CHAPTER 18

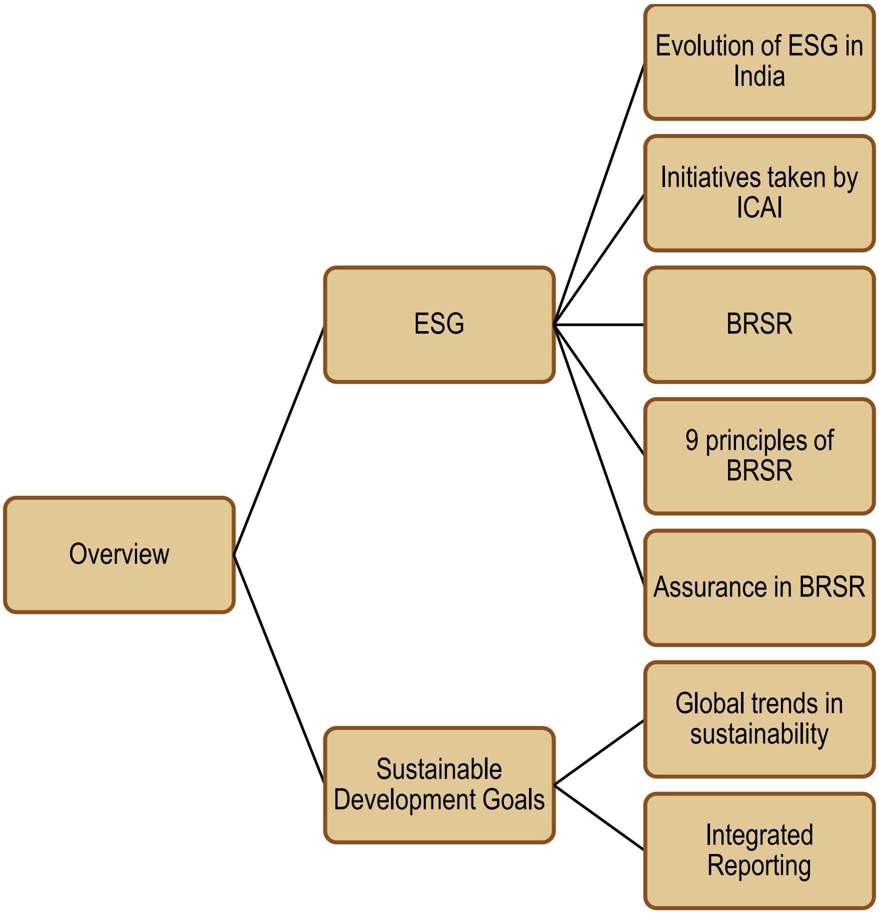
SUSTAINABLE DEVELOPMENT GOALS(SDG) & ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) ASSURANCE

LEARNING OUTCOMES

After reading this chapter student shall be able to:

- Understand Environment, Social and Governance (ESG) pillars of sustainability.
- Learn the Sustainable Development Goals which have been accepted by all the United Nation Members.
- Create an awareness of the Global trends of Sustainability.
- Understand the evolution of ESG in India.
- Gain knowledge of ICAI's role in Sustainability.
- Learn about Integrated Reporting and how it can help our profession.
- Gain the knowledge of role of Auditor in Sustainability forum and certifying the BRSR.
- Analyze the Business Responsibility and Sustainable Reporting requirements.

CHAPTER OVERVIEW



CA Ajoy was keen to understand about sustainability reporting by corporates in light of mandatory regulatory requirements. One of his corporate clients was required to do such reporting and assurance report was also needed. In this context, he wanted to familiarize himself with terms like Sustainable development and Sustainable Development Goals (SDGs) thoroughly.

Sustainable development simply means development that meets the needs of the present without compromising the ability of future generations to meet their own needs. SDGs are a universal call for action to end poverty, protect the planet and improve the lives and prospects for everyone- everywhere.

Our country has always been in forefront of welfare of humanity. Our ancient texts say: *"Keep pure! For the earth is our mother! And we are her children!"* How can a country with such a universal vision can be left behind in this noble endeavour? And corporates also contribute to the SDGs. It is due to the fact that world is in need of solutions that the private sector can deliver representing a large market for innovation.

It is in line with this spirit that Sustainability reporting frameworks have evolved over time and companies worldwide have adopted these frameworks for measuring, monitoring and disclosing performance in areas related to environmental, social and governance (ESG). Many countries have stipulated some form of ESG disclosures.

ESG reporting stands on three pillars viz. *environmental, social and governance.* Certain listed companies have to disclose their sustainability performance in accordance with key performance indicators and 9 principles. Doesn't it sound interesting? These principles range from conducting business in ethical manner to promoting human rights.

As part of ESG reporting, it is mandatory for certain listed companies to prepare and disclose sustainability reports in shape of Business responsibility and sustainability reports (BRSR). Like in case of meeting requirements of the principle that business is conducted with integrity and in ethical manner, disclosures on anti-bribery policy like internal control mechanisms and mechanisms to deal with bribery/corruption complaints are to be made. Such disclosures are now mandatory for certain listed companies considering each of the 9 principles.

Isn't such a reporting framework a giant leap forward?

1. INTRODUCTION

Sustainability is a word that has gained its momentum in the past few years, but we do not often understand the extent of the meaning in totality. It encompasses how natural systems work, continue to be diverse, and yield everything required for the environment to remain in balance now and in the future.

Sustainability is a concept related to the development of products, goods and services that involves meeting our present needs without compromising the ability of future generations to fulfil their own needs.

Sustainability as a concept recognises that the environment is an exhaustible resource. Therefore, it is important to use the environment and its resources rationally and protect it for the good of the Earth, our environment, humanity, and all living things.

The concept of sustainable development is named after the Brundtland report, which reports sustainable consumption in developed countries.

Sustainable Development defined in this report is as follows:

"*Sustainable development is development that strives to meet the needs of developing countries seeking to achieve a more sustainable world. Sustainable development addresses the needs of the present moment without compromising current and future generations to meet their own sustainable lifestyles.*"

Sustainable development can be applied to corporate policy in the business world as it encompasses following three pillars of sustainability:

A. Environment (E)

B. Social (S)

C. Governance (G)

These three pillars constitute the term ESG. Let us understand each element of ESG in depth.

A. Environment (E):

Environmental stands for corporate climate policies, energy use, waste, pollution, natural resource conservation, and treatment of animals. It includes the natural resources that every entity absorbs for its functioning like that of coal, electricity, water and so on. Processing this energy into products / services which will leave behind certain wastes like that of carbon emissions, water discharges, e-wastes and so on. Thus, one is dependent on the environment for carrying out its operations.

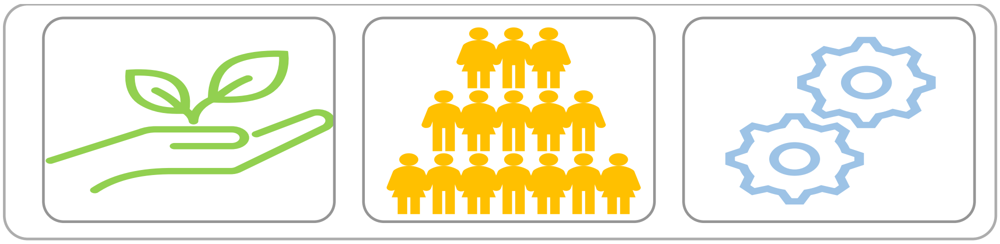
B. Social (S):

It addresses the relationships the entity has and the reputation it fosters with people and institutions in the communities where you do business, and the value chain involved. It further includes labour relations, diversity, and inclusions. Every company operates within a broader and diverse society.

C. Governance (G):

It is the internal system of practices, controls, and procedures entity adopts in order to govern itself, make effective investment decisions, comply with the law, and meet the needs of all stakeholders. Every entity, which is itself a legal creation, requires governance.

The above pillars include the following elements as under:



ENVIRONMENT

- **Climate Change:**
  - Carbon Emissions
  - Product Carbon FootPrints
  - Financing Environmental Impact
  - Climate Change Vulnerability
- **Natural Resources:**
  - Water Stress
  - Bio-diversity & land use
  - Raw Material sourcing
- **Pollution & Waste:**
  - Toxic emission and waste
  - Packing Material and waste
  - E- Waste
- **Environment Opportunity:**
  - Clean Tech
  - Green Building
  - Renewable Energy

SOCIAL

- **Human Capital:**
  - Labour Management
  - Health & Safety
  - Human Capital Development
  - Supply Chain Labour Standards
- **Product Liability:**
  - Product Safety & Quality
  - Chemical Safety
  - Financial Product Safety
  - Privacy and Data Security
  - Responsible Investment
- **Stakeholders Opposition:**
  - Controversial Sourcing
- **Social Opportunity:**
  - Access to Communication
  - Access to Finance
  - Access to Health Care
  - Opportunities in Nutrition & Health

GOVERNANCE

- **Corporate Governance:**
  - Broad Diversity
  - Executive Pay
  - Ownership
  - Accounting
- **Corporate Behaviour**
  - Business Ethics
  - Anti - Competitve Practices
  - Corruption & Instability
  - Financial system and stability
  - Tax Transparency

Environmental, Social and Governance (ESG) reporting is all about disclosure of information, data, metrics that explain the added value in these three areas. ESG reporting can be both quantitative and qualitative in nature.

Qualitative reports tend to describe a company's strategy or policy around the relevant topics, while a quantitative approach includes metrics, and key performance indicators (KPIs) linked to each area in order to measure progress against goals and report on achievements. Naturally, a mixed approach that makes use of both qualitative and quantitative information tends to add the maximum value to the quality of disclosures.

2. SUSTAINABLE DEVELOPMENT GOALS

In 2015, Sustainable Development was adopted by all United Nations Members states to provide a blueprint, which mentioned the Sustainable Development Goals (SDGs).

There were 17 SDGs which are considered as an urgent call for action by all countries, whether developed or developing countries. They recognized that by ending poverty and other deprivations must go hand in hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

Today, the Division for Sustainable Development Goals (DSDG) in the United Nations Department of Economic and Social Affairs (UNDESA) provides substantive support and capacity building for the SDGs and their related thematic issues including water, energy, climate, oceans, urbanization, transport, science and technology, the Global Sustainable Development Report (GSDR), partnerships and Small Island Developing States. SDG plays a key role in the evaluation of UN systemwide implementation of the 2030 Agenda and on advocacy and outreach activities relating to the SDGs. In order to make the 2030 Agenda a reality, broad ownership of the SDGs must translate into a strong commitment by all stakeholders to implement the global goals. DSDG aims to help facilitate this engagement.

Following are the 17 SDGs:

1 No Poverty	10 Reduced Inequalitites
2 Zero Hunger	11 Sustainable Cities & Communitites
3 Good Health & Well Being	12 Responsible Consumption & Production
4 Quality Education	13 Climate Action
5 Gender Equality	14 Life Below Water
6 Clean Water & Sanitization	15 Life on Land
7 Affordable & Clean Energy	16 Peace, Justice & Strong Institutions
8 Decent Work & Economic Growth	17 Partnership for the Goals
9 Industry Innovation & Infrastructure	

3. GLOBAL TRENDS IN SUSTAINABLE REPORTING

The mandatory reporting requirements are mostly associated with the public sector or government-run companies, large corporations, multi-national business conglomerates, and listed companies in the stock exchanges. Furthermore, sector-specific, and thematic reporting provisions are also becoming more common.

The most widely used framework in the world is the Global Reporting Initiative (GRI) Sustainability Reporting Standards having 93% of the world's largest 250 corporations report on their sustainability performance through GRI. It is used in over 100 countries to report sustainability. This independent international organization is based in Amsterdam, the Netherlands, and has operational hubs in Brazil, China, Colombia, India, South Africa, and the United States. The GRI Sustainability Reporting Standards are developed with true multi-stakeholder contributions and rooted in the public interest.

1. **Global Reporting Initiative (GRI) –** helps the organizations to report on economic, environmental, and social impacts. The general disclosures which are required to be reported under this standard are Economic, Environment and Social. This report is addressed to all the stakeholders of the entity.

2. **Carbon Disclosure Project (CDP) –** captures the environmental performance data which is related to GHG emissions, water, forests, and supply chain. Major details required to be reported are climate change, Forest, and Water security. This report is addressed to all the investors, buyers, and other stakeholders of the entity.

3. **International Integrated Reporting Framework (IIRC) –** has established guiding principles and content elements in order to allow the companies to produce integrated reports. This report consists of Organisational overview, Governance structure, Business model, risks and opportunities, strategy, performance, outlook etc.

In September 2020, these framework & standard setting institutions came together to show a commitment to working towards a **comprehensive corporate reporting system.**

The intent of the collaboration was:

- Joint market guidance on how the frameworks & standards can be applied in a complementary and additive way.

- Joint vision of how these elements could complement financial generally accepted accounting principles (Financial GAAP) and serve as a natural starting point for progress towards a more coherent, comprehensive corporate reporting system.

- Joint commitment to drive towards this goal, through an ongoing programme of deeper collaboration between the 5 institutions and stated willingness to engage closely with other interested stakeholders.

In November 2021, the IFRS Foundation Trustees published a revised *Constitution* and a Feedback Statement that responds to the feedback from Exposure Draft *Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards*.

International investors with global investment portfolios are increasingly calling for high quality, transparent, reliable, and comparable reporting by companies on climate and other environmental, social and governance (ESG) matters.

On 3 November 2021, the IFRS Foundation Trustees announced the creation of a new standard-setting board—***the International Sustainability Standards Board (ISSB)***—to help meet this demand.

The intention is for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.

Task Force on Climate-Related Financial Disclosures (TCFD) - It was created in 2015 by the Financial Stability Board (FSB) with the goal of helping companies create consistent climate-related disclosures. Unlike GRI, which works on a wide range of organizations, TCFD is targeted at companies that predominantly handle financial-related interests, such as banks and insurance firms.

The Climate Disclosure Standards Board (CDSB) was an international group of business and committed to making climate-rated disclosures in mainstream global corporate reporting.

The CDSB framework was formed to help organizations to disclose climate related risks and opportunities. The CDSB framework has also set out an approach for reporting environmental information.

Further, the ISSB has taken the technical guidance for developing IFRS Sustainability Disclosure Standards.

The Value Reporting Foundation (VRF) is a non-profit organization which was a result of the merger between SASB Foundation and the International Integrated Reporting Council (IIRC). The International Accounting Standards Board (IASB) and the ISSB have agreed to work together in order to build an Integrated Reporting Framework.

The International Sustainability Standards Board (ISSB) in March 2022 launched a consultation on its first two proposed standards—one on climate-related disclosures and one on general sustainability-related disclosures. The proposed standards, when finalised, would form a comprehensive global baseline of sustainability-related disclosures designed to meet the information needs of investors in assessing enterprise value.

IFRS S1 : The proposed requirements in the Exposure Draft IFRS S2 Climate-related Disclosures (Climate Exposure Draft) build upon the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and incorporate industry-based disclosure requirements derived from the Sustainability Accounting Standards Board (SASB) Standards.

TEST YOUR UNDERSTANDING 1

You have recently joined a listed company after qualifying CA final exams through campus placement programme conducted by CMI&B at ICAI. Although the company you have joined in is not amongst top 1000 listed companies in the country, it wants to include "Sustainability reporting" in accordance with Global Reporting Initiative framework (GRI) in its annual report on voluntary basis. "Sustainability reporting" seems to be new buzzword in corporate circles and you are assigned responsibility for collating all the information required for such reporting.

In the above context, dwell upon what is your understanding of "Sustainability reporting"? Can you list some of its expected benefits?

4. INTEGRATED REPORTING

There are 6 Cs of Integrated Reporting – also known as 6 capitals:

(i) Financial Capital:

- Pool of funds that is available to the organization for use in the production of goods or provision of services.
- Obtained through financing, such as debt, equity, or grants, or generated through operations or investments.

(ii) Manufactured Capital:

- Seen as human-created, production-oriented equipment and tools.

- Available to the organization for use in the production of goods or the provision of services, including buildings, equipment, infrastructure (such as roads, ports, bridges & waste, and water treatment plants).

(iii) Natural Capital:

- Is an input to the production of goods or the provision of services.
- An organization's activities also impact, positively or negatively, on natural capital.
- Includes water, land, minerals and forests, biodiversity, and ecosystem health.

(iv) Human Capital:

People's skills and experience, their capacity, and motivations to innovate, including their:

- Alignment with and support of the organization's governance framework & ethical values such as its recognition of human rights.
- Ability to understand and implement an organization's strategy.
- Loyalties and motivations for improving processes, goods, and services, including their ability to lead and to collaborate.

(v) Social Capital:

- Institutions and relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being.
- Includes:
  - Common values and behaviour.
  - key relationships, the trust and loyalty that an organization has developed and strives to build and protect with customers, suppliers, and business partners.
  - an organization's social license to operate.

(vi) Intellectual Capital:

Key element in an organization's future earning potential, with a tight link and contingency between investment in R&D, innovation, human resources, and external relationships, which can determine the organization's competitive advantage.

Asia Pacific region continues to dominate in presenting sustainability data in annual reports. Approximately 60% of Companies reporting in 2022. Integrated reporting is strong in the Middle East.

TEST YOUR UNDERSTANDING 2

Trustworthy Industries Limited (a listed company) has already been preparing and disclosing its sustainability report based upon internationally accepted reporting framework of "Integrated Reporting" on a voluntary basis even some years before BRSR reporting became mandatory. Even after BRSR reporting became mandatory, it is cross-referencing disclosures made under such reporting to disclosures sought under BRSR. The key thrust of "Integrated Reporting" is how company creates value over short, medium and long term.

Following further information is provided in respect of the above company: -

[i] It has increased the number of customers using digital customer mobile app of the company from 2 lac users to 4 lac users. There is 100% increase in digital collection. It has benefitted customers of the company and resulted in use of digital methods for business operations of the company.

[ii] It has increased the number of beneficiaries under its flagship CSR programmes from previous 10000 to 75000. It has provided value for communities and provided sustainable livelihood to them.

Discussing above information, identify which of the capitals of "Integrated Reporting" are being referred to at [i] and [ii] respectively?

5. GLOBAL SCENARIO IN VARIOUS COUNTRIES

5.1 United States

In March 2022, the US Securities and Exchange Commission (SEC) proposed climate-risk disclosure requirements, which would expand the annual reporting requirements of publicly traded companies. In their SEC filings, companies would be required to discuss financially material, climate-related risks guided by the TCFD recommendations. Reporting would include:

- The company's climate risk management processes
- How the risks identified would impact financial performance
- How these risks are managed and mitigated
- Any scenario analysis, transition plans, and publicly announced climate goals

5.2 United Kingdom

In 2019, the UK passed a law targeting net zero greenhouse gas (GHG) emissions by 2050.

A key regulation for UK ESG disclosures is the Companies Act of 2006, which includes requirements for annual reporting. These rules apply to large companies that are either listed, exceed £500 million in annual turnover, or have more than 500 employees. Non-financial information has always been required in annual reports, but in 2022, the Act was expanded to include sustainability matters. The new requirements align with the recommendations from the Task Force on Climate-Related Financial Disclosure (TCFD). As such, companies are required to discuss the strategy, processes, and due diligence regarding matters of:

-	The environment (including the company's impact on the environment)
-	The company's employees
-	Social matters
-	Respect for human rights
-	Anti-corruption and anti-bribery

Specifically for the environment, climate-related disclosures must include:

- Climate change-related risks and opportunities
- How these risks and opportunities are managed through targets and KPIs
- How climate change is addressed in corporate governance
- How climate risk impacts strategy

Additionally, large UK companies are required to report on their UK energy use and carbon emissions within their annual reports through the Streamlined Energy and Carbon Reporting.

Further, in 2023 ESG reporting in the UK will be further formalized through the Sustainability Disclosure Requirements (SDRs). The SDRs will provide a framework for corporates to manage sustainability-related risks, opportunities, and impacts, as well as set relevant metrics and targets.

The following table showcases the evolution of sustainable development reporting in the recent past:

March 2021

Sustainable Finance Disclosures Regulation (SFDR) go into effect for asset managers and financial advisors operating in EU

April 2021

European commission adopts the CSRD proposal, which will require large companies to report on social and environmental impacts starting in 2024

October 2021

GRI standards updated

November 2021

IFRS Foundation announces the formation of its global reporting standardization initiative through the ISSB

UK Financial conduct authority releases sustainability requirements disclosure paper

December 2021

The European commission published the first delegated act on sustainable activities for the first two environmental objectives of the EU territory

February 2022

The EU adopts a proposal for a directive on Corporate Sustainability Due Diligence with Rules for companies to respect human rights and the environment in their global value chains

March 2022

US SEC annouces climate change disclosure proposal

ISSB exposure draft for public commentary

April 2022

European Financial Reporting Advisory Board issues exposure draft of the European Sustainbility Reporting Standard (ESRS) for public commentary

June 2022

China's voluntary guidance for Enterprise ESG disclosures takes effect

6. EVOLUTION OF ESG IN INDIA

In India, the Ministry of Corporate Affairs (MCA) took the initiative to guide the corporates towards responsible conduct and a sustainable future by issuing Corporate Social Responsibility Voluntary Guidelines in December 2009.

The "Voluntary Guidelines on Corporate Social Responsibility", announced by the MCA in 2009, was one of the earliest initiatives taken by the Government of India. Its ultimate goal was to integrate sustainability into business practices and into decision making process.

The MCA further issued additional guidelines, known as the "National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business, 2011" (NVGs), emphasising the importance of corporate entities' environmental, social, and economic responsibilities, as well as the need to integrate them into business practices and investment decision making processes.

2009 – 'Corporate Social Responsibility Voluntary Guidelines 2009'

MCA issued CSR voluntary guidelines for the businesses to add value to the operations and contribute towards the long-term sustainability of the business. The most important element of these was to encourage the corporates to focus on Ethical functioning, Rights and welfare of workers, Human Rights, Environmental development and taking social development activities.

2011 – 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business'

In July 2011 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' came which contained comprehensive principles to be adopted by companies as part of their business practice.

2012 – SEBI Mandates top 100 listed companies to file Business Responsibility Report

Top 100 listed companies by market capitalization were required to file Business Responsibility Report (BRR). This report was in line with the ESG principles.

2015 – BRR became part of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

SEBI vide Circular no. CIR/CFD/CMD/10/2015 dated November 04, 2015, had prescribed the format for the Business Responsibility Report (BRR) in respect of reporting on ESG (Environment, Social and Governance) parameters by listed entities in line with clause (f) of sub regulation (2) of regulation 34 of SEBI(LODR) Regulations 2015. Top 500 listed companies by market capitalization were required to file Business Responsibility Report (BRR).

2017 – SEBI recommended Integrated Reporting for top 500 listed companies

On 6 February 2017, SEBI issued a circular advising top 500 listed companies which are required to prepare BRR to adopt IR on a voluntary basis from the financial year 2017-18.

2019 - National Guidelines on Responsible Business Conduct (NGRBC) 2018

MCA revised the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011 (NVGs) and formulated the National Guidelines on Responsible Business Conduct (NGRBC).

2019 – BRR became mandatory for top 1,000 listed companies

As per SEBI (Listing Obligations and Disclosure Requirements) (Fifth Amendment) Regulations, 2019, with effect from December 26, 2019, the annual report of the top 1,000 listed entities based on market capitalization shall contain a business responsibility report as per clause (f) of sub regulation (2) of regulation 34 of Listing Regulations.

2021 - New reporting requirements on ESG parameters called the Business Responsibility and Sustainability Report (BRSR).

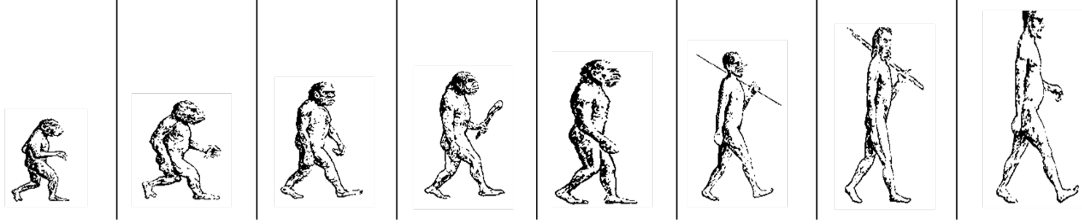
Under notification no. SEBI/LAD-NRO/GN/2021/22 dated May 05, 2021, SEBI introduced new reporting requirements on ESG parameters called the Business Responsibility and Sustainability Report (BRSR).

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 endeavour 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.

2009 National Voluntary Guidelines (NVGs) *(MCA issued NVGs on corporate social responsibility)*	2012 Business Responsibility Report (BRR) *The top 100 listed companies file BRR based on NVGs along with their annual reports*	2014 Corporate social responsibility (CSR) *CSR is mandated, and CSR Rules come into force*	2015 Extension to top 500 listed companies for filing BRR	2017 Integrated Reporting (IR) *IR may be adopted on a voluntary basis from FY 2017–18 by the top 500 companies which are required to prepare BRR*	2019 - National Guidelines on Responsible Business Conduct (NGRBC) released - Extension to the top 1,000 listed companies for filing BRR	2021 Business Responsibility and Sustainability Report (BRSR) *Introduction of BRSR in May 2021*	2022 Mandatory reporting of top 1,000 listed companies to file BRSR along with the annual reports



7. INITIATIVES BY ICAI

In Feb 2020, ICAI constituted Sustainability Reporting Standards Board (SRSB). Mission of the SRSB is to take appropriate measures to increase awareness and implement measures towards responsible business conduct, developing audit guidance for Integrated Reporting

ICAI, encouraged by SEBI, introduced India's first award to celebrate the business practice of Integrated Reporting, internationally acknowledged as the emerging best practice in corporate reporting

ICAI has also started a Certificate Course on Sustainable Development Goals (SDGs), Business Responsibility Reports (BRR), Integrated Reporting (IR) & also proposed an ICAI Executive Development Program on Business Responsibility Reporting (BRR)

In last 2 years, ICAI has issued following publications:

- Standard on Assurance Engagements (SAE 3410) – Assurance Engagements on Greenhouse Gas Statements
- Background Material on BRSR (revised 2021)
- Sustainable Development Goals – Accountants creating sustainable World – Parts 1 covering SDGs 1 to 5

- Sustainable Development Goals – Accountants creating sustainable World – Parts 1 covering SDGs 6 to 11
- Sustainable Development Goals – Accountants creating sustainable World – Parts 1 covering SDG 12 to 17
- FAQs on Sustainability Reporting – Heart of Good Governance
- Sustainability Reporting Maturity Model (SRMM) – Version 1.0

7.1 BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORT (BRSR)

Reporting under BRSR is mandatory from financial year 2022-23. However, disclosure was voluntary in financial year 2021-22.

The reporting questionnaire is divided into three sections:

(i) Section A – General Disclosures

This section contains the details of the listed companies, its products, services, operations, employee related details, its holding, subsidiary, associate companies etc.

(ii) Section B – Management Process and disclosures

It contains questions related to policy and management processes, governance, leadership, and oversight.

(iii) Section C – Principle-wise performance disclosures

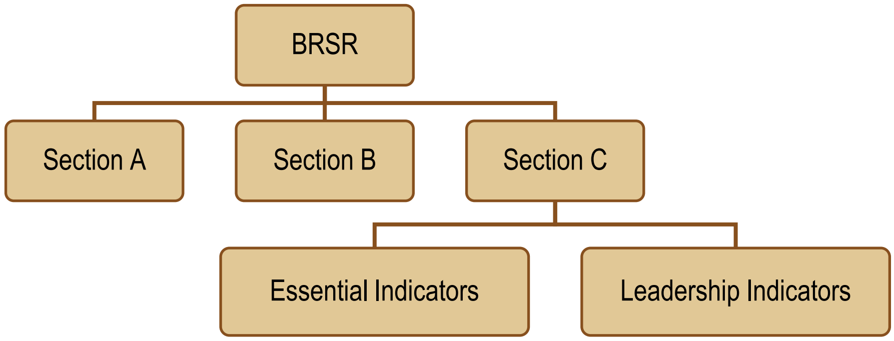
Companies are required to report upon Key performance indicators (KPIs) in alignment with the nine principles of the NGRBC. The section classifies KPIs into two categories that companies are required to report upon:

- Essential indicators (Mandatory disclosures)

This would include data on training programs conducted, environmental data on energy, emissions, water, waste management etc.

- Leadership indicators (Optional disclosures)

It would include life cycle assessments, details of conflict management policy, additional data on biodiversity, energy consumption, supply chain managements etc.



7.1.1 Nine Principles of BRSR

The nine principles in BRSR are categorized into the ESG components of Environment, Social and Governance with two of the nine in Environment, three in social and four in Governance. Even though they are separate, they are interlinked to each other in some way. For example, environmental protection is closely linked to stakeholder engagement and inclusive growth.

Principle 1 – Ethics, Transparency and Accountability:

The first principle emphasizes that the business decisions in an organisation should be open to disclosure and accessible to the relevant interested parties.

The essence of the core elements associated with the first principle are:

a) The entities' governing structure should develop policies, procedures, and practices for their offices, factories, and work areas, ensuring that ethics is not compromised.

b) The information relating to the policies, procedures, and practices along with the performance should be made available to the stakeholders.

c) In case of adverse effects, more care has to be taken for transparent disclosures.

d) The entities in the value chain should be encouraged to adopt these principles by the governance structure.

e) The entities should proactively respond to the outside entities that violate the nine principles of the BRSRs. This includes their suppliers, distributors, sub-contractors, or regulatory officers that may engage with the business concern.

Principle 2 – Safe and Sustainable Goods and Services:

The entities should make sure that their goods, services, and the operations result in better life for the consumers and end-users.

The essence of the core elements associated with the second principle is:

a) When a product is designed by the entity, the production methods and technologies have to be devised in such a way so as to minimize the resource usage to make it sustainable.

b) The entities are also responsible to educate and make aware their consumers and clients about their rights.

c) The entities should take measures that reduce the over exploitation of the nature's resources by consuming sustainably and encourage methods for reduce, reuse and recycling of the resources.

Principle 3 – Promote Well-Being of All Employees Including those in the Value Chain:

The third principle relates to all the initiatives an entity has to take for the benefit of its employees from the point of view of their dignity, health, well-being.

The essence of the core elements associated with the principle is:

a) The entity should ensure compliance with all regulatory requirements as far as employees are concerned.

b) The entities are to respect the dignity of employee as a human being and should not restrict their freedom of associations, unions, and other participatory mechanism for collective bargaining of their rights and redressal of issues they face at the workplace.

c) The entities should prevent all kinds of child labour, bonded labour, and any other forms of involuntary labour.

d) The entities should have a system in which the work-life balance of the employees is not compromised.

e) The businesses have to ensure timely payment of the worker's wages and compensation.

f) The payment of the wages has to be as per the living wages, that can take care of the basic needs and provide economic security to the employees.

g) The entities are responsible to create a workplace and work environment that is safe, hygienic, and comfortable for people to work for long durations.

h) The skill development, career development and training of the workforce is another responsibility of the entities employing them.

i) The creation of a workplace which is free of harassment and violence is also a responsibility of the entity.

Principle 4 - Respect for Stakeholders' Interests and Responsiveness:

The concept of interested party or stakeholders to a business has been a point of discussion in all the regulatory and voluntary systems that relate to the management system of any organisation, be it related to the quality, environment or the occupational health and safety of the workers.

The essence of the core elements associated with the principle is:

a) The entities have to be transparent and communicate with the stakeholders about the impacts of their operations and business decisions on the people and the nature. The policies, decisions, and the impact of the operations of the organisation to the stakeholders have to be disclosed transparently with no ambiguity on the extent of the issues.

b) The entities have to systematically determine the context of their operation and identify their interested parties.

c) The entities should fairly share the benefits to the stakeholders or give an opportunity to them to benefit from the operations in an equitable manner.

Principle 5 - Respect and Promote Human Rights:

The concept of human rights is a vast topic that covers a wide variety of violence and belligerent abusive issues faced by people. It refers to the human rights issues that happen directly or indirectly due to the operation of the business.

The essence of the core elements associated with the principle are:

a) The entities should have a clear understanding of the human rights and various ways by which human rights can be violated from the perspective of the Constitution of India, national laws and policies and the content of International Bill of Human Rights.

b) The entities when developing their management systems, should integrate the human rights element into their policies, procedures, and practices.

c) Businesses should recognize and respect the human rights of all relevant stakeholders and groups within and beyond the workplace, including that of communities, consumers, and vulnerable and marginalized groups.

Principle 6 – Protection and Restoration of Environment:

The sixth principle looks at the environmental responsibility as a basic requirement for the economic prosperity and sustainability.

The core elements associated with the principle are:

a) The entities should have policies, procedures, and practices in place to assess and rectify impacts to the environment. This should cover the whole life cycle of the product.

b) The entities have to make use of natural and manmade resources in an optimum manner to ensure their sustainability by taking feedback from the stakeholders.

c) The entities have to measure their performance relating to the prevention of pollution, destruction of forests, waste generation, energy use, land use, etc.

d) The entities have to contribute towards climate change resilience in line with India's commitment to various international mechanisms such as, Paris Agreement and National Action Plans for Climate Change.

e) The entities should explore the comparison of its activities with industry best practices to reduce, reuse and recycle/ recover materials, resources.

f) The companies have to look out for avenues by which they can improve their performance towards various environmental responsibilities.

Principle 7 – Influence on Public and Regulatory Policy:

The seventh principle of influencing the policy formulation positively recognizes that the businesses operate within the framework of statutory and legislative policies of the governing authority.

The principle further highlights that -

a) The core elements of BRSR are to have met holistically when the organisation go ahead with their contributions to policy formulation and policy advocacy.

b) The collective associations such as, the trade groups and industry chambers have to be utilized when moving ahead with the policy advocacy and formulation.

c) The role in policy advocacy by the organisation should be in such a way that it encourages fair competition and prevents human rights abuses.

Principle 8 – Promote Inclusive Growth and Equitable Development:

This can work only with close participation and collaboration amongst the entities, authorities, the civil associations contributing to one another for a better livelihood, and assistance to the marginalized communities.

The core elements of the eighth principle are:

a) The entities should have systems in place to identify and address impacts of their activities on the social, cultural, and economic aspects of the people. This includes business created issues like, land acquisition and use and construction activities for new facilities.

b) The entities should review, measure, and track the adverse impacts of their activities on the society and environment and make action plans to mitigate them adequately.

c) The entities should make efforts to bring up creative products, technologies, and business concerns that help the marginalized communities to have well-being and a better quality of life.

d) Entities when designing their CSR activities should review the local and regional development priorities to help the marginalized groups and communities.

e) The entities should take care to ensure that business induced displacement or relocation of communities does not happen, and in unavoidable cases, should make sure to have mutually agreed, participative, and informed negotiations to provide fair compensation to the affected people.

f) All forms of intellectual property and traditional knowledge should get the deserved respect from the organisation, and efforts should be made to ensure that benefits derived from their knowledge are shared equitably.

Principle 9 – Provide Value to the Consumers in a Responsible Manner:

The primary purpose of any business is to create or provide useful products and services to the customer in exchange of reasonable profits.

The core elements associated with the principle are:

a) Entities should put in their efforts to reduce the negative impacts of their products and services on consumers, natural environment, and society at large.

b) When conceptualizing, designing, and marketing their products, the organisation should not in any manner prevent the freedom of choice and fair competition.

c) The entities should transparently and accurately disclose all kinds of adverse impacts to the user, planet, society, on the biodiversity from their products.

d) When handling customer data, the right to privacy of the customer needs to be maintained.

e) Entities should inform the customers on the safe and responsible ways of usage, reuse, recycling, and disposal of their products, and ways to eliminate over-consumption.

f) When advertising about their products, the organisations should ensure that misleading and confusing information is not exposed to the customers about their products or its usage.

g) Business enterprises should make available transparent and accessible grievance redressal and feedback management system for their customers to raise their voices or to seek clarifications.

h) Entities, when in the business of providing essential goods and services (e.g., Utilities), should enable universal access, including to those whose services have been discontinued for any reason, in a non-discriminatory and responsible manner.

7.1.2 Allignment of BRSR Principles with SDGs

Principles/ SDGs	P1	P 2	P 3	P 4	P 5	P 6	P 7	P 8	P 9
SDG 1			☑	☑				☑	
SDG 2		☑				☑	☑	☑	☑
SDG 3			☑					☑	
SDG 4			☑					☑	☑
SDG 5			☑	☑	☑			☑	
SDG 6		☑				☑		☑	
SDG 7		☑				☑	☑		
SDG 8		☑	☑		☑			☑	
SDG 9		☑					☑		
SDG 10		☑					☑		
SDG 11			☑	☑			☑	☑	
SDG 12		☑				☑			☑
SDG 13		☑				☑	☑	☑	
SDG 14		☑				☑	☑	☑	☑
SDG 15		☑				☑	☑	☑	☑
SDG 16	☑		☑	☑	☑			☑	
SDG 17	☑						☑	☑	

7.1.3 Assurance in BRSR

SEBI has currently started with the top 1,000 listed companies. But very soon, remaining listed companies would also need to comply with the provisions of BRSR.

Further, BRSR is expected to be used as a single means for disclosing sustainability related information in India. This would be the main document which the stakeholders, investors would review and do industry analysis.

Hence, assurance in this reporting becomes more critical. ESG audit would be a process that would help the companies to evaluate the environmental and social risks for the Company's products, services, operations etc. Conducting an ESG audit also helps businesses look at their supply-chain risks, risk management capabilities and transparency with shareholders.

ICAI has recently issued **Standard on Sustainability Assurance Engagements (SSAE) 3000** ***Assurance Engagements on Sustainability Information***

This Standard deals with assurance engagements on an entity's sustainability information. This is an umbrella standard applicable to all assurance engagements on Sustainability information.

The intended users of this Standard include:

- Assurance providers providing assurance on sustainability information.
- Entities seeking to engage a professional auditor.
- Regulators, investors, and other users of Sustainability Reporting data.

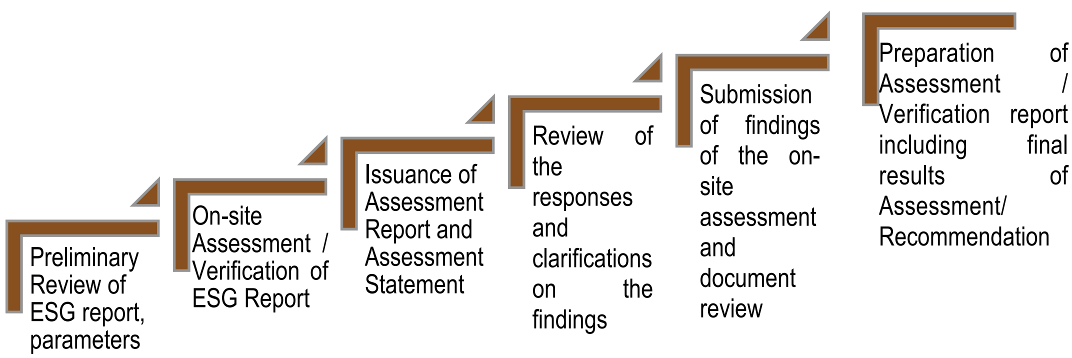
This Standard applies for assurance engagements which pertain to providing reasonable or limited assurance on sustainability information.

The effective date of application of SSAE 3000 is as follows:

- Voluntary basis for assurance reports covering periods ending on 31st March 2023.
- Mandatory basis for assurance reports covering periods ending on or after 31st March 2024.

ICAI has also issued SAE 3410, *Assurance Engagements on Greenhouse Gas Statements* which deal with assurance engagements on an entity's sustainability information including assurance of BRSR.

7.1.4 Methodology to provide assurance on BRSR:



7.1.5 Social Audit Standards

The Sustainability Reporting Standards Board (SRSB) of the ICAI has recently issued Social Audit Standards (SAS 100 to 1600). These Standards aim to provide the Social Auditor with the necessary guidance in relation to independent impact assessment engagement of Social Enterprises engaged in various areas and the audit steps and procedures that should be applied while conducting the social impact assessment. The Standard sets out the minimum requirements to be followed while conducting impact assessment. Laws or regulations may establish additional requirements which should be followed, as applicable. Following SASs are issued:

SAS	Particulars
100	Eradicating hunger, poverty, malnutrition and inequality
200	Promoting health care including mental healthcare, sanitation and making available safe drinking water
300	Promoting Education, Employability, and Livelihoods
400	Promoting Gender Equality, Empowerment of Women and LGBTQIA+ communities
500	Ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest and wildlife conservation
600	Protection of national heritage, art and culture
700	Training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports
800	Supporting incubators of social enterprises
900	Supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building
1000	Promoting Livelihoods for rural and urban poor including enhancing income of Small and Marginal Farmers and workers in the non-farm sector
1100	Slum area development, affordable housing and other interventions to build sustainable and resilient cities
1200	Disaster Management, including Relief, Rehabilitation and Reconstruction Activities
1300	Promotion of financial inclusion
1400	Facilitating Access to Land and Property Assets for disadvantaged Communities
1500	Bridging the digital divide in internet and mobile phone access, addressing issues of misinformation and data protection
1600	Promoting welfare of migrants and displaced persons

8. ROLE OF AUDITOR - CONSIDERATION OF CLIMATE RELATED RISKS IN AN AUDIT OF FINANCIAL STATEMENTS

The role of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, to enable auditor to report whether the financial statements are prepared and presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

In developing the understanding of an entity, the auditor should include the consideration of climate-related risks and how these risks may be relevant to the audits. The climate-related risks could be more relevant in certain sectors or industries, e.g., banks and insurance, energy, transportation, materials and buildings, agriculture, food, and forestry products.

Many investors and stakeholders are seeking information from auditor's reports about how climate-related risks were addressed in the audit. With this increased user focus on climate change, auditor need to be aware of, and may face, increasing pressure for transparency about climate matters in our auditor's reports. However, the auditor's reports must follow the requirements of applicable auditing standards.

The auditor's report is a key mechanism of communication to users about the audit that was performed. In addition to the audit opinion, it provides information about auditor's responsibilities and, when required, an understanding of the matters of most significance in our audit and how they were addressed.

In some circumstances, it may warrant inclusion of an Emphasis of matter paragraph to draw attention to disclosures that are of fundamental importance to users' understanding of the financial statements. The auditor should also determine whether the entity has appropriately disclosed relevant climate-related information in the financial statements in accordance with the applicable financial reporting framework e.g., Indian Accounting Standards or Accounting Standards, when relevant before considering climate-related matters in the auditor's report.

The auditor should also read the other information for consistency with information disclosed in the financial statements and information that may be publicly communicated to stakeholders outside the financial statements, such as management report narratives in the annual report, press releases, or investor updates. This is a requirement under ISA 720 and SA 720, The Auditor's Responsibilities Relating to Other Information.

Case Study

The agrochemical sector is about a $35 billion industry in India. The Indian agrochemicals market is segmented by product type (fertilizers, pesticides, adjuvants, and plant growth regulators) and application (crop-based and non-crop-based). India is one of the most prominent exporters of agrochemicals in the world and is being keenly looked at as an ideal hub for export-oriented production of agrochemicals. There has been a recent surge in the production of agrochemicals to overcome problems such as lack of right nutritious elements required for proper growth of crops, etc. While there is low awareness about the use and impact of agrochemicals, there is also a push from the industries to use more agrochemicals, linking it to better yield. The continuous and increased use of agrochemicals seems to have an adverse effect on humans, animals, and nature in whole.

The toxicity levels of the agrochemicals are harmful, not only to the workers in the manufacturing process but also to farmers, the soil, and the end consumers. The Central Insecticide Board (CIB) of India has categorized agrochemical toxicity levels based on a labeling system—using red, yellow, blue, and green labels—where red is the most toxic and green is the least. Most of the red-labeled products are banned abroad but are being sold in India due to the lack of a strong regulatory environment.

In India, it is estimated that almost 25% of the total amount of agrochemicals sold are counterfeit products. The quality and the efficacy of these counterfeit products differ from the original products, which can lead to reputational damages for the companies. Agrochemical companies need to add barcodes or other identifying technologies to their product packaging, to allow end-use consumers to check for authenticity. Also, since India is a multilingual country, the companies will have to publish the usage instructions in multiple languages.

Company A and B are both listed companies and part of top 1000 listed companies. They are engaged in the production of agrochemicals. Company A has been looking for opportunities to comply with the recently launched and evolving guidelines for ESG in India while Company B on the other hand is just focused to increase revenue and profits. In December 2023, Company A made a decision to eliminate red-labeled products from its portfolio and to increase its research and development (R&D) spending to safeguard itself from the market shift due to the new regulatory norms; in 2023, it also discontinued yellow-labeled products. Company A is also planning to incur a small expenditure to improve their backend systems and provide for all its products a unique labeling system that is user friendly and interactive. At the other end of the spectrum, 14% of Company B's top-selling products are derived from red- and yellow labeled products.

Initially, Company A's phasing out of its toxic products negatively affected its revenues by 8%. But as the country's regulatory landscape evolves toward more stringent norms, Company A will be cushioned for regulatory changes and thus, would not face potential future downsides. Company B has recently witnessed a 9% year on year growth in revenue from the last financial year and is planning to increase the production of its bestselling product, an insecticide DDT, categorized as red labelled by the Central Insecticide Board. Company B has recently been approached by the regulatory authority for an investigation for its products which include performing additional tests and studies to testify that its products have no adverse effects.

1. What would be the reporting requirements for each of the two companies?
2. Which Company has absorbed the impacts of possible future regulatory changes? What are the steps taken by that Company for complying with the regulatory standards?
3. What would be the consideration by the auditors of Company A and B in the audit of financial statements?

9. CONCLUSION

The overarching importance of sustainability reporting continues to gain momentum globally with demands from various stakeholders and substantial research and developments toward a uniform set of sustainability standards. The uniformity is not achieved yet due to lack of a common language for sustainability reporting. As reporting of sustainability information becomes the trend being observed globally, the demand for independent assurance of sustainability information is anticipated to grow as entities around the globe look to enhance the integrity of their sustainability reporting. Hence, it is imperative that auditors and assurance providers understand the current landscape and continue to monitor ongoing developments. The demand for assurance on "sustainability branded" reporting continues to grow and therefore there is an urgent need for globally accepted sustainability/ ESG assurance standards that can be used by all assurance professionals.

Key Takeaways

- Sustainable development is development that strives to meet the needs of developing countries seeking to achieve a more sustainable world. Sustainable development addresses the needs of the present moment without compromising current and future generations to meet their own sustainable lifestyles.
- Environment, social and governance form three pillars of ESG. Environmental, social and governance (ESG) reporting is all about disclosure of information, data, metrics that explain

and added value in these three areas. ESG reporting can be both quantitative and qualitative in nature.

- Sustainable Development Goals (SDGs) are set of 17 goals in line with the 2030 Agenda for Sustainable Development" adopted by UN.
- International investors with global investment portfolios are increasingly calling for high quality, transparent, reliable, and comparable reporting by companies on climate and other environmental, social and governance (ESG) matters.
- The Integrated Reporting Framework is used to connect financial statements and sustainability-related financial disclosures. It has been established to develop high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards.
- The Integrated reporting framework identifies 6 capitals- financial capital, manufactured capital, natural capital, human capital, social capital and intellectual capital.
- ESG disclosure and reporting is mandatory for top 1000 listed companies in form of Business responsibility and sustainability reports. (BRSR).
- As reporting of sustainability information becomes the trend being observed globally, the demand for independent assurance of sustainability information is anticipated to grow as entities around the globe look to enhance the integrity of their sustainability reporting.

TEST YOUR KNOWLEDGE

Theoretical Questions

1. *What type of companies are required to mandatorily furnish the Business Responsibility and Sustainability Report (BRSR) as per the SEBI circular with effect from FY 2022-23?*
2. *What are the nine principles of BRSR? How are the nine principles of BRSR linked with the 17 UN Sustainable Development Goals?*
3. *What are the global trends in sustainable reporting?*
4. *What are the 6 C's of Integrated reporting?*
5. *What is the methodology of providing assurance in BRSR?*
6. *What is the auditor's role on ESG aspects in an audit of financial statements of the Company?*

7. ***CTO Limited is engaged in the fintech business. It is a member of few prominent industry chambers and trade associations and has come under mandatory purview of Business Responsibility and Sustainability Reporting (BRSR) for year 2022-23.***

   The company had submitted inputs on draft digital personal data protection bill to concerned Ministry during year 2022-23. It had also submitted to one of the industry chambers during the same year certain key inputs on leveraging India's digital public infrastructure for creating solutions by banks and fintechs together as its taskforce member on the subject. Considering the above, discuss how above information would likely be disclosed by company in "Principle-wise performance disclosures" as part of BRSR for year 2022-23?

   Whether information discussed above would require to be disclosed mandatorily?

8. ***SEBI has made Business Responsibility and Sustainability Report (BRSR) mandatory for certain listed companies. It is an evolutionary step in Environment, Social and Governance (ESG) reporting. Discuss the nature of ESG reporting. How can corporates contribute to Sustainable Development Goals (SDGs)?***

9. ***SU Limited is amongst the top 1000 listed entities. With the introduction of new reporting requirements by SEBI on ESG parameters called the Business Responsibility and Sustainability Report (BRSR), it requires SU Limited to make disclosures on their performance against the various principles of the "National Guidelines on Responsible Business Conduct". One of the principles emphasizes that the business decisions in an organization should be open to disclosure and accessible to the relevant interested parties. Elucidate the essence of core elements associated with the aforesaid principle.***

Answers to Test your Understanding

1. Sustainability reporting is an organization's practice of reporting publicly on its economic, environmental, and/or social impacts, and hence its contributions – positive or negative – towards the goal of sustainable development

   Sustainability reporting refers to the information that companies provide about their performance to the outside world on a regular basis in a structured way. It is the comprehensive mechanism of measuring and disclosing sustainability data with performance indicators and management disclosures.

Expected Benefits: It can help stakeholders to understand organizations performance vis a vis sustainability and impacts. The reporting process emphasizes the link between financial and non-financial performance.

Such reporting can help entities to focus on long-term value creation, by addressing environmental, social and governance (ESG) issues. Since investors are increasingly recognising that environmental and social issues provide both risks and opportunities in respect of their investments and are seeking disclosures on the environmental and social performance of businesses, they can use ESG performance of companies to make investment decisions.

Investing in social and environmental issues will not only improve own business continuity of companies but also put them in a better position with their B2B (Business to Business) customers as well as enable them to acquire new ones.

2. The information at [i] states that company has increased the number of customers using digital mobile app. Besides, it has led to a 100% increase in digital collection. Therefore, it involves the use of technology for deriving business benefits. It has invested in innovation deriving business benefits from digitization. The capital referred to at [i] is “Intellectual Capital”.

An increase in number of beneficiaries under flagship CSR programmes providing value for communities and sustainable livelihood is an example of relationships established within and between each community, group of stakeholders and other networks to enhance individual and collective well-being. The capital referred to at [ii] is “Social and Relationship Capital.”

Answers to Case Study

1. Both Companies A and B are among part of top 1000 listed companies. Hence, these companies have to mandatorily provide BRSR reporting (Business responsibility and Sustainability reporting) in accordance with 9 principles of NGBRC as mandated by SEBI.

2. Company A has absorbed impact of regulatory changes. It has decided to eliminate red-labelled and yellow-labelled products from its portfolio which are toxic in nature. Besides, it has increased its expenditure on R & D to meet with new regulatory norms. It has also incurred expenditure for improving its labelling system which would help end users to know about the nature of the product. All these steps have been taken by Company A for complying with regulatory standards.

Company A is trying to meet with requirements of Principle 2 by making R & D expenditure. Further, it has also eliminated red-labelled/yellow-labelled products from its portfolio. Principle 2 relates to the requirement that businesses should provide goods and services in a manner that is sustainable and safe. Besides, by adopting a friendly bar-coded packaging labelling system, company is adhering to requirements of Principle 9 which states that businesses should engage with and provide value to their consumers in a responsible manner. Steps taken by a company to inform its consumers about safe and responsible usage of products fall in its domain.

Since toxic agrochemicals are also harmful to workers engaged in their manufacturing process, their discontinuation bodes well for workers in the company A in line with Principle 3 which states that businesses should respect and promote the well-being of all employees including those in their value chains. By discontinuing products which are harmful to soil, company A is meeting requirements of Principle 6 which states that businesses should respect and make efforts to protect and restore the environment.

3. Company A is complying with regulatory norms whereas 14% of company B's revenue are derived from red and yellow labelled products. In fact, company B is planning to increase production of its red labelled product i.e., insecticide DDT which has been categorized as such by Central Insecticide Board. The auditor of Company B would have to keep in mind requirements of SA 250 in this regard. Non-compliance with laws and regulations may result in fines, litigation or other consequences for the entity that may have a material effect on the financial statements. It can result in material misstatements. Central Insecticide Board has already launched its investigation into products of company. All these factors would be taken into consideration by auditor of Company B.

Auditors of Company A and Company B need to obtain audit evidence regarding compliance with laws and regulations and audit procedures have to be designed accordingly. Auditor of Company A can obtain assurance from regulatory compliance by the company. Fall of revenue by 8% in one year is not a matter of concern to them as it is a transitory phase.

However, auditors of Company B would also have to take into consideration requirements of SA 570 as non-compliance with regulatory requirements could result into claims from such proceedings which the company may not be able to satisfy.

Hints /Answers to Theoretical Questions

1. Refer para 7.1.

2. Refer para 7.1.1.

3. Refer para 3.

4. Refer para 4.

5. Refer para 7.1.4.

6. Refer para 8.

7. ***The given case highlights that CTO Limited, engaged in Fintech business, is a member of Chamber of Commerce/associations. Such information needs to be disclosed under Principle 7 of Principle-wise Performance Disclosures.***

Principle 7 recognizes that businesses, when engaging in influencing public and regulatory policy, operate within the framework of statutory and legislative policies of the governing authority. Collective associations such as trade groups and industry chambers have to be utilized when moving ahead with policy advocacy and formulation.

The information under each principle is to be disclosed under Essential indicators (mandatory disclosures) and Leadership indicators (optional disclosures).

Information relating to membership of Chamber/associations is in the nature of Essential Indicators and requires mandatory disclosures.

Information relating to inputs provided by company to the Ministry on a legislative bill and inputs provided to one of the prominent chambers on leveraging India's digital public infrastructure for creating solutions by banks and Fintechs together as a taskforce member on the subject are in nature of leadership positions taken by the company. These are in the nature of Leadership Indicators and are optional disclosures.

8. ***Refer para 1.***

ESG reporting can be both quantitative and qualitative in nature. Qualitative reports tend to describe a company's strategy or policy around the relevant topics, while a quantitative approach includes metrics, and key performance indicators (KPIs) linked

to each area in order to measure progress against goals and report on achievements. Naturally, a mixed approach that makes use of both qualitative and quantitative information tends to add the maximum value to the quality of disclosures.

United Nations members states adopted Sustainable Development to provide a blueprint which mentioned the Sustainable Development Goals (SDGs). They recognized that ending poverty and other deprivations must go hand in hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

Corporates can contribute to SDGs due to their capacity to provide solutions necessary for meeting SDGs. Companies can lead in innovation and contribute to achievement of Sustainable Development Goals.

9. Refer para 7.1.1 Principle 1.