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ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)- PRINCIPLES & PRACTICE

GROUP 1

PAPER 1

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Lesson 1

Conceptual Framework of Corporate Governance

Years	Global Developments	Brief on Global Development Initiatives
2023	OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (2023 Edition)	The OECD Guidelines for Multinational Enterprises on Responsible Business Conduct are recommendations addressed by governments to multinational enterprises. They aim to encourage positive contributions enterprises can make to economic, environmental and social progress, and to minimise adverse impacts on matters covered by the Guidelines that may be associated with an enterprise's operations, products and services. The Guidelines cover all key areas of business responsibility, including human rights, labour rights, environment, bribery, consumer interests, disclosure, science and technology, competition, and taxation. The 2023 edition of the Guidelines provides updated recommendations for responsible business conduct across key areas, such as climate change, biodiversity, technology, business integrity and supply chain due diligence, as well as updated implementation procedures for the National Contact Points for Responsible Business Conduct.
	G20/OECD Principles of Corporate Governance	The G20/OECD Principles of Corporate Governance are the international standard for corporate governance. The Principles help policy makers evaluate and improve the legal, regulatory and institutional framework for corporate governance, with a view to supporting economic efficiency, sustainable growth and financial stability. The Principles were revised in 2023 to reflect recent evolutions in capital markets and corporate governance policies and practices. They offer new and updated recommendations on shareholder rights, the role of institutional investors, corporate disclosure and reporting, the responsibilities of boards, and, for the first time, on sustainability and resilience to help companies manage climate-related and other sustainability risks and opportunities. The Principles were first issued in 1999 and the revised Principles were endorsed by G20 Leaders in 2023.

Corporate Sustainability Reporting Directive (CSRD)

About CSRD

- i) Launched in 5 Jan, 2023.
- ii) It modernises and strengthens the rules concerning the social and environmental information that companies have to report.
- iii) Companies subject to the CSRD will have to report according to European Sustainability Reporting Standards (ESRS).

1. Reasons for adoption of CSRD

- The EU (European Union) believes that consumers and investors deserve to know the sustainability impact of businesses, and the CSRD was created because the existing legislation wasn't cutting it.

Before the CSRD, the Non-Financial Reporting Directive (NFRD) established the reporting principles for large companies. However, the European Commission discovered that the information reported by companies was insufficient.

2. Application of CSRD

- The CSRD more than quadruples the number of companies required to report on sustainability, from the 11,000 covered by the NFRD (The NFRD applies only to so-called "public-interest entities", such as listed companies, banks, or insurance companies, with more than 500 employees) to the nearly 50,000 that will be covered by the CSRD.

Large companies – even ones based outside of the EU

Companies meeting two of the following three conditions will have to comply with the CSRD:

- 1. €50 million in net turnover
- 2. €25 million in assets
- 3. 250 or more employees

In addition, non-EU companies that have a turnover of above €150 million in the EU will also have to comply. It is to be noted that the CSRD doesn't place any new reporting requirements on small companies, except for those with securities listed on regulated markets. And to make it easier for listed SMEs, they can report using simplified standards. But while the CSRD doesn't apply to non-listed SMEs, the European Commission has also proposed developing separate standards that non-listed SMEs could voluntarily use.

3. Facts to be reported under CSRD

Companies will need to disclose the sustainability information in their management reports, which means that financial and sustainability information will be published at the same time.

This sustainability data will have to be submitted in a standardized digital format, to allow for easier checking and comparison in the European single access point database.

The submitted data will then be subject to “limited third-party assurance,” meaning that an auditor will need to evaluate the data.

4. *Effective dates of CSRD*

The European Commission adopted the CSRD in late 2022. The rules will start applying between 2024 and 2028:

- From 1 January 2024 for large public-interest companies (with over 500 employees) already subject to the Non-Financial Reporting Directive (NFRD), with reports due in 2025;
- From 1 January 2025 for large companies that are not presently subject to the NFRD (with more than 250 employees and/or €40 million in turnover and/or €20 million in total assets), with reports due in 2026;
- From 1 January 2026 for listed SMEs and other undertakings, with reports due in 2027. SMEs can opt-out until 2028.

Impacts inward & impacts outward

The CSRD – like the NFRD – requires “double materiality,” which means that businesses will have to disclose not only the risks they face from a changing climate, but also the impacts they may cause to the climate and to society. For businesses who have historically only analysed the risks posed to them by climate change – and neglected the role they played in changing the climate – this is a call to do some self-reflection.

Better comparability through standardization

The CSRD will require company sustainability data to be submitted in a standardized digital format. This is meant to provide a clear format for company sustainability reporting – which is currently rife with many idiosyncratic formats – allowing for better understandability and easier comparison between companies.

The EU CSRD sets out reporting requirements and obligations, while the ESRS provide a framework and methodology for reporting on sustainability issues. Both the CSRD and ESRS are legally binding. They are part of the same legal framework around corporate sustainability transparency.

European Sustainability Reporting Standards

The European Commission adopted European Sustainability Reporting Standards (ESRS) on July 2023. There are 12 ESRS, covering the full range of sustainability issues, in line with EFRAG’s (European Financial Reporting Advisory Group) proposal:

Group	Number	Subject
Cross-cutting	ESRS 1	General Requirements
Cross-cutting	ESRS 2	General Disclosures
Environment	ESRS E1	Climate
Environment	ESRS E2	Pollution
Environment	ESRS E3	Water and marine resources

Environment	ESRS E4	Biodiversity and ecosystems
Environment	ESRS E5	Resource use and circular economy
Social	ESRS S1	Own workforce
Social	ESRS S2	Workers in the value chain
Social	ESRS S3	Affected communities
Social	ESRS S4	Consumers and end users
Governance	ESRS G1	Business conduct

ESRS 1 (“General Requirements”) sets general principles to be applied when reporting according to ESRS and does not itself set specific disclosure requirements. ESRS 2 (“General Disclosures”) specifies essential information to be disclosed irrespective of which sustainability matter is being considered. ESRS 2 is mandatory for all companies under the CSRD scope.

All the other standards and the individual disclosure requirements and datapoints within them are subject to a materiality assessment. This means that the company will report only relevant information and may omit the information in question that is not relevant (“material”) for its business model and activity.

Disclosure requirements subject to materiality are not voluntary. The information in question must be disclosed if it is material, and the undertaking’s materiality assessment process is subject to external assurance in accordance with the provisions of the Accounting Directive. The standards require undertakings to perform a robust materiality assessment to ensure that all sustainability information necessary to meet the objectives and requirements of the Accounting Directive will be disclosed.

If a company concludes that climate change is not a material topic and therefore does not report in accordance with that standard, it has to provide a detailed explanation of the conclusions of its materiality assessment with regard to climate change. This requirement reflects the fact that climate change has wide-ranging and systemic impacts across the economy.

For details: https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_4043

IFRS Sustainability Disclosure Standards

IFRS S 1

IFRS S1 is effective for annual reporting periods beginning on or after 1 January 2024 with earlier application permitted as long as IFRS S2 Climate-related Disclosures is also applied.

The objective of IFRS S1 is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to users of general purpose financial reports in making decisions relating to providing resources to the entity.

IFRS S1 requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term (collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects').

IFRS S1 prescribes how an entity prepares and reports its sustainability-related financial disclosures. It sets out general requirements for the content and presentation of those disclosures so that the information disclosed is useful to users in making decisions relating to providing resources to the entity.

IFRS S1 sets out the requirements for disclosing information about an entity's sustainability-related risks and opportunities. In particular, an entity is required to provide disclosures about:

- a. the governance processes, controls and procedures the entity uses to monitor, manage and oversee sustainability-related risks and opportunities;
- b. the entity's strategy for managing sustainability-related risks and opportunities;
- c. the processes the entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities; and
- d. the entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation.

IFRS S 2

IFRS S2 is effective for annual reporting periods beginning on or after 1 January 2024 with earlier application permitted as long as IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* is also applied.

The objective of IFRS S2 is to require an entity to disclose information about its climate-related risks and opportunities that is useful to users of general purpose financial reports in making decisions relating to providing resources to the entity.

IFRS S2 requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term (collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects').

IFRS S2 applies to:

- a. climate-related risks to which the entity is exposed, which are:
 - i. climate-related physical risks; and
 - ii. climate-related transition risks; and
- b. climate-related opportunities available to the entity.

IFRS S2 sets out the requirements for disclosing information about an entity's climate-related risks and opportunities. In particular, IFRS S2 requires an entity to disclose information that enables users of general purpose financial reports to understand:

- a. the governance processes, controls and procedures the entity uses to monitor, manage and oversee climate-related risks and opportunities;
- b. the entity's strategy for managing climate-related risks and opportunities;

- c. the processes the entity uses to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process; and
- d. the entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.

For details:

IFRS S1: <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs1/>

IFRS S2, please refer the following website- <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s2-climate-related-disclosures.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs2/>)

UK Corporate Governance Code (2024 Code).

The FRC published its new 2024 UK Corporate Governance Code (2024 Code). The Code is applicable to all companies listed in the commercial companies category or the closed ended investment funds category, whether incorporated in the UK or elsewhere.

The Code is applicable to all companies listed in the commercial companies category or the closed ended investment funds category, whether incorporated in the UK or elsewhere. The 2024 Code applies to accounting periods beginning on or after 1 January 2025, with the exception of Provision 29. This provision is applicable for accounting periods beginning on or after 1 January 2026.

The Code will provide a stronger basis for companies to evidence the effectiveness of their internal controls, thereby enhancing transparency and investor confidence.

Section	Heading	Principles
1	Board leadership and Company purpose	A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. The board should ensure that the necessary resources, policies and practices are in place for the company to meet its objectives and measure performance against them. B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are all aligned. All directors must act with integrity, lead by example and promote the desired culture. C. Governance reporting should focus on board decisions and their outcomes in the context of the company's strategy and objectives. Where the board reports on departures from the Code's provisions, it should provide a clear explanation. D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties. E. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.
2	Division of responsibilities	F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information. G. The board should include an appropriate combination of executive and non executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business. H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge,

		strategic guidance, offer specialist advice and hold management to account. I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.
3	Composition, succession and evaluation	J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan for the board and senior management should be maintained.⁴ Both appointments and succession plans should be based on merit and objective criteria⁵. They should promote diversity, inclusion and equal opportunity. K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed. L. Annual evaluation of the board should consider its performance, composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.
4	Audit, risk and internal control	M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.⁶ N. The board should present a fair, balanced and understandable assessment of the company's position and prospects. O. The board should establish and maintain an effective risk management and internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.
5	Remuneration	P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy. Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management¹⁰ remuneration should be established. No director should be involved in deciding their own remuneration outcome. R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

Finnish Corporate Governance Code, 2025

In light of change in the regulatory framework relating to the governance of listed Companies the new corporate governance code 2025 has been formulated by the Finnish Securities Market Association. The main amendments are the result of the Directive on gender balance on the boards of listed companies (*'Board Gender Balance Directive'*), the Corporate Sustainability Reporting Directive and the Corporate Sustainability Due Diligence Directive.

The Corporate Governance Code has been modified to reflect changes in the legislation related to the national implementation of the Board Gender Balance Directive. In addition, the revision takes into account the recommendations of the Finnish Government Policy Brief on women's career development challenges in board and management team positions in listed companies, as well as certain development that needs to be identified in the application of the Corporate Governance Code.

Key Changes

Scope of the Corporate Governance Code

The scope of the Corporate Governance Code has been extended to Finnish companies traded in the Nasdaq First North Premier Growth Market segment in addition to companies listed on Nasdaq Helsinki Ltd. Under the Rules of the Nasdaq First North Growth Market, issuers of shares traded on First North Premier must comply with the Corporate Governance Code.

Gender Balance of the Board of Directors

The recommendation of the Corporate Governance Code 2020 that both genders shall be represented on the board of directors has been replaced by a recommendation that there shall be balanced representation of women and men in the board of directors. Balanced representation of women and men shall be achieved no later than 30 June 2026. Until then,

Recommendation 8 (Gender Balance of the Board of Directors) of Corporate Governance Code 2020 applies, according to which both genders shall be represented on the board of directors. The rationale for the recommendation provides more detailed guidance on when the gender balance of the board of directors is considered to be balanced. The recommendation and its rationale correspond to the goal of 40 percent under chapter 6 relating to Management and representation of the company, section 9 a (Appointment of the Members of the Board of Directors) of the Finnish Limited Liability Companies Act, with the rounding rules in accordance with the Appendix to the Act. However, contrary to the provision of the Limited Liability Companies Act, the recommendation is applied to all companies within the scope of the Corporate Governance Code. In addition, the rationale for the recommendation describes the information to be provided to justify a departure from the recommendation on balanced gender representation. The information on any departure from the recommendation shall be reported and justified already in connection with the disclosure of the proposal concerning the composition of the board of directors and in the notice of the general meeting. A reference to the fact that any departure from Recommendation 8 on equal gender representation in the board of directors shall be disclosed and justified in the notice of the general meeting has also been added to the rationale of Recommendation 1 (Notice of the General Meeting and Proposals for Resolution).

Diversity of the Board of Directors

A requirement has been added to the recommendation to report how the board's diversity principles have been implemented. The objective of the amendment is to promote transparency of the implementation of the principles. In addition, the rationale for Recommendation 15 (Appointment of Members to a Committee) now states that the diversity of the know-how, experience, and opinions of the committee members contributes to open discussion and to the committee's ability to address the issues under its responsibility in a comprehensive manner.

Election of the Board of Directors

A statement supplementing the Corporate Governance Code issued by the Securities Markets Association on 20 October 2021 on the election procedure of board members has been added to the rationale for the recommendation.

Preparation of the Proposal for the Composition of the Board of Directors

An addition has been made to the rationale for Recommendation 7 (Preparation of the Proposal for the Composition of the Board of Directors) on the systematic nature of the process of preparing the composition of the board of directors and on good preparation practices. The additions are based on the recommendations of the Government Policy Brief. An addition has also been made to the rationale for Recommendations 18 (Nomination Committee) and 19 (Shareholders' Nomination Board),

stating that the nomination committee of the board of directors or the shareholders' nomination board shall, where appropriate, also provide a justification if the proposal for the composition of the board of directors departs from the recommendations of the Corporate Governance Code or from the board's diversity principles.

Irish Corporate Governance Code, 2025

The Irish Corporate Governance Code is applicable to Irish incorporated companies with an equity listing on Euronext Dublin. It will apply to financial years commencing on or after 1st January, 2025. Companies that report on a calendar year basis will therefore be expected to comply with the new code for the year ending 31st December 2025.

The Code introduces a set of Principles that highlight the importance of good corporate governance for achieving long-term sustainable success. Provisions offer more detailed guidelines that support the application of the principles. They provide a flexible framework, allowing companies to either comply with the guidelines or explain their alternative approaches. This flexibility ensures that companies can tailor their governance practices to their specific circumstances, while still maintaining transparency and accountability. Let's review the Code's key points in brief.

Sr. No	Heading	Principle
1	BOARD LEADERSHIP AND COMPANY PURPOSE	A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. The board should ensure that the necessary resources, policies and practices are in place for the company to meet its objectives and measure performance against them. B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are all aligned. All directors must act with integrity, lead by example and promote the desired culture. C. Governance reporting should focus on board decisions and their outcomes in the context of the company's strategy and objectives. Where the board reports on departures from the Code's provisions, it should provide a clear explanation. D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties. E. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.
2	DIVISION OF RESPONSIBILITIES	F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive relevant, accurate, timely and clear information before the meetings and, where necessary, between meetings so that they can make a knowledgeable and informed contribution to board discussions.

		G. The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business. H. All directors should have sufficient time to meet their board responsibilities. Non-executive directors should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account. I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.
3	COMPOSITION, SUCCESSION AND EVALUATION	J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan for the board and senior management should be maintained². Both appointments and succession plans should be based on merit and objective criteria. They should promote diversity, inclusion and equal opportunity. K. The board and its committees should have a combination of relevant skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed. L. Annual evaluation of the board should consider its performance, composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.
4	AUDIT, RISK AND INTERNAL CONTROL	M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements⁴. N. The board should present a fair, balanced and understandable assessment of the company's position and prospects. O. The board should establish an effective risk management and internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.
5	REMUNERATION	P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy. Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management⁷ remuneration should be established. No director should be involved in deciding their own remuneration outcome. R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking

		account of company and individual performance, and wider circumstances.
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Bucharest Stock Exchange Code of Corporate Governance, 2025

The Bucharest Stock Exchange (BVB), in collaboration with the European Bank for Reconstruction and Development (EBRD), released a revised Corporate Governance Code 2025 (the “Code”), aligning it with recent regulatory changes, updated global standards and stakeholders' priorities. The purpose of the Bucharest Stock Exchange Code of Corporate Governance is to promote effective governance and accountability in companies whose shares are listed on the regulated market of Bucharest Stock Exchange and the underlying practices in the Code aim to achieve through several means.

It provides the criteria for Independent Directors as an initial assessment of independence. Nomination and Remuneration Committees should assess independence on a case-by-case basis when considering candidates. They should take into account factors such as past experience, their character and their personal values as well as formal criteria. The Code has been written to be applied by companies with one-tier board structures. However, the code also provides for interpretation of code for companies with two tier board.

The Code is divided into five main sections, each of which address a different aspect of Companies' governance arrangement. Each section is divided into three parts: Purpose, Principles and Provisions. The Code follows the “comply or explain” approach, which provides Companies with the flexibility to decide which practices to adopt in order to ensure the effectiveness of their governance and the format for the same is provided in the Code. The principles are summarized as follows:

Section A – “Governing Bodies”

- A.1. The Board should ensure the Company’s long-term success and sustainability for the best interest of the Company and its shareholders and taking into account the interests of other stakeholders. The Board should clearly define and disclose the full scope of its roles and responsibilities.
- A.2. The Board should have an appropriate balance of skills, experience, gender diversity, knowledge and independence to enable it to effectively perform its duties and responsibilities.
- A.3. The Board should ensure that a formal, rigorous and transparent procedure is put into place regarding the nomination of new members to the Board.
- A.4. The Board should establish committees which should assist the Board in the performance of its key responsibilities, dealing with strategic challenges and in managing sensitive issues with high potential for conflicts of interest.
- A.5. The Board should set up robust Board operating procedures as well as Board evaluation and continuous development mechanisms to improve directors’ skills and their ability to effectively deliver their responsibilities.
- A.6. Executive management is responsible for day-to-day management of the Company. The Board should ensure that the executive management is capable of effectively running the Company and that its composition, competence, roles and management incentives support the successful implementation of Company’s strategy and plans.

Section B – “Risk Management and Internal Control Framework”

- B.1. The Company should have an adequate and effective internal control framework and an enterprise risk management framework, taking into account its strategy, size, complexity of operations and risk profile including potential environmental and social impact of its activities.
- B.2. The Audit Committee should assist the Board with ensuring the integrity of financial and non-financial reporting, establishing an effective risk management and internal control framework and maintaining an appropriate relationship with the Company’s external auditors.
- B.3. The Board should ensure the independence of the internal audit function. Company’s internal audit function should provide independent and objective assurance on the effectiveness of risk management framework and internal control framework.

Section C – “Performance, Motivation and Reward”

- C.1. Members of the Board shall receive remuneration corresponding to the volume and weight of powers and their responsibilities, rather than the performance of management or the Company. The structure and amount of director’s remuneration should enable the Company to attract, retain and motivate the competent and qualified directors.
- C.2. The Board shall ensure there is a formal and transparent policy and procedure for determining the remuneration of executive management that aligns with the long-term interests of the Company and the Company’s strategy. This policy shall be presented, subject for approval, to the General Meeting of Shareholders (GMS) in line with legal requirements.

Section D – “Disclosure and Investor Relations”

- D.1. The Company should ensure adequate communications with shareholders, investors, regulators and other stakeholders and establish adequate systems for financial and sustainability reporting.
- D.2. The Company should ensure fair and equitable treatment of all its shareholders, as well as availability of all needed tools and information to allow shareholders to exercise their rights in relation to the Company.

Section E – “Sustainability and Stakeholders”.

- E.1. The Company should integrate sustainability aspects in its strategy and mitigate any material negative environmental and social impacts of its operations, to the possible extent.
- E.2. The Company should have in place a process for identifying the stakeholders affected by Company’s operations. The Board should take into consideration stakeholders’ interests and ensure there is active communication between the Company and its stakeholders.
- E.3. The Board should adopt a Code of Conduct with adequate scope including guiding principles which reflect the Company’s commitment to ethics, integrity and quality of performance.

Companies are expected to comply their practices in line with the Code from January 1, 2025. Every year, BVB will assess the companies' adherence to the Corporate Governance Code, with the assistance of a third party if necessary. It will then compile the findings into an aggregated statement and publicize them.

Lesson 3

Board Effectiveness/Building Better Boards

Omission of Regulation 25(6) of the SEBI (LODR) Regulations, 2015

Regulation 25(6) of the SEBI (LODR) Regulations, 2015 Omitted by the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2024 w.e.f. 13.12.2024.

Non-Mandatory Committee

In addition to the Committees of the Board mandated by the Companies Act 2013 or SEBI (LODR) Regulations, 2015, Companies may also constitute other Committees to oversee a specific objective or project. The nomenclature, composition and role of such Committees will vary depending upon the specific objectives and nature of business of the Company.

A few examples of such Committees prevalent in the corporate sector are given below:

1. ESG Committee:

HCL Technologies Limited:

In addition to the mandatory Committees of the Board, the Company has constituted an ESG and Diversity Equity Inclusion Committee of the Board to focus on ESG and Gender Diversity. The Committee is composed of three members out of which two are Independent Directors. To provide a thrust on Sustainability, the Company has also created a position of Global Head of Sustainability

Hindustan Unilever Limited:

The Company has integrated sustainability goals into their business strategy and set up a separate Environmental, Social and Governance Committee on 1st December 2022 to oversee ESG practices and ESG risks at the Board Level.

The ESG Committee comprises six Directors five Independent Directors and One Executive Director. The Committee is chaired by an Independent Director.

Bharat Petroleum Corporation Limited:

The Company has made ESG their driving force guiding their investment decisions and risk management. The Company has established a Sustainable Development Committee consisting of six Directors out of which four are Independent. The Committee is chaired by an Independent Director. The Committee is responsible for overseeing strategy and monitoring of key sustainable initiatives.

2. Safety Committee:

Tata Motors Ltd:

The Company has instituted a Safety, Health and Sustainability Committee to take a holistic approach to Safety, Health and Sustainability matters. Two Independent Directors and one Executive Director constituted this Committee. Normally three meetings are held in a year.

L&T Limited:

Safety remains a paramount concern for the leadership team. It has adopted the “Mission Zero Harm” principle and “Live Injury Free Everyday”. There are EHS Committees in all manufacturing locations and a majority of the locations are ISO 45000:2018 compliant.

Hindustan Unilever Limited:

HUL's safety, health and environmental governance is driven by the Central Safety, Health and Environmental Committee chaired by the Managing Director and CEO.

3. Information/ Cyber Security Committee:**Infosys Limited:**

Infosys has a cyber-security risk sub-committee under the Risk Management Committee comprising of 4 Independent Directors. The Committee's role is to evaluate risks related to cyber-security and ensure appropriate procedures are in place to mitigate these risks in a timely manner.

REC Limited:

The Company's IT Strategy Committee comprises of two Independent Directors, two Executive Directors and two other subject matter experts. The Committee oversees IT strategy, IT resources management, cyber security, internal controls and governance.

4. Investment Committee**Sundaram Finance Limited:**

The Investment Committee of Sundaram Finance Limited comprises of 2 Executive Directors and 1 Independent Director with the Independent Director chairing the Committee. The Committee lays down the overall investment objectives of the Company, reviews investment policies, evaluates investment opportunities and treasury and portfolio investments of the Company.

Ashok Leyland Limited:

The Company has constituted a Technology and Investment Committee comprising five Directors with three of them Independent Directors. The Committee reviews new investment proposals including technology investments, long term strategic goals and new product planning.

5. Other Committees:**Titan Company Limited:**

The Company has constituted a Board **Ethics Committee** comprising four Directors of whom two are Independent Directors. The Chairperson of the Committee is an Independent Director. The Company has a strong code of ethical conduct on the lines of the Tata code of conduct which is overseen by this Committee.

Reliance Industries Limited:

The Company has constituted a Finance Committee comprising three non-independent Directors to review the overall financial policies, financial strategies and capital structure, borrowings and cash flow management and make recommendations to the Board as deemed advisable.

Thus, on observing the overall constitution of various committees, it can be concluded that the corporate sector is leaving no stone unturned in ensuring holistic corporate governance in their organisations.

Lesson 4
Board Processes through Secretarial Standards

Amendments in Secretarial Standard – 1

S. no.	Para No.	Pre-revised Text of SS- 1	Post-revised Text of SS-1	Rationale
1	Scope (Para-graph 1 & 2)	This Standard is applicable to the Meetings of Board of Directors of all companies incorporated under the Act except One Person Company (OPC) in which there is only one Director on its Board and a company licensed under Section 8 of the Companies Act, 2013 or corresponding provisions of any previous enactment thereof. However, Section 8 companies need to comply with the applicable provisions of the Act relating to Board Meetings.	This Standard is applicable to the Meetings of Board of Directors of all companies incorporated under the Act except One Person Company (OPC) in which there is only one Director on its Board and a company registered under Section 8 of the Companies Act, 2013 or corresponding provisions of any previous enactment thereof. However, companies registered under Section 8 of the Companies Act, 2013 need to comply with the applicable provisions of the Act relating to Board Meetings. The exemption to a company registered under Section 8 of the Companies Act, 2013 as referred above and the specific exemptions given to a private company in this Standard shall be available only if it has not committed any default in filing its Financial Statements or Annual Return with the Registrar of Companies.	Amendment in law To reflect the effect of MCA's Exemption Notification dated 13th June, 2017 in respect of Section 8 Company and Private Company. Now, the exemption is compliance based. The exemptions stated under notification dated 5th June, 2015 and 13th June, 2017 shall be available only to those companies which have not committed a default in filing its financial statements and annual return with the Registrar.
2.	1.2.3	Any Director may participate through Electronic Mode in a	Any Director may participate through Electronic Mode in a	Section 173 (2) - 2nd proviso inserted as under:

		Meeting unless the Act or any other law specifically prohibits such participation through Electronic Mode in respect of any item of business. Directors shall not participate through Electronic Mode in the discussion on certain restricted items. Such restricted items of business include approval of the annual financial statement, Board's report, prospectus and matters relating to amalgamation, merger, demerger, acquisition and takeover. Similarly, participation in the discussion through Electronic Mode shall not be allowed in Meetings of the Audit Committee for consideration of annual financial statement including consolidated financial statement, if any, to be approved by the Board.	Meeting unless the Act or any other law specifically prohibits such participation through Electronic Mode in respect of any item of business. Directors shall not participate through Electronic Mode in the discussion on certain restricted items unless there is a Quorum in a Meeting through physical presence of Directors. Such restricted items of business include approval of the annual financial statement, Board's report, prospectus and matters relating to amalgamation, merger, demerger, acquisition and takeover. Similarly, participation in the discussion through Electronic Mode shall not be allowed in Meetings of the Audit Committee for consideration of annual financial statement including consolidated financial statement, if any, to be approved by the Board.	"Provided further that where there is quorum in a meeting through physical presence of directors, any other director may participate through video conferencing or other audio visual means in such meeting on any matter specified under the first proviso." In the Companies (Meetings of Board and its Powers) Rules, 2014, in rule 4, the following proviso is inserted:- "Provided that where there is quorum in a meeting through physical presence of directors, any other director may participate through video conferencing or other audio visual means."
3	1.3.4 After 3rd Para- graph	The Director may intimate his intention of participation through Electronic Mode at the beginning of the Calendar Year also, which shall be valid for such Calendar Year.	The Director may intimate his intention of participation through Electronic Mode at the beginning of the Calendar Year also, which shall be valid for such Calendar Year.	Amendment in law Amendment in Companies (Meetings of Board and its Powers) Rules, 24 (Notification

			Such intimation shall not debar him from participation in the Meeting in person provided he gives such intimation sufficiently in advance to the company.	dated 13th July, 2017) Rule 3(3)(e): (e) Any director who intends to participate in the meeting through electronic mode may intimate about such participation at the beginning of the calendar year and such declaration shall be valid for one year. Provided that such declaration shall not debar him from participation in the meeting in person in which case he shall intimate the company sufficiently in advance of his intention to participate in person.
4	1.3.7 (8th Paragraph)	“Unpublished Price Sensitive Information” means any information, relating to a company or its securities, directly or indirectly, that is not generally available, which upon becoming generally available, is likely to materially affect the price of the securities and shall, ordinarily including but not restricted to, information relating to the following: – (i) financial results; (ii) dividends;	“Unpublished Price Sensitive Information” means any information, relating to a company or its securities, directly or indirectly, that is not generally available, which upon becoming generally available, is likely to materially affect the price of the securities and shall, ordinarily including but not restricted to, information relating to the following: –	Amendment in law SEBI vide Notification dated 31.12.18 amended the definition of “Unpublished Price Sensitive Information”, effective from 01.04.19. The definition of UPSI referred in SS1 is revised accordingly.

		(iii) change in capital structure; (iv) mergers, de-mergers, acquisitions, delistings, disposals and expansion of business and such other transactions; (v) changes in key managerial personnel; and (vi) material events in accordance with the listing agreement*.	(i) financial results; (ii) dividends; (iii) change in capital structure; (iv) mergers, de-mergers, acquisitions, delistings, disposals and expansion of business and such other transactions; and (v) changes in key managerial personnel; and (vi) material events in accordance with the listing agreement*.	
5	2.1 (2nd Paragraph)	The company shall hold first Meeting of its Board within thirty days of the date of incorporation. It shall be sufficient if subsequent Meetings are held with a maximum interval of one hundred and twenty days between any two consecutive Meetings. Further, it shall be sufficient if a One Person Company, Small Company or Dormant Company holds one Meeting of the Board in each half of a Calendar Year and the gap between the two Meetings of the Board is not less than ninety days.	The company shall hold first Meeting of its Board within thirty days of the date of incorporation. It shall be sufficient if subsequent Meetings are held with a maximum interval of one hundred and twenty days between any two consecutive Meetings. Further, it shall be sufficient if a One Person Company, Small Company, Dormant Company or private company which is recognised as start-up holds one Meeting of the Board in each half of a Calendar Year and the gap between the two Meetings of the Board is not less than ninety days. An adjourned Meeting being a continuation of the original Meeting,	Amendment in law MCA Exemption Notifications dated 13th June, 2017 (Exemption to Private Company) For sub-section 173(5), the following sub-section shall be substituted:- (5) A One Person Company, small company, dormant company and a private company (if such private company is a start-up) shall be deemed to have complied with the provisions of this section if at

			the interval period in such a case, shall be counted from the date of the original Meeting. For the purposes of this Standard, the term “start- up” means a private company incorporated under the Act and recognised as start-up in accordance with the notification issued by the Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, Government of India.	least one meeting of the Board of Directors has been conducted in each half of a calendar year and the gap between the two meetings is not less than ninety days: Provided that nothing contained in this sub-section and in section 174 shall apply to One Person Company in which there is only one director on its Board of Directors. Explanation to Section 2(40) of the Act: For the purposes of this Act, the term “start-up” or “start- up company” means a private company incorporated under the Companies Act, 2013 (18 of 2013) or the Companies Act, 1956 (1 of 1956) and recognised as start- up in accordance with the notification issued by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry.
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6	2.3	Meeting of Independent Directors Where a company is required to appoint Independent Directors under the Act, such Independent Directors	Meeting of Independent Directors Where a company is required to appoint Independent Directors under the Act, such Independent Directors shall hold at least one Meeting in a financial year without attendance of Non-Independent Directors and members of management.	Amendment in law Amendment in Schedule IV to the Companies Act, 2013 (Notification dated 5th July, 2017) as under: The independent directors of the company shall hold at least one meeting ["in a financial year"], without the attendance of non-independent director and members of management;
7	3.2	A Director shall neither be reckoned for Quorum nor shall be entitled to participate in respect of an item of business in which he is interested. However, in case of a private company, a Director shall be entitled to participate in respect of such item after disclosure of his interest.	A Director shall neither be reckoned for Quorum nor shall be entitled to participate in respect of an item of business in which he is interested. However, in case of a private company, a Director shall be reckoned for Quorum and entitled to participate in respect of such item after disclosure of his interest.	Amendment in law MCA Exemption Notifications dated 13th June, 2017 Exemption to Private Company (In partial Modification to Principle exemption notification dated 5th June, 2015) Section 174(3): Quorum for Meetings of Board. Where at any time the number of interested directors exceeds or is equal to two thirds of the total strength of the

				Board of Directors, the number of directors who are not interested directors and present at the meeting, being not less than two, shall be the quorum during such time. Explanation.— For the purposes of this sub-section, “interested director” means a director within the meaning of sub-section (2) of section 184.] In case of private companies, the above shall apply with the exception that the interested director may also be counted towards quorum in such meeting after disclosure of his interest pursuant to section 184. Therefore, in case of a private company, the interested director may also be counted towards quorum after disclosure of his interest. Earlier, the exemption was provided w.r.t participation ONLY in the meeting by an
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				interested director, after disclosure of interest.
8	3.3	Directors participating through Electronic Mode in a Meeting shall be counted for the purpose of Quorum, unless they are to be excluded for any items of business under the provisions of the Act or any other law.	Directors participating through Electronic Mode in a Meeting shall be counted for the purpose of Quorum, unless they are to be excluded for any items of business under the provisions of the Act or any other law. except for restricted items in which Quorum shall be ascertained on the basis of physical presence of Directors.	Amendment in law Companies (Amendment) Act, 2017 Section 173 (2) - 2nd proviso inserted as under:— "Provided further that where there is quorum in a meeting through physical presence of directors, any other director may participate through v ideo conferencing or other audio visual means in such meeting on any matter specified under the first proviso." This amendment allow participation of directors on certain items at Board meetings through video conferencing or other audio visual means if there is quorum through physical presence of directors.
9	5.1.2 (3rd Paragraph)	If the Chairman is interested in an item of business, he shall entrust the conduct of the proceedings in respect of such item to any Non-	If the Chairman is interested in an item of business, he shall entrust the conduct of the proceedings in respect of such item to	Amendment in law MCA Exemption Notifications dated 13th June,

		Interested Director with the consent of the majority of Directors present and resume the chair after that item of business has been transacted. However, in case of a private company, the Chairman may continue to chair and participate in the Meeting after disclosure of his interest.	any Non- Interested Director, with the consent of the majority of Directors present, and resume the chair after that item of business has been transacted. However, in case of a private company, the Chairman may continue to chair, be reckoned for quorum and entitled to participate in the Meeting in respect of such item after disclosure of his interest.	2017 Exemption to Private Company (In partial Modification to Principle exemption notification dated 5th June, 2015) Section 174(3): Quorum for Meetings of Board Where at any time the number of interested directors exceeds or is equal to two thirds of the total strength of the Board of Directors, the number of directors who are not interested directors and present at the meeting, being not less than two, shall be the quorum during such time. Explanation.— For the purposes of this sub-section, “interested director” means a director within the meaning of sub-section (2) of section 184.] In case of private companies, the above shall apply with the exception that
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				the interested director may also be counted towards quorum in such meeting after disclosure of his interest pursuant to section 184. Therefore, in case of a private company, the interested director may also be counted towards quorum after disclosure of his interest.
10	6.2.2 (3rd Paragraph)	Proof of sending and delivery of the draft of the Resolution and the necessary papers shall be maintained by the company for such period as decided by the Board, which shall not be less than three years from the date of the meeting	Proof of sending and delivery of the draft of the Resolution and the necessary papers shall be maintained by the company for such period as decided by the Board, which shall not be less than three years from the date of the Meeting circulation of such Resolution.	Minor/factual change Considering that there is no 'Meeting' in case of resolutions passed by circulation, the proposed change is suggested for better clarity and uniformity in practice.
11	After Paragraph 9	EFFECTIVE DATE	This Standard shall come into effect from 1st October, 2017 1st April, 2024.	
12	Annexures	Annexure 'A' (Para 1.3.8) Annexure 'B' (Para 1.3.8)	<i>Annexure 'A' (Paragraph 1.3.8)</i> <i>Annexure 'B' (Paragraph 1.3.8)</i>	Language improvement Being more appropriate, the term "Paragraph" is used instead of "Para".
13	Annex-A (Specific items)	In case of a public company, the appointment of	In case of a public company, the a	Amendment in law

	9th Bullet point)	Director(s) in casual vacancy subject to the provisions in the Articles of the company.	Appointment of Director(s) in casual vacancy subject to the provisions in the Articles of the company. To be subsequently approved in the immediate next general meeting.	Companies (Amendment) Act, 2017 Section 161(4): In the case of a public company If the office of any director appointed by the company in general meeting is vacated before his term of office expires in the normal course, the resulting casual vacancy may, in default of and subject to any regulations in the articles of the company, be filled by the Board of Directors at a meeting of the Board which shall be subsequently approved by members in the immediate next general meeting.
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Lesson 9

Data Governance

The Digital Personal Data Protection Act, 2023

The Digital Personal Data Protection Act, 2023 received the assent of the President on the 11th August, 2023. The mentioned Act provide for the processing of digital personal data in a manner that recognizes both the right of individuals to protect their personal data and the need to process such personal data for lawful purposes and for matters connected therewith or incidental thereto.

With reference to the application of the aforesaid Act, it shall-
apply to the processing of digital personal data within the territory of India where the personal data is collected in digital form; or in non-digital form and digitized subsequently;
also apply to processing of digital personal data outside the territory of India, if such processing is in connection with any activity related to offering of goods or services to Data Principals within the territory of India.

However, it does not apply to-
personal data processed by an individual for any personal or domestic purpose; and
personal data that is made or caused to be made publicly available by—
the Data Principal to whom such personal data relates; or
any other person who is under an obligation under any law for the time being in force in India to make such personal data publicly available.

The salient facets of the Act are- Focus on General Obligations of Data Fiduciary, Processing of personal data of children, Additional obligations of Significant Data Fiduciary, Right to access information about personal data, Right to grievance redressal, coverage on duties of Data Principal etc. The act is expected to have an impact on the majority of organizational areas, including legal, IT, human resources, sales and marketing, procurement, finance, and information security because of the type and volume of personal data that is collected, stored, processed, retained, and disposed of in India.

For details:

<https://www.meity.gov.in/writereaddata/files/Digital%20Personal%20Data%20Protection%20Act%202023.pdf>

UK's Cyber Governance Code of Practice, 2025

The Cyber Governance Code of Practice is a guiding framework developed by the UK Government's Department for Science, Innovation and Technology (DSIT) to help organizations integrate cybersecurity into their overall corporate governance. The Code has been created to support boards and directors in governing cyber security risks. The Code is complemented by Cyber Essentials, a UK government backed certification scheme that helps organisations implement fundamental, cyber security controls. Though it is not a code, Cyber Essentials, together with the Cyber Governance Code of Practice, set out the minimum standard that organisations should have in place to manage their cyber risk.

The Code is tailor-made for boards and directors of both public-sector and private organisations and has been designed for medium and large organisations. However, whilst it has not been specifically created for small organisations, they play a critical role in the resilience of the UK economy and should seek to implement the Code's principles.

A: Risk management

Action 1	Gain assurance that the technology processes, information and services critical to the organisation's objectives have been identified, prioritised and agreed.
Action 2	Agree senior ownership of cyber security risks and gain assurance that they are integrated into the organisation's wider enterprise risk management and internal controls.

Action 3	Define and clearly communicate the organisation's cyber security risk appetite and gain assurance that the organisation has an action plan to meet these risk expectations.
Action 4	Gain assurance that supplier information is routinely assessed, proportionate to their level of risk and that the organisation is resilient to cyber security risks from its supply chain and business partners.
Action 5	Gain assurance that risk assessments are conducted regularly and that risk mitigations account for recent, or expected, changes in the organisation, technology, regulations or wider threat landscape.

B: Strategy

Action 1	Gain assurance that the organisation has developed a cyber strategy and this is aligned with, and embedded within, the wider organisational strategy
Action 2	Gain assurance that the cyber strategy aligns with the agreed cyber risk appetite (Action A3), meets relevant regulatory obligations, and accounts for current or expected changes (Action A5).
Action 3	Gain assurance that resources are allocated effectively to manage the agreed cyber risks (Action A3 and A5).
Action 4	Gain assurance that the cyber strategy is being delivered effectively and is achieving the intended outcomes.

C: People

Action 1	Promote a cyber security culture that encourages positive behaviours and accountability across all levels. This should be aligned with the organisation's strategy (Action B1).
Action 2	Gain assurance that there are clear policies that support a positive cyber security culture.
Action 3	Undertake training to improve your own cyber literacy and take responsibility for the security of the data and digital assets that you use.
Action 4	Gain assurance, using suitable metrics, that the organisation has an effective cyber security training, education and awareness programme.

D: Incident planning, response and recovery

Action 1	Gain assurance that the organisation has a plan to respond to and recover from a cyber incident impacting business critical technology processes, information and services.
Action 2	Gain assurance that there is at least annual exercising of the plan involving relevant internal and external stakeholders and that lessons from the exercise are reflected in the incident plan (Action D1) and risk assessments (Action A5).
Action 3	In the event of an incident, take responsibility for individual regulatory obligations, such as reporting, and support the organisation in critical decision making and external communications
Action 4	Gain assurance that a post incident review process is in place to incorporate lessons learned into future risk assessments (Action A5), response and recovery plans (Action D1) and exercising (Action D2).

E: Assurance and oversight

Action 1	Establish a cyber governance structure which is embedded within the wider governance structure of the organisation. This should include clear definition of roles and responsibilities, including ownership of cyber at executive and non-executive director level.
Action 2	Require formal reporting on at least a quarterly basis, set suitable metrics to track, and agree tolerances for each. These should be aligned to the cyber strategy (Action B1) and based on the agreed cyber risk appetite (Action A3).
Action 3	Establish regular two-way dialogue with relevant senior executives, including but not limited to, the chief information security officer (or equivalent).
Action 4	Gain assurance that cyber security considerations (including the actions in this code)

	are integrated and consistent with existing internal and external audit and assurance mechanisms.
Action 5	Gain assurance that senior executives are aware of relevant regulatory obligations, as well as best practice contained within other Codes of Practice.

Source:

https://assets.publishing.service.gov.uk/media/67f3e8fb7ed82b90fcf5bfea/Cyber_Governance_Code_of_Practice.pdf

AI Complementing Data Governance

The development of AI and machine learning in everyday business reflects the eminent role of data in management development strategies. To function effectively, AI depends on vast sets of data, which must be the subject of methodical and rigorous governance. Behind the concept of data governance lies the set of processes, policies, and standards that govern the collection, storage, management, quality, and access to data within an organization.

The role of data governance is to ensure that data is accurate, secure, accessible, and compliant with current regulations. The relationship between AI and data governance is a close one. AI models learn from data, and poor quality or biased data can lead to erroneous or discriminatory decisions.

The benefits of AI powered data governance are as under:

1. Improve Quality of Data: Data quality is a key to any data strategy. The more reliable the data, the more relevant the lessons, choices, and orientations that emerge from it, and AI contributes to improving data quality through a number of mechanisms. In fact, AI algorithms can automate the detection and correction of errors in datasets, thereby reducing inconsistencies and inaccuracies.

Moreover, AI can help standardize data by structuring it in a coherent way, making it easier and more reliable to use, compare, and put into perspective. With machine learning, it is also possible to identify trends and patterns hidden in the data, enabling the discovery of errors or missing data

2. Automate Data Compliance: At a time when cyber threats are literally exploding, data compliance must be a priority in an organization. But guaranteeing compliance requires constant vigilance, which can't depend exclusively on human intelligence. Especially as AI can proactively monitor potential violations of data regulations by performing real-time analysis of all data flows – detecting any anomalies or unauthorized access, triggering automatic alerts, and even making recommendations to correct any problems.

In addition, AI facilitates the classification and labelling of sensitive data, ensuring that it is handled appropriately. Finally, AI systems can also generate automatic compliance reports, reducing the administrative workload.

3. Strengthening Data Security: Through its ability to proactively detect threats by analysing data access patterns in real time, AI can alert about suspicious behaviour, such as attempted intrusions or unauthorized access. To take data governance even further, AI leverages machine-learning-based malware detection systems. These systems can identify known malware signatures and detect unknown variants by analysing behaviour. Finally, it contributes to security by automating the management of security patches and monitoring compliance with security policies.

4. Democratize Data: At the heart of the data strategy lies one objective: to encourage employees to use data whenever possible. In this way, it can foster the development of a data culture within the organization. The key to achieving this is to facilitate access to data by simplifying the search and analysis of complex data.

AI search engines can quickly extract relevant information from large datasets, enabling employees to quickly find what they need. In addition, AI can automate the aggregation and presentation of data in the form of interactive dashboards, making information ever more accessible and easy to share.

Regulatory Trends in AI Regulations

Recognizing that each jurisdiction has taken a different regulatory approach, in line with different cultural norms and legislative contexts, there are six areas of cohesion that unite under the broad principle of mitigating the potential harms of AI while enabling its use for the economic and social benefit of citizens.

1. *Core principles*: The AI regulation and guidance under consideration is consistent with the core principles for AI as defined by the OECD and endorsed by the G20. These include respect for human rights, sustainability, transparency and strong risk management. The OECD principles for AI have been discussed in the ensuing paragraphs.

2. *Risk-based approach*: The jurisdictions are taking a risk-based approach to AI regulation. What that means is that they are tailoring their AI regulations to the perceived risks around AI to core values like privacy, non-discrimination, transparency and security. This “tailoring” follows the principle that compliance obligations should be proportionate to the level of risk (low risk means no or very few obligations; high risks mean significant and strict obligations).

3. *Sector-agnostic and sector-specific*: Because of the varying use cases of AI, some jurisdictions are focusing on the need for sector-specific rules, in addition to sector-agnostic regulation.

4. *Policy alignment*: Jurisdictions are undertaking AI-related rulemaking within the context of other digital policy priorities such as cybersecurity, data privacy and intellectual property protection – with the EU taking the most comprehensive approach.

5. *Private-sector collaboration*: Many of these jurisdictions are using regulatory sandboxes as a tool for the private sector to collaborate with policymakers to develop rules that meet the core objective of promoting safe and ethical AI, as well as to consider the implications of higher-risk innovation associated with AI where closer oversight may be appropriate.

6. *International collaboration*: Driven by a shared concern for the fundamental uncertainties regarding the risks to safety and security posed by powerful new generative and general purpose AI systems, countries are pursuing international collaboration towards understanding and addressing these risks.

Other factors to consider in AI policy development include:

- Ensuring regulators have access to sufficient subject matter expertise to successfully implement, monitor and enforce these policies
- Ensuring policy clarity, if the intent of rulemaking is to regulate risks arising from the technology itself (e.g., properties such as natural language processing or facial recognition) or from how the AI technology is used (e.g., the application of AI in hiring processes) or both
- Examining the extent to which risk management policies and procedures, as well as the responsibility for compliance, should apply to third-party vendors supplying AI-related products and services

In addition, policymakers should, to the extent possible, engage in multilateral processes to make AI rules among jurisdictions interoperable and comparable, in order to minimize the risks associated with regulatory arbitrage – that are particularly significant when considering rules governing the use of a transnational technology like AI.

Artificial Intelligence – OECD Principles

The OECD principles for Artificial Intelligence is covered under two categories-

A) Value-based Principles

B) Recommendations for Policy Makers

A) *Value-based Principles*

Principles	Principles Brief Description	Principles Detail
Principle 1.1	Inclusive growth, sustainable development and well-being	Stakeholders should proactively engage in responsible stewardship of trustworthy AI in pursuit of beneficial outcomes for people and the planet, such as augmenting human capabilities and enhancing creativity, advancing inclusion of underrepresented populations, reducing economic, social, gender and other inequalities, and protecting natural environments, thus invigorating inclusive growth, sustainable development and well-being.
Principle 1.2	Human-centred values and fairness. AI systems should be designed in a way that respects the rule of law, human rights, democratic values and diversity, and should include appropriate safeguards to ensure a fair and just society.	AI actors should respect the rule of law, human rights and democratic values, throughout the AI system lifecycle. These include freedom, dignity and autonomy, privacy and data protection, non-discrimination and equality, diversity, fairness, social justice, and internationally recognised labour rights. To this end, AI actors should implement mechanisms and safeguards, such as capacity for human determination, that are appropriate to the context and consistent with the state of art.
Principle 1.3	Transparency and explainability This principle is about transparency and responsible disclosure around AI systems to ensure that people understand	AI Actors should commit to transparency and responsible disclosure regarding AI systems. To this end, they should provide meaningful information, appropriate to the context, and consistent with the state of art:

	when they are engaging with them and can challenge outcomes.	✚ to foster a general understanding of AI systems, ✚ to make stakeholders aware of their interactions with AI systems, including in the workplace, ✚ to enable those affected by an AI system to understand the outcome, and, ✚ to enable those adversely affected by AI system to challenge its outcome based on plain and easy-to-understand information on the factors, and the logic that served as the basis for the prediction, recommendation or decision.
Principle 1.4	Robustness, security and safety AI systems must function in a robust, secure and safe way throughout their lifetimes, and potential risks should be continually assessed and managed.	i) AI systems should be robust, secure and safe throughout their entire lifecycle so that, in conditions of normal use, foreseeable use or misuse, or other adverse conditions, they function appropriately and do not pose unreasonable safety risk. ii) To this end, AI actors should ensure traceability, including in relation to datasets, processes and decisions made during the AI system lifecycle, to enable analysis of the AI system's outcomes and responses to inquiry, appropriate to the context and consistent with the state of art. iii) AI actors should, based on their roles, the context, and their ability to act, apply a systematic risk management approach to each phase of the AI system lifecycle on a continuous basis to address risks related to AI systems, including privacy, digital security, safety and bias.
Principle 1.5	Accountability Organisations and individuals developing, deploying or operating AI systems should be held accountable for their proper functioning in line with the OECD's values-based principles for AI.	AI actors should be accountable for the proper functioning of AI systems and for the respect of the above principles, based on their roles, the context, and consistent with the state of art.

B) Recommendation for Policy Makers

Principles	Principles Brief Description	Principles Detail
Principle 2.1	Investing in AI research and development Governments should facilitate public and private investment in research & development to spur innovation in trustworthy AI.	i) Governments should consider long-term public investment, and encourage private investment, in research and development, including inter-disciplinary efforts, to spur innovation in trustworthy AI that focus on challenging technical issues and on AI-related social, legal and ethical implications and policy issues. ii) Governments should also consider public investment and encourage private investment in open datasets that are representative and respect privacy and data protection to support an environment for AI research and development that is free of inappropriate bias and to improve interoperability and use of standards.
Principle 2.2	Fostering a digital ecosystem for AI Governments should foster accessible AI ecosystems with digital infrastructure and technologies, and mechanisms to share data and knowledge.	Governments should foster the development of, and access to, a digital ecosystem for trustworthy AI. Such an ecosystem includes in particular digital technologies and infrastructure, and mechanisms for sharing AI knowledge, as appropriate. In this regard, governments should consider promoting mechanisms, such as data trusts, to support the safe, fair, legal and ethical sharing of data.
Principle 2.3	Providing an enabling policy environment for AI Governments should create a policy environment that will open the way to deployment of trustworthy AI systems.	i) Governments should promote a policy environment that supports an agile transition from the research and development stage to the deployment and operation stage for trustworthy AI systems. To this effect, they should consider using experimentation to provide a controlled environment in which AI systems can be tested, and scaled-up, as appropriate.

		ii) Governments should review and adapt, as appropriate, their policy and regulatory frameworks and assessment mechanisms as they apply to AI systems to encourage innovation and competition for trustworthy AI.
Principle 2.4	Building human capacity and preparing for labour market transition. Governments should equip people with the skills for AI and support workers to ensure a fair transition.	i) Governments should work closely with stakeholders to prepare for the transformation of the world of work and of society. They should empower people to effectively use and interact with AI systems across the breadth of applications, including by equipping them with the necessary skills. ii) Governments should take steps, including through social dialogue, to ensure a fair transition for workers as AI is deployed, such as through training programmes along the working life, support for those affected by displacement, and access to new opportunities in the labour market. iii) Governments should also work closely with stakeholders to promote the responsible use of AI at work, to enhance the safety of workers and the quality of jobs, to foster entrepreneurship and productivity, and aim to ensure that the benefits from AI are broadly and fairly shared.
Principle 2.5	International co-operation for trustworthy AI Governments should co-operate across borders and sectors to share information, develop standards and work towards responsible stewardship of AI.	i) Governments, including developing countries and with stakeholders, should actively cooperate to advance these principles and to progress on responsible stewardship of trustworthy AI. ii) Governments should work together in the OECD and other global and regional fora to foster the sharing of AI knowledge, as appropriate. They should encourage international, cross-sectoral and open multi-stakeholder initiatives to garner long-term expertise on AI. iii) Governments should promote the development of multi-stakeholder, consensus-driven global technical

		standards for interoperable and trustworthy AI. iv) Governments should also encourage the development, and their own use, of internationally comparable metrics to measure AI research, development and deployment, and gather the evidence base to assess progress in the implementation of these principles.
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Data Protection Seal of Data Security Council of India

The Data Security Council of India (DSCI) is planning to devise a data protection seal (DPS) to verify and check secure use of people's data by platforms across the country. The project, currently piloted with partner organisations, will help users know which organisations are using their data safely and following the basic standards of data privacy. This will be similar to the ISI mark that conforms to a product in accordance with the Bureau of Indian Standards.

The data protection seal will provide some level of assurance about the application, website, or product, according to expectations of privacy, and whether it behaves responsibly. Such a process will allow companies to better comply with the Digital Personal Data Protection (DPDP) Act and also any other upcoming rules.

One of the main challenges in today's digital landscape is the rise of deepfakes, manipulated audio or video content that can deceive viewers. DSCI aims to tackle this issue by training and certifying Data Protection Officers (DPOs) through their DSCI-certified Data Protection Officer program. These DPOs will play a crucial role in identifying and addressing deepfake-related concerns, ensuring the security and authenticity of user data.

Other several major cybersecurity challenges include the growth of ransomware, attacks on multi-factor authentication, and the use of artificial intelligence. To address these challenges, DSCI collaborates with governments, agencies, regulators, industry sectors, associations, and think tanks to advocate for cybersecurity and privacy policies and capacity-building.

The data protection seal aims to help platforms comply with the Digital Personal Data Protection (DPDP) Act and upcoming regulations. Preserving privacy while analyzing deepfake content related to sensitive issues is crucial to combat misinformation and protect user data. However, analysing content authenticity without revealing it to the platform is a significant challenge, but essential in the fight against deepfakes.

The data protection seal program is currently being piloted with partner organizations and is operational in Delhi and Bengaluru. DSCI plans to train multiple batches of DPOs to help organizations comply with the DPDP Act. This initiative will enhance data privacy practices and build trust among users, knowing their data is handled responsibly.

As the digital landscape evolves, organizations must prioritize user privacy and data protection. The introduction of the data protection seal by DSCI is a significant step towards this goal. With the increasing prevalence of deepfakes and other cybersecurity challenges, platforms must adhere to strict privacy standards to maintain user trust and protect sensitive information.

The onset of the data protection seal by the Data Security Council of India plays a crucial role in safeguarding user privacy and promoting responsible data handling by platforms nationwide. As the program expands and more DPOs are trained, it is expected to make a significant contribution to the fight against deepfakes and the overall improvement of data privacy practices. With DSCI's commitment to creating a secure and ethical data protection ecosystem, users can trust that their personal information is handled with care and responsibility.

Cyber Security breach – The Case of Sun Pharma

Sun Pharma's operations got affected by ransomware attack and a group claimed responsibility for the mentioned 'IT security incident' whose effect included breach of certain file systems and theft of certain company data and personal data, the drug manufacturer mentioned in a stock exchange filing. Sun Pharma first reported the incident on March 2, 2023. Back then it said that the incident did not affect Sun's core systems and operations. The five facts of the mentioned incident are as under:

1. On March 2, 2023, Sun Pharma reported an "information security incident" at the company, adding that the impacted assets have been "isolated".
2. 25 days later, a ransomware group claimed responsibility for the information breach. The infringement of the IT systems includes a breach of certain file systems and theft of certain company and personal data, Sun Pharma said.
3. "The Company promptly took steps to contain and remediate the impact of the IT security incident, including employing containment and eradication protocols to mitigate the threat and additional measures to ensure the integrity of its systems infrastructure and data," Sun Pharma said in a statement.
4. As part of its containment strategy, the company isolated its network and initiated a recovery process, resulting in the company's business operations being impacted.
5. As a result, revenues are expected to fall, Sun Pharma said. The company added that it is currently unable to determine other "potential adverse impacts" of the incident, including other security incidents or the possibility of litigation.

This comes amid growing threats of such attacks on Indian healthcare sector, which is the most attacked sector and is followed by education, research and government, and the military. A study by Check Point Research in January 2024 said healthcare saw the maximum number of attacks among all sectors in India, with an organisation in India being attacked 1,866 times per week on average in 2022. Global cyberattacks increased by 38% on year in 2022, it added.

From Sun Pharma's Cyber Security breach, it creates substantial academic interests to explore the reasons for vulnerability of pharma sector to cyber-attacks. Some of the reasons of cyber-attack are as under:

- i) Research and development (R&D) are a top priority for pharmaceutical companies. If they want to stay ahead of their competitors, they need to constantly innovate when it comes to new drugs, treatments, and therapies. However, the IP from their clinical trials, manufacturing, and patents is especially valuable. Cybercriminals might target these assets to sell them on the black market, to forward them to a competitor, or to use them for their own advantage.
- ii) Pharma companies access a huge amount of sensitive data, including:

- Patient information
- Clinical trial results
- Proprietary research
- Regulatory filings

This valuable data is subject to stringent regulations which makes it even more appealing to people who want to monetize it. For example, cybercriminals could use this data for fraud, blackmail, or identity theft.

iii) Pharmaceutical companies work via a complex network of partners, vendors, providers, and suppliers. With so many parties involved, there are countless insider threats and opportunities for cybercriminals to take advantage of, such as by accessing databases or compromising the integrity of the products. Unfortunately, it only takes one player to compromise their data security, and the entire supply chain will experience disruption.

iv) Majority of pharmaceutical companies operates globally. This means that cybercriminals can have a significant impact across multiple countries and regions via an attack. Thus, when it comes to attack scale, the pharma world has huge potential.

v) Although more pharmaceutical companies are starting to understand cyber risks, their cybersecurity solutions aren't always as developed as in other industries. This may be due to limitation of budgets and companies may not always be proactive regarding mitigating cybersecurity challenges. The result is limited cybersecurity measures makes them more vulnerable to phishing attacks, ransomware attacks, and other cyber-attack malware.

vi) With so much sensitive data, cybercriminals have lots of opportunities to exploit pharma companies. For example, they might use ransomware attacks to encrypt valuable data and demand a "ransom" for its release. Or, they might engage in insider trading, where they access secret information on regulatory approvals or treatment research.

Significant Changes in the Energy Conservation (Amendment) Act, 2022

India took a giant step in 2024 by revamping its Carbon Credit Trading Scheme (CCTS), allowing non-obligated entities to participate in the tradable carbon credits market. That means companies and individuals can voluntarily use carbon credits to address their planet-warming emissions.

This significant revision introduces an offset mechanism, enabling these entities to register projects and obtain tradable carbon credit certificates (CCCs). Each credit represents one tonne of carbon dioxide equivalent (tCO₂e). The aim is to efficiently price emissions through CCC trading and expand the voluntary carbon market.

In 2023, India introduced the 2023 Carbon Credit Trading Scheme (CCTS), encompassing both compliance and voluntary sectors. However, while the compliance segment is scheduled to commence in 2025-26, there is no set timeline for the launch of the voluntary carbon market.

Under India's revised carbon market scheme, obligated entities have the flexibility to purchase additional credits or sell surplus ones. Meanwhile, businesses can trade CCCs to offset their emissions.

However, sectors facing challenges in meeting reduction targets, particularly those with hard-to-abate emissions, are exploring the possibility of trading energy-saving certificates (ESCerts) and renewable energy certificates (RECs) as offsets.

Ministry Of Environment, Forest And Climate Change Notification dated 14th March, 2024 vide notification G.S.R.. 201(E)

The Ministry of Environment, Forest and Climate Change of India have introduced amendments to the Plastic Waste Management Rules, 2016, through the Plastic Waste Management (Amendment) Rules, 2024.

These changes signify a significant effort to address plastic pollution in India, particularly by targeting microplastics and setting stricter criteria for biodegradable plastics.

For details:

https://eprplastic.cpcb.gov.in/plastic/downloads/Plastic_Waste_Management_Amendment_Rules_2024.pdf

Ministry Of Environment, Forest And Climate Change Notification dated 23rd January, 2025 vide notification G.S.R. 73(E)

As per the amendment in the Plastic Waste Management Rules, 2016, in rule 11, after sub-rule (1) the following sub-rule shall be inserted:-

“(1A) A producer, importer or brandowner may, with effect from the 1st July, 2025, provide the information specified under sub-rule (1) as given below,- a. in a barcode or Quick Response code printed on the plastic packaging; b. in the product information brochure;

For details: https://eprplastic.cpcb.gov.in/plastic/downloads/PWMRules_23_01_2025.pdf

Lesson 15

Green Initiatives

Plastic Waste Management: Plastic was first invented in 1907, and given that it was cheaper and more convenient than other materials, it soon found use in varied ways in our daily lives. Plastic products have become an integral part in our daily life as a basic need. Today, plastic is present in almost everything, from our money to electronic appliances, and it is used across multiple sectors, including packaging, building, construction, transportation, industrial machinery and health among others.

However, the lack of sustainable plastic waste management (PWM) poses a serious threat to our environment and natural ecosystem globally. Plastic Waste, in particular, is a key contributor to the unsustainable surge in waste being generated, due to its wide-scale use across industries combined with the short life-span of its products, including single use plastics, packaging, consumer goods and clothing. Indeed, plastic consumption across the world has quadrupled over the last few decades, and global plastic waste is expected to nearly triple by 2060(according to OECD).

Plastic waste has numerous implications on the environment and health. The plastic in food and water can cause severe health issues such as genetic disorders, and endocrine system damage. According to the United States Environmental Protection Agency, all the plastic waste ever generated is still present on Earth today, this makes sustainable management of plastic waste important.

Environmental issues on disposal of Plastic Waste:

Indiscriminate littering of unskilled recycling/reprocessing and nonbiodegradability of plastic waste raises the following environmental issues:

- During polymerization process fugitive emissions are released.
- During product manufacturing various types of gases are released.
- Indiscriminate dumping of plastic waste on land makes the land infertile due to its barrier properties.
- Burning of plastics generates toxic emissions such as Carbon Monoxide, Chlorine, Hydrochloric Acid, Dioxin, Furans, Amines, Nitrides, Styrene, Benzene, 1, 3- butadiene, CCl₄, and Acetaldehyde.
- Lead and Cadmium pigments, commonly used as additives are toxic and are known to leach out.
- Non-recyclable plastic wastes such as multilayer, metalised pouches and other thermoset plastic poses disposal problems.
- Littered plastics give unaesthetic look in the city, choke the drain and may cause flood during monsoon.
- Garbage mixed with plastics interferes in waste processing facilities and also cause problems in landfill operations.

➤ Recycling industries operating in non-conforming areas are posing threat to environment to unsound recycling practices.

The regulatory framework for combating plastic waste is as under:

Regulatory Framework for Combating Plastic Waste	
1	Recycled Plastic Manufacture and Usage Rules in 1999 (<i>Manufacturing and usage of Plastic carry bags. It is specified the minimum thickness of plastic bags</i>)
2	Plastic Waste (Management and Handling) Rules, 2011 <i>(Laid down certain conditions for manufacturing, stocking, sale and use of plastic carry bags and sachets)</i>
3	Plastic Waste Management Rules, 2016 <i>(Thrust on plastic waste minimization, source segregation, recycling, involving waste pickers, recyclers and waste processors in collection of plastic waste and adopter pays principle for the sustainability)</i>
4	1st Amendment in March, 2018-Plastic Waste Management (Amendment) Rules, 2018 <i>(Every producer or brand-owner Registration with CPCB)</i>
5	2nd Amendment in August 2021- Plastic Waste Management (First Amendment) Rules, 2021 <i>(Ban on “Single-use plastic commodity”)</i>
6	3rd Amendment in September 2021-Plastic Waste Management (Second Amendment) Rules, 2021 <i>(Use of Recycled Plastics)</i>
7	4th Amendment in February 2022- Plastic Waste Management (Third Amendment) Rules, 2021 <i>(Guidelines on Extended Producer Responsibility for Plastic Packaging)</i>
8	5th Amendment in July 2022 (PWM Rules On EPR)
9	6th Amendment in April 2023-PWM Amendment Rules 2023

10	7th Amendment in October, 2023 -PWM Second Amendment 2023 (<i>Each plastic packaging shall contain the specified information, printed in English</i>)
11	8th Amendment in March 2024 -Plastic Waste Management (Amendment) Rules, 2024. (<i>Filing of Quarterly Report and Annual reports</i>)

Key initiatives by India on Plastic Waste Management

Plastic has multiple uses and the physical and chemical properties lead to commercial success. The Ministry had initially notified the Recycled Plastic Manufacture and Usage Rules in 1999, which was mainly on manufacturing and usage of Plastic carry bags. It is specified that the minimum thickness of plastic bags should be of 20 microns. However, the indiscriminate disposal of plastic has become a major threat to the environment. In particular, the plastic carry bags are the biggest contributors of littered waste and every year, millions of plastic bags end up in to the environment vis-a-vis soil, water bodies, water courses, etc and it takes an average of one thousand years to decompose completely.

Therefore, to the address the issue of scientific plastic waste management, new regulations namely, the Plastic Waste (Management and Handling) Rules, 2011 were notified in 2011, which included plastic waste management. The Plastic Waste (Management and Handling) Rules, 2011 laid down certain conditions for manufacturing, stocking, sale and use of plastic carry bags and sachets, which were required to be monitored and implemented by the State Pollution Control Boards/ Municipal Authorities. It specified that the minimum thickness of plastic bags should be of 40 microns. This was to facilitate its collection and recycle. However, the implementation of these rules was not so effective.

To implement these rules more effectively and to give thrust on plastic waste minimization, source segregation, recycling, involving waste pickers, recyclers and waste processors in collection of plastic waste and adopt polluter pays principle for the sustainability of the waste management system, The Government has notified the Plastic Waste Management Rules, 2016, in suppression of the earlier Plastic Waste (Management and Handling) Rules, 2011 and as a part of the revamping of all Waste Management Rules to achieving the vision of our Prime Minister of Swacchh Bharat and cleanliness is the essence of health and tourism, The Plastic Waste Management Rules, 2016 aim to:

-  Increase minimum thickness of plastic carry bags from 40 to 50 microns and stipulate minimum thickness of 50 micron for plastic sheets also to facilitate collection and recycle of plastic waste.

- ✚ Expand the jurisdiction of applicability from the municipal area to rural areas, because plastic has reached rural areas also;
- ✚ To bring in the responsibilities of producers and generators, both in plastic waste management system and to introduce collect back system of plastic waste by the producers/brand owners, as per extended producers' responsibility;
- ✚ To introduce collection of plastic waste management fee through pre-registration of the producers, importers of plastic carry bags/multilayered packaging and vendors selling the same for establishing the waste management system;
- ✚ To promote use of plastic waste for road construction as per Indian Road Congress guidelines or energy recovery, or waste to oil etc. for gainful utilization of waste and also address the waste disposal issue; to entrust more responsibility on waste generators, namely payment of user charge as prescribed by local authority, collection and handing over of waste by the institutional generator, event organizers.
- ✚ The Environmental Compensation shall be levied based upon polluter pays principle, on persons who are not complying with the provisions of these rules, as per guidelines notified by the Central Pollution Control Board.
- ✚ Every producer or importer or brand-owner shall for the purpose of one –time registration makes an application through the centralized online portal.
- ✚ Each plastic packaging shall contain the specified information, printed in English, namely, name and registration certificate number for producer or importer or brand owner generated through centralized online portal.
- ✚ Filing of Quarterly Report and Annual reports by every person engaged in recycling or processing of plastic waste, by every manufacturer and importer of plastic raw material, by every person engaged in the sale of plastic raw material.

Extended Producer Responsibility

The Extended Producer Responsibility (EPR) model is based on the polluter-pays principle, which aims to include producers of material goods in the management and treatment of waste and keep raw materials and goods in the economic cycle. The integration of EPR schemes in national legislation then sets clear objectives for circular economy: consumer waste prevention, eco-design of materials, optimization of waste collection with local authorities and development of new circular economic systems.

Thus, the structuring of an EPR sector has several advantages; it allows the involvement of all actors, whether public authorities, industries or consumers, in a structured and sustainable framework dedicated to circularity and reduction of carbon emissions. At an international level, EPR deepens the social and environmental responsibility of companies, thanks to the traceability of the value chain and the better coordination of everyone's actions.

According to OECD, Extended Producer Responsibility (EPR) schemes are organizational mechanisms for the prevention and management of waste that concern certain types of products and are primarily based on the polluter-pays principle.

This principle emphasizes the idea of extended producer responsibility, according to which producers, i.e., the legal persons responsible for placing certain products on the market (namely producers, brand owners and importers), with government oversight, are made responsible for financing and organizing the prevention and management of waste from these products at the end of their life.

In that respect, it should be remembered that the EPR scheme is not a tax. Contributions from producers are thus directly used by the Producer Responsibility Organisation (PRO). Thus, this contribution didn't require additional budgetary resources from State, and is not "absorbed" into the overall public expenditure.

In order to meet the principles of EPR, producers usually organize themselves collectively to fulfil their obligations within the framework of PROs, whether non-profit or for profit. The mission of these PROs is to meet the challenges of reduction, reuse and recycling in the circular economy, thus playing a key role to the fight against climate change, the preservation of resources and biodiversity, and the reduction of carbon impact of product placed on the market.

To do this, the PROs meet several principles described in this note in order to fulfil their missions, in conjunction with all the stakeholders in the value chain from product to waste (including brand owners, retailers, recyclers, municipalities.).

They thus have several complementary missions:

- ❖ waste-prevention and awareness-raising among private consumers;
- ❖ limiting littering via collecting and subsequently recycling packaging waste;
- ❖ improving eco-design of the combination of product and packaging – in order to meet the climate-biodiversity challenges of life-cycle analyses and new consumer habits;
- ❖ collection and sorting in cooperation with the municipalities and waste management companies depending on the administrative, territorial and demographic structures;
- ❖ support for the development of new circular economy sectors focusing on reduction, reuse and recycling by R&D to enhance the material value chain from collection to recycling.

International bodies have been addressing the issue of combating plastic waste pollution (G7 in Charlevoix in 2018, G20 in Osaka in 2019). PROs from all over the world welcome the commitment of civil society, companies and governments to work together to define and build common responses to this global challenge.

International cooperation has reached an important milestone with the adoption on 2 March 2022 by the United Nations Environment Assembly of a resolution to end plastic pollution and to reach a legally binding international agreement by 2024. In the wake of these growing concerns, on 28 July 2022, the UN General Assembly adopted a resolution declaring that all people on the planet have the right to a healthy environment, a right that the circular economy can help make real, everywhere and for everyone.

The "Business Coalition for a global plastics Treaty", coordinated by WWF and Ellen MacArthur Foundation, has created a first group of policy and scientific recommendations for future

negotiations. This work will be made by bringing together NGOs, financial institutions and professional organizations from the plastics value chain.

In this context, the Extended Producer Responsibility (EPR) model has a key role to play. EPR systems are an essential instrument to finance the collection and environmentally sound treatment of waste, as well as to support the design and production of goods that consider and facilitate the efficient use of resources throughout their life cycle, including their repair, reuse, dismantling and recycling. PROs, in particular those in charge of household packaging, help to improve the management of the end-of-life of plastic products and packaging but also to encourage reduction at source as well as eco-design.

The first PROs already benefit from more than 30 years of experience in implementing EPR, and visibility on the actions taken and their impacts. This knowledge of the benefits of EPR encourages the deployment of this model on a global level, as it meets many needs. From the start, EPR systems were born out of the need to respond to the challenges of increasing quantities of waste, increasing costs to taxpayers, and the loss of resources that untreated waste represents. Today, their actions allow them to:

- Define, in conjunction with industry/producers national and local authorities, minimum targets for reuse, recycling or recovery when and where relevant;
- Introduce EPR fees at the time of placing on the market to cover the costs of end-of-life management of packaging;
- Modulate EPR fees with incentives and disincentives bonuses and/or penalties, in a way that reflects defined environmental criteria of the product - for example its recyclability - to promote to producers to design their products / packaging. It will facilitates the sorting for inhabitants and the treatment, re-use or recycling in the next steps so that the material stay in the economic cycle;
- Involve companies in the circular economy of their packed products: they are the ones who eco-design the packaging, finance a large part of its collection, sorting, recycling and reuse to turn it into new resources;
- Generate sustainable funding for the waste management service while boosting its efficiency;
- Gain economies of scale and efficiencies to help control costs to consumers;
- Include consumers in this transition to the circular economy by providing convenient separate collection opportunities, encouraging sorting, good consumption practices and supporting them in new uses;
- In relevant cases, educate consumers about the effects of littering. As such, EPR can encourage municipalities to develop more solutions on littering and waste collection;
- Whenever legally bound to, cooperate with recyclers in order to return the recycled materials to the companies that first placed them on the market in order to enable them to include recycled content;
- In view of the growing relevance of online sales, EPR can develop legal frameworks that force Marketplaces to equally contribute to the prevention and management of waste.

Extended Producer Responsibility (EPR) in India

If someone identified as Producer, Importer and Brand Owners (PIBO) and have PIBO operations in India that uses plastic packaging as part of its operation, irrespective of your turnover or scale of operations then PIBO fall under the obligation of Extended Producer Responsibilities (EPR) Under the current framework of EPR, PIBO are responsible to:

1. Register at EPR Portal of Government of India
2. Submit their Action plan
3. Fulfill obligations for: -
 - a. Recycling
 - b. Use of Recycled content
 - c. Reuse
 - d. End of life disposal
 - e. Optional engagement in collection and recovery of the plastics
 - f. Submit annual returns
 - g. Provide proof of certificates (Plastic credits)
 - h. PIBOs can engage with PRO's or other agencies separately to fulfill their targets but reporting and responsibility to fulfill the obligations is completely of PIBO.

Lesson 19

Sustainability Audit; ESG Rating; Emerging Mandates from Government and Regulators

Master Circular for ESG Rating Providers (“ERPs”)

SEBI issued Master Circular for ESG Rating Providers (“ERPs”), dated May 16, 2024, Circular No: SEBI/HO/DDHS/POD3/P/CIR/2024/45, wherein it has encompassed the chapters on the following facets- Registration, Approval and Surrender Requirements; Rating Operations; Reporting and Disclosures; Internal Audit for ERPs and Miscellaneous matters.

Apart from various regulatory and operational dimensions covered in the mentioned Circular, it has stated that an ERP shall offer at least the following ESG rating products (Clause 5.2):

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

Further, an ERP may provide additional ESG rating products subject to compliance with relevant provisions of the CRA Regulations and circulars issued thereunder. It is to be noted that the aforesaid six ESG rating products shall:

- ❖ suitably incorporate the environmental, social and governance aspects that are contextual to the Indian market.
- ❖ be assigned such that they allow comparison with companies in other sectors, i.e., such rating products must contain sector-agnostic ESG ratings.
- ❖ adhere to guidelines specific to the rating product as detailed below in this circular.

For details: <https://www.sebi.gov.in/legal/master-circulars/may-2024/master-circular-for-esg-rating-providers-erps-83421.html>

Master circular for compliance with the provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 by listed entities (SEBI/HO/CFD/PoD2/CIR/P/0155), November 11, 2024

Section IV-B: Business Responsibility and Sustainability Reporting by listed entities

1. BRSR

1.1 In recent times, adapting to and mitigating climate change impact, inclusive growth and transitioning to a sustainable economy have emerged as major issues globally. There is an increased focus of investors and other stakeholders seeking businesses to be responsible and sustainable towards the environment and society. Thus, reporting of company's performance on sustainability related factors has become as vital as reporting on financial and operational performance.

1.2 From the financial year 2022-23, in terms of the proviso to regulation 34 (2) (f) of the LODR Regulations, top 1000 listed entities based on market capitalization had to submit a Business Responsibility and Sustainability Report (BRSR) in the format as specified by the Board. Further, other listed entities can voluntarily submit such reports.

1.3 The BRSR seeks disclosures from listed entities on their performance against the nine principles of the 'National Guidelines on Responsible Business Conduct' (NGRBCs) and reporting under each principle is divided into essential and leadership indicators. The essential indicators are required to be reported on a mandatory basis while the reporting of leadership indicators is on a voluntary basis. Listed entities should endeavour to report the leadership indicators also.

1.4 The BRSR is intended towards having quantitative and standardized disclosures on ESG parameters to enable comparability across companies, sectors and time. Such disclosures will be helpful for investors to make better investment decisions. The BRSR shall also enable companies to engage more meaningfully with their stakeholders, by encouraging them to look beyond financials and towards social and environmental impacts.

1.5 The listed entities already preparing and disclosing sustainability reports based on internationally accepted reporting frameworks (such as GRI, SASB, TCFD or Integrated Reporting) may cross-reference the disclosures made under such framework to the disclosures sought under the BRSR.

1.6 The format of the BRSR is as specified in Annexure 16 . The BRSR is accompanied with a guidance note to enable the companies to interpret the scope of disclosures. The guidance note is given at Annexure 17. For referring the detailed contents of Annexure 16 and 17, please refer the following link: https://www.sebi.gov.in/legal/master-circulars/nov-2024/master-circular-for-compliance-with-the-provisions-of-the-securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-regulations-2015-by-listed-entities_88388.html

2. BRSR Core

2.1 The BRSR Core is a sub-set of the BRSR, consisting of a set of Key Performance Indicators (KPIs) / metrics under 9 ESG attributes. Keeping in view the relevance to the Indian / Emerging market context, few new KPIs have been identified for assurance such as job creation in small towns, open-ness of business, gross wages paid to women etc. Further, for better global comparability intensity ratios based on revenue adjusted for Purchasing Power Parity (PPP) have been included. The format of BRSR Core for reasonable assurance is placed at **Annexure 17A**.

2.2 In order to facilitate the verification process, the BRSR Core specifies the data and approach for reporting and assurance. It is however clarified that the approach specified is only a base methodology. Any changes or industry specific adjustments / estimations shall be disclosed.

2.3 For ease of reference, the BRSR Core contains a cross-reference to the disclosures contained in the BRSR.

2.4 Applicability

2.4.1 From FY 2023 – 2024, the top 1000 listed entities (by market capitalization) shall make disclosures as per the updated BRSR format, as part of their Annual Reports.

2.4.2 Listed entities shall mandatorily undertake reasonable assurance of the BRSR Core, as per the glide path specified in the following table:

Financial Year	Applicability of BRSR Core to top listed entities (by market capitalization)
2023 – 24	Top 150 listed entities
2024 – 25	Top 250 listed entities
2025 – 26	Top 500 listed entities
2026 – 27	Top 1000 listed entities

3. ESG Disclosures for value chain

3.1 Disclosures for value chain shall be made by the listed company 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.

3.2 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.

3.3 The scope of reporting and any assumptions or estimates, if any, shall be clearly disclosed.

3.4 Applicability

3.4.1 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.

3.4.2 The limited assurance of the above shall be applicable on a comply-or-explain basis from FY 2025 - 26.

4. Assurance provider

4.1 The Board of the listed entity shall ensure that the assurance provider of the BRSR Core has the necessary expertise, for undertaking reasonable assurance.

4.2 The listed entity shall ensure that there is no conflict of interest with the assurance provider appointed for assuring the BRSR Core. For instance, it shall be ensured that the assurance provider or any of its associates do not sell its products or provide any non-audit / non-assurance related service including consulting services, to the listed entity or its group entities.

For details: https://www.sebi.gov.in/legal/master-circulars/nov-2024/master-circular-for-compliance-with-the-provisions-of-the-securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-regulations-2015-by-listed-entities_88388.html

Timeline for Review of ESG Rating pursuant to occurrence of ‘Material Events (SEBI Circular No. SEBI/HO/DDHS/DDHS-PoD-3/P/CIR/2025/007 dated January 17, 2025)

Para 10.1 of the Master Circular for ESG Rating Providers (ERPs) SEBI/HO/DDHS/DDHS-POD3/P/CIR/2024/45 dated May 16, 2024 (“Master Circular”) provides the following in respect of material events requiring a review of the ESG ratings:

“10.1.1. Regulation 28L(g) of CRA Regulations require an ERP to have efficient systems to track material developments related to environmental, social and governance factors to ensure timely and accurate ESG ratings. 10.1.2. Material developments in this respect shall be any event that results in a change of the ESG profile of the rated company. Such material developments shall include, but not be restricted to, publication of Business Responsibility and Sustainability Reporting (BRSR) or controversy/ penalty in environmental, social or governance areas. 10.1.3. ERPs shall carry out a review of the ESG ratings upon the occurrence of or announcement/ news of such material developments, and immediately, but not later than 10 days of occurrence of the said event.”

2. ERPs have made a representation to SEBI, highlighting the operational challenges faced in undertaking review of ESG ratings for a large pool of listed companies pursuant to publication of BRSR by such companies, within the specified timeline of 10 days. Considering the same, in order to promote Ease of Doing Business, it has been decided to provide relaxation in the timeline for review of ESG rating pursuant to publication of BRSR. Accordingly, Para 10.1.3. of the Master Circular stands modified as below:

“ERPs shall carry out a review of the ESG ratings upon the occurrence of or announcement/ news of such material developments immediately, but not later than 10 days of occurrence of the said event. However, review of the ESG rating pursuant to publication of BRSR by the rated entity shall be carried out immediately, but not later than 45 days of the publication of the BRSR.”

3. The circular shall be applicable with immediate effect.

For details: <https://www.sebi.gov.in/legal/circulars/jan-2025/timeline-for-review-of-esg-rating-pursuant-to-occurrence-of-material-events-90930.html>

Measures to facilitate ease of doing business with respect to framework for assurance or assessment, ESG disclosures for value chain, and introduction of voluntary disclosure on green credits (SEBI Circular No.: SEBI/HO/CFD/CFD-PoD-1/P/CIR/2025/42 dated March 28, 2025)

For Facilitating Ease of Doing Business and pursuant to public consultation, the Board, on December 18, 2024, decided to revise various provisions regarding ESG disclosures for value chain, provide an option to undertake 'assessment' or 'assurance' for BRSR Core and ESG disclosures for value chain, and introduce disclosure on green credits. Accordingly, the provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations") in this regard, have been amended vide Gazette ID CG-MH-E-28032025-262027 dated March 28, 2025.

Green Credits

3.1. In Principle 6 of BRSR, provided under Annexure 16 of the aforementioned master circular, an additional leadership indicator (i.e. an eighth leadership indicator) shall be included seeking disclosures on green credits in the following format—"8. How many Green Credits have been generated or procured: a. By the listed entity b. By the top ten (in terms of value of purchases and sales, respectively) value chain partners.

3.2. Applicability: The provisions under this Section shall be applicable for BRSR disclosures for FY 2024-25 and onwards

Assessment or Assurance

3.3.

In order to facilitate ease of doing business, decrease cost and effort for listed entities and their value chain partners for verifications of sustainability reporting, as well as make the process profession agnostic, the following is mandated, and accordingly the relevant provisions on BRSR Core and ESG disclosures for value chain, as prescribed in Section IV-B of Chapter IV of the aforementioned master circular, stand revised as under.

3.4.

Para 2.1 of the aforementioned master circular shall read as: "The BRSR Core is a sub-set of the BRSR, consisting of a set of Key Performance Indicators (KPIs) / metrics under 9 ESG attributes. Keeping in view the relevance to the Indian / Emerging market context, few new KPIs have been identified for assessment or assurance such as job creation in small towns, open-ness of business, gross wages paid to women etc. Further, for better global comparability intensity ratios based on revenue adjusted for Purchasing Power Parity (PPP) have been included. The format of BRSR Core for assessment or assurance is placed at Annexure 17A. Further, it is specified that "assessment" refers to third-party assessment undertaken as per the standards developed by the Industry Standards Forum (ISF) in consultation with SEBI."

3.5.

Further, Para 2.2 of the aforementioned master circular shall read as: "In order to facilitate the verification process, the BRSR Core specifies the data and approach for reporting and assessment or assurance. It is clarified that the approach specified is only a base methodology. Any changes or industry specific adjustments / estimations shall be disclosed.

3.6.

Further, Para 2.4.2 of the aforementioned master circular shall read as: "Listed entities shall

mandatorily undertake assessment or assurance of the BRSR Core, as per the glide path specified in the following table:”

Financial Year	Applicability of BRSR Core to top listed entities (by market capitalization)
2023 –2024	Top 150 listed entities
2024 –2025	Top 250 listed entities
2025 –2026	Top 500 listed entities
2026 –2027	Top 1000 listed entities

3.7.

Further, Para 4, 4.1 and 4.2 of the aforementioned master circular shall read as: “4. Assessment or Assurance Provider

4.1

The Board of the listed entity shall ensure that the assessment or assurance provider of the BRSR Core has the necessary expertise, for undertaking assessment or assurance.

4.2

The listed entity shall ensure that there is no conflict of interest with the assessment or assurance provider appointed for assessing or assuring the BRSR Core. For instance, it shall be ensured that the assessment or assurance provider or any of its associates do not sell its products or provide any non-audit / non-assessment / non-assurance related service including consulting services, to the listed entity or its group entities.”

3.8.

In Annexure 16 of the aforementioned master circular, under Section A, Part I, Points 14 and 15 shall read as: “14. Name of assessment or assurance provider 15. Type of assessment of assurance obtained.”

3.9.

In Annexure 17A of the aforementioned master circular, i.e. “Format of BRSR Core” –

3.9.1. the column “Data & Assurance Approach” shall be read as: “Data & Assessment or Assurance Approach”.

3.9.2

.in Sr. No. 4, under the parameter –

“Each category of waste generated, total waste recovered through recycling, re-using or other recovery operations”, the note in the column “Data & assessment or assurance approach” shall read as: “Disclosure may be provided if certificates from vendors have been relied upon for assessment or assurance of KPIs on waste management”.

3.10.

In order to facilitate ease of doing business, provide additional time to listed entities and their value chain partners for setting up measurement and reporting systems and avoid unintended impact on small businesses in terms of cost and compliance requirements, it has been decided to

defer the disclosure and assessment or assurance with respect to value chain by one year and to revise the threshold for values chain partners.

3.11.

Para 3.1 of the aforementioned master circular shall read as:

“Disclosures for value chain shall be made by the listed company 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, individually comprising 2% or more of the listed entity's purchases and sales (by value) respectively. However, the listed entity may limit disclosure of value chain to cover 75% of its purchases and sales (by value) respectively.”

3.12.

Para 3.4.1 of the aforementioned master circular shall read as: “ESG disclosures for the value chain shall be applicable to the top 250 listed entities (by market capitalization), on a voluntary basis from FY 2025-26.”

3.13.

Para 3.4.2 of the aforementioned master circular shall read as -“The assessment or assurance of the above shall be applicable on a voluntary basis from FY 2026-27.

”3.14. After para 3.4.2, a new para 3.5 and 3.6 as under shall be inserted:

“3.5 For the first year of reporting ESG disclosures for value chain, reporting of previous year numbers shall be voluntary. To illustrate, for value chain disclosures of FY 2025-26, reporting of previous year data (i.e., data for FY 2024-25) shall be voluntary.”

“3.6 If a listed entity provides ESG disclosures for value chain, then it shall disclose the percentage of total sales and purchases covered by the value chain partners, respectively, for which ESG disclosure are provided.”

4. The provisions of circular shall be applicable from the date of issuance of this circular, except otherwise mentioned specifically.

5. The Stock Exchanges are advised to bring the contents of this circular to the notice of their listed entities and ensure its compliance.

6. This circular is issued in exercise of the powers conferred under Section 11(1) and 11A of the Securities and Exchange Board of India Act, 1992 read with Regulation 10 of LODR Regulation

For details: https://www.sebi.gov.in/legal/circulars/mar-2025/measures-to-facilitate-ease-of-doing-business-with-respect-to-framework-for-assurance-or-assessment-esg-disclosures-for-value-chain-and-introduction-of-voluntary-disclosure-on-green-credits_93102.html