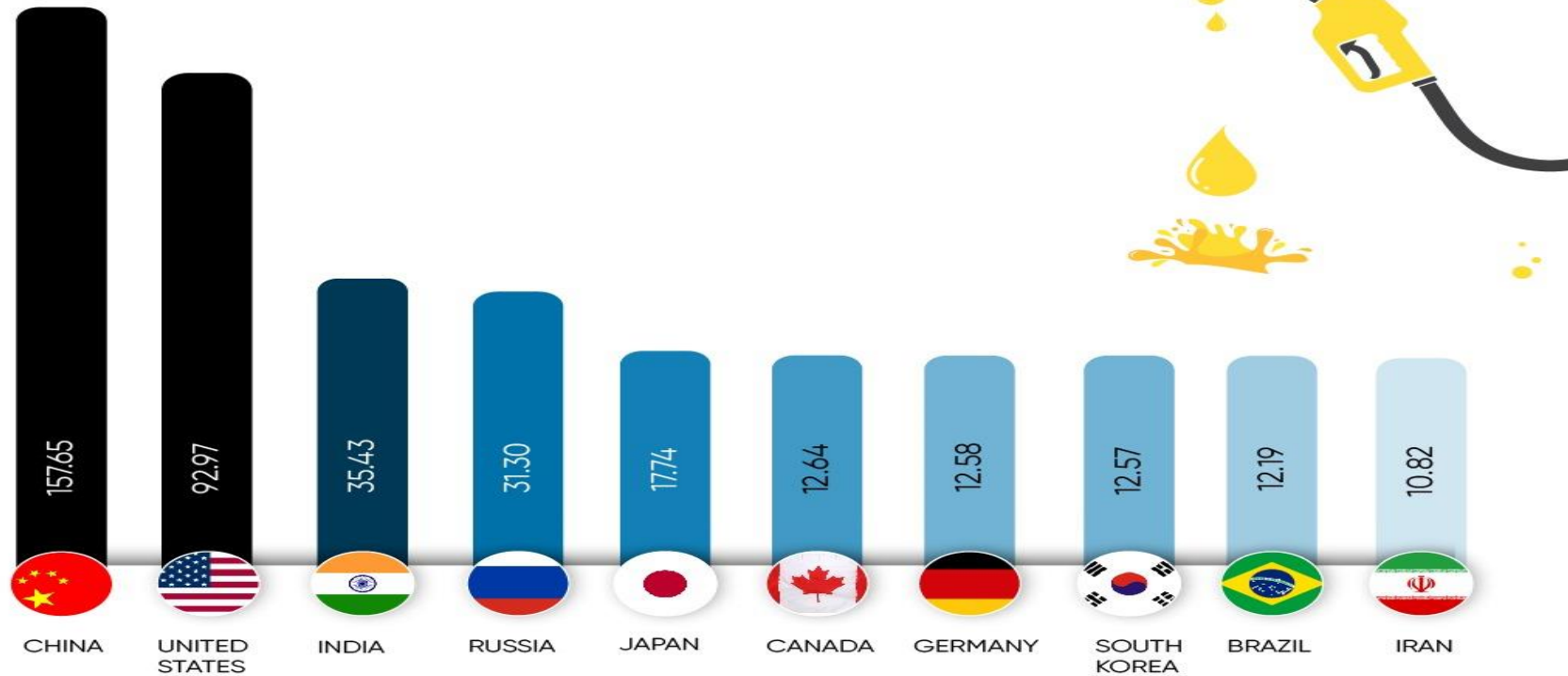
India - Non-fossil energy capacity to 500 GW

- 50% energy requirements to be from renewable sources
- By 2030, 45% reduction in carbon intensity
- 2070 – Net Zero

ENERGY CONSUMPTION COMPARISON

Top 10 primary energy consumption worldwide in 2021 (in exajoules)

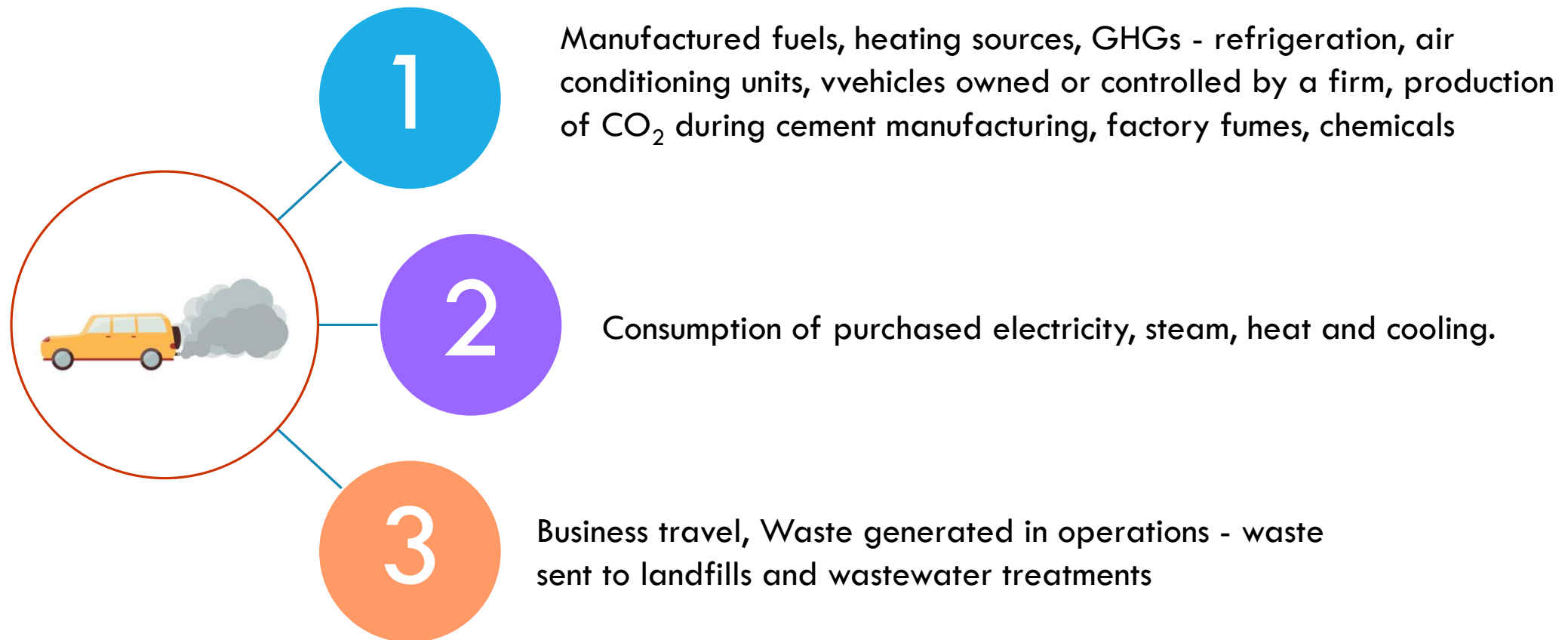
Primary energy comprises commercially traded fuels only, including modern renewables used to generate electricity.



Source: Statista



SCOPE 1/2/3 EMISSIONS



SUSTAINABLE INVESTING

Growing Awareness: Sustainability issues can lead to Performance Risk; Climate risk is investment risk and presents a historic investment opportunity

Institutional investors increasingly disposed to vote against management and board when companies don't make progress on sustainability and disclose it

Total assets in sustainability up from USD 550 Bn in Beginning of 2018 to USD 1652 Bn in End of 2020 (200% in 3 years; CAGR of 44%)

EV — THE WAY FORWARD?

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Advantages of using EVs

- low maintenance – 12 spare parts vs 350 spare parts
- No emissions, No Noise unlike fossil fuel power plants on vehicle

Challenges with EVs

- Charging is slow, fewer charging stations, problems in big housing societies
- poor battery management software, bad lithium content, poor supply chain

Government Incentives

- Faster Adoption and Manufacturing of Electric Vehicles (FAME) – launched in 2015
- 4.7 lac EVs supported till 15 July 2022
- EV scooter fires – battery testing – no new launches until problem is fixed

Ambitious targets

- 80% of all 2 & 4 wheeler sales to be EVs by 2030; 1 million EVs + 3000 public charging stations
- 17 states have dedicated EV policies; New battery swapping policy



“It is clearly our most abundant and renewable natural resource. We need to develop a car that runs on stupidity!”

EV SUPPLY CHAIN — BATTERY COMPONENTS

COBALT, NICKEL and LITHIUM

Source of Battery Components

- Half of the world's cobalt originates from the Democratic Republic of Congo,
- Indonesia, Australia, and Brazil make up the lion's share of global nickel reserves
- South America's 'Lithium Triangle' (Bolivia, Chile & Argentina) holds 75% of the world's lithium

Challenges of Recycling

- negligible portion of EV batteries are recycled
- Industry confident about recycled materials will have an impact after industry matures

China dominates the Global EV and EV Supply Chain

- Global governments are vying to secure their own supply chains

EV SUPPLY CHAIN – BATTERY ISSUES

EVs prevent GHG emissions but social impact of mining is high

- Violence, substance abuse, food and water insecurity, and physical and mental health challenges.
- Losing communal land, farmland and homes, which miners literally dug up in order to extract cobalt
- Without farmland, Congolese forced to cross borders into Zambia just to purchase food

Repercussions of mining on Environment, Safety & Health

- Waste generated from mining cobalt and other metals can pollute water, air and soil
- Decreased crop yields, contaminated food and water
- Respiratory and reproductive health issues among population
- Miners reported that working conditions were unsafe, unfair and stressful
- Several workers noted that they feared mineshaft collapses

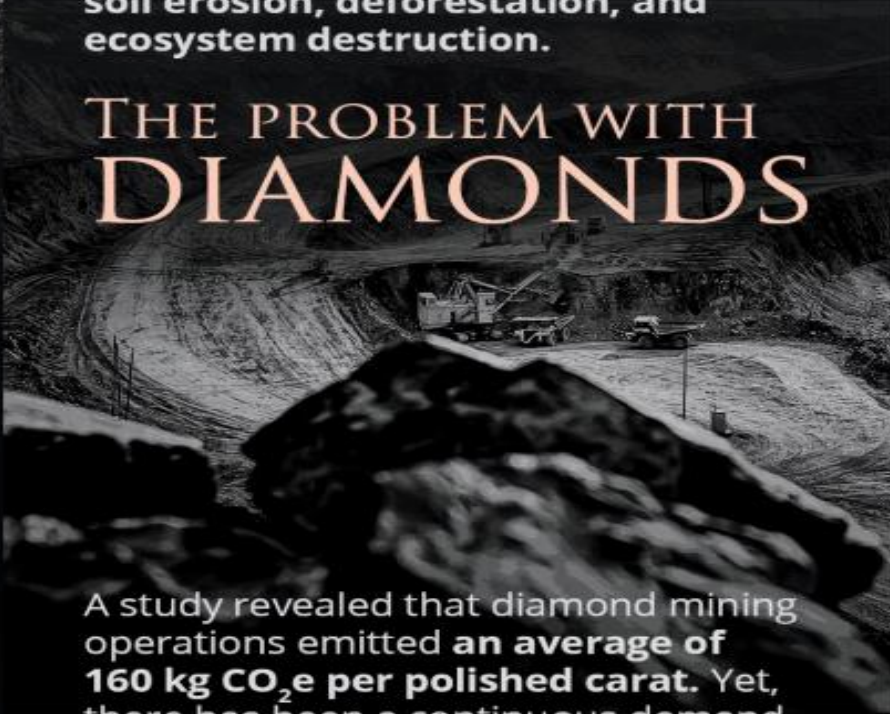


“Wind-powered wings for transportation, solar-powered halos for light...why aren't they using this technology back on Earth?”

EXAMPLE – DIAMOND INDUSTRY

Diamond mining has many detrimental impacts on the environment including **soil erosion, deforestation, and ecosystem destruction.**



THE PROBLEM WITH DIAMONDS



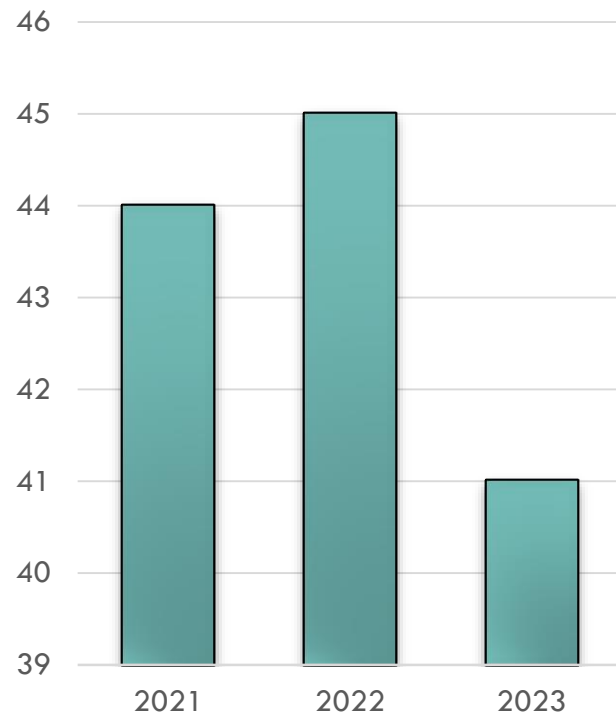
A study revealed that diamond mining operations emitted **an average of 160 kg CO₂e per polished carat.** Yet, there has been a continuous demand for diamonds.

MEASURING IMPACT

Frost & Sullivan's report reveals that mined diamonds represent more than 7 times the level of impact as compared to lab-grown diamonds.

Parameter (1 carat of diamond)	 Mined Diamond	 Lab-Grown Diamond
Land disturbed	0.00091 hectares	0.00000071 hectares
Mineral Waste	2.63 tonnes	0.0006 tonnes
Water Usage	0.48 m ³	0.07 m ³
Air Emissions	42071000	0.0289
Energy Usage	538.6 mn Joules	250.8 mn Joules

NUCLEAR WASTE



■ US Investments in Nuclear Energy USD Bn

Concerns with Nuclear Energy

- Takes 3,00,000 years to decompose radioactive waste
- Chernobyl – 1986, Fukushima – 2012 – major accidents

Problems with Closure and Waste Disposal

- To close nuclear reactor – plutonium & uranium - Germany – 2022, Belgium - 2025
- Finland- after decades of planning 2023 onwards will bury 1400 feet below
- France – trying after 25 years of research

Nuclear Reactors Globally

- 52 nuclear reactors under construction 19 countries → India / China / France etc.

NUCLEAR WASTE TREATMENT

Reprocess/ Re-use

- France was the pioneer of reprocessing/ reuse
- Reprocess leading to new fuel
- Turn waste into Vitrified Glass

Cleaning Waste

- Sellafield, UK
- 10,000 persons employed
- 140 tonnes of plutonium
- 100 years, costs USD 90 Bn

What about burying it deep underground?

US tried it at Nevada Yuvera Mountain spent 15 bn USD to bury but faced public backlash. The experience was similar in Germany, UK & Japan

PLASTIC, PLASTIC, MORE PLASTIC

- Plastic – one of the big ticket inventions of this century
 - first man made plastic was invented in 1862 by Alexander Parkes;
 - fully synthetic, commercially available plastic invented in 1907 by Leo Baekeland
- Waste Entirely disposed off via landfill, incineration
- Recycling of plastic began in the late 80s
- Global recycled plastic – 9%; Global incinerated plastic – 11%; remaining all in landfills
- Coca Cola is the sponsor of this year's climate conference- CoP 27
- Max – ban on single use plastic
- Global plastic waste expected to triple by 2060



COP 27

- **Nov 6-18, 2022** - climate change conference at Sharm El Sheikh, Egypt
- **The Kyoto Protocol, 1997** - UN Framework Convention on Climate Change by committing industrialized countries and economies in transition to limit and reduce greenhouse gases (GHG) emissions in accordance with agreed individual targets.
- **195 countries**
- **Move to an era of implementation**
- **Day 1** – countries agree to create an international mechanism for compensating poor countries that suffer largescale damage due to climate disasters
- **CoP 26, Glasgow** - The term 'phase-out of coal' would mean putting a complete stop on coal, while 'phase-down' would mean reduction in the proportion of coal in total energy

Climate Conventions and CoPs

Conference of Parties (CoP)
A meeting of countries adhering to any international convention or treaty is called the Conference of Parties.

5 Multilateral conventions and treaties that focus on shared global causes. 18 are dedicated to environmental and climate issues

Countries can declare adherence to a convention by:

- RATIFICATION
- ACCEPTANCE & APPROVAL
- ACCESSION

KEY ENVIRONMENTAL CONVENTIONS & COPs	
UN FRAMEWORK CONVENTION ON CLIMATE CHANGE	UN FRAMEWORK CONVENTION ON BIOLOGICAL DIVERSITY
198 PARTIES	196 PARTIES
4 SUPPLEMENTARY TREATIES INCLUDING <ul style="list-style-type: none">• KYOTO PROTOCOL (1997) AND PARIS• PARIS AGREEMENT (2015)	3 SUPPLEMENTARY TREATIES INCLUDING <ul style="list-style-type: none">• CARTAGENA PROTOCOL ON BIOSAFETY (2000)• NAGOYA PROTOCOL ON ACCESS AND BENEFIT SHARING (2010)
26 CoP MEETINGS	14 CoP MEETINGS
CoP 27 2022 Host: Egypt Venue: Sharm-El-Sheikh Date: 6-18 Nov 2022	CoP 15 2021-22 Phase 1: China (Kunming) 11-15 Oct 2021 Phase 2: Canada (Montreal) 7-19 Dec 2022

IMPACT OF CLIMATE CHANGE ON WATER

- For every 100 raindrops that fall on land, only **36 drops** are '**blue water**' -- the rainfall that enters lakes, rivers and aquifers; **64 drops** retained as soil moisture -- known as '**green water**' -- and used by the landscape and the ecosystem.
- **Global warming causes more water to evaporate from soils - Dry soils are absorbing more rainfall – more water being used by farmers for crops, less 'blue water' for human use.**
- **Droughts in Europe - 2022 - Germany, France, Italy (emergency declared) – worst in 500 years**
- **East Africa – 2022 - worst drought in 40 years – impacting wildlife – 1 000 zebras, 205 elephants killed in 10 months – 22 million people at the risk of starvation**
- **USA – Reservoirs drying up – 2022 driest in most South-western states; water cuts affecting California's 50 billion dollar agro industry**
- **India – largest user of groundwater in the world - India's Water availability has been declining — from 1,816 cubic meters in 2001 and 1,546 in 2011 to 1,367 cubic meters in 2021**
- **India – receives more rain – 4000 billion cubic m against a requirement of 3000 cubic m, but only 8% goes to catchment – most catchment areas lost to sand mining and building houses**
- **E.g. Chennai – twice the rainfall as London, 4 times as LA – water bodies shrank from 12.6 sq.km to 3.2 sq.km in 125 years; 2015 – floods; 2019 – Day zero – City ran out of water**
- **Next World war over water?**

RED MEAT AND ENVIRONMENT

- Why? – Red Meat industry causes **15% of world carbon emissions** – Land degradation, water pollution
 - Methane gas (CH₄) emissions have **28 times more global warming potential** than carbon dioxide (CO₂)

Recent trends – plant based meat

- Plant based meats in Europe see a **high double digit growth**
- Symplicity foods/ Beyond Meat Bean patties/ tofu burgers Plant based meat
- Fake Ham- smoked salmon – saugages- seafood like shrimps
- Mimicking the taste / texture, smell of animal meat Gaining attraction

Sustainability reasons for going vegetarian?

Gartner Hype Cycle - Five phases in the life cycle of a new product

- Initial surge in expectations
- Disappointment when it does not delivers
- Consolidation/ company failures
- Improved product
- Mainstream adoption

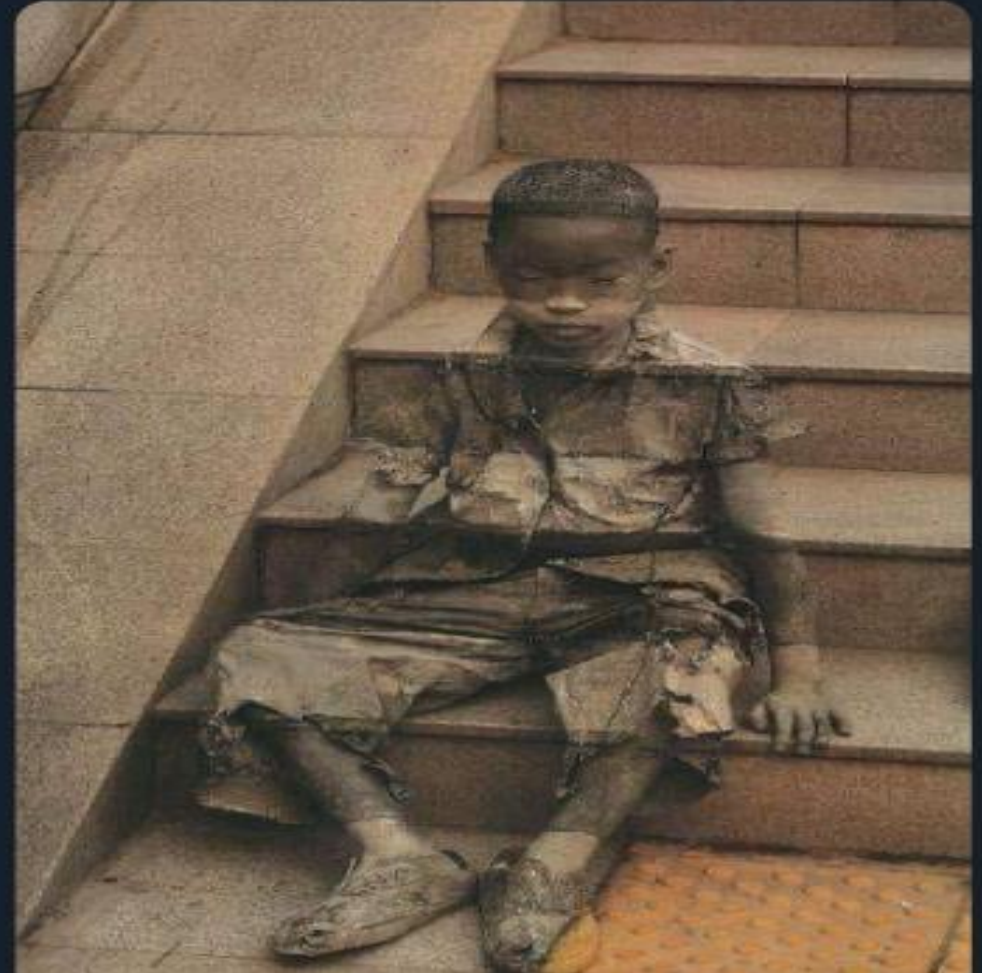
THE ECONOMICS OF ENERGY — THE AUSTRALIA EXAMPLE

- Whatever be an ideal situation, the science of success is in the economics
- 25 billion ASD pledged for climate action in the latest budget
- Coal, gas, fossil fuels still generate 70% of power
- But, renewables are surging
- Country with abundant sunshine — like India
- Ambitious target - Wants to be 80% renewable by 2030
- 25% of houses have solar energy now
- Increasing adoption — resulting in early closure of coal plants
- Renewable energy cost falling steeply that fossil fuels are finding it difficult to compete

SOCIAL ISSUES

- Ubuntu – African tribe
- Affirmative action
- Whistleblowing
- POCSO, ICC
- Specially abled ppl
- Problems – gross misuse – e.g. RTI Act, Infy, Banking Whistleblowing cases

"The Invisibility Of Poverty" is street art by Kevin Lee. The child is depicted sitting on steps, being stepped on and stepped over to illustrate how invisible the poor living among us can be.



“S” IN ESG

How does a company Manage relationships

- with its workforce - labour
- with Societies in which it operates - social trends
- with the political environment? – politics

Labour strikes / consumer protests

- Directly affect a company's profitability
- Leads to Controversies & Reputational damage

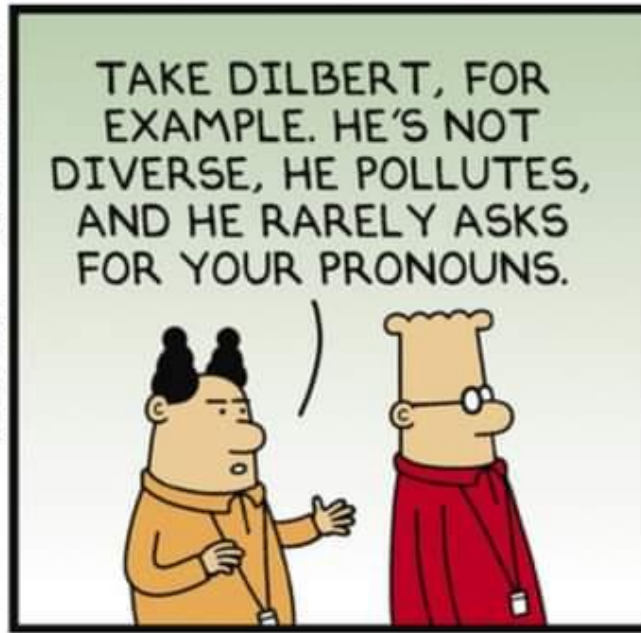
E.g. US – Gun culture

- shootings - Walmart, Other incidents in Schools, etc.
- Sept 2021 said it will restrict the types of firearm ammunition





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9-12-22 2022 Scott Adams, Inc./Dist. by Andrews McMeel



“S” IN ESG — EXAMPLES

Orpea - French Care Home – 370 nursing Homes

- Allegations that it systematically ill treated/ mistreated elderly residents
- Allegations - Systematically mistreated / ill treated elderly residents
- Expose by a journalist Victor Castanet “Grave diggers”
- Bribes / threats / Pressurised - 15 mn USD
- Some rents upto 6500 Euros/mes, Rationing of adult diapers - allegations

Repercussions & Measures

- Allegations led to 94% fall in share price
- Company appointed two consulting firms to carry out Independent investigation

GREENWASHING



Green issuances to either zero or negligible environmental benefits - by providing false / misleading information: Marketing Hype, PR spin, Disingenuous promises, Mutual Funds are just rebranded green

Greenwashing – company with a history of environmental damage - BP, for example changes the logo to green with Sun while leaking oil in the Gulf of Mexico. COKE & PEPSI - highest world users of plastic in This World.

Some PF managers mine ESG data to bet against socially responsible companies

GREENWASHING

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"I'll need 500 copies of my plan for this office to go paperless..."



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GLASBERGEN

"We need to demonstrate a corporate commitment to the environment. Make sure the break room donuts only have green sprinkles!"

“GREENWASHING

No Hypocrisy Please

- Calculate carbon footprint; reduce emissions, use solar energy, limit flights
- While conserving oceans, don't sponsor formula one!
- You cannot use vegan leather and continue to use private jets
- While supporting Charities is good there is more merit to cleaning up one's act
- You cannot have brands on dead planet

WORLD REGULATORY INITIATIVES

Measures aimed at curbing greenwashing

- Initiative by EU - SFDR- Sustainable Finance Disclosure Regulation - Jan 2022
- SEC – Climate & ESG task force to proactively /incomplete disclosures by companies
- SEC – Climate disclosure guidelines

UKCMA (UK Competition Markets Authority) warning of products with

- all natural
- free Trade
- GMO free

ESG MFs & ETFs have doubled on Wall St. in 2021



ESG RATINGS ISSUES

- ESG ratings providers (ERPs) not subject to regulatory oversight at present
- increasing reliance on such unregulated ESG rating providers
- Potential risks to investor protection
- Transparency & Efficiency of markets
- Indian companies typically benchmarked to global and regional benchmarks

IOSCO November 2021 - Regulators could consider focusing greater attention on the use of ESG ratings and related products and activities of ERPs in their jurisdictions

RATING ISSUES

- Marketing is built on **dire warnings about climate change/ social interest/ corrupt governments / pandemic**
- How? MSCI dropped carbon emissions as a factor in the rating. The recalculated the score to give it credit for packaging Material and Waste – doublespeak?
- Water stress score does not increase impact of the company on water supplies, but it measures whether communities have enough water to sustain their factories!
- Opaque system, Deceptive to the uninitiated, Just jargon
- Many companies with massive emissions manage upgrades - many only by methodology changes and similar tweaks

PROBLEMS WITH MEASURING RATINGS

Red Flags

- Lack of standard methodology
- Labor Relations
- Supply Chain Diligence
- “Greenness” of a project

Other issues

- Disclosures tend to vary; not standardized for comparison
- Enhance disclosures for climate risk and Human Capital Management

ESG ratings - presently largely regulated with voluntary disclosures

New, renewed focus on standardization - Investors must be able to drill down to see what is "under the hood" of AMC, and a standard approach to metrics and terms such as 'green' or 'sustainable' need to be enforced

EXAMPLES

D.R Horton & Co. Construction company

- No disclosure of emissions
- Green buildings – 3.8% 2020 but 3.4% 2021
- MSCI – Upgraded D.R. Horton citing corporate behaviour

J.P Morgan Chase

- Since 2015 – Underwritten more corporate bonds for fossil fuel companies
- Earned most fees – more than any bank in the world
- MSCI upgraded J.P Morgan despite 210 bn USD – Fossil Fuels 25 bn USD – Green bonds

EXAMPLES

Wells Fargo gets low ratings from ESG data firms

- Because of deceptive business practices
- In the past, has had steep fine for its lending operations
- S&P awarded Wells Fargo for Sustained excellence for contracts with Solar & geothermal chains

Most ESG rating agencies disagree with each others

- Own proprietary system
- Own metrics, definitions
- Own sources of non- financial information
- Not transparent
- Very heavily on self reporting by companies

EXAMPLES

Dollar General Corp.

- 89% of the revenue from carbon intensive projects
- But MSCI upgraded it, citing “data protection” “international ethics

Analysis Tools & Growth in Earnings

- MSCI bought “ Risk metrics “ a data tool firm and got into the ESG business. Fourfold increase in stock price; Owner Henry Fernandez is the first billionaire in the ratings business – 60% of ratings business
- Blackrock has a Normal fund / ‘ESG Aware’ fund 5 times fees for ESG Aware Fund
- Globally, the asset-management industry earned \$1.8 billion in fees in 2021 from their sustainable funds, up from almost \$1.1 billion in 2020

SEBI PROPOSED POLICY - HIGHLIGHTS

SEBI – consultation paper

- Covers proposed regulatory framework, oversight & periodicity of disclosures
- Listed entity who intends to avail ESG rating, shall obtain only from SEBI Accredited ERP
- SEBI accredited ERP – CRAs, RAs – atleast 10 cr networth – fit n proper
- ERP to have appropriate database collection, management systems, analysis/ filtering tools
- Specialist manpower – sustainability, analytics IT, Finance, law
- Entities other than the top 1,000 listed by market capitalisation wish to avail services of SEBI accredited ERPs, - public disclosures in line with BRSR
- MFs / AIFs shall avail SEBI registered ESG providers services only
- Shall use only SEBI-accredited ERPs for formulation of such index – for uniformity
- ESG Risk ratings and ESG Impact ratings

SEBI ESG RATING FRAMEWORK

India, first country in the world to regulate ESG ratings

Scope: Apply to both domestic and foreign ERPs if their ratings are utilised by users in India. Do not apply to foreign ERPs offering ratings exclusively on global asset classes for Indian investors.

Definition: *ESG ratings defined as products providing an opinion on the ESG profile or characteristics of an issuer or security, including exposure to ESG risks*

Areas of Operations: ERPs are limited to activities such as rating listed issuers and securities, as well as additional activities as may be specified by SEBI or other regulators. Consulting in ESG-related areas prohibited to prevent any conflict of interests.

Proportional-regime: Two categories of ERPs Category I (big) and Category II (small), each with different requirements for net worth, promoter qualifications, manpower, remote work, etc. Category II ERPs cannot certify green debt securities or engage in specified activities

SEBI ESG RATING FRAMEWORK

Targets: During registration, ERPs to submit business plans and targets for revenue, clients, breakeven, and projected losses. Non-compliance may lead to cancellation of registration.

Transparency: ERPs must disclose methodologies, rating changes, compensation arrangements, type of ESG rating (impact or risk or otherwise), individual scores on E/S/G, extent to which a change in rating methodology resulted in change in ESG rating, and if ESG ratings assigned were solicited/unsolicited.

Governance: Governance measures focus on managing conflicts of interest, ensuring independence, and avoiding advisory roles related to ESG.

Infrastructure: Internal resources, systematic review processes, and timely information gathering maintain quality and accuracy of ratings.

Monitoring: ERPs to be subjected to inspections and periodic reports. ERPs to undertake continuous monitoring of ratings.

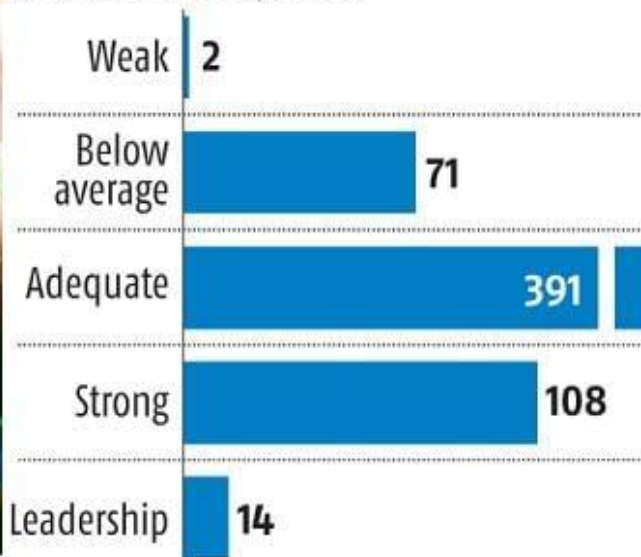
Risk management: Procedures to prevent insider trading, fraudulent practices, and protect non-public ESG rating information.

ESG RATING – INDIA ASSESSMENT



LONG ROAD TO NET-ZERO

Of the 586 companies assessed, only 14 were placed in leadership category
(Number of companies)



Source: CRISIL Research

1 in 5 companies reported their Scope 1 and Scope 2 greenhouse gas (GHG) emissions

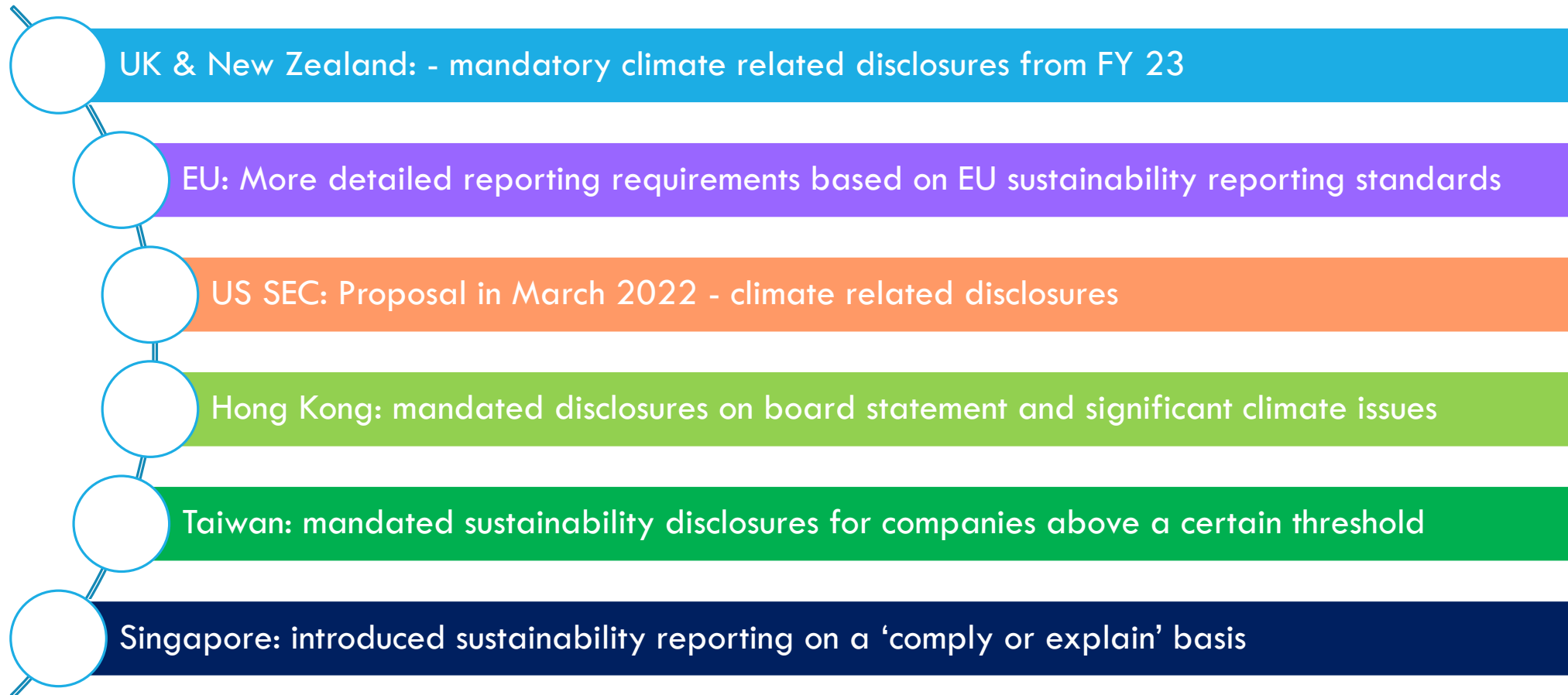
Disclosure on Scope 3 emissions was even worse: only 63 of 586 companies published this data

ESG rating of 80% Indian firms just 'adequate' or 'below average'

Analysis by Crisil shows 20% of 586 companies in 'strong' and 'leadership' matrix. Nearly 80 per cent or 464 companies were placed as 'weak', 'below average' and 'adequate'

Most companies improved their ESG scores driven by better disclosures and improved performance on various parameters

INTERNATIONAL REGULATORY TRENDS



GREEN BONDS

Framework Introduced in 2017

Sectors eligible as green projects

- *renewable and sustainable energy (wind, solar etc.)*
- *clean transportation (mass transportation)*
- *sustainable water management (clean and/or drinking water, water recycling etc.)*
- *climate change adaptation*
- *energy efficiency (efficient and green buildings)*
- *sustainable waste management (recycling, waste to energy etc.)*
- *sustainable land use (including sustainable forestry and agriculture, afforestation etc.)*
- *biodiversity conservation*

15 issues worth INR 4563 crore so far

SEBI FRAMEWORK — GREEN AND BLUE BONDS AS A MODE OF SUSTAINABLE FINANCE

Consultation Paper on Green and Blue Bonds as a mode of Sustainable Finance on August 04, 2022 seeking public comments on a proposed regulatory framework:

a.to amplify the definition of green debt securities,

b.to introduce the concept of blue bonds

c.to reduce the compliance cost for issuers of green debt securities with while not creating any perverse incentives that may lead to ‘greenwashing’.

SEBI'S NEW GREEN BOND FRAMEWORK

- *renewable and sustainable energy including wind, bioenergy, other sources of energy which use clean technology,*
- *clean transportation including mass/public transportation,*
- *climate change adaptation including efforts to make infrastructure more resilient to impacts of climate change - climate observation and early warning systems,*
- *energy efficiency including efficient and green buildings,*
- *sustainable waste management including recycling, waste to energy, efficient disposal of wastage,*
- *sustainable land use including sustainable forestry and agriculture, afforestation,*
- *biodiversity conservation,*
- *pollution prevention and control including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction etc.*
- *circular economy adapted products, such as the design and introduction of reusable, recyclable and refurbished materials or eco efficient products.*

BONDS — BLUE, YELLOW AND TRANSITION

Blue Bonds - Blue bonds which comprise of funds raised for sustainable water management including clean water and water recycling, and sustainable maritime sector including sustainable shipping, sustainable fishing, fully traceable sustainable seafood, ocean energy and ocean mapping,

Yellow Bonds - Yellow bonds which comprise of funds raised for solar energy generation and the upstream industries and downstream industries associated with it,

Transition bonds - Transition bonds comprise of funds raised for transitioning to a more sustainable form of operations, in line with India's Intended Nationally Determined Contributions (INDCs)

GREEN BONDS – OTHER REQUIREMENTS

- Certification by auditor/ certifier
- Requirement of Impact Reporting
- Disclosure of major elements of Business
- Responsibility and Sustainability Reporting (BRSR) – Chapter 6
- Initial and Continuous disclosure requirements for issue and listing of green debt securities
- Responsibilities of the issuer:
 - *maintain a decision-making process*
 - *ensure that all project(s) meet the documented objectives of green debt securities*
 - *utilise the proceeds only for the stated purpose*

SINS OF GREENWASHING

'Greenwashing' is, 'making false, misleading, unsubstantiated, or otherwise incomplete claims about the sustainability of a product, service, or business operation'.

Sin of fibbing - Environmental claims that are simply false.

Sin of the hidden trade-off - environmental issues only on paper

Sin of no proof - environmental claim not substantiated

Sin of vagueness - A claim that is so poorly defined or broad

Sin of worshipping false labels – A claim through either words / images, gives the impression of third-party endorsement

Sin of irrelevance - An environmental claim is unimportant or unhelpful

Sin of lesser of two evils – a claim that distracts the consumer from the greater environmental impacts. (Organic cigarettes)

GREENWASHING EXAMPLES

Case of DWS - an associate company of Deutsche Bank

DWS exaggerated the green credentials of investments it sold to investors.

May 2020 - DWS showcased its sustainable investment credentials, saying it will use artificial intelligence to identify companies with climate risks

Early 2021 - one Desiree Fixler, a former head of sustainability at DWS, blew the whistle - the company overstated how it used sustainable investing criteria to manage investments.

July 2021 - DWS' Board cleared any wrongdoing on the part of the company

August 2021 - German regulator BaFIN and SEC, USA launch investigations

June 2022 - BaFIN found that the ESG factors had not been taken into account in investments sold as '**ESG investments**'

The CEO of DWS also had to reign in the wake of the investigations.

GREENWASHING EXAMPLES (CONTD.)

November 2022 - Goldman Sachs – penalised by US SEC - violations of its own environmental, social and governance policies and procedures – penalty of USD 4 million paid to SEC

May 2022 - BNY Mellon paid a penalty of \$1.5 million for misstatements and omissions in its statements related to ESG funds.

FIFA pulled up for declaring World Cup at Qatar as a ‘carbon neutral’ tournament when carbon credits being purchased to offset emissions were unlikely to benefit climate.

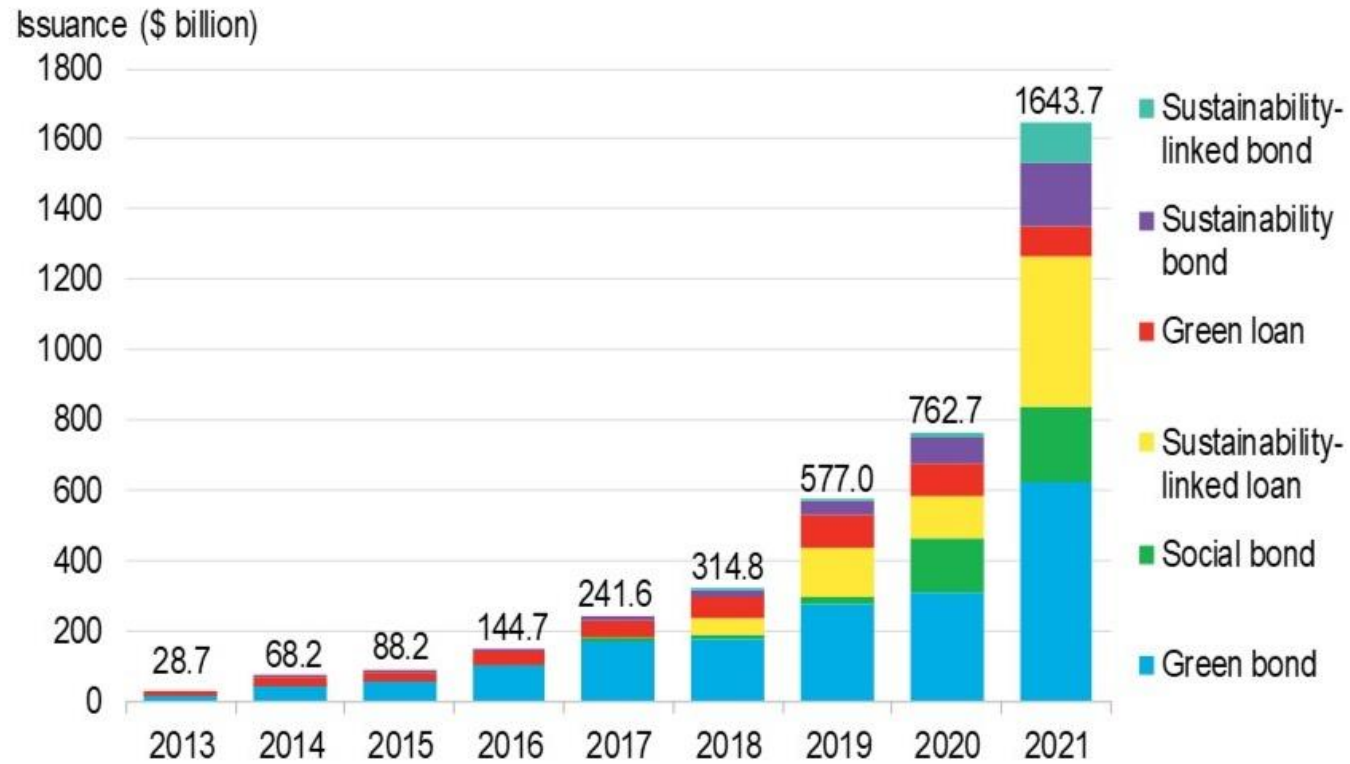
Burger King pulled up for marketing the its big burger ‘Whopper’ as sustainable when product packaging contains substances that are harmful to the environment

SEBI AND CURBING GREENWASHING – FEBRUARY 3, 2023 CIRCULAR

An issuer of green debt securities -

- *shall not utilize funds raised through green bonds for purposes that would not fall under the definition of ‘green debt security’*
- *it shall disclose the same to the investors and, if required, by majority of debenture holders, undertake early redemption*
- *shall not use misleading labels, hide trade-offs or cherry pick data*
- *shall maintain highest standards*
- *quantify the negative externalities associated with utilization of funds*
- *shall not make untrue claims giving false impression of certification*

WORLD GREEN BOND ISSUANCE



INDIA & SUSTAINABLE INVESTING

Internationally ESG AUM is poised to reach 41 trillion USD by end 2022

Funds in India contribute approx. 0.08% of global assets in sustainable funds

Out of the 9 ESG themed funds in India, 7 were launched after January 2020

2020 - ESG fund assets in India doubled Quarter-on-Quarter to USD 1.3 billion

INCREASED RETURNS

2017 Deutsche Bank Survey

- Based on 2,000+ empirical studies dating back to 1970s, about 90% of the studies suggested that ESG investing provides superior returns to passive investing

2018 Study by Axioma

- “a majority of portfolios weighted in favour of companies with better ESG scores outperformed their benchmarks by between 81 and 243 basis points in the four years to March 2018”

Example

- Shell: Excessive focus on profits to the neglect of communities, nature and environment can be self-defeating in the long run

BRR – HISTORY

Regulatory measures on BRR in India

- National Voluntary Guidelines – MCA – 2011
- SEBI BRR – top 100 listed entities – 2012 – First time in India – Listing Agreement
- Extended to top 500 listed entities – LODR – now, to top 1000

December 2018 - National Guidelines on Responsible Business Conduct

- NGRBCs - to keep pace with global developments
- Paris Agreement on Climate Change
- United Nations Guiding Principles on Business and Human Rights (UNGPs)
- UN Sustainable Development Goals (SDGs)

Committee on Business Responsibility

- Constituted in 2019 comprising of SEBI, MCA, and other professional institutes
- Deliberations with NITI Aayog and representatives of large businesses & MSME sectors

SALIENT FEATURES OF BRSR

Disclosure of sustainability related risks and opportunities - rationale for identifying the same and approach to mitigate or adapt to the risks along-with financial implications of such risks and opportunities.

Disclosure of sustainability related goals / targets and performance – to capture how the entity views and prioritizes sustainability including its goals & targets and performance against the same.

Environment related parameters – granular details of performance of the entity on environment related parameters in quantifiable and measurable terms - resource usage, waste management emissions

Social related parameters – Employees/ workers related – Turnover rates, Welfare measures, Accessibility of workplaces to specially abled, Occupational health and safety management, Wages etc.

Essential indicators and Leadership indicators

BRSR – A BIRD’S EYE VIEW

Section A	Section B	Section C
<p>Section A provides the subtitles for explaining the General Disclosures of the business such as,</p> <ul style="list-style-type: none">• Details of listed entity,• Products / Services, List of Operations,• Market served by the entity,• Details about employees,• Holding, Subsidiary and Associate Companies,• Corporate Social Responsibility (CSR) and• Transparency & Disclosure Compliances.	<p>Section B provides a table on Management and Process disclosures related to the businesses aimed at demonstrating the structures, policies and processes put in place towards adopting the NGRBC Principles and Core Elements. The questions are aim to assist listed entities to explain their Policy and Management Processes as well as Governance, Leadership and Oversight.</p>	<p>Section C provides the disclosure of principle wise performance of the businesses across the nine principles of NGRBC. These principles set the basis for the businesses to substantiate their contribution for sustainable development. The desired information is categorized into “Essential” and “Leadership” indicators.</p>

WHAT SHOULD DIRECTORS ENSURE AS TO THE PREPARATION OF BRSR?

- *Use the SEBI Guidance Note*
- *Avail external guidance*
- *Essential and leadership indicators*
- *Entities following international frameworks*
- *Avoid duplication of information*
- *Stick to facts*
- *Avoid inchoate information*
- *Remember - False information leads to reputational damage*

Items / Events relating to the Balance Sheet	Items / Events relating to the Profit & Loss account / income Statement	Other Items / Events relating to financials
Too much Goodwill	Revenue rising at a slower pace than profits for a considerable period of time	Frequent changes in auditors Sudden resignation / replacement of auditors
Excessive Borrowings	Capitalizing R&D and interests costs	Negative audit opinions / audit qualifications and management's evasive responses Information not being provided to auditors
Inventory rising faster than profits	Frequent, Large extraordinary change	Sudden exits of top managers
Rising days of Receivables	Sharp decline in taxes	Reduced disclosures
Rising Loans to Related parties, generally to subsidiaries from the parent listed entity	Net profit lower than cash from operations	Board lacking Competences
Too much cash Lying in Current accounts	Overstatement of revenue using one-off income	Excessive management compensation
Multitude of related party transactions		Management that keeps blowing its own trumpet – issuing needless and frequent advertisements in the media, for example

ROAD AHEAD

Reporting of BRSR

- Mandatory from FY 2022 – 23

Companies are encouraged to be early adopters of the BRSR

- thus being at the forefront of sustainability reporting

“The greatest threat to our planet is the belief that someone else will save it.” - Robert Swan (British), the first man to walk to both the North and South Poles

“Treat the earth well: it was not given to you by your parents, it was loaned to you by your children. We do not inherit the Earth from our Ancestors, we borrow it from our Children.” - Ancient Indian Proverb



THANK YOU