

Overview of the ESG Disclosure Landscape: IFRS & BRSR

Over the last decade, there has been a substantial development in environmental and social awareness, particularly with the growing emphasis on the ESG (Environmental, Social, and Governance) considerations. In contrast to previous decades when industries flourished without much regard for environmental and social well-being, today's society is more conscious and actively advocates for cleaner, safer, and sustainable practices. This has led to a notable surge in accountability, driven by various stakeholders, all advocating for greater responsibility and sustainability.



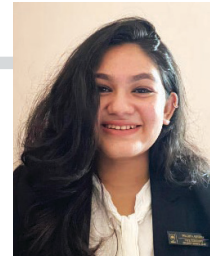
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INTRODUCTION

Over the last decade, there has been a substantial development in environmental and social awareness, particularly with the growing emphasis on the ESG (Environmental, Social, and Governance) considerations. In contrast to previous decades when industries flourished without much regard for environmental and social well-being, today's society is more conscious and actively advocates for cleaner, safer, and sustainable practices. This has led to a notable surge in accountability, driven by various stakeholders, all advocating for greater responsibility and sustainability.

ESG principles extend beyond traditional business models and require companies to perform not just financially but across other non-quantifiable standards such as environment, social, and governance practices. The presence of multiple sustainability reporting standards such as SASB, GRI, and TCFD has led to confusion and inconsistent disclosure in the ESG landscape.¹ Initiatives for standardisation of the same have resulted in the formation of Sustainable Disclosure Standards, by International Financial Reporting Standard (IFRS), issued in June 2023.² The two disclosures are the "General requirement for Disclosure of Sustainability-related

Financial Information" (IFRS-S1) and "Climate-related Disclosure" (IFRS-2).³

Being at the forefront of sustainable practices, India has been proactive in the adoption of various ESG disclosures, as witnessed by the introduction of the Business Responsibility and Sustainability Report and BRSR Core. Although ESG considerations may initially appear costly, they can also lead to significant cost reductions. In addition to other benefits, effectively implementing ESG practices can mitigate increasing operating expenses, such as those related to raw materials, water, or carbon. McKinsey's research⁴ indicates that these kind of expenses can have an impact operating profits by up to 60 percent. For instance, FedEx is actively working towards converting its entire fleet of 35,000 vehicles to electric or hybrid engines. Currently, 20 percent of the fleet has been converted, which has resulted in a reduction of fuel consumption by over 50 million gallons⁵.

With the issuance of IFRS S1 and IFRS S2, the ISSB is gearing up to collaborate with jurisdictions and companies, offering assistance for their adoption⁶. Initially, this will involve establishing a Transition

³ IFRS S2, *Climate-related Disclosures*, Jun 2023

⁴ Witold Henisz et al, "Five ways that ESG creates value", *McKinsey Quarterly*, Nov 2019

⁵ Witold J. Henisz, "The costs and benefits of calculating the net present value of corporate diplomacy", *Field Actions Science Reports*, 2016, *Special Issue 14*

⁶ "ISSB issues inaugural global sustainability disclosure standards", *IFRS*, Jun 2023

¹ Jennifer Laidlaw, *New global sustainability board aims to cut through disclosure confusion*, *S&P Global*, 2021.

² IFRS, *ISSB issues inaugural global sustainability disclosure standards*, 26 Jun 2023

Implementation Group aimed at aiding companies in implementing the Standards. Additionally, the ISSB plans to launch initiatives focused on enhancing capacity to ensure smooth implementation.

Furthermore, the ISSB will maintain its efforts in partnering with jurisdictions seeking to mandate additional disclosures beyond the standard global requirements. It will also continue its collaboration with GRI to streamline reporting processes, particularly when ISSB Standards are utilized alongside other reporting standards, ensuring efficiency and effectiveness.

This Article analyzes the salient features of IFRS disclosure standards and the ESG disclosure landscape in India, comparing and contrasting the same. In the light of this, the Article also highlights the path forward for Indian companies navigating the ESG disclosure landscape.

INTERNATIONAL FINANCIAL REPORTING STANDARDS – SUSTAINABILITY DISCLOSURE STANDARDS

A. IFRS S1 - General Requirements for Disclosure of Sustainability-Related Financial Information

IFRS S1 defines the essential elements of a comprehensive set of sustainability-related financial disclosures and calls for full disclosure of all sustainability-related opportunities and risks that might potentially influence an organization's future. The short, medium, or long-term impact on the organization's funds or capital is referred to as the impact on the entity's prospects. According to IFRS S1, a company must disclose any material information on sustainability-related risks and opportunities that might potentially influence its prospects.⁷

Information is material information “if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general-purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity.”⁸

The General requirements include Governance, Strategy, Risk Management, and Metrics & Targets. Information under these headings includes:

- a. **Governance:** The body or individual handling sustainability-related risk and opportunities, their responsibilities and skills, management's initiatives, and roles in the process.
- b. **Strategy:** Sustainability risks/opportunities that can affect the entity, impact on the financial prospects, and the resilience of the strategy/model to be implemented.
- c. **Risk management:** Process used by an organisation to assess and monitor the risks and the overall integration of the process to the organization's risk management.
- d. **Metrics and Target:** Metrics under IFRS and the ones that are self-developed by the organization.

GENERAL REQUIREMENTS INCLUDE:

- a. **Statement of Compliance:** Entities must explicitly confirm their adherence to all IFRS Sustainability Disclosure Standards requirements in their sustainability-related financial disclosures.
- b. **Cross References:** Information required by these standards can be referenced within the disclosures, provided that the referenced information is available simultaneously and does not make the overall disclosures less comprehensible.
- c. **Time of Reporting:** An entity must publish both its relevant financial statements and its sustainability-related financial disclosures in the same period. Financial disclosures related to the entity's sustainability must correspond to the same reporting period as the associated financial statements.
- d. **Location of Information:** Disclosure information can be combined with other regulatory or voluntary disclosures if it is distinguishable and does not overshadow the sustainability-related financial disclosures.
- e. **Judgements:** Organisations have to identify in these disclosures significant judgements impacting the disclosed facts.
- f. **Prior Period Errors:** Material errors from prior periods should be corrected by adjusting comparative amounts unless doing so is impractical.
- g. **Measurement Uncertainty:** To gain insights into the significant uncertainties affecting their disclosures, organizations should identify the disclosed amounts that are subject to uncertainty in measurement, the source of the same, and the methods used in measuring. This process enables transparency regarding uncertainties surrounding the reported sustainability-related financial data.
- h. **Sensitive Information:** Disclosing information in the sustainability sector that is illegal under local legislation or sensitive to business may be omitted, but the firm must explain why they are not being disclosed.

B. IFRS S2 Climate-related Disclosures

In these disclosures, an organization has to give details on its vulnerability to climate risks and opportunities. This includes Physical risks, transition risks (risk from transitioning to a lower carbon economy), and climate-related opportunities. Information to be disclosed is similar to IFRS S1, but specific climate-related disclosure includes:

⁷ EY, ISSB issues inaugural IFRS Sustainability Disclosure Standards, Issue 5, Jun 2023

⁸ Paragraph 18, Supra 4

- a. **Climate-Related Risks Classification:** Explanation of whether the identified climate-related risks are categorized as physical risks (direct impacts of climate change) or transition risks.
- b. **Climate-Related Targets Achievement:** Details on how the entity intends to meet any climate-related targets it has established.
- c. **Changes to Business Model and Strategy:** Information about modifications to the organization's business model that are presently occurring or are anticipated, including changes to policy and allocation of assets to handle climate-related risks and opportunities.
- d. **Plans for Transition:** Insights into any transition plans, the organization may have to reach a lower-carbon economy.
- e. **Climate Resilience Assessment:** This includes the entity's evaluation of its ability to withstand and bounce back from climate-related challenges. IFRS S2 provides guidance for analysis of the same like, tailoring the approach to climate-related scenario analysis based on the specific circumstances of the entity, taking into account the extent of the entity's exposure to climate-related risks and opportunities.
- f. **Metrics and Targets under IFRS S2 cover:** This enumerates cross-industry metric categories, which relate to "(1) greenhouse gas emissions; (2) transition risks; (3) physical risks; (4) climate-related opportunities; (5) capital deployment; (6) internal carbon prices; and (7) remuneration"⁹
- g. **Green House Gas Emissions:**
 - **Scope 1 and Scope 2 GHG Emissions:** An organization should distinguish its own GHG emissions from that of its joint ventures and partners when disclosing the same. Organizations are required to submit information about Scope 2 GHG emissions and any contracts connected to the emission source.
 - **Scope 3 Emissions:** In order to make it clear whether emissions are accounted for or not in the stated Scope 3 GHG emissions, organisations must disclose the areas that their Scope 3 GHG emission measurements include.

Additionally, IFRS S2 mandates that an entity must also disclose the methodology used to measure GHG emissions and Information on "financed emissions" for entities involved in banking, insurance, etc.

C. Transition period

Companies can apply both IFRS S1 and IFRS S2 for annual reporting periods starting on or after January 1, 2024, although the precise application date will vary depending on jurisdictional adoption. Early adoption of these standards is permissible. In such instances,

⁹ *Supra 5.*

The International Sustainability Standards Board (ISSB) offers transition relief to entities to afford them additional time for preparation as they harmonize their reporting of sustainability-related financial disclosures with their financial statements.

companies must disclose their early application and apply both standards simultaneously. Alternatively, companies may opt for transition relief concerning sustainability-related disclosures (IFRS S1). If this relief is chosen, the "date of initial application" refers to the commencement of the annual reporting period in which the entity first adopts the standards.

The International Sustainability Standards Board (ISSB) offers transition relief to entities to afford them additional time for preparation as they harmonize their reporting of sustainability-related financial disclosures with their financial statements.

The ISSB has provided some special rules for companies when they start using new sustainability reporting standards:

- a. In their first year using IFRS S1 and IFRS S2, companies don't have to show comparative data about their sustainability-related financial information.
- b. In the first year of using these standards, companies can focus only on reporting climate-related risks and opportunities.¹⁰
- c. When a company first starts using IFRS S1, they can report their sustainability-related financial information after they have published their regular financial statements, following specific timeframes set by IFRS S1.
- d. In the first year of using IFRS S2, a company can keep using a different method to measure its GHG emission if they've been using that method in the year just before adopting IFRS S2. Companies can choose not to disclose their Scope 3 greenhouse gas emissions, including financed emissions.¹¹

ESG DISCLOSURE LANDSCAPE IN INDIA

A. Overview of Business Responsibility and Sustainability Report

In May 2021, SEBI introduced the Business Responsibility and Sustainability Report (BRSR) replacing the Business Responsibility Report. Under BRSR, listed companies are required to disclose performance under the National

¹⁰ *Appendix E, Supra 4*

¹¹ *Appendix C, Supra 5*

Guidelines on Responsible Conduct Principles. The BRSR includes disclosures related to management and processes, as well as disclosures based on principles and performance. Furthermore, the BRSR allows for compatibility in reporting, meaning that organizations that produce sustainability reports following globally recognized reporting frameworks could refer to the disclosures required by the BRSR within their reports. The BRSR covers;

- **ESG Risks and Opportunities:** Overview of material ESG risks, opportunities and approaches to mitigate risk.
- **Sustainability Goals and Performance:** Reporting of sustainability goals, target and organisation's performance in achieving these goals.
- **Environmental Disclosures:** Such as resource consumption, GHG, Circular economy, Waste management, Pollution.
- **Social Disclosures:** This includes welfare programs for workers, Safety Measures, Training, Social Impact Assessment, CSR, Consumer aspects, DEI.¹²

In July 2023 to encourage a balanced approach to ESG, SEBI authorized the regulatory framework for ESG disclosures, ratings, and mutual fund investment.¹³ With this, BRSR core was introduced which includes specific Key Performance Indicators falling under 9 ESG categories for which large, listed companies must disclose information and seek validation in line with the 'BRSR Core' for their value chain activities. The nine ESG Categories are greenhouse gas (GHG) footprint, water footprint, energy footprint, waste management, employee wellbeing and safety, gender diversity, inclusive development, fair engagement with customers and suppliers, and openness of business.

The BRSR Core specifies the data and methodology for reporting & assurance. Starting from the financial year 2023-24, the top 1000 listed entities (by market capitalization) must disclose and seek assurance for their value chain according to the amended BRSR format within their yearly reports.

1. The implementation of BRSR Core requirements is phased:
 - In FY 2023-24, it applies to the top 150 listed entities.
 - In FY 2024-25, it extends to the top 250 listed entities.
 - In FY 2025-26, it encompasses the top 500 listed entities.
 - Finally, by FY 2026-27, it covers the top 1000 listed entities, ensuring broader coverage.

¹² Melissa Cyrill, *India's Updated Sustainability Reporting Format and Rules for ESG Ratings Providers*, India Briefing, Dezan Shira & Associates, Jul 2023

¹³ SEBI, *Consultation Paper on ESG Disclosures, Ratings and Investing*, Feb 2023.

2. Listed entities should report the KPIs for their value chain based on their business interactions with value chain partners, either separately for partners or in an aggregate manner.¹⁴ ESG disclosure of value chain shall apply to the top 250 listed entities (by market capitalization), on a comply-or-explain basis from FY 2024 -25 and FY 2025 -26, respectively.

ESG Rating Providers (ERPs) shall do ESG rating by considering India-specific parameters as India is still in the preliminary stage of ESG implementation. ERPs must provide a distinct ESG Rating category called "Core ESG Rating" that is based on the assured parameters under BRSR Core to increase the credibility of ESG Ratings. It also lists down measures to mitigate against greenwashing and misspelling, by mandating ESG schemes to invest at least 65% of AUM in listed entities; by increasing voting disclosures with an emphasis on ESG theme; and Case studies and fund manager comments that show how the ESG strategy is used in the fund or investment disclosed.¹⁵

According to the BRSR Guidance Note¹⁶, publicly listed companies have the option to prepare and present sustainability reports, which can be included as part of their annual reports. These reports should align with internationally recognized reporting frameworks such as GRI, SASB, TCFD, and Integrated Reporting.

Companies can refer to the disclosures made under these frameworks when fulfilling the disclosure requirements of the BRSR. Importantly, mandatory reporting under the BRSR does not prevent companies from voluntarily adopting the ISSB framework. Embracing these standards voluntarily can facilitate the creation of sustainability disclosures that are globally comparable. Additionally, it can streamline cross-border transactions and enhance the ability of companies to secure sustainable finance.

B. IFRS and BRSR Disclosure: A Comparison

There are various differences between the BRSR disclosure principles and the IFRS disclosures. The BRSR is a requirement set forth by the Securities and Exchange Board of India (SEBI) for listed companies within India whereas the IFRS S1 and S2 are established by the International Sustainability Standards Board (ISSB) and have global applicability, though their adoption may differ across jurisdictions.

Firstly, companies following the BRSR disclosure place an emphasis on reporting ESG performance and practices, including aspects like management processes, sustainability goals, environmental disclosures, and social disclosures. On the other hand, IFRS S1 and S2 specifically address sustainability-related financial disclosures, encompassing areas such as governance, strategy, risk management, and climate-related disclosures.

¹⁴ SEBI *Introduces BRSR Core Regulatory Framework for ESG Disclosures on Value Chain and Assurance for Listed Entities*, Taxmann, 14 Jul 2023.

¹⁵ Ibid

¹⁶ *Guidance Note for Business Responsibility & Sustainability Reporting Format*,



Secondly, with an emphasis on factors unique to India, BRSR offers particular Key Performance Indicators (KPIs) under the BRSR Core for reporting ESG performance. However, recommendations for revealing financial data connected to sustainability, such as governance, strategy, risk management, and measurements, are provided by IFRS S1 and S2. These recommendations are applicable on a worldwide scale.

Thirdly, under BRSR, companies have the flexibility to synchronize their sustainability reports with globally acknowledged reporting frameworks like GRI, SASB, TCFD, and Integrated Reporting. On the contrary, IFRS S1 and S2 offer an independent framework for sustainability-related financial disclosures, although companies have the option to voluntarily integrate them with other reporting standards for a more comprehensive reporting approach.

HURDLES IN NAVIGATING THE ESG LANDSCAPE

While India is swiftly riding the ESG wave, there are various hurdles for implementation of ESG across all companies in the country. These challenges stem from a blend of regulatory, economic, cultural, and infrastructural elements.

Challenges in Supply Chain: Firstly, Reporting ESG metrics for the supply chain poses various challenges. Indian corporations encounter difficulty in conveying the importance of sustainability to many of their small, unlisted supply chain partners. Furthermore, gathering and monitoring ESG metrics throughout the value chain, including Scope 3 emissions, can be complex to navigate. For instance, ITC¹⁷, a renowned conglomerate in the FMCG sector, revealed that effectively gathering ESG metrics from numerous smaller suppliers, such as its agri-business partners and farmers comprises of various strategy formulation.

Prioritization of Immediate Financial Gain: Secondly, various Indian enterprises continue to prioritize immediate financial gains over enduring sustainability. Transforming the corporate mentality from short-term profit optimization to sustainable value generation poses a considerable hurdle. The lack of awareness of the benefits of implementing ESG principles poses as a drawback, especially in smaller or mid-sized companies.

Lack of Appropriate Talent Pool: Thirdly, the analysis of ESG factors by investors and other stakeholders, as well as the integration of ESG principles within companies,

¹⁷ "ESG Reporting in India: A Journey of Challenges and Learnings", Benchmark Gensuite, 7 Nov 2023

demand a substantial talent pool, posing a significant challenge given the relatively nascent nature of this field. Many companies face a shortage of adequately skilled internal personnel to implement ESG initiatives proficiently.

Difficulty in Establishing Systems for Monitoring NVGRC Principles: Fourthly, the BRSR framework mandates thorough disclosures on the nine NVGRC principles, covering areas such as Business Ethics, Product Sustainability, Employee Well-being, Stakeholder Engagement, Human Rights, Environment, Policy Advocacy, Inclusive Growth, and Customer Value. Research and review conducted by Singhi & Co¹⁸ revealed that nearly half of the 142 questions in the BRSR questionnaire necessitate comprehensive and quantitative responses. Companies are encountering difficulties in establishing efficient systems to monitor and report these metrics effectively.

Commitment of Board: Finally, the commitment of the Board is essential in moving sustainability integration beyond mere compliance to becoming an intrinsic aspect of the company's operations. In recent times, businesses have recognized the significance of incorporating sustainability, driven by growing stakeholder expectations for ESG disclosures. However, attaining thorough ESG disclosures necessitates collaboration across various departments, encompassing strategy, finance, HR, research & development, production, EHS, sales, and marketing. This collaborative effort aims to formulate a comprehensive sustainability strategy and program management that spans the entire enterprise. Consequently, without Boards prioritizing ESG amidst competing demands, effectively implementing it at the operational level remains challenging.

The aforementioned challenges are a mere microscopic view of the paradigm of the hurdles that Indian companies might face during ESG integration. However, they encompass the current landscape in India. Despite encountering obstacles, there is a rising enthusiasm for ESG adoption in India. Companies are progressively recognizing the significance of ESG and the advantages it offers, including enhanced reputation, risk reduction, and access to capital. With the ongoing increase in ESG awareness and adoption across India, the hurdles faced by businesses are expected to decrease.

CONCLUSION

The salient features of IFRS ESG disclosures have brought a new era of transparency and accountability in the global business landscape. Indian companies have always been at the foreground for recognizing the importance of integration of sustainability in business practices. This

has led to ESG disclosures and have taken significant steps to standardize their ESG reporting. The ESG wave has become a global phenomenon with countries around the world increasingly recognizing the need of sustainable business practises. The creation and improvement of ESG reporting frameworks are gaining speed as a result of this acknowledgment.

Influential bodies like the G20, G7, and IOSCO strongly support the ISSB Standards globally, which gives their goal of becoming the new global standard a lot of legitimacy. Many jurisdictions have declared their plans to either incorporate these standards into local rules or create national requirements that are in line with the ISSB norms. These jurisdictions include Australia, Canada, Hong Kong (SAR, China), Nigeria, Japan, Singapore, and the UK.

Although adoption of the ISSB framework is not required for mandatory reporting under BRSR, companies are urged to do so on a voluntary basis. By doing this, it will be easier to produce globally comparable sustainability disclosures, which will help with cross-border transactions and the acquisition of sustainable funding.

Presently, companies in India have a great opportunity to get ready to report using these new standards. It is imperative for them to comprehend the ramifications of the forthcoming sustainability disclosure standards and guarantee that they have established the requisite procedures and oversight mechanisms to produce reliable and punctual data.

Even though assurance standards are outside the purview of the ISSB, businesses should keep a watch on any new developments in this field, as Indian authorities are anticipated to offer additional clarification.

It is crucial that nations engage in ongoing discussion, compare different ESG disclosure standards, and advance jointly in order to promote a more sustainable global economy. Countries can guarantee that disclosures on ESG not only meet the requirements of both stakeholders and investors but also act as a potent tool for promoting favourable ESG outcomes by exchanging experiences, and including the best standards for reporting purposes.

ESG disclosures will be crucial in determining how business and finance develop in the future as the world deals with complicated concerns like climate change, social injustice, and corporate governance problems. Countries may cooperate to create a more resilient and responsible global economy that benefits both the present and future generations by adopting the concepts of openness, accountability, and sustainability.

¹⁸ Ravi Sankar Nori, "Challenges and Opportunities for ESG Integration in India", Singhi & Co

