

**DISCUSSION ON
MCA COMMITTEE REPORT
ON
BUSINESS RESPONSIBILITY REPORTING**

COMPANY LAW DISCUSSION SERIES - WIRC OF ICSI

S N VISWANATHAN

24-08-2020



Every year companies come out with an Annual Report

Owners' Manual Published by Berkshire Hathway states

Annual report is a View From rearview mirror to windscreen

*To state things simply, we try to give you in the annual report the numbers and other information that **really matter.***

American David F Linowes was one of the earliest to outline a template for companies to report their transactions with the society.

‘An approach to Socio-economic accounting’ in 1972 he combined the concept of **profit and loss to reflect the transactions between the company and society in an attempt to answer the needs of the stakeholder groups.**

The model developed by Linowes captured the Improvements made and netted off from it the Detriments, to arrive at the Net Impact.

The Net Impact was computed under the three heads,

Relations with People,

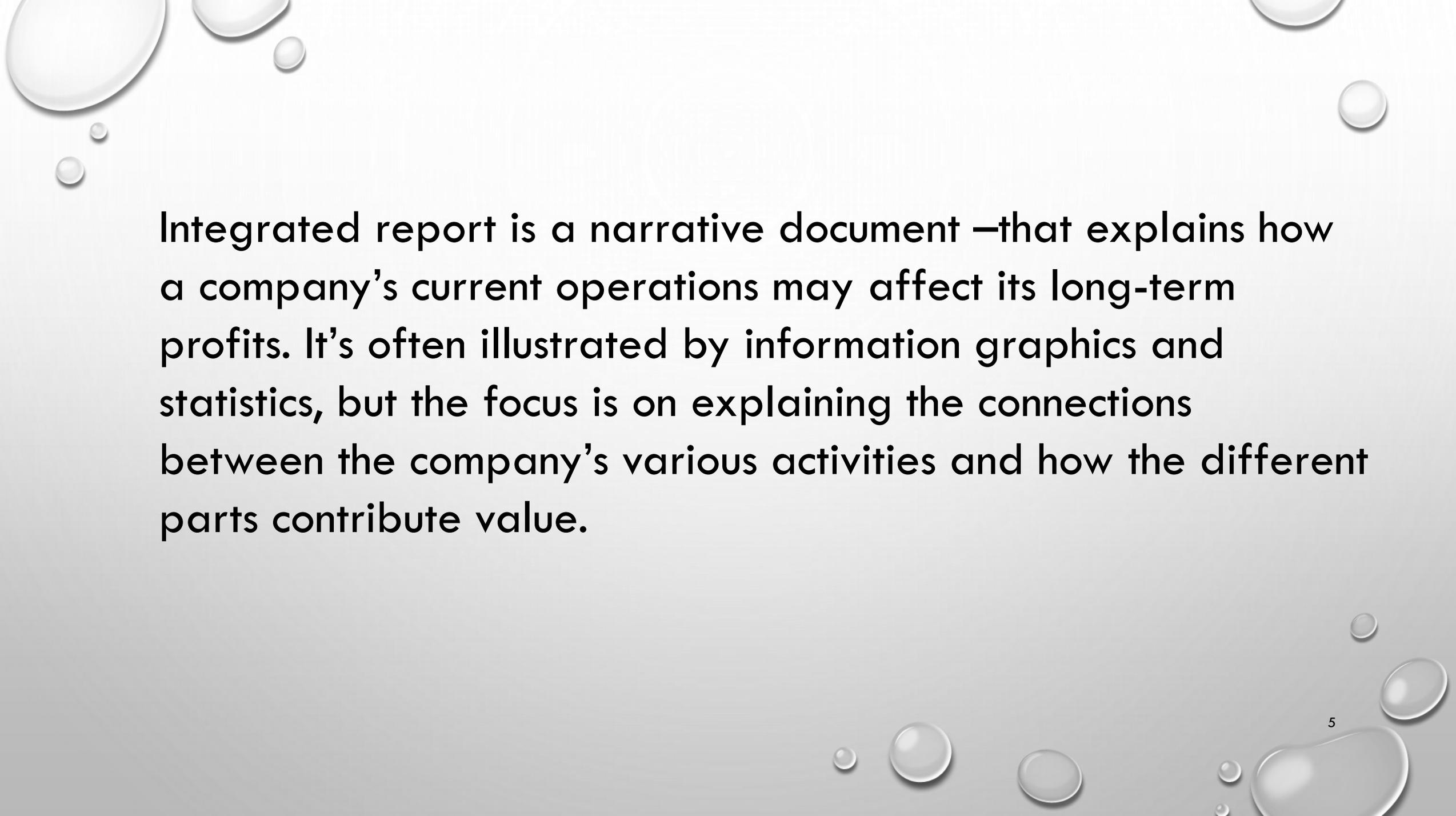
Relations with Environment, &

Relations with Products.



BSE explains 'Business Responsibility Report' as a disclosure of adoption of responsible business practices by a listed company to all its stakeholders.

This is important considering the fact that these companies have accessed funds from the public, have an element of public interest involved, and are obligated to make exhaustive disclosures on a regular basis.



Integrated report is a narrative document –that explains how a company’s current operations may affect its long-term profits. It’s often illustrated by information graphics and statistics, but the focus is on explaining the connections between the company’s various activities and how the different parts contribute value.

GENUS Of Business Responsibility & Sustainability Report

MCA introduced – National Voluntary Guidelines (NVGs) on Social Environment & Economic Responsibilities of Business – 2011

- Recommended the issue of Business Responsibility Report with the Annual Report

Companies Act, 2013 – concept of Stakeholder introduced;

- Company's responsibility towards employees, community and the environment was codified

NVGs upgraded to National Guidelines for Responsible Business Conduct (NGRBC) in 2019



NGRBC – aligns Sustainable Development Goals and the United National Guiding Principles on Business and Human Rights

- Enables the business to embrace the principle of responsible conduct going beyond the regulatory compliance.

The disclosure mechanism – to be upgraded, modified to include and reflect NGRBC and encourage companies to take Leadership roles in practices and disclosure.



WORLD ECONOMIC FORUM AT DAVOS released its Manifesto this year (2020)

Engage the Stakeholders in shared & sustained value creation

Company is MORE THAN a economic unit Generating Wealth.

Company is itself a Stakeholder.

Committee Report on Business Responsibility Reporting

Governing Principles – Chapter 5 of NGRBC taken as base document

- Format should be simple – mindful of cost of compliance; not be repetitive
- Mix of quantitative and qualitative data to be provided
- Formats to be used by both listed and unlisted – Small and large – BRSR *Lite*
- Formats will be in e-forms so that Reports can be filed with MCA

Report divided into 4 Chapters



Chapter 1 – Introduction of Non Financial Disclosures and Presents an overview of the Global Sustainability Reporting frameworks and initiatives;

United Nations Global Compact (UNGC)

Global Reporting Initiative (GRI)

Integrated Reporting (IR)

Carbon Disclosure Project (CDP)

ISO 26000

Sustainability Accounting Standards Board (SASB)

Chapter 2 presents an analysis of SEBI – BRR disclosures and data implications for preparing the formats

IICA Conducted a Study – Baseline Assessment of Business and Human Rights situation in India with partnership support with UNICEF.

490 Listed Companies Annual Reports - analysed

3 criteria – Completeness; Accuracy & Clarity of Information

Study also provided some suggestions to improve the disclosures

Chapter 3 Provides insights into the Committees deliberations and the recommendations

Existing Sustainability Frameworks – were driven by non state organisations.

SEBI – BRR and the proposed formats – unique as driven by the government

Signals – not only expectations of the government from business but also becomes an instrument of Accountability

Then needs to ensure that the format contains basic as well as the most desired elements of sustainability and responsibility reporting.

Formats – intended to become SINGLE SOURCE of NON FINANCIAL / SUSTAINABILITY Reporting

Standalone & Comprehensive – to include Principles of NGRBC, SDG and UNGP

Information to serve all Stakeholders

- Investors
- Other businesses
- Consumer
- Governments
- Citizens
- Other interested entities and individuals

Accessible, Intelligible & Available for decisions making.

Disclosures - to extend to every enterprise

Size, ownership no restrictions

Concept of transitioning from a

Passive “NOT DOING HARM”

to

Proactive “DOING GOOD”

Disclosures to be **TRANSPARENT, ACCOUNTABLE & FORGE
PARTNERSHIPS**

for the advancement of the business and its Stakeholders together.



PREPAREDNESS to make disclosures

Every NGRBC Principle - Set of qualitative variables relevant to the specific principle – chosen

For Subjective issues – Qualitative responses have been sought.

Questions are self explanatory and scope of multiple interpretations have been avoided

- GUIDANCE NOTE – prepared – interprets the scope of each question

Terms consistent with Companies Act 2013, other prevalent statutes and NGRBC have been used

Term not defined – commonly understood term to be understood.

AVOIDANCE OF DUPLICATION – formats developed are easy to be integrated with MCA 21 Filings

Existing information will get Prefilled.

Reporting Criteria

Existing Criteria for Listed Companies / entities as prescribed by SEBI to continue

For Unlisted companies –combination of Paid-up Capital and/or Turnover

Listed Companies will report both to MCA and Stock Exchanges.



Name of the Report changed from

Business Responsibility Report

to

Business Responsibility and Sustainability Report

Recommendations

Structure of BRSR Framework

3 Sections

A – General Disclosures

B – Management & Process

C – Principle – Wise performance



Section C – how a Company is performing – each Principle and Core element of NGRBCs

Requires demonstration of Company's intent and commitment to responsible business conduct through actions and outcomes.

Format of the Report

ESSENTIAL – mandatory for all companies

LEADERSHIP – voluntary – provides opportunities for companies to present - impacts and outcomes

Expected that in the next review - Leadership category questions will move towards Essential Category

Sees as Pathway to a more comprehensive disclosure regime

Nine Principles of Reporting

Businesses should

- 1. conduct and govern themselves with integrity in a manner that is Ethical, Transparent and Accountable.**
- 2. provide goods and services in a manner that is sustainable and safe.**
- 3. respect and promote the well-being of all employees, including those in their value chains.**
- 4. respect the interests of and be responsive to all its stakeholders.**
- 5. respect and promote human rights = UNGC – Principle No. 1 and 2.**

Nine Principles of Reporting

Businesses should

- 6. respect and make efforts to protect and restore the environment – UNGC – Principle 7, 8 and 9.**
- 7. when engaging in influencing public and regulatory policy, do so in a manner that is responsible and transparent.**
- 8. promote inclusive growth and equitable development.**
- 9. engage with and provide value to their consumers in a responsible manner.**

BRSR Lite

Lite version of BRSR – proposed – easier for all companies to begin reporting

Less number of questions & Easier to answer

Implementation to be made phase wise



BRS reporting – Integrated with reporting under the
Companies Act, 2013

In MCA21

Preferably in XBRL format

Chapter 4

WAY FORWARD

BRS Reports to be integrated with the filing made on the MCA 21 portal.

Information from the Reports should be used to develop a BRS index to rank companies.

Better ranking means Responsible business entity



Better rankings – preference for organisations, including the central and state governments in procurement / business conduct,

Used by banks, credit rating agencies, and other financial institutions, along with financial information to assess credibility of a company/business.

Implementation Schedule

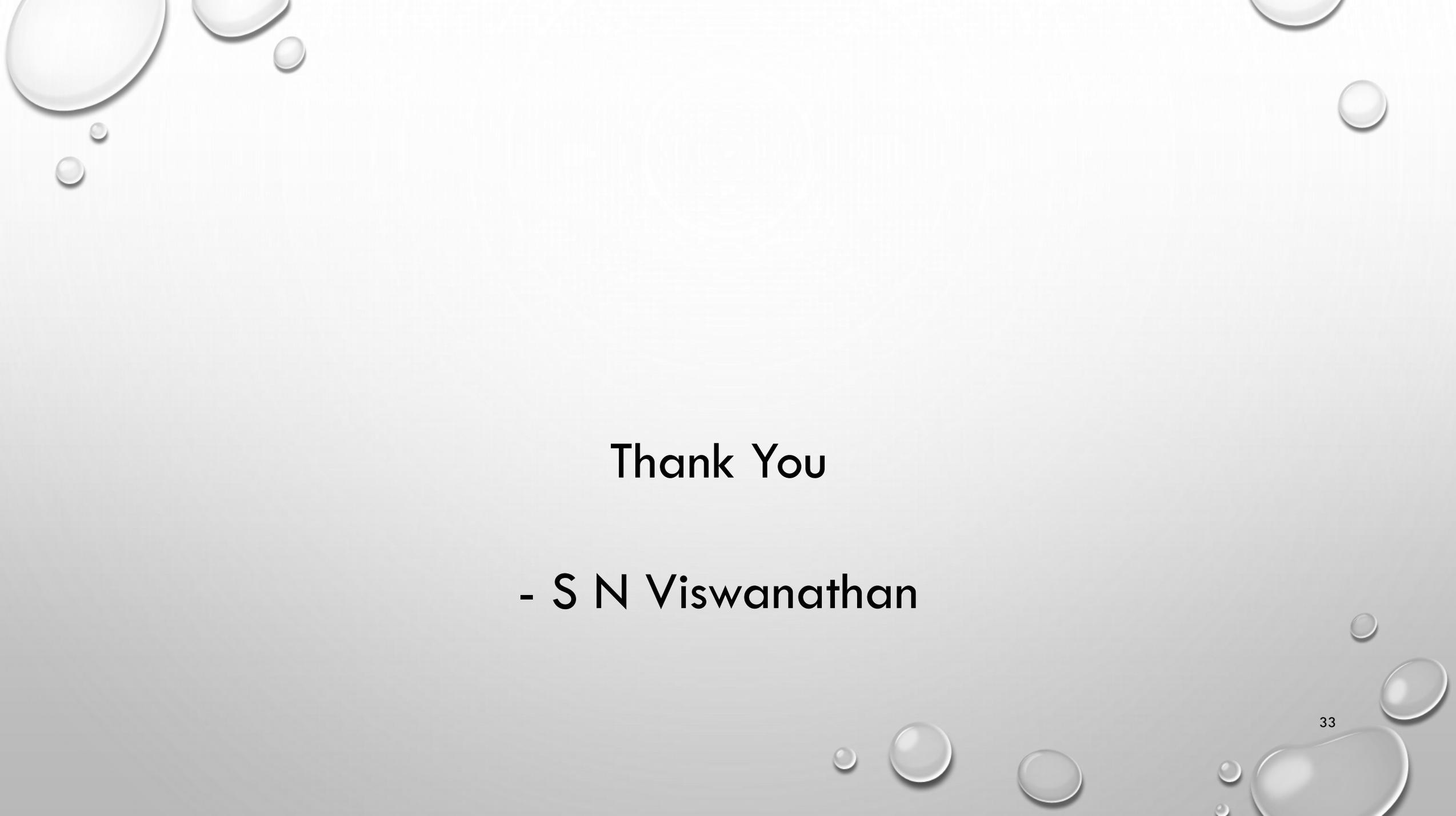
From 2021-22 onwards

IICA, NFCG to play an active role to develop content for training and capacity building.

What should One Do?

Special Thanks to

- Mr Shankar Jagannathan of BLISS who permitted me to source information relating to Annual Reporting from his book;
- All those persons who have posted very useful information in the internet.
- WIRC of ICSI for providing me this opportunity today

The background features a light gray gradient with several realistic water droplets of varying sizes scattered in the corners. The droplets have highlights and shadows, giving them a three-dimensional appearance. In the center, there is a faint, large watermark of a circular emblem with a central figure, likely a university or institutional logo.

Thank You

- S N Viswanathan