

The background is a solid purple color. In the center, there is a faint, light-colored illustration of a young plant with several leaves growing out of a small mound of soil. Surrounding the plant are numerous circular icons, each containing a different symbol related to sustainability and business. These include a recycling symbol, a share icon, a classical building, a leaf with a circular arrow, a group of people, a factory, a dollar sign with a leaf, a globe, a shield, a clock, a hand holding a leaf, a network diagram, a magnifying glass, and a document. Lines connect some of these icons, suggesting a flow or relationship between them.

EARLY IMPRESSIONS

BRSR Core – Framework for assurance and ESG disclosures for value chain

Foreword

The Securities and Exchange Board of India (SEBI) on 12 July 2023 issued a circular (the circular) establishing new regulations to augment the reporting of Environmental, Social, and Governance (ESG) performance of the listed entities by integrating assurance and value chain disclosures. The SEBI's focus in this area is in line with its objective to protect the interest of investors. Investors are increasingly applying ESG parameters as part of their analysis to identify material risks and growth opportunities. This is because the investors believe that a purpose-led organisation usually has a sound and resilient business model. With the growing importance of ESG, communication of what a company does in ESG is of paramount importance. The reporting and disclosures thus occupy center stage. SEBI has, in the recent past undertaken a slew of positive measures and reforms aimed at bringing in consistency as well by keeping the ESG disclosures broadly aligned to global standards.

In this version of Early Impressions, we have highlighted the importance of these requirements and the building blocks that underpin it. In our view, having the right processes and controls developed ahead of time and embedding technology to collate and present the information is critical to successfully complying with the requirements of this circular.



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Introduction

The SEBI has been actively engaged with investors and various other stakeholders in keeping the disclosures companies make more meaningful and contemporary. The recent circular is a case in point.

The circular from SEBI adds to its earlier requirements in the area of ESG reporting and disclosures.

Following are the developments in this area over the years.

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2012

SEBI mandated Business Responsibility Report (BRR) based on National Voluntary Guidelines for top 100 companies, by market capitalization



2015

BRR based on National Voluntary Guidelines extended to BSE top-500



2017

SEBI introduced voluntary adoption of integrated reporting for top-500 listed entities



2019

BRR based on National Voluntary Guidelines extended to BSE top-1000



2021

Introduced Business Responsibility and Sustainability Reporting (BRSR), a mandate for the top 1000 listed entities (by market capitalisation), to disclose their sustainability performance from FY 2022 – 2023



2023

Introduced BRSR Core for assurance by listed entities; and introduction of disclosures and assurance for the value chain of listed entities as per the BRSR Core

Unfolding the requirements

Based on the recommendations of the ESG Advisory Committee and pursuant to public consultation, the SEBI brought in two new requirements and a set of additional disclosures of certain KPIs and metrics in its circular. The two new requirements are in the area of assurance on BRSR Core and ESG disclosures for value chain.

Assurance

Assurance on ESG disclosures has been under discussion and consideration by regulators and standard setters around the world. In a recent joint study by International Federation of Accountants (IFAC), American Institute of Certified Public Accountants (AICPA) and Chartered Institute of Management Accountants (CIMA) it was highlighted that 64% of companies obtain assurance/verification over some of the information provided in their sustainability report. Assurance enhances trust and confidence in ESG information, and the systems and controls used to collect and report data. It also supports informed capital allocation decisions.



Under the new regulations, the SEBI requires the top 1000 listed entities to whom reporting under BRSR applies, to obtain **reasonable assurance** on the BRSR Core in a progressive manner based on a glide path specified (refer below).

BRSR Core

The circular defines BRSR Core as a sub-set of the BRSR. The circular sets out the disclosure parameters in the annual report of the listing company and the data on which assurance has to be obtained as part of BRSR Core across all the nine attributes of BRSR.



Green House Gas (GHG) footprint

- Scope 1 and 2 emissions
- GHG emission intensity



Water footprint

- Total water consumption from various source & its intensity.
- Water discharge and level of treatment



Energy footprint

- Total energy consumption and its intensity

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Embracing circularity

- Total waste generated (e.g. plastic, e-waste, bio-medical, construction, battery, radioactive) & its intensity
- Waste recovery and disposal



Employee well-being and safety

- Employee well being spend
- Safety related incidents



Gender diversity

- Gender pay gap
- POSH complaints



Inclusive development

- Material sourced from MSMEs
- Job creation in small towns



Fairness with value chain

- Cyber security events, payable turnover days



Open-ness of business

- Concentration of channel partners and related parties
- Loans to related parties

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Assurance timelines and applicability

The SEBI has decided to gradually enhance the coverage of listed companies to whom the reasonable assurance framework would apply as follows



Qualifications for Assurance Provider

In order to discharge the responsibilities of an assurance provider in an appropriate manner, the circular requires that the assurance provider has the necessary expertise and is independent of listed company seeking an assurance.

In our view, to evaluate an assurance provider, companies should carefully examine the following attributes

Expertise	Independence
• Skills and training • Experience in practical application of requirements and disclosures • Deep understanding of laws and regulations • Knowledge of global developments in the area of sustainability • Teams backed by specialists in areas such as climate change.	• High standards of ethics • No conflict of interest • Independence (e.g. not selling its products or providing any non-audit/non-assurance related consulting services) • Companies seeking to engage their statutory auditors to provide assurance on • BRSR Core should evaluate whether the auditor is providing any non-audit service.

Independence and eligibility of assurance provider

The SEBI issued Frequent Asked Questions (FAQs) providing clarification on assurance requirements.

The SEBI clarified that the assurance provider need not be a Chartered Accountant and that assurance of BRSR Core is profession agnostic.

The SEBI reiterated its over-arching principles on conflict of interest by the assurance provider but has clarified that if an assurance provider provides activities that are in the nature of audit / assurance such as certification, tax audit, system audit and tax filings then, it may not result in breach of independence. The SEBI has stated that the listed entity and its audit committee would need to verify the independence rules closely.

The SEBI maintained that activities such as risk management, project management, consulting services, investment banking services, internal audit services, management services etc cannot be provided by the assurance provider. In our view, the SEBI has broadly aligned the independence requirements under the circular to the requirements of Section 144 of the Companies Act, 2013 which provides a proscribed list of services that a statutory auditor cannot undertake. For several companies, this clarification could enable their statutory auditors to be appointed as assurance providers.

Reasonable assurance Vs Limited assurance

The Institute of Chartered Accountants of India (ICAI) has issued a Standard on Sustainability Assurance Engagements (SSAE) 3000, Assurance Engagements on Sustainability Information and another on SSAE 3410, Assurance Engagements on Greenhouse Gas Statements which deal with assurance engagements on an entity's sustainability information including assurance of the BRSR. SSAE 3000 deals with both limited and reasonable assurance engagements.



Further, the SEBI has clarified that the assurance provider may use any globally accepted assurance standard on sustainability / non-financial reporting such as the International Standard on Assurance Engagements (ISAE) 3000 as long as a disclosure to this effect is made in the report of the assurance.

Limited assurance is a form of negative assurance which states that the assurance provider is not aware of any material modifications that should be made to the underlying ESG disclosures. Reasonable assurance, on the other hand requires the assurance provider to opine on the outcome of the testing of processes and controls and the underlying ESG disclosures. Reasonable assurance is similar to assurance that the statutory auditors provide on year-end financial statements of companies. In fact, in the IFAC, AICPA and CIMA study it was observed that 70% of the time, companies that obtained sustainability assurance from a professional accountant engaged their statutory auditor to also review their ESG disclosures. In India, this is subject to the independence requirements stated above which companies and the audit committees will have to assess.

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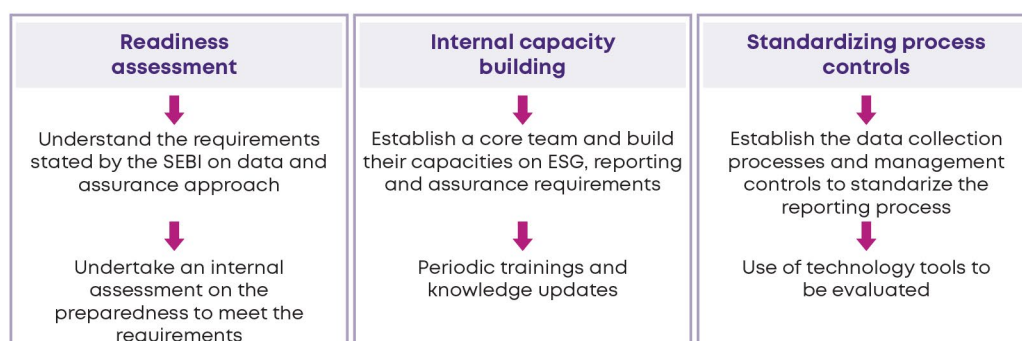
The level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement.

As per the study of IFAC, AICPA & CIMA quoted above, majority of the companies that obtained assurance sought limited assurance on their disclosure standards. Further, starting 2025 European companies are required to obtain limited assurance on their sustainability disclosures. Subsequently, these companies need to obtain reasonable assurance. The Securities and Exchange Commission (SEC) in the United States of America is still in the process of finalising its rules that would require disclosures of climate-related risks including assurance.

The SEBI, instead of a progressive approach on assurance, has decided to adopt a stricter and more demanding reasonable assurance regime for Indian companies.

Way forward

Companies in India will have to prepare their disclosures in a way which enables the assurance provider to provide reasonable assurance. This will require ahead of time planning of resources, establishing processes and controls and strong governance to enable reasonable assurance on the BRSR Core. The focus would also be on use of technology to generate and collect information in a robust and consistent manner. There will be a need to build capability and capacity organisation wide.



Value Chain

The circular establishes the requirement of ESG disclosures for the value chain of the listed entities. The entities are now required to report relevant KPIs from the BRSR Core for their value chain, encompassing the top upstream and downstream partners cumulatively comprising 75% of their purchases / sales (by value) respectively. The scope of reporting and any assumptions or estimates made by the entities shall also be clearly disclosed. The implementation of the requirement is illustrated below –

FY 2024 - 25	FY 2025 - 26
ESG disclosures as per BRSR Core for the value chain of the top 250 listed entities on a comply-or-explain basis	ESG disclosures as per BRSR Core for the value chain of the top 250 listed entities on a comply-or-explain basis
↓	↓
Assurance not mandatory	Limited assurance on comply-or-explain basis

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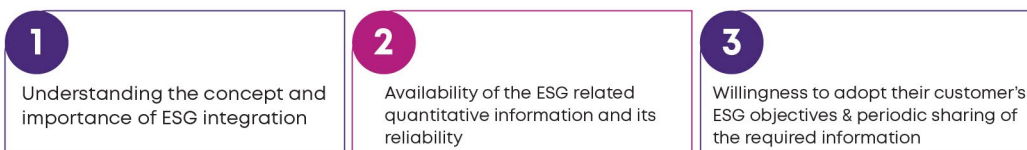
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The value chain of any entity is the key driver of the enterprise wide ESG agenda. The companies are thinking beyond risk prevention and compliance to create long-term value by integrating the ESG aspects into the entire value chain.

Current challenges in value chain integration

With regulators increasingly emphasizing on value chain, it is imperative for companies to measure their ESG impact across the broader ecosystem. However, integrating company's own ESG targets and commitments in the value chain can be a monumental task. While Tier I supply chain partners maybe better equipped to adopt ESG, the Tier II suppliers carry different challenges, notably –

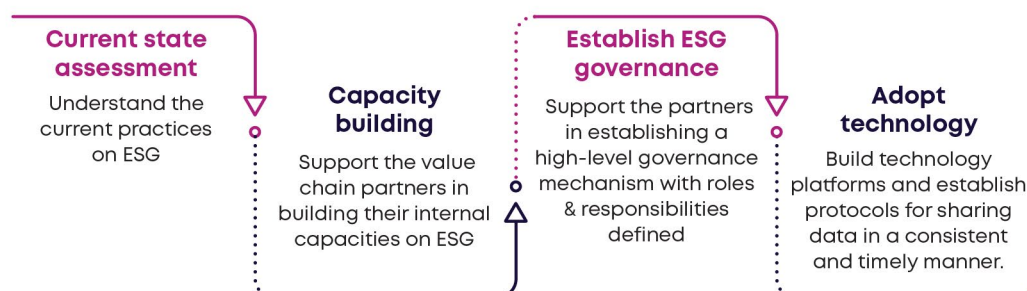


Value chain in large companies will extend to several thousands of entities. The possibility of several supply chain partners being unlisted and operationally small is high and monitoring & reporting of ESG data may be challenging. The listed entities will need to hand-hold their supply chain partners to build their capacities, develop processes and controls to monitor and periodically disclose their ESG related data.

The supply chain partners could also be overseas companies who may not follow the same requirements on ESG disclosures or may not be forthcoming in sharing information at the reporting period ends of companies in India.

Way forward

As the requirement of the SEBI on value chain disclosures by the top 250 listed entities comes into force from financial year 2024 – 25, companies are provided with sufficient timeframe to identify their upstream and downstream value chain partners and support them in establishing the required ESG related processes and controls.



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In summary, by means of this circular the SEBI has taken a giant leap ahead of its regulatory peers internationally. The need for assurance on ESG disclosures cannot be overemphasized. It is now incumbent upon companies to put in place processes and control to be assurance-ready. They need to be deliberate about the skills of the assurance provider and considerate about the independence requirements.

Companies should also, look to get alignment on the KPIs and disclosures relating to value chain from their suppliers and customers and forthwith put in place systems to educate them on the need for robust information and perform diligence on the information received from these value chain partners.



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