SKY IS THE LIMIT

PRESENTATION ON
CONCEPTUAL FRAMEWORK OF ESG

FOR THANE CHAPTER & WIRC OF ICSI

NOVEMBER 5, 2023

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ESG
SUSTAINABILITY
SOCIAL
GOVERNANCE
ENVIRONMENTAL

SCOPE, GAMUT AND CONCERNS OF ESG

ENVIRONMENTAL	SOCIAL	GOVERNANCE
Greenhouse Gas (CHG) Emissions	Social Well-Being, Health, Security and Safety	Business Ethics and Ethical Standards
Climate Change	Working Conditions	Composition of Board, Board Process, Diversity and Governance
Water Management	Employee benefits	Structures of Board Committees
Recycling Process	Gender Diversity and Inclusion	Risk Management Systems
Deforestation	Respect of Human Rights	Stakeholder engagement
Emergency Preparedness and Disaster Management	Impact on Local communities	Anti-Corruption and Anti Bribery policies

TRIPLE BOTTOM LINE (TBL) ACCOUNTING

Source: https://blog.chainpoint.com/blog/triple-bottom-line-measuring-social-and-environmental-kpis

TRIPLE BOTTOM LINE (TBL) ACCOUNTING

It consists of three Ps: profit, people and planet

The phrase "the triple bottom line" was first coined in 1994 by John Elkington, the founder of a British consultancy called **SustainAbility**

The triple bottom line (TBL) is **an accounting framework that includes social, environmental and financial results as bottom lines**

TBL v ESG v SUSTAINABILITY

- TBL is an accounting and reporting framework having the 3 P's as its components – PEOPLE, PLANET AND PROFITS

TBL = Profits as per GAAP + Environment (E) & Social (S) benefits

- ESG refers to a framework of responsible investing that considers Environmental (E), Social (S) and Governance (G) in addition to financial factors when making investment decisions.

ESG = E & S + Governance (G)

- Sustainable development is development that meets the needs of the present, without compromising the ability of future generations to meet their own needs

Sustainability = TBL + ESG

SUSTAINABILITY CONCEPTS

ESG – THE PATHWAY TO SDG’S

- The 2015 Paris Climate Agreement - commitment from the 193 signatory countries to achieve reduction in the quantum of carbon emissions by 55 gigatons by 2030 at the COP-21.
- India is one of the 193 countries which has accepted the target to achieve the Sustainable Development Goals (SDG’s) by 2030
- In the words of our Hon’ble Prime Minister, Shri Narendra Modi, referring to SDG’s “These goals reflect our evolving understanding of the social, economic and environmental linkages that define our lives.”

THE 17 SDG’S

SDG	Environment	Social	Governance	SDG	Environment	Social	Governance
1 No Poverty		*		10 Reduced Inequality		*	
2 Zero Hunger		*		11 Sustainable cities and Community	*		*
3 Good Health / Well Being		*		12Responsible Consumption & Production	*	*	*
4 Quality Education		*		13 Climate Action	*		*
5 Gender Equality		*	*	14 Life Below Water	*		
6 Clean Water & Sanitation	*	*		15 Life on Land	*		
7 Affordable & Clean Energy	*			16 Peace and Justice Strong Institutions		*	*
8 Decent Work & Economic Growth		*	*	17 Partnership to achieve Goals			*
9 Industry, Innovation & Infrastructure	*	*	*	Total 1 to 17	8	11	8

GLOBAL ACHIEVEMENT OF SDG'S - 2023

RANK	COUNTRY	SCORE	RANK	COUNTRY	SCORE
1	FINLAND	86.76	7	NORWAY	82.00
2	SWEDEN	85.98	8	CZECHIA	81.87
3	DENMARK	85.68	9	POLAND	81.80
4	GERMANY	83.36	10	ESTONIA	81.68
5	AUSTRIA	82.28	11	UNITED KINGDOM	81.65
6	FRANCE	82.05	12	CROATIA	81.50

U.S.A. ranks 39 with a score of 75.91
India ranks 112 with a score of 63.45
(up 9 places from rank 121 in 2021)

Source: https://dashboards.sdgindex.org/rankings

INDIA'S PROGRESS IN SDG'S – SDG INDIA INDEX 2020-21

TOP SEVEN STATES			BOTTOM SEVEN STATES		
RANK	STATE	SCORE	RANK	STATE	SCORE
1	Kerala	75	BOTTOM	Bihar	52
2	Tamil Nadu	74	BOTTOM+1	Jharkhand	56
3	Himachal Pradesh	74	BOTTOM+2	Assam	57
4	Andhra Pradesh	72	BOTTOM+3	Uttar Pradesh	60
5	Uttarakhand	72	BOTTOM+4	Arunachal Pradesh	60
6	Goa	72	BOTTOM+5	Meghalaya	60
7	Karnataka	72	BOTTOM+6	Rajasthan	60

Top 2 UT's - Chandigarh (79), Puduchery (68)

INDIA SCORE - 66

Source: https://www.niti.gov.in/reports-sdg

Why ESG Risks matter

- ESG negative scenarios are getting more expensive and damaging. According to recent estimates by the Bank of America (BofA) Global Research team, “ESG disputes” have cost S&P 500 corporations more than $600 billion in market capitalization in only the past seven years.
- Two known examples are:
    - Pacific Gas & Electric, Northern California faced criminal prosecution for two wildfires caused by old power lines – Cost US$ 55 million
    - Recall of millions of Volkswagen vehicles after admission of fake emission testing. Fines, Penalties, buyback costs and financial settlements – Cost US$35 billion
- Profitability and even ability to survive will be significantly impacted, if ESG risks are not properly addressed
- Prevention, Adaptation and Mitigation are better long-term strategies from sustainability point of view compared to ignoring the ESG risks
- ESG risks are relevant to enterprises, irrespective of their size

Possible actions to manage ESG risks

<u>8 point action plan</u>:

- Developing the ESG approach
- Establishing the risk appetite
- Integrating the ESG issues in the Risk Management System
- Establishing the roles and responsibilities for perspective on ESG issues
- Escalating the ESG risks to the decision makers
- Detecting and analysing the ESG risks involved
- Making decisions with respect to the ESG risks
- Reporting on the ESG risks

GLOBAL ESG FRAMEWORK

- **Global Reporting Initiative (GRI)**
- **Value Reporting Foundation (VRF)**
- **SASB-Sustainability and Accounting Standard Boards**
- CDP-Carbon Disclosure Project
- TCFD-Task Force on Climate-related Financial Disclosures
- Climate Disclosure Standards Board
- UN Principles for Responsible Investment(PRI)
- UN Sustainable Development Goals (SDG)
- **International Sustainability Standards Board (ISSB)**

OVERVIEW OF GRI AND VALUE REPORTING FOUNDATION (VRF)

ABOUT GRI AND WHAT IT IS

- GRI stands for "Global Reporting Initiative"
- An international independent standards organization headquartered in Amsterdam, Netherlands

  - helps businesses, governments and other organizations understand and communicate their impacts

  -on issues such as climate change, human rights and corruption.
- About 100 countries use the GRI guidelines.
- The GRI Standards

  - A modular system of interconnected standards.

  - Allows organizations to publicly report the impacts of their activities

  - Global common language to communicate those impacts

STRUCTURE OF GRI STANDARDS

- **Universal Standards**
  - *GRI 1 (Foundation Standards)*: outlines the purpose, clarifies critical concepts and explains how to use the standards. Also specifies the principles – such as accuracy, balance, verifiability
  - *GRI 2 (General Disclosures)*: details about organisation's structure, reporting practices, activities, workers, governance, strategy, policies, practices and stakeholder engagements
  - *GRI 3 (Material Topics)* : Determination of the topics most relevant to its impacts, process for determining its material topics and how these are managed.
- **Sector Standards:** Being developed for about 40 sectors
- **Topic Standards:** 33 topic standards e.g. waste, occupational health, safety – Overview of topic and how an organisation manages its associated impact

VALUE REPORTING FOUNDATION - VRF

- VRF is a global non-profit organization that offers a comprehensive suite of resources designed to help businesses and investors develop a shared understanding of enterprise value - how it is created, preserved and eroded
- VRF offers 3 different resources as under: -
  - *Integrated Thinking Principles*, which are useful inputs for Board strategy as well as management planning and decision making;
  - *Integrated Reporting Framework* (estimated to be used by 75 countries), which provides valuable guidance based on principles for comprehensive ESG reporting and
  - *Sustainable Accounting Standards Board (SASB),* which has evolved 77 industry-specific standards that help in identifying the subset of ESG issues most relevant to financial performance in each industry so that the integrated reporting can provide valuable insights into various sustainability issues from the point of view of investors.

INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB)

IFRS S1 AND S2

About ISSB

- The International Sustainability Standards Board (ISSB) is an independent, private-sector body that develops and approves IFRS Sustainability Disclosure Standards (IFRS SDS).
- The ISSB operates under the oversight of the IFRS Foundation.
- The ISSB was formed in 2021 following two consultations on
  - the demand for global sustainability standards and
  - what role the Foundation might play in the development of such standards
- The ISSB released its first two International Sustainability Disclosure Standards (IFRS SDS or the Standards) that become effective for periods beginning on or after 1 January 2024 - IFRS S1 and IFRS S2
- The ISSB brings together the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF)

IRFS S1

- The main objective of this Standard is to require disclosure of all information about sustainability-related risks and opportunities that could reasonably be expected to affect a company's prospects.
- S1 provides the basic requirements for sustainability disclosures which should be used with S2 and the future standards to be released.
- S1
    - Requires disclosure of material information about sustainability related risks and opportunities;
    - Requires Industry specific disclosures with reference to industry-based SASB standards
    - Refers to sources to help companies identify sustainability-related risks and opportunities and information (other than those in the scope of S2 – climate related disclosures)
    - Requires disclosures that enable investors to understand the connections between the sustainability-related risks and opportunities and the sustainability-related financial disclosures and financial statements.
    - Is GAAP agnostic

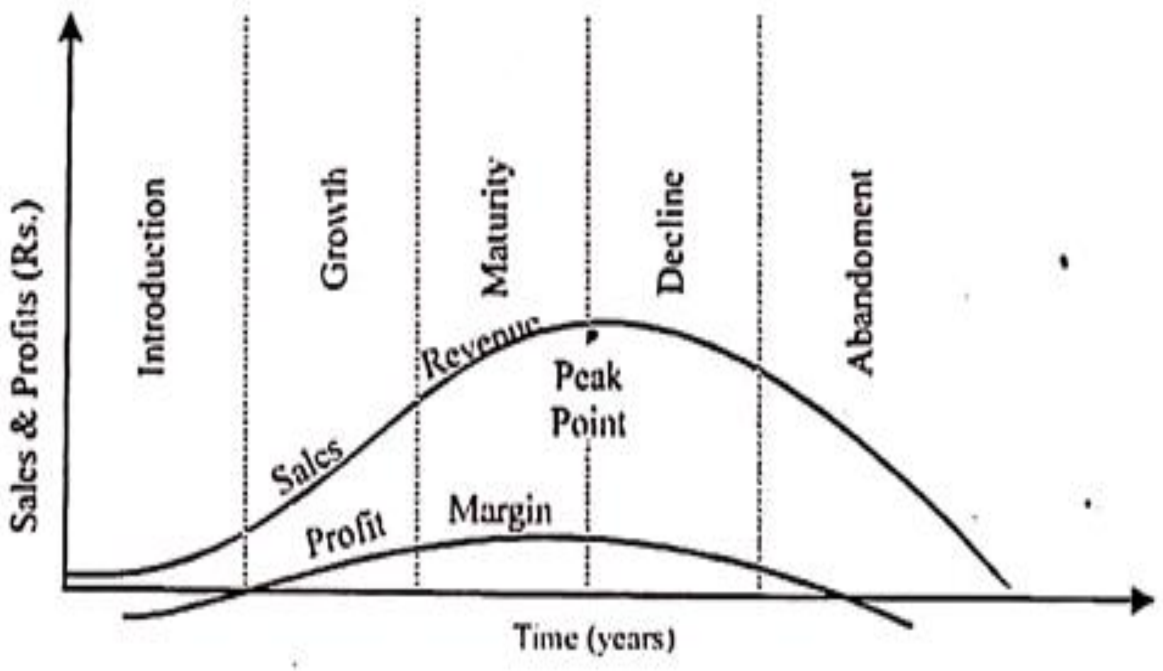
IFRS S2

- IFRS S2 has been developed to capture climate-specific requirements which includes:
  - Strategy disclosures that distinguish between physical and transitional risks
  - Disclosure of their plans to respond to climate-related risks and opportunities,
  - Disclosure of how climate-related targets are set as also any targets it is required to meet under the prevailing law / regulation
  - Details of scenario analysis conducted by the companies to explain how various climate-related events may impact the business in the future
  - Climate-related metrics and target disclosures dealing with
    - ❑GHG emissions (Scope 1, Scope 2 and Scope 3)
    - ❑Industry based metrics relevant to the Company
    - ❑Company specific metrics considered by the board or management when measuring progress towards set targets

LIFE CYCLE ASSESSMENT
&
ESG MATURITY

Product Life Cycle Concept

- Development
- Introduction
- Growth
- Maturity
- Stagnation
- Decline / Abandonment



Life Cycle Assessment – ESG Concept

- Life Cycle Assessment (LCA) is a standardized method to evaluate the environmental consequences of a product or activity across its entire life.
- Assessing a product's life cycle includes examining

  -human impacts

  -energy

  -materials

  -waste

  at each stage of a product's life cycle from cradle (the inception of the idea, Design) to the grave (disposal).

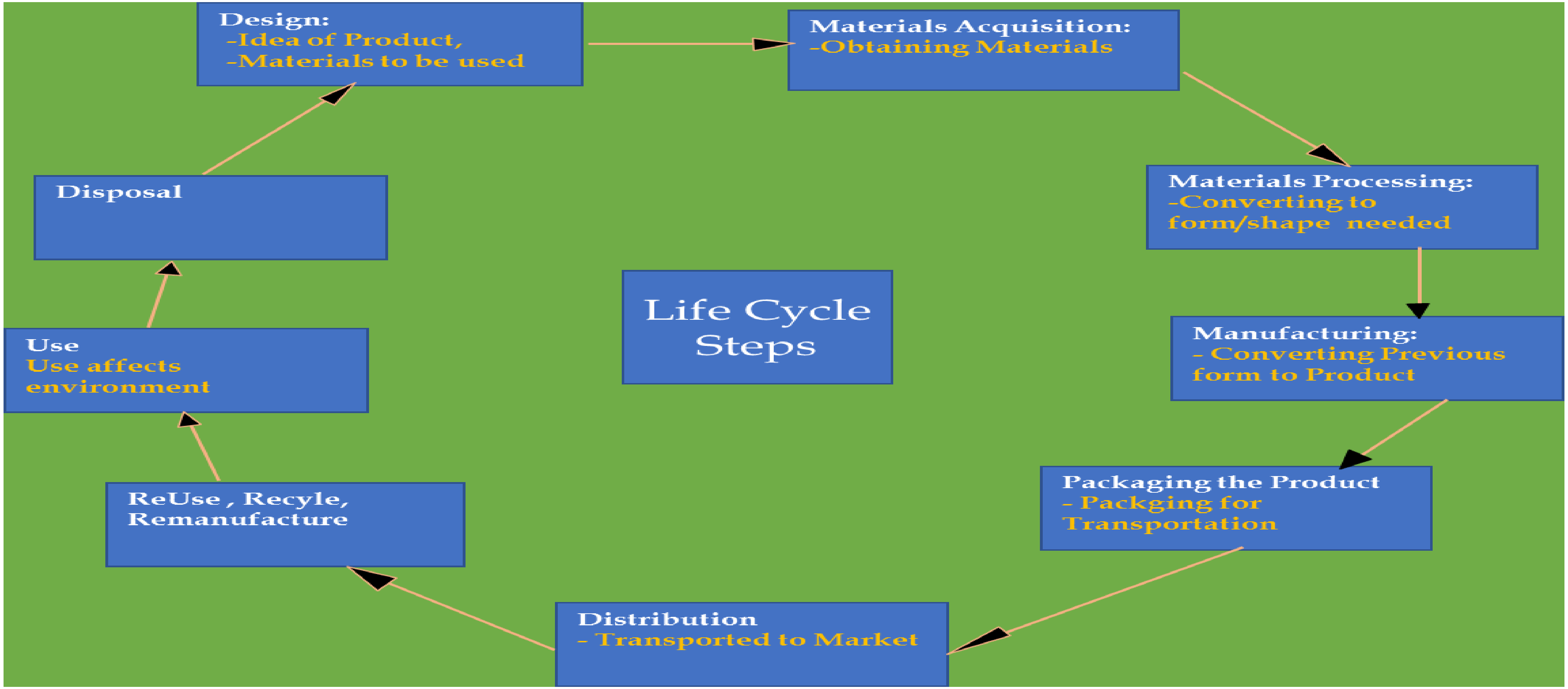
Stages in Product Life Cycle – ESG Perspective

Also called “Cradle to Grave” concept of Product Life Cycle

Five Stages:

- Raw Material Extraction
- Manufacturing & Processing
- Transportation
- Usage & Retail
- Waste Disposal

Product Life Cycle - Manufacturing



Adding Sustainability to Product Life Cycle

The 6 Re – Philosophy

- **RE-think** the product and its functions. For example, the product may be used more efficiently
- **RE-pair.** Make the product easy to repair e.g. via modules that can easily be changed
- **RE-place** harmful substances with safer alternatives
- **RE-use.** Design the product for disassembly such that parts can be reused
- **RE-duce** energy, material consumption and socioeconomic impacts throughout a product's life cycle
- **RE-cycle**. Select materials that can be recycled

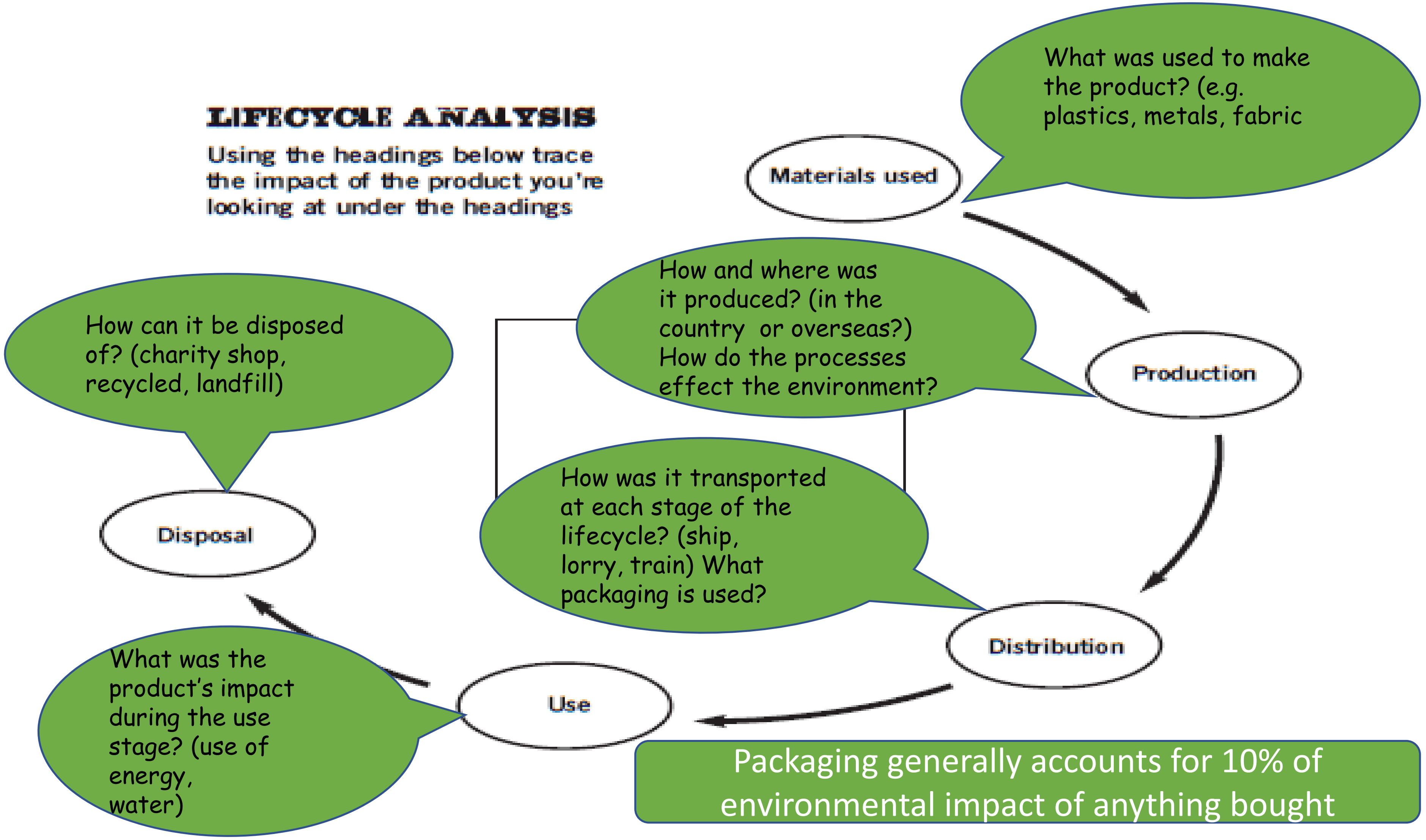
And extend this thought process to the entire value chain for sustainability impact.

Stages in Life Cycle Assessment (LCA)

STAGES	BRIEF DESCRIPTION
1. Goal and Scope	Every LCA has boundaries. At this stage, it is necessary to be clear about data needs, data quality requirements, methods to be used to assess impact and interpretation and how the same is reported.
2. Inventory	The inventory includes things like emissions, energy requirements and material flows for each process involved. These are the flows into and out of the system that are being studied. The data of these are adjusted depending on the functional unit that is being looked at. This is known as a Life Cycle Inventory (LCI)
3. Impact Assessment	The impacts on the environment are calculated. The categories of impacts are chosen and the impacts on them based on the flow of emissions, energy and material from the inventory, are assessed. There are different types of impacts viz. depletion of abiotic resources, global warming, ozone layer depletion, acidification
4. Improvement Assessment	Finally, the results are analysed in the context of the goal and scope of the study set out at the beginning. Based on findings, recommendations are given

international standards (ISO 14040 and others) place strict limits on what qualifies as an LCA
and what you can and can’t do.

Life Cycle Analysis (LCA) of a Mobile



Uses of Life Cycle Assessment (LCA)

An LCA can be used by different people for different things. But it’s all about environmental impact and performance.

- **Design**: what changes can we make to the product to lessen its environmental impact?
- **Purchasing**: which product has the least environmental impact?
- **Marketing**: is this product “greener” than that of the competitors?
- **Benchmarking**: how’s our company doing compared to all the others in our industry?
- **Tracking**: how’s our environmental performance doing this year compared with previous years?
- **Policy**: What initiatives will help improve overall environmental outcomes?

ESG MATURITY

Phases of ESG Maturity

Stages	Stage of Maturity	Brief Description
1	Least Mature	ESG is treated as an unavoidable burden and merely a compliance requirement. Most large organisations are expected to have crossed this stage.
2	Slightly more sustained and shared process	Some importance is given to ESG aspects and wherever considered useful but not a great deal important strategically. Some importance to sustainability risk.
3	Strategic Agenda	At this stage, management will appreciate a materiality matrix — a graphing of the company's stakeholders' primary ESG-related interests and priorities against those of either the business or its stakeholders
4	Brand Building	The business and its sustainability leadership have established a refined and documented understanding of where they need to lead in ESG
5	Leadership Position	The business leads the ESG agenda in the industry or even across industries

THE NINE BRSR PRINCIPLES AND MAPPING WITH THE SDGs

THE NINE PRINCIPLES

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

2. Businesses should provide goods and services in a manner that is sustainable and safe

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

4. Businesses should respect the interests of and be responsive to all their stakeholders

5. Businesses should respect and promote human rights.

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

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

8. Businesses should promote inclusive growth and equitable development.

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

Mapping of SDGs with Principles

SDG No.	Principle ……>	1	2	3	4	5	6	7	8	9
	Description	Ethical, Transparent & Accountable	Goods/ services safe & sustainable	Well Being of employees	Responsiveness to stakeholder interest	Respect and Promote Human Rights	Protect & Restore Environment	Responsible Advocacy	Inclusive Growth & Equitable Development	Provide Value to Customers in a responsible manner
1	No poverty									
2	Zero Hunger									
3	Good Health & Well being									
4	Quality Education									
5	Gender Equality									
6	Clean Water/ Sanitation									

Mapping of SDGs with Principles (Continued)

SDG No.	Principle ……>	1	2	3	4	5	6	7	8	9
	Description	Ethical, Transparent & Accountable	Goods/ services safe & sustainable	Well Being of employees	Responsiveness to stakeholder interest	Respect and Promote Human Rights	Protect & Restore Environment	Responsible Advocacy	Inclusive Growth & Equitable Development	Provide Value to Customers in a responsible manner
7	Affordable & Clean Energy									
8	Decent Work & Economic growth									
9	Industry, Innovation & Infrastructure									
10	Reduced Inequalities									
11	Sustainable Cities & Communities									

Mapping of SDGs with Principles (Continued)

SDG No.	Principle ……>	1	2	3	4	5	6	7	8	9
	Description	Ethical, Transparent & Accountable	Goods/ services safe & sustainable	Well Being of employees	Responsiveness to stakeholder interest	Respect and Promote Human Rights	Protect & Restore Environment	Responsible Advocacy	Inclusive Growth & Equitable Development	Provide Value to Customers in a responsible manner
12	Responsible Cons. & Production									
13	Climate Action									
14	Life below water									
15	Life on Land									
16	Peace, Justice and Strong Institutions									
17	Partnership for the goals									

EMERGING COMPLIANCE FRAMEWORK

Regulation 34 of SEBI LODR

- Annual report to include the BRSR report, if applicable
- Annual Report to be uploaded on the website and sent to Stock Exchange – not later than the date of commencement of despatch of AGM notice with the Annual Report to the shareholders
- If there are any changes in the annual report, revised copy along with details of and explanation for the changes shall be sent within 48 hours after the AGM
- Assurance Report on the BRSR Core shall be obtained in such manner as may be prescribed by SEBI
- BRSR Core shall contain such KPIs as may be specified by SEBI from time to time
- Assurance Report shall also extend to the value chain partners in such manner as may be prescribed by SEBI

Implementation of new framework

- BRSR Core proposed to be implemented for top 150 listed entities from FY 2023-24 (including Reasonable Assurance) with a glided path to cover top 1000 listed entities by FY 2026-27 to improve credibility of disclosures
- Annexure I contains the format of BRSR Core and Annexure II contains the revised BRSR format (SEBI Circular dated July 12, 2023)
- BRSR Core (Annexure 1)specifies the data and approach for reporting and assurance.
- Approach specified is a base methodology and any changes or industry specific adjustments / estimations shall be disclosed.
- Framework to be gradually extended to remaining listed entities in a phased manner.
- Initially expected to be on “Comply or explain” basis and based on experience gathered to be converted to “Comply or be Penalised” basis
- Expected that going forward even unlisted entities may be covered by MCA.

ESG Disclosures for Value Chain

- Disclosures for value chain shall be made by the listed entity as per BRSR Core, as part of its Annual Report.
- For this purpose, value chain shall encompass the top upstream and downstream partners of a listed entity, cumulatively comprising 75% of its purchases / sales (by value) respectively
- Listed entities shall report the KPIs in the BRSR Core for their value chain to the extent it is attributable to their business with that value chain partner.
- Such reporting may be segregated for upstream and downstream partners or can be reported on an aggregate basis.
- ESG disclosures for the value chain shall be applicable to the top 250 listed entities (by market capitalization), on a comply-or-explain basis from FY 2024-25.
- The limited assurance of the above shall be applicable on a comply-or-explain basis from FY 2025 - 26

ESG Assurance

- Assurance Provider should have the necessary expertise for undertaking reasonable assurance
- Limited Assurance v Reasonable Assurance
- Limited Assurance in the case of ESG disclosures for Value Chain Partners
- Reasonable Assurance in the case of BRSR Core reporting
- No conflict of interest – with the listed entity or its group entities
- Assurance: A multi-disciplinary assignment

Format of BRSR Core – ESG Attributes

Serial No.	Attribute	Principle No.	Parameter
1	GHG footprint	6 (Q 7) – Essential	Scope 1 and scope 2 emissions; GHG emission intensity
2	Water footprint	6 (Q 3 & 4)- Essential	Water consumption from various sources; Water consumption intensity and Water discharge by level of treatment
3	Energy footprint	6 (Q 1) – Essential	Energy Consumption in Joules or equivalent - Non renewable, renewable, purchased electricity & self generated energy; Energy Intensity
4	Embracing Circularity & Waste Management	6 (Q 9) - Essential	Data relating to Total Waste classified into Plastic Waste, E Waste, Bio Medical Waste etc.; Waste Intensity; Waste disposal and recycling
5	Enhancing employee well- being and safety	3 (Q 1c & 11) - Essential	Expenditure incurred on well-being co-related to total revenue of the Company and details of safety related incidents

Format of BRSR Core –ESG Attributes (Contd.)

Serial No.	Attribute	Principle No.	Parameter
6	Enabling gender diversity	5 (Q 3(b) & 7) - Essential	Gross wages paid to females % to total wages & POSH complaints data co-related to complaints upheld & total female employees
7	Enabling inclusive development	8 (Q 4 & 5) - Essential	Input material sourcing from MSME & aspirational districts co-related to total sourcing; job creation in smaller towns co-related to total wages
8	Fairness in engaging with customers & suppliers	9 (Q 7) & 1 (Q 8) - Essential	% of loss / breach of customer data ; No. of days accounts payable
9	Openness of business	1 (Q 9) - Essential	Concentration of Purchases & Sales done with trading houses, dealers and related parties; Share of RPT in % to total Sales / Purchases /Loans & Advances / Investments

ESG RATING PROVIDERS (ERP)

Regulatory Framework for ERP

- SEBI Master Circular Ref **SEBI/HO/DDHS/POD2/P/CIR/2023/ 121** dated July 12, 2023
- The cited Master Circular prescribes the procedural / disclosure requirements and obligations of the CRAs which is intended to enable the industry and other users to have access to all the applicable directions to ERPs at one place
- Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999 (“CRA Regulations” as amended with effect from July 4, 2023) prescribes
  - guidelines for registration of ERPs,
  - general obligations of ERP,
  - Manner of inspection of ERP and
  - Code of Conduct applicable to ERP

Types of Ratings

An ERP shall offer at least the following ESG Rating Products:

- ESG Rating
- Transition or *Parivartan* Score
- Combined Score
- Core ESG Rating
- Core Transition or *Parivartan* Score
- Core Combined Score

Manner of conducting Internal Audit of ERP

- It shall be conducted on a yearly basis.
- It shall be conducted by CA, CS or CMA's who are in practice
- Internal Audit not to have any conflict of interest with the ERP.
- It shall cover all aspects of ERP operations and procedures, including investor grievance redressal mechanism, compliance with the requirements stipulated in the SEBI Act, Rules and Regulations made thereunder, and guidelines issued by SEBI from time to time.
- The report shall state the methodology adopted, deficiencies observed, and consideration of response of the management on the deficiencies.
- The report shall include a summary of operations and of the audit, covering the size of operations, number of transactions audited and the number of instances where violations / deviations were observed while making observations on the compliance of any regulatory requirement.
- The report shall comment on the adequacy of systems adopted by the ERP for compliance with the requirements of regulations and guidelines issued by SEBI and investor grievance redressal.

Eligibility for conducting Internal Audit

- The audit firm shall have a minimum experience of 3 years in the financial sector.
- The internal auditor of an ERP shall declare that:
  - The firm has not been employed by other ERPs for any other services (such as statutory audit, taxation, consultancy/ retainership etc.) in the past two years, and
  - The partners/ firm do not have any association with any other ERP.
- The audit team must be composed of, at least, a CA (ACA/ FCA) and a Certified Information Systems Auditor/ Diploma in Information Systems Auditor (CISA/ DISA).

Scope of Internal Audit

The internal audit shall examine compliance of the ERP with CRA Regulations and this circular. Such examination shall include but not be limited to following checks:

- Whether the ERP maintains the minimum net worth requirement under CRA Regulations.
- Status of targets / projections submitted by the ERP to SEBI during its application for registration.
- ERP and its employees, who are associated directly or indirectly with the rating business, have complied with the regulations and code of conduct.
- ERP has defined processes for operations that have been followed during the rating exercise.
- Policy in respect of non-cooperation by the issuer, if applicable, including procedures to be followed for the same, have been complied with.
- Review of ratings has been carried out as per the review policy of the ERP.
- Verify the rating disclosures made by the ERPs on their website.
- Comment on the conflict of interest, if any.
- The audit shall also cover adherence to the prescribed methodology for calculation of transition rates.
- Compliance by ERP with the provisions of all the Circulars shall be verified during yearly Internal Audit.

THANK YOU