

# NAVIGATING ESG TRANSFORMATIONS: GLOBAL INITIATIVES AND INDIA'S TRAILBLAZING ROLE



In today's dynamic landscape of modern business, a profound shift is underway, driven by an increasing emphasis on ethical practices and sustainability. At the forefront of this transformation lie the principles of Environmental, Social, and Governance (ESG), which have evolved into crucial benchmarks for investors seeking to align their portfolios with responsible and sustainable business practices.

## GLOBAL MOMENTUM: REGULATORY TRENDS AND FRAMEWORKS IN ESG

Internationally, regulatory bodies are increasingly recognizing the pivotal role of ESG criteria in evaluating corporate performance and impact. The European Union, through legislations like the Sustainable Finance Disclosure Regulation (SFDR) and Taxonomy Regulation, is leading efforts to standardize ESG disclosures.

In the **United States**, both federal and state levels are responding to the global shift, with the SEC showing a growing interest in ESG disclosures. Recently, SEC implemented the final rule, "Enhancement and Standardization of Climate-Related Disclosures for Investors," necessitating registrants, including foreign private issuers, to divulge comprehensive climate-related data in their registration statements and periodic reports. This rule aims to offer investors complete and actionable insights into the impacts of climate-related risks on registrants, thereby enhancing the consistency,

comparability, and reliability of climate-related information.

The **United Kingdom** has also taken proactive steps, with the Financial Conduct Authority mandating climate-related disclosures for premium-listed companies, aligning efforts with international reporting standards. These regulatory developments signify a global commitment to addressing ESG considerations in corporate reporting.

Companies worldwide navigate diverse sustainability reporting frameworks, some of which are listed below:

- **Global Reporting Initiative (GRI)** being the most widely used framework, providing comprehensive guidelines encompassing economic, environmental, and social impacts
- **Sustainability Accounting Standards Board (SASB)** offering industry-specific standards
- **Task Force on Climate-related Financial Disclosures (TCFD)** focusing on climate-related risks, enhancing transparency amid growing climate concerns
- **Integrated Reporting (IR)** Framework bridging the financial and non-financial aspects, thereby offering a holistic view of value creation for corporates
- **Corporate Sustainability Reporting Directive (CSRD)** in Europe aiming to refine EU disclosure requirements, contributing to global ESG reporting standardization.

Together, these frameworks drive global efforts for standardized and comparable ESG reporting, helping companies meet industry expectations and stakeholder demands transparently.

### INDIAN SCENARIO: SEBI'S BOLD INITIATIVES

In India, the ESG landscape is experiencing significant growth with heightened awareness and adoption of ESG principles.

- The Securities and Exchange Board of India (SEBI) introduced the mandatory **Business Responsibility and Sustainability Reporting (BRSR)** framework in 2021 for the top 1,000 listed companies, replacing the voluntary Business Responsibility Report (BRR).
- Covering governance, ethics, social responsibility, environmental and economic performance, BRSR aligns globally and is based on nine principles of the 'National Guidelines on Responsible Business Conduct' (NGRBC).

BRSR's mandatory nature aims to establish a uniform standard, fostering improved sustainability reporting practices and positioning Indian companies globally for responsible and sustainable business practices.

With the introduction of **BRSR Core Assurance**, India has become one of the first nations to introduce reasonable assurance concerning ESG disclosures. SEBI has notified BRSR Core Assurance, mandating companies to obtain reasonable assurance on selected Key Performance Indicators (KPIs).

- BRSR Core Assurance has been made applicable to the top 150 listed companies (by market capitalization) from FY 2023-24 and will be applicable to the top 1,000 listed companies in a phased manner by FY 2026-27.
- The BRSR Core Assurance also encompasses parameters pertaining to the value chain, including the principal upstream and downstream partners of the listed entity, collectively accounting for 75 percent of its purchases or sales (by value).
- Limited assurance (not reasonable assurance) is applicable on a comply-or-explain basis from FY 2025-26 for disclosures pertaining to the value chain.

SEBI has been proactive in responding to the growing needs of investors focused on ESG disclosures made by listed entities. The framework on BRSR Core disclosures and assurance is a welcome step towards increasing the transparency and quality of ESG disclosures by the listed entities, including their value chain partners.

### INDIA EMERGING AS A GLOBAL TRENDSETTER IN ESG DISCLOSURES

Institute of Chartered Accountants of India (ICAI), India's largest professional accounting body under the administrative control of Ministry of Corporate Affairs, Government of India has been an active member in driving ESG efforts in India. India has emerged as a global leader in advancing ESG reporting standards, with SEBI's proactive approach and ICAI's pioneering initiatives. Some of the initiatives are stipulated below:

- India became the first nation to introduce reasonable assurance in non-financial disclosures through BRSR Core assurance.
- The issuance of 16 social audit standards, making India the first to have such comprehensive norms, underscores its commitment.
- ICAI received international recognition, including the ISAR Honors 2023 by UNCTAD, for its Sustainability Reporting Standards Board (SRSB) and the establishment of 'The Institute of Social Auditors of India (ISAI).'
- Initiatives like the Sustainability Reporting Maturity Model (SRMM) and assurance engagements on sustainability and greenhouse gas statements showcase India's dedication to credible reporting, solidifying its leadership in shaping the global ESG landscape and promoting responsible business practices.

### CHALLENGES AND WAY FORWARD

India despite being proactive in introducing ESG, grapples with several challenges in adopting ESG principles, encompassing a lack of awareness, limited integration with business strategies, short-term focus, and insufficient ESG-related education and expertise. Challenges include but not limited to:

- **Data quality and availability** hinder companies in collecting reliable ESG data due to fragmented sources, lack of standardization, and limited disclosure.

Addressing these challenges requires collaboration to establish common standards, improve data collection processes, and enhance transparency.

- The financial burden of ESG adoption is compounded by the risk of greenwashing, where companies may exaggerate their sustainability efforts without meaningful action.

Combating greenwashing requires transparent

reporting, rigorous verification, and strategic collaborations to ensure that companies uphold their environmental and social responsibilities authentically.

- **Inappropriate materiality assessments**, regulatory fragmentation, and cultural resistance impede ESG progress.

Overcoming these hurdles requires standardized regulations and cultural shifts towards sustainability with 'tone from the top'.

Despite these hurdles, there is a growing interest in ESG in India, driven by the realization of its benefits, including enhanced reputation and risk mitigation. As awareness and adoption increase, the hope is that these challenges will gradually diminish.

Learning from successful peers is vital in achieving ESG goals collectively. For instance, proactive carbon emission reduction in cement production involves measures like clinker ratio reduction and biomass utilization. Similarly, in construction, an integrated sustainability model incorporates optimal materials and renewable energy. Balancing short-term performance with long-term sustainability goals requires identifying risks and opportunities, especially in the supply chain and climate change. Essential steps include:

- **Aligning sustainability with strategy** for resilient, value-driven operations and growth.
- Effective sustainability efforts involving clear communication, employee training, and establishing a dedicated sustainability function to drive organizational change and accountability.
- Incorporating sustainability in internal audits and enterprise risk management is vital for navigating shifts and optimizing sustainability initiatives' effectiveness.

### LEADING BY EXAMPLE: STRATEGIES FOR EXEMPLARY ESG PRACTICES

The global shift towards ethical and sustainable business practices, driven by ESG principles, is

evident in regulatory trends internationally and in India. Corporate collaboration and learning from successful peers underscore a collective effort to achieve ESG goals. To navigate this dynamic landscape effectively, organizations must balance short-term performance with long-term sustainability by integrating ESG into their strategies, ensuring effective communication, providing employee training, and incorporating sustainability into internal audits to maximize impact. Therefore, companies need to proactively develop strategies to stay ahead of the ever-changing ESG landscape. Following can be considered as action steps:

- Getting an ESG risk and impact assessment done
- Setting up a process for identifying and collecting ESG data for comprehensive analysis and reporting
- Conducting employee and team training workshops for understanding and addressing the regulatory requirements and opportunities related to ESG
- Formulating a strategy for integrating ESG into business and compliance
- Formulating BRSR reports, showcasing business resilience and sustainability through early adoption
- Benchmarking insights from industry peers for performance comparison and improvement

India is at the forefront of embracing ESG principles, exemplified by SEBI's mandatory BRSR framework, which positions the nation as a global leader in sustainable reporting. Despite challenges like data quality issues and awareness gaps, India's proactive commitment to sustainable practices is evident. As the global business landscape shifts towards sustainability, companies must adapt by integrating ESG principles deeply into their operations and setting exemplary standards.

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