ESG REPORTING AND AUDIT

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The term ESG, or environmental, social and governance, in the context of an organisation is now well-known. It refers to a set of metrics used to measure an organization's environmental and social impact and has become increasingly important in investment decision-making over the years. But while the term ESG was first coined in 2004 by the United Nations Global Compact, the concept has been around for much longer.

ESG AT THE TURN OF THE MILLENNIUM

In 2000, the United Nations hosted world leaders in New York at the Millennium Summit to discuss their evolving role in the new millennia. Over the course of the three-day summit, leaders established guiding principles around topics like human rights, working conditions, the environment and anti-corruption. Following the summit, the Millennium Development Goals (MDGs) were created, outlining eight international development goals to be achieved by 2015. While meant to spark discussion, the MDGs ultimately set the stage for nations and corporations to discuss ESG factors more candidly.

That same year, the Carbon Disclosure Project (CDP) was founded. The CDP encouraged institutional investors to ask companies to report on their climate impact. This helped normalize the practice of ESG reporting and by 2002, 245 companies had responded to the 35 investors who asked for climate disclosures.

In the decade that followed, more principles and frameworks were created, providing further guidance on how companies can integrate and report on ESG factors. Some prominent examples include the Principles for Responsible Investment (PRI), the Climate Disclosure Standards Board (CDSB) and the Sustainability Accounting Standards Board (SASB). Today, companies and investors still rely on these principles and frameworks.

THE LAST DECADE: AN EVOLVING LANDSCAPE

By 2015, the Sustainable Development Goals (SDGs) replaced the MDGs. The SDGs outlined seventeen sustainability targets and set a global agenda for sustainable development with the hopes of improving quality of life and achieving a more sustainable future by 2030. While broader in their scope, the SDGs set specific

targets—169, to be exact—with unique indicators to track progress. With their adoption, the SDGs marked a shift in the socio-political mindset; ESG was no longer a talking point but something that could (and should) be measured.

Investors continued to demand climate-related financial disclosures from companies, so regulators responded with new reporting requirements. The Taskforce on Climate-related Financial Disclosure (TCFD) was founded in 2015 with the goal of providing standards for climate-related disclosure for financial institutions, as well as companies and investors.

Later, in 2017, a group of 140 CEOs gathered to sign the Compact for Responsive and Responsible Leadership (the Compact) which was drafted by the World Economic Forum. The signatories committed to working together to help achieve the UN's SDGs—a pledge that would be put to the test come 2020.

When the COVID-19 pandemic hit, many investors feared that companies would forego their ESG initiatives for the sake of staying afloat. And while this was the case in some instances, an interesting discovery was made: companies that had strong ESG performance were better equipped to weather the pandemic as they had already accounted for the possibility of disruption

ESG TODAY AND TOMORROW

ESG is no longer a fringe concept but a household initialism for both companies and investors. Today, ESG data is used to evaluate a company's performance on specific ESG issues. For instance, carbon emissions per unit of revenue are used to evaluate a businesses' environmental impact, while employee turnover rates are used to evaluate a company's labour practices.

ESG ratings and indices have also become more prevalent in recent years. Morgan Stanley Capital International (MSCI), for example, offers a range of ESG indices that allow investors to track companies based on their ESG performance. These indices have become popular with investors looking to integrate ESG factors into their portfolios.

As the world faces increasing challenges related to climate change and social issues, ESG considerations will continue to play a critical role in the way companies and investors operate and measure their performance.

INDIA’S JOURNEY IN ESG REPORTING

India's journey towards the Business Responsibility and Sustainability Report (BRSR) has been marked by a series of milestones, including:

- National Voluntary Guidelines (NVGs)
- In 2011, the Ministry of Corporate Affairs (MCA) released the NVGs, which were an early step towards defining ESG disclosure standards for companies.
- Business Responsibility Reports (BRR) In 2012, the Securities and Exchange Board of India (SEBI) introduced the BRR, requiring the top 100 listed companies to include it in their annual reports. In 2015, the requirement was extended to the top 500 listed companies.
- Business Responsibility and Sustainability Report (BRSR)
- In 2021, SEBI replaced the BRR with the BRSR, a more comprehensive ESG reporting framework. The BRSR aims to improve transparency and accountability by requiring companies to provide detailed reports on their sustainability efforts.

AUDIT OF ESG PARAMETERS

In July 23, SEBI published the BRSR Core which is a subset of the BRSR, consisting of a set of Key Performance Indicators (KPIs) /metrics under 9 ESG attributes. Keeping in view the relevance to the Indian / Emerging market context, few new KPIs had been identified over and above the ones already identified under BRSR for audit such as job creation in small towns, openness of business, gross wages paid to women etc. Further, for better global comparability intensity ratios based on revenue adjusted for Purchasing Power Parity (PPP) had been included.