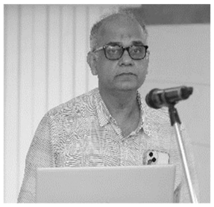

Road Map for Valuation On ESG Perspective
A different angle to look at an additional perception.
'ENVIRONMENTAL, SOCIAL AND GOVERNANCE' are becoming a pivotal factor while valuing an asset.

Amitabha De
Director, RVO ESMA Foundation

There are additional angles to look at the corporate

- Business Responsibility and Sustainability Report (BRSR)
- Corporate Social Responsibility (CSR)
- ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)
- Three major checks for Corporates' performance from similar aspects.
- BRSR is a mandatory disclosure mechanism for top 1000 listed companies as required by SEBI
- CSR is more or less looking at the corporates' philanthropic or good motive
- While ESG is looking at the future from the present framework or capacity in terms of business performance. **ESG** provides a more quantitative and qualitative measure of the sustainability of corporates.

In 2004 report from the United Nations – titled **Who Cares Wins*** – carried what is widely considered the first mainstream mention of **ESG**. In the modern context, this report is inclined to encourage all business stakeholders to embrace ESG in the long term. This inclination meant heavily in the long term.

The Security and Exchange Board of India has made **BRSR** reporting mandatory for the top 1000 listed Companies from 2022-23. SEBI also has Business Responsibility and Sustainability Report (BRSR*).

What is BRSR?

Compliance of BRSR is in g GENERAL DISCLOSURES about a company's Details of business activities, Products sold / services offered by the entity, Details of employees and workers *participation/inclusion/representation of women/grievance redressal mechanism for stakeholders* etc. But there are now many things to know about the company in **MANAGEMENT AND PROCESS DISCLOSURES** like Specific commitments, goals and targets set by the entity along with performance, if any Statement by the director responsible for the report to highlight **ESG issues**.

They have also followed some principles like

PRINCIPLE 1. Businesses should conduct and govern themselves with integrity, and in a manner that is Ethical, Transparent and Accountable.

PRINCIPLE 2. Businesses should provide goods and services in a manner that is sustainable and safe.

PRINCIPLE 3. Businesses should respect and promote the well-being of all employees, including those in their value chains.

PRINCIPLE 4. Businesses should respect the interests of and be responsive to all its stakeholders.

PRINCIPLE 5. Businesses should respect and promote human rights,

PRINCIPLE 6 Businesses should respect and make efforts to protect and restore the environment.

1. The entity shall report the total electricity consumed, fuel consumed and energy consumed
2. Perform Achieve and Trade (PAT) scheme ("Scheme") has been launched by the Bureau of Energy Efficiency under the National Mission for Enhanced Energy Efficiency (NMEEE)
3. The entity shall report the total water withdrawn for any use Like

- Surface water- refers to water that occurs naturally on the Earth's surface in ice sheets, ice caps, glaciers, icebergs, bogs, ponds, lakes, rivers, and streams
- Groundwater – refers to water that is being held in, and that can be recovered from an underground formation
- Third-party water – refers to municipal water and other private suppliers of water
- Sea-water / desalinated water – refers to water in a sea or ocean
- Other sources - Entities may specify the other sources, in case the same are significant.
- The entity shall report the total water consumption
- Zero Liquid Discharge policy

4. Details of greenhouse gas (GHG) emissions and GHG intensity
5. Details of waste generated, recycled & re-used and disposed off
6. Description of waste management practices
7. Details of Environmental Impact Assessments (EIA)
8. Break-up of the total energy consumed from renewable and non-renewable sources
9. Details of water discharged
10. Details of water withdrawn, consumed and discharged in areas of water stress
11. Scope 3 emissions
12. Impact on biodiversity

PRINCIPLE 7. Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent

PRINCIPLE 8. Businesses should promote inclusive growth and equitable development

PRINCIPLE 9. Businesses should engage with and provide value to their consumers in a responsible manner

As per SEBI guidelines, the **BRSR is a mandatory framework**, a disclosure mechanism **for the top 1000 listed companies**

A Valuer has to understand the difference between CSR and ESG.

CSR, generally speaking, is looking at the good work of a Corporate. The focuses on corporate volunteering, lowering carbon footprint, and engaging with charities.

While **ESG** provides a more quantitative measure of sustainability. That means, ESG considers the environmental, social, and governance factors.

What is ESG? ENVIRONMENT SOCIAL AND GOVERNANCE together establish a framework.

These are the three pillars, that together establish a framework for assessing the impact of the sustainability, ethical practices and operations altogether performances of a Company. This consideration of ESG concept in the performance of a company pushes the boundary and looks for a wider market and society.

Environment

ESG adoption for better growth of business and sustainability. ESG, including ethical environment is essential for rational use of resources and sustainable business operations. Companies can consume less energy and water and produce less waste by adopting ESG. These types of cuttings in operation can lead to less carbon emissions and finally less harm to the environment.

Using renewable energy or more efficient systems, saving money through cost cutting and meeting goals are the main focus of ESG considerations.

Social

At present the business houses, who are displaying a clear commitment to ESG conduct consistently outperform business houses those do not display ethical conduct.

Attracting talented people to join organizations and the business houses who are looking at ESG properly, has ethical values can retain the talented people if they are taking care of its employees being equally dedicated in taking care of the organization.

The ESG climate matters to the employees, if any, the stakeholders, the clients. Organizations, who's taking care on ESG, also create an atmosphere that is trustworthy, making all willing to rely.

Presently, loyal Investors are concerned about Environment, social and proper governance in the Company which shows responsibility and reputation of the company. Investors are becoming more and more aware that an ESG climate provides a foundation for efficiency, productivity and profits.

Customer Satisfaction is a vital factor in successful business strategy. Establishment of creditability and enduring relationship of mutual respect are essential for the success of a business. This is achieved by a house or a professional person that adopts ESG practices. When a company, a professional because of its beliefs in high ESG practice is perceived as such, any crisis or mishaps along the way is tolerated by the customers as a minor aberration.

Basically, human rights and equity, non-gender biasness, non-racist relationship – an organization's relation with people, stakeholder as well as its policy and actions that impact individuals, groups and society.

Governance means

Governance is a framework or a system that identifies the authorities and its decisions, responsibilities and accountability of an organisation and its people who behave and perform on behalf of the organisation.

Good governance

The values of Transparency, accountability, responsibility and probability are the main factors of a business. These values should prevail in all aspects of governance and be displayed in all actions of a Company including decisions taken, process and performance.

Governance aspect: Data is reported on corporate governance such as preventing bribery, and corruption, Diversity of Board of Directors, executive compensation, cybersecurity and privacy practices, and management structure.

Transparency: Need a better way to structure sustainability initiatives, detail actions, and disclose ESG goals, from strategy to operations? The transparency for sustainability offers is the best way to get the into the desired result.

Accountability: Accountability is the acceptance of responsibility. An accountable person takes the responsibility of a job done by an organisation or company. An accountable person takes the responsibility of any wrong doing rather to hide.

Control: Looking to more effectively govern process execution, employee engagement, and compliance with rules and regulations.

Governance: Ensures a company uses accurate and transparent accounting methods, pursues integrity and diversity in selecting its leadership, and is accountability to shareholders. So that the investors may require assurances that companies avoid conflicts of interest in their choice of board members and senior executives, don't use political contributions to obtain preferential treatment or engage in illegal conduct.

This is to keep in mind that all the pillars of ESG be of same importance.

For a company, to deal with Environmental issues are more easier than Social and Governance as the scopes are varied and as a result companies are showing more initiatives on the said issue than other.

ESG disclosure is a non-financial disclosure report published by a corporate about its ESG performance, impacts, accounting, and future plans.

ESG Investors- a very latest term- motive: looking at the Company's Environmental, Social, and Governance (ESG) scores are quantitative assessments of companies' commitment to sustainability that have become extremely popular tools in the financial industry. Looking deeply into the ESG prospect or initiative is going to be the pivotal factor of ESG However, transparency in the ESG assessment process is still far from being achieved.

Investors evaluate corporate climate policies, energy use, waste, pollution, natural resource conservation, and treatment of animals. Considerations may include direct and indirect greenhouse gas emissions, management of toxic waste, and compliance with environmental regulations.

How ESG Investing Works

ESG investing is to assess a company based on ESG criteria, investors look at a broad range of behaviours and policies. ESG investors seek to ensure the companies, they fund are responsible guards of the environment, good corporate citizens, and led by accountable managers based on criteria including: ESG investors' job is to help inform the investment choices of large institutional investors.

Why check ESG? Why important for valuers?

1. **Most importantly, ESG improves the valuation of the business.**
2. **Implementation of ESG has advantages and has a good effect on the valuation.**
3. **There are a number of evidences where recognising and utilising ESG issues can over time, have a significant role in the business running thus, it has a huge role in the valuation.**

Valuer's Eye from ESG angle

The Effect of ESG Ratings on Property Value

High ESG scores/ratings help to increase the value of real properties. Nowadays ethical behaviour attracts good loyal investors. Properties with strong ESG scores draw more investors and tenants who care about sustainability and ethics. These properties often have lower costs towards borrowing as their risks are lower. They usually have high occupancy rates, can charge higher rent, and keep tenants longer for the ethical environment. They provide a healthier and more eco-friendly setting. Over time, buildings with strong ESG features are less affected by new laws. They often gain from incentives for their eco-friendly nature. This leads to a good demand and presence in the market and better financial results, raising the property's value.

Effect in plant & Machines

In plant & Machines, let's take example of vehicle, which has passed in pollution test can fetch better value than a pollution failed vehicle. The value even depends on the rating of carbon dioxide (CO_2), hydrocarbons (HC), carbon monoxide (CO), oxides of nitrogen (NO_x) and other emissions of a vehicle.

Machines which are eco-friendly, have a lower impact on the environment throughout their life cycle. Right from the raw materials used in their manufacturing, to their design, transport to the end-user, their length of use and their recycling capacity. From making disturbance in neighbourhood by sound pollution to non-compliance with the new law every point affects the value. The improper governance also has huge effect on value, while on the contrary they usually can fetch good value for the ethical environment in which they are being used. They provide a healthier and more eco-friendly setting. Over time, plant & Machines with strong ESG features are less affected by new laws. Risk becomes lower. They often gain from incentives for their eco-friendly nature.

For valuers of financial assets.

The job is almost similar as ESG investor. Looking at the company from an ESG angle.

Understanding the extent to which companies' core business revenues are aligned to the Sustainable Development Goals, and by extension have the potential to contribute to real-world sustainable outcomes, is the next frontier of sustainability analysis. This is done through machine learning process of ESG. The strength and weakness are analysed from the view of ESG and look forward for sustainable eco-friendly growth. Total behaviour of the Company towards ethics that treats with auditors to shareholders, employees to clients.

Innovation in using ESG

For the development of ESG standards, some usage in real estate leads to innovation. It pushes the boundaries with the use of new tech and materials e.g. green building styles, innovative ideas on the adoption of using renewable energy replacing conventional fuel or using clean energy, rainwater harvesting. These factors can lead to a smart building with efficient resource management and cost-cutting and finally raising property value.

For Plant & Machines, endeavour to use materials and tech that are environment friendly and less energy consuming by Companies are presently the main driving force. Energy consumption is in two ways that is the material used in the building 1. less consumption of energy while using the material. 2. less consumption of energy while manufacturing the material.

For Financial Assets, also, a brand which is focusing on ESG can build value that is attractive to institutional investors, normal investors, partners, and tenants who want an ethical and green environment. So, ESG compliance can open new areas of growth, new chances and sustainability in long term.

Social Risks in ESG Issue

Real estate investments and management must see and understand social risks in environmental issues. These risks not only include performance abiding laws, dealing with climate change but also tenant health and relations in the community. Non-compliance of laws and rules of Environment Social and Governance together as ESG or individual, can lead to fines and the mandatory changes which are costly. Avoiding social issues can result in lower tenant turnover and reputation. Ethical behaviour and ESG compliance can reduce these risks of good reputation and brand value.

For plant and machines, similar type of concerns to be considered including the health of the user of the machine.

On focusing on ESG, A valuer with its due diligence process can determine/opine the value of an asset which somehow more protective, more stable in long term for its client and intended users and investors even from the sudden challenges.

ESG's Future in valuation

Looking at the future, ESG is looked upon as one of the main parameters in valuation in investment choices. We can see that Environmental, other social laws, and laws on Governance are becoming more and more stringent, ESG will become one of the most important points to be considered while valuing a property. That will be of the most vital factors in highlighting top properties / other assets in the future world. It is obvious that in future the green and eco-friendly items will have huge demand for investment and tenancy.

How to check ESG

Checking carbon footprint to the transparency of how **ESG risks** are managed.

ESG Indices

Reporting to **ESG** indices demonstrates a company's willingness to be transparent and show that it is aware of its risks and opportunities, as well as its industry, supply chain, and operations as a whole. There are many reporting protocols to choose from, depending on a company's needs. These indices also provide a standardized way for investors, customers, and other stakeholders to assess and compare ESG performance.

ESG Standards

ESG standards are set to judge a company's impact on the environment, its social role, and how it is governed. They help ESG investors and others how a company handles probable risks and chances.

- **Environmental** standards rate how a company is looks and protects nature. This standard also covers energy use, waste handling, reducing pollution and saving natural resources.
- **Social** standard looks at the view of a Company towards people - like its workers, suppliers, customers, and the local and social community.
- **Governance** standard checks on the principle. It checks fairness of a company's leadership, executive pay, audits, controls, and treatment of shareholders.

  Following ESG rules boosts a company's image. This is getting more important when looking at how an investment will do over time, mainly in real estate.

ESG ratings

ESG ratings are a very new key among the other keys which are setting the value of mainly commercial real estate. ESG ratings highlight a property's environment, social, and governance factors and has big effect on its market value/fair value. Real estate valuers can gain many benefits by applying ESG principles. These include sustainability in reducing risks and improving efficiency and resulting in good business.

Confusion in the reports produced by corporates

1. Corporate research sometimes fail to distinguish between Corporate Social Responsibility (CSR) and ESG. CSR efforts are philanthropic while ESG practice or efforts are more or less business strategy. Recent research has demonstrated that the stock market out performance depends on the company's strategy which is focussing on the ESG.

2. One of the major problems as many companies integrate ESG information with their financial information. That may create confusion and also **greenwash.** Greenwashing is a deceptive marketing strategy by which companies provide a piece of misleading information. very few companies are making their ESG data traceable from financial statements. Thus the return from ESG investment cannot be computed in general.

3. **ESG ratings** are now one of the main keys in setting the value of commercial assets/real estate. Where the institutional investors are involved. Valuers can gain many benefits by using ESG principles in valuation. *In fact, there is no full disclosure on how the ratings are computed. It is unfortunate that rating agencies determine ESG ratings (as a function of the E, S and G scores) through proprietary models, on which public knowledge is limited. Rating agencies are fully dependent on what the data provider chooses to disclose, that, in many cases and the rating is restricted only to the main ideas and essential principles of the procedure.*

ESG. KPI (Key Performance Indicator)

Examples of ESG KPIs? In an organisation

Environmental

- Energy demand and consumption
- Water demand and consumption
- **Greenhouse gas emissions (scopes 1, 2, and 3) *,** including metrics on emissions intensity and reduction
- Resource efficiency metrics, including energy, water, and other material resources

Social

- Worker health and safety practices
- Diversity and inclusion metrics
- Metrics related to human rights and labour policies

Governance

- Board and management diversity metrics
- Executive compensation (e.g., approved by shareholders, tied to ESG performance)
- Disclosure and reporting programs (e.g., does the company publish a sustainability

report, set targets and report progress, engage with reporting frameworks?)

Global Reporting Initiative (GRI) and Sustainable Accounting Standard Board (SASB) are providing mechanism for proper reporting.

What Was There?

Sustainability check. Mainly on economic, social and environmental

Sustainable development —*"sustainable development"* was coined by the World Commission on Environment and Development (the Brundtland Commission) in 1987. The main key components in many policy discussions were on **economic, social and environmental** issues. In its report, the Brundtland Commission defined it as: ***"Development which meets the needs of current generations without compromising the ability of future generations to meet their own needs."*** The Commission's proposals were approved in 1992 by the United Nations Conference on Environment and Development at Rio de Janeiro leading to international attention, including the United Nations Commission for Sustainable Development.

Generally, sustainability means the capacity to endure. The focus was mainly on the environmental aspects of sustainability. It also had economic and social sides and many of the issues of economic sustainability may already has good impact on valuations. Indeed, economic concepts such as sustainable rental income or sustainable cash flow long pre-date the current uses. Resilience is the capacity to withstand, absorb and recover from shocks. Day by day the pressures on resources and natural systems have grown.

Now, the focus changes, sustainability means that is improving the quality of human life within the carrying capacity of supporting ecosystems.

Valuers must act within the limits of their professional skills and current market expectations. This will usually mean that valuer has a need to call on specialist for the certification and reports on a property's sustainability.

How to do?

Identify, describe and assess the relevant characteristics of properties;

Interpret and judge assessments of them.

Consider whether they are already taken into account so far as they are relevant to value.

Select the appropriate way to take any remaining points into account without double counting.

Checklist (as per European Valuation Standard)

- Construction materials
- Any contamination of properties
- Risks of natural disasters such as flooding, earthquakes, or avalanches;
- Compliance with relevant building standards;
- Insulation and related points and quality in terms of durability and building standards;
- Nature and complexity of building services;
- Age and quality (efficiency) of the equipment in the building for heating, cooling and other purposes and so the feasibility of maintaining or replacing specific building components if any (such as an oil-fired heating system compared with an alternative system that may reduce overall operating costs);
- Energy efficiency, EPC ratings and recommended measures for improving the property, energy sources (renewable?) and net energy demand
- Water efficiency, especially in locations with scarce water supplies, using grey water, recycling of water, rainwater harvesting, etc.;
- Operating expenses;
- Floor area in terms of usability, adaptability and cost-effectiveness;
- Impact on users' productivity and well-being;
- Likely timing and cost of refurbishment;
- Market attitudes towards sustainability and willingness to pay for green features;
- Requirements of legislation;
- Possible financial support;
- Relevant certifications or ratings;
- Terms of leases (*"green leases"*).

“Energy performance” of a building' means the calculated or measured amount of energy needed to meet the energy demand associated with a typical use of the building, which includes, inter alia, energy used for heating, cooling, ventilation, hot water and lighting."

"'Nearly zero-energy building' *means a building that has very high energy performance. The nearly zero or very low amount of energy required should be covered to a very significant extent by energy from renewable sources, including energy from renewable sources produced on-site or nearby."*

'Technical building system' *means technical equipment for space heating, space cooling, ventilation, domestic hot water, built-in lighting, building automation and control, on-site electricity generation, or for a combination thereof, including those systems using energy from renewable sources, of a building or building unit."*"

Global investors recognise **SASB Standards** as essential requirements for companies seeking to make consistent and comparable sustainability disclosures

The SASB Standards play an important role in the first two IFRS Sustainability Disclosure Standards **IFRS S1 and IFRS S2**.

Popular reporting indices with their platform and protocol.

Why A valuer would be interested in the disclosures of a company?

The answer is: these Indices given below in the form of disclosures help the valuer and the intended users to understand the value including current and future expenditures on environment.

Standards or ESG, notable framework and initiative

CDP is a global non-profit that coordinates environmental impact disclosures for both companies and cities. Respondents complete a questionnaire and receive a score to benchmark ESG performance, with high performers recognized on the annual "A List." CDP's questionnaires are aligned with the TCFD recommendations and are available in the areas of Climate Change, Water Security, and Forests.

TCFD is the Financial Stability Board (FSB) created the **T**ask Force on **C**limate-related **F**inancial **D**isclosures (TCFD) in 2015 to improve and increase the reporting of climate-related financial information.

TCFD focuses on climate related risk

Governance

Strategy

Risk management

Metrics and targets

ECOVADIS Eco-Vadis's sustainability assessment is a single questionnaire that results in a scorecard. The assessments are designed to help companies improve performance, share results with customers, and compare scores against competitors and peers.

GRESEB The GRESB assessments—a part of the Green Business Certification Inc. (GBCI) family—specifically target commercial real estate portfolios and assets. GRESB provides real estate investors with access to key sustainability performance information such as energy consumption, GHG emissions, leadership management, and design and construction.

DJSI The Dow Jones Sustainability Indices (DJSI) are a family of indices that capture high-performing publicly traded companies based on their ESG practices. Select companies are invited to participate in the SAM Corporate Sustainability Assessment (CSA) each year, allowing them to self-report key sustainability metrics and benchmark performance.

Example of a Popular reporting index

We are discussing here **CDP*** to see the disclosures

3 **CDP** thematic questionnaires are namely- Climate Change, **Water Security***, and Forestry.

Many questions of **CDP** is overlapping the questionaries of **BRSR.**

CDP disclosure, if available can be used and utilise while opine on valuation, but this is mainly on environmental issues.

Valuers also may check the other disclosures as given above from the Companies on the environmental part of ESG while opining on valuation which falls under technical due diligence.

Now, what if we do not get the data from above or any other recognised indices

A sample questionnaire is made to help the valuer which covers the ESG query.

Why these questionnaires are important for a valuer

To

- Quantifying future costs and other liabilities.
- Establishing the suitability of the property for its intended use or users

- Try to provide a good foundation for price negotiations and
- Try to provide a level of protection for institutional investors. As it is seen that the majority of large property owners are institutional investors who manage a portfolio of property assets on behalf of their beneficial owners.
- It is therefore critical. Both valuers and their clients have to understand the issues, which may be considered in such reports and client/ intended users should have confidence in the due diligence process adopted by a Valuer.

First of all, mainly Climate issues

Science-based targets (SBTs) - are the target to reduce greenhouse gas (GHG) emissions that are compatible with current climate science and the goals of the 2015 Paris Agreement, which aims to limit global warming to 1.5°C above pre-industrial levels. **Official SBTs** must be validated by the **Science Based Targets initiative (SBTi*)** and adhere to the initiative's strict criteria. Adhered to climate, SBTs have grown in popularity over the past several years in a way for companies to demonstrate a good commitment to reducing emissions.

What International Valuation Standard says

1. Standard: IVS 2025 which is to be effective from 31.01.25, says : A10.06: ESG Factors and ESG regulatory environment should be considered in valuation to the extend that they are measurable and would be considered reasonable by the valuer applying professional judgement.

Questionnaires sample

Environment (made by RVOESMA)

Any Standard Science Based Target Initiative taken by the Company	
Use of Renewable Energy (RE)	
Use of water / water discharge of water in a FY	

Use of eco-friendly material	
Use of green building tech	
How the org deals with Air or water pollution if any	
Investigation Risks and opportunities including flooding, mining history etc.	
Zoning: investigation about the planning of local Government / Statutory Authority and whether the property falls under their purview.	
How the Company assess the risks of contamination or hazardous substances and remedy	
Waste management... how the waste is disposed	
Health Hazard out of any material used like asbestos, particular painting etc.	
Deforestation	
Hazard out of electrical equipment	
Classify the risk to environment and steps taken to overcome this.	

IVS suggests Examples of environmental factors may include but are not limited to the following:

Environment

air and water pollution	
Biodiversity	
climate change (current and future risks)	
clean water and sanitation	
carbon and other gas emissions	
Deforestation	
natural disaster	

resource scarcity or efficiency (e.g., energy, water and raw materials	
waste management	

Social

Community relations in the neighbourhood	
Any conflict	
Customer’s view on satisfaction	
How the org protects data and privacy	
Development human resource	
Engagement of employee highlight the benefits they a getting	
Gender and racial equality	
How the company is looking after the health and we being of the employees	
Use of under aged labour	
How the company protects the human rights	
How the company is keeping the working conditions and environment	
Shareholders' view on satisfaction	
Views of Independent Directors, if any	
Donations	

Governance and strategy

Governance and strategy of the Company are crucial, It’s about the sustainability and decarbonization strategy at the management level.	
Policy and Implementation of sustainable solutions manage climate change-related issues.	

Decarbonizing the supply chain is crucial as a global report says that value chain emissions are 11.4 times greater than a company's direct carbon footprint.	
Audit committee structure	
Board diversity and structure	
Bribery and corruption	
Corporate Governance in all aspects	
Transparency in website	
ESG reporting standard	
Remuneration	
Strength of Institution	
Management succession plan	
Partnership (external agency?)	
Rule of the law (the principle under which all persons and entities are accountable)	
Transparency	
Scope of RTI	
Does the Company have any Whistleblower Scheme?	
Security system (physical and virtual)	

We believe that a valuer's mind should be the measuring instrument, a valuation opinion can be said a measurement where the instrument is the human mind

Notes

Who Cares Wins

The report is the output of a joint initiative of 18 leading financial institutions from 9 countries at the invitation of the UN Secretary-General Kofi Annan. An excerpt from the Executive Summary clearly outlines why these global financial institutions chose to endorse this report.

Business Responsibility and Sustainability Report (BRSR).

Business Responsibility and Sustainability Reporting (BRSR) is a reporting framework under which the top 1000 listed companies (by market capitalisation) are mandated to disclose their ESG performance in a quantitative and standardised format from FY 2022–23 onwards.

Water risk assessment?

From the manufacturing plant to the corporate office, all companies need water for their operations. While organizations with significant water impacts—such as agriculture and textiles—are vulnerable to more business risk, companies with relatively low water use still face major water-related risks.

A water risk assessment (WRA) can be a critical tool in identifying, managing, and/or mitigating water-related impacts from issues such as local water stress, potential water quantity and quality disruptions, to water-based political challenges while contributing to a larger company-wide risk management strategy.

SBTi

Established as a partnership between CDP, the UN Global Company, the World Resources Institute (WRI), and the World Wide Fund for Nature (WWF), the Science Based Targets initiative (SBTi) works to help the private sector set and validate ambitious science-based targets. With its own set of specific criteria, SBTi validates science-based targets through a rigorous approval process, starting with a target application, conducting a thorough review, and providing feedback for companies that need to re-submit a revision.

Once approved, SBTs are publicly displayed and are often integrated into committed companies' annual reports, sustainability reports, and other forms of disclosure, including CDP.

According to SBTi, 3278 companies have set SBTs, with more than 2300 others setting net-zero commitments for the near future. Companies that have set SBTs through SBTi include Lenovo, Macerich, Sony Group, Nissan Motor, Chipotle, and more—from tech companies and financial institutions to agricultural giants and airports.

The requirements SBTs

1. Coverage

- **Organizational boundary**: Companies should submit targets at the parent- or group-level, rather than at the subsidiary level. It's best to be consistent with the organizational boundary used in the company's financial accounting and reporting.
- **GHG coverage**: Targets must cover company-wide greenhouse gas emissions as required by the GHG Protocol Corporate Standard.
- **Scope coverage**: All targets must cover scope 1 and 2 emissions. Targets must also cover scope 3 emissions if 1) relevant scope 3 emissions are 40% or more of total emissions, or 2) the company is involved in the sale or distribution of natural gas and/or fossil fuels.
- **Emissions coverage**: If 40% or more of a company's total emissions are scope 3 emissions, that company is required to set a separate scope 3 target. These companies must set one or more targets that cover at least 67% of total scope 3 emissions.

2. Method

Targets must be modelled using up-to-date versions of SBTi-approved methods and tools.

3. Emissions accounting

SBTi has a number of specific emissions accounting requirements related to accounting approaches, scope 3 category screening, bioenergy accounting, and avoided emissions. The initiative also disallows the use of carbon credits toward the progress of a company's SBTs.

4. Timeframe

Near-term targets must cover a minimum of five years and a maximum of ten years from the date of target submission. Targets that cover more than ten years are considered long-term targets. Base years must be no earlier than 2015. Near-term targets should be consistent with reaching net-zero by 2050 at the latest.

5. Ambition

Scope 1 and 2 targets must, at a minimum, be consistent with the level of decarbonisation required to keep global temperature increase to 1.5°C compared to pre-industrial levels. For scope 3 targets, the minimum ambition is well below 2°C compared to pre-industrial levels. SBTi also lays out specific criteria for supplier engagement targets, combined targets, renewable electricity sourcing targets, and fossil fuel industry participants.

6. Reporting

Newly approved targets must be announced on the SBTi website within six months of approval. On an annual basis, there should be full disclosure of the company-wide GHG emissions inventory and progress against targets.

7. Recalculation

Targets must be reviewed—and recalculated, if necessary—every five years at a minimum. Certain significant changes to a company's GHG inventory, structure, and activities can also trigger a target recalculation.

8. Sector-specific criteria

SBTi maintains sector-specific requirements for certain sectors, including apparel and footwear, finance, buildings, chemicals, oil and gas, transport, and others. We dive deeper into sector-specific criteria in this post on SBTi's framework for financial institutions.

What is an ESG KPI? (Key Performance Indicator)

KPIs are trackable figures which are meant to help firms understand the environmental, social and governance impact of their operations. For venture capital and private equity managers, ESG KPIs are integral in understanding the ESG impact of the companies they invest in or are thinking about investing in, and thus the impact of their funds.

Greenhouse gas emissions (scopes 1, 2, and 3)

To help improve transparency and manage both direct and indirect emission sources, the GHG Protocol's Corporate Standard introduces the concept of "scopes" of emissions.

Scope 1 emissions include direct GHG emissions from sources that are owned or controlled by the entity. Examples include emissions from fossil fuels burned on-site, emissions from entity-owned vehicles, and fugitive emissions from refrigerants.

Scope 2 emissions include indirect GHG emissions from the generation of purchased electricity, heating and cooling, or steam generated off-site.

Scope 3 emissions are indirect GHG emissions from sources not owned or directly controlled by the entity but related to the entity's activities. In other words, scope 3 emissions are emissions that occur in the value chain and are *not* already included in scope 2. For example, employee travel and commuting, transmission and distribution (T&D) losses associated with purchased electricity, leased space, vendor supply chains, and use of sold products are sources of scope 3 emissions.

CDP. (CARBON DISCLOSURE PROJECT)

CDP in India is keeping in tune with these policies and initiatives taken by the Government, who constantly evolve the processes of disclosures. The disclosure supports and drives companies, financial institutions (FIs), cities, states, and regions to measure and manage their risks and opportunities on climate change, water security and deforestation. This process at the same time gives them an understanding of the topics of decarbonisation. Reporting also informs management and enables them to make strategic decisions integrating sustainability and decarbonisation.

Social sustainability is one of the three interrelated components of sustainability. For something to be truly sustainable, there must be equal consideration of social (people), environmental (planet), and economic (profit) factors. The social component of sustainability, at its most basic level, concerns the rights and well-being of all humans. In a business context, social sustainability encompasses a range of topics, including workplace diversity, fair labour practices, and positive community engagement. Social sustainability is a long-term, ongoing mission of ensuring social conditions and outcomes are optimized for generations to come

Social responsibility (sometimes called corporate social responsibility or CSR) refers to the ways organizations and governments should act on the overarching goal of social sustainability. As the word "responsibility" implies, it encompasses the role of these actors to ensure the upkeep of strong values and ethical behaviour. While social responsibility is grounded in the same principles as social sustainability, it attributes organizations and other entities to accountability. In other words, under social responsibility, these entities are deemed “corporate citizens” who are obliged to do their part for society.

SASB The **Sustainability Accounting Standards Board (SASB)** is a non-profit organization, founded in 2011 by Jean Rogers to develop sustainable accounting standards. Investors, lenders, insurance underwriters, and other providers of financial capital are increasingly attuned to the impact of environmental, social, and governance (ESG) factors on the financial performance of companies, driving the need for standardized reporting of ESG data……. Wikipedia.

The ***SASB*** Standards are a source of guidance for applying IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.The Sustainability Accounting Standards Board (SASB) under IFRS is an independent non-profit, whose mission is to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors.

GRI is The **Global Reporting Initiative** (known as **GRI**) is an international independent standards organization that helps businesses, governments, and other organizations understand and communicate their impacts on issues such as climate change, human rights, and corruption.

GRI's voluntary sustainability reporting framework has been adopted by multinational organizations, governments, small and medium enterprises (MSMEs), NGOs, and industry groups etc.

Sustainability check

1. Sustainable development —*"sustainable development"* was promoted by the World Commission on Environment and Development (the Brundtland Commission) in 1987. The main key components in many policy discussions were on economic, social and environmental issues. In its report, the Brundtland Commission defined it as:

   "Development which meets the needs of current generations without compromising the ability of future generations to meet their own needs."

   The Commission's proposals were approved by the United Nations Conference on Environment and Development at Rio de Janeiro in 1992 leading to both national and international attention, including the United Nations Commission for Sustain- able Development.

2. At a general level, sustainability is the capacity to endure. We here focus on the environmental aspects of sustainability; it also has economic and social sides and many of the issues of economic sustainability may already has good impact on valuations. Indeed, economic concepts such as sustainable rental income or sustainable cash flow long pre-date the current uses of the word. Resilience is the capacity to withstand, absorb and recover from shocks. Day by day the pressures on resources and natural systems have grown. The focus has changed, this now on environmental constraints which has led to one definition of sustainability that is improving the quality of human life within the carrying capacity of supporting ecosystems.
3. Valuers must act within the limits of their professional skills and current market expectations. This will usually mean that valuer has a need to call on specialist for the certification and reports on a property's sustainability.

How to do?

Identify, describe and assess the relevant characteristics of properties;

Interpret and judge assessments of them.

Consider whether they are already taken in to account so far as they are relevant to value.

Select the appropriate way to take any remaining points in to account without double counting.

Checklist (as per EVS)

- Construction materials
- Any contamination of properties
- Risks of natural disasters such as flooding, earthquakes, or avalanches;
- Compliance with relevant building standards;
- Insulation and related points and quality in terms of durability and building standards;
- Nature and complexity of building services;
- Age and quality (efficiency) of the equipment in the building for heating, cooling and other purposes and so the feasibility of maintaining or replacing specific building components if any (such as an oil-fired heating system compared with an alternative system that may reduce overall operating costs);
- Energy efficiency, EPC ratings and recommended measures for improving the property, energy sources (renewable?) and net energy demand

- Water efficiency, especially in locations with scarce water supplies, using grey water, recycling of water, rainwater harvesting, etc.;
- Operating expenses;
- Floor area in terms of usability, adaptability and cost effectiveness;
- Impact on users' productivity and well-being;
- Likely timing and cost of refurbishment;
- Market attitudes towards sustainability and willingness to pay for green features;
- Requirements of legislation;
- Possible financial support;
- Relevant certifications or ratings;
- Terms of leases (*"green leases"*).

“Energy performance” of a building' means the calculated or measured amount of energy needed to meet the energy demand associated with a typical use of the building, which includes, inter alia, energy used for heating, cooling, ventilation, hot water and lighting."

"'Nearly zero-energy building' *means a building that has very high energy performance as determined in accordance with Annex 1. The nearly zero or very low amount of energy required should be covered to a very significant extent by energy from renewable sources, including energy from renewable sources produced on site or nearby."*

'Technical building system' *means technical equipment for space heating, space cooling, ventilation, domestic hot water, built-in lighting, building automation and control, on-site electricity generation, or for a combination thereof, including those systems using energy from renewable sources, of a building or building unit."*