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BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORTING - ROLE OF COMPANY SECRETARY

The Perspective

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. The reporting structure of corporate entities in India and globally, is developing significantly by becoming more transparent, compact, material, and by providing information to extensive set of users. Integrated Reporting forms part of a progressing corporate reporting structure. It enables corporate reporting to be more efficient and cohesive by aiming to improve the quality of information accessible to its users.

Changing Dimensions of Corporate Reporting in India

Indian Economy is growing manifolds with increased development and spending across various sectors. With these massive transitions and transformations the emphasis is more on creating businesses, not just about profit, but about people and the planet. We are committed to promote sustainable practices in our markets with the belief that businesses will only be successful in the long run if their models respect the triple bottom line of “profit, planet and people”.

Over the past few years, India has seen remarkable progress in corporate reporting and disclosures. Investor requirements, societal expectations and introduction of regulations have all contributed towards transparency and broadening of corporate disclosures beyond traditional financial parameters. One key driver was the circular issued in 2017 by the Securities Exchange Body of India (SEBI) that recommended Top 500 companies should consider the use of the Integrated Reporting <IR> Framework for annual reporting.

Consequently, there has been a surge in the adoption the <IR> Framework and its multi-capital reporting approach. In 2017 there were a few pioneering Indian companies such as Tata Steel, Mahindra and Mahindra, Wipro, Yes Bank and Reliance Industries that begun their integrated reporting journey. Subsequently 2018 saw a significant increase with more than 30 companies having adopted the <IR> Framework. In 2019 already more than 45 companies are expected to adopt the Framework to link their purpose and outcomes across capitals through their strategies and business models to deliver a report that articulates their approach to value creation.

The scale of adoption can be reflected upon through the NIFTY 50, which is National Stock Exchange of India's diversified index of top 50 stocks across 12 sectors and has a market cap of ~ 2 Trillion USD. More than 40% of NIFTY companies, total market cap of 350 Billion USD, have embraced the <IR> Framework in their annual filings.

SEBI Guidelines - Business Responsibility and Sustainability Report

Pursuant to the decision taken at SEBI Board meeting dated March 25, 2021 on introducing new sustainability related reporting requirements, SEBI has today issued a Circular containing the format of the Business Responsibility and Sustainability Report (“BRSR”).

*The views expressed are personal views of the author and it should not be taken as views of the NIRC-ICSI

The BRSR is a notable departure from the existing Business Responsibility Report (“BRR”) and a significant step towards bringing sustainability reporting at par with financial reporting. The reporting requirements were finalized based on feedback received from public consultation and extensive deliberations with stakeholders including corporates, institutional investors. Further, a benchmarking exercise with internationally accepted disclosure frameworks was also undertaken. A few of the key disclosures sought in the BRSR are highlighted below:

- a. An overview of the entity's material ESG risks and opportunities, approach to mitigate or adapt to the risks along-with financial implications of the same
- b. Sustainability related goals & targets and performance against the same
- c. Environment related disclosures covering aspects such as resource usage (energy and water), air pollutant emissions, green-house (GHG) emissions, transitioning to circular economy, waste generated and waste management practices, bio-diversity etc.
- d. Social related disclosures covering the workforce, value chain, communities and consumers, as given below:
 - Employees / workers: Gender and social diversity including measures for differently abled employees and workers, turnover rates, median wages, welfare benefits to permanent and contractual employees / workers, occupational health and safety, trainings etc.
 - Communities: disclosures on Social Impact Assessments (SIA), Rehabilitation and Resettlement, Corporate Social Responsibility etc.
 - Consumers: disclosures on product labelling, product recall, consumer complaints in respect of data privacy, cyber security etc.

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.

The BRSR is an initiative towards ensuring that investors have access to standardized disclosures on ESG parameters. Access to relevant and comparable information, will enable investors to identify and assess sustainability-related risks and opportunities of companies and make better investment decisions. At the same time, companies will be able to better demonstrate their sustainability objectives, position and performance resulting into long term value creation. Overall, higher standards of ESG disclosures and transparency, will help in attracting more capital and investment.

The BRSR shall be applicable to the top 1000 listed entities (by market capitalization). In order to give time to companies to adapt to the new requirements, the reporting of BRSR shall be voluntary for FY 2021 –22 and mandatory from FY 2022 –23. However, companies are encouraged to be early adopters of the BRSR, thus being at the forefront of sustainability reporting.

The BRSR seeks disclosures from listed entities on their performance against the nine principles of the 'National Guidelines on Responsible Business Conduct' (NGBRCs) 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 endeavor to report the leadership indicators also. 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.

Role of Company Secretary in emerging Reporting scenario

As the role of governance changes and progresses, so does the role of the company secretary and those tasked with implementing governance. What was once traditionally viewed as an administrative role is now expanding in some sectors with the company secretary viewed as accountable for the embedding of effective governance practices within the organization. When you're the company secretary you're the conscience of the board. And that's not about compliance or regulation, It's about being in tune with the spirit, not just the practice of governance.

The position of the company secretary avails them the opportunity of having a holistic view of the governance framework, thus, it is the generally responsibility of a Company Secretary to ensure that the frameworks and any supporting policies and procedures are clearly documented for ease of reference by the management. This is in line with the duty to ensure proper documentation under the Code of Corporate Governance. The Company Secretary in playing its role in promoting the Corporate Governance principles act as a compliance officer to ensure proper compliance with all relevant statutory and regulatory requirements. The requirements of the SEBI guidelines on Business Responsibility and Sustainability Reporting would need a pivotal structure to collect and present all the required information as per prescribed format which role the Company Secretary is competent to play.

The Way Forward

Preliminary observations provide evidence of positive benefits to both the companies adopting integrated reporting and their stakeholders, specifically the investor community. Some of these include

- Boards are taking ownership of integrated reports and taking a lead in articulating the value creation process. There is more tie in with corporate governance, risk reporting and strategy.
- Across sectors companies are considering and reporting on the use and affect across various capitals through quantitative metrics and narratives.
- Annual reports are better connected and show how strategies and business model are creating value. Because of the multi-capitals view companies are reporting outcomes for themselves and for their stakeholders, especially on natural and social capitals.
- Effective use of infographics and web technology has improved user engagement and quality of presentation.

Both at a national and global level, efforts to streamline reporting frameworks is required to alleviate the reporting burden on companies. Effective use of materiality principles and leveraging web-technology can further enhance the relevance and readability of the reports.

Conclusion

For emerging fast growing nations like India the challenge will be to aggressively grow the economy, invest in infrastructure, skill and education to meet the aspirations of a burgeoning middle class and millennial population. But at the same time understand and influence the trade-offs – depleting forest cover, water scarcity, poor air quality, climate vulnerabilities and income inequality. Therefore this momentum towards better reporting should continue to progress with more companies embracing the framework and the integrated thinking approach that would enable an outcome based holistic view of how they create value for themselves and the extended society. The BRSR is a notable departure from the existing Business Responsibility Report (“BRR”) and a significant step towards bringing sustainability reporting at par with financial reporting. The reporting requirements were finalized based on feedback received from public consultation and extensive deliberations with stakeholders including corporates, institutional investors. Further, a benchmarking exercise with internationally accepted disclosure frameworks was also undertaken. Overall, higher standards of ESG disclosures and transparency, will help in attracting more capital and investment.