



ESG guidebook and ready reckoner for board of directors

September 2024

Table of contents

1	Introduction	06
2	ESG ready reckoner	12
3	Strategic ESG integration	15
4	Conclusion	29
5	Annexures	30



Foreword

Businesses play an important role in the sustainable development of economies. Stakeholders today are focusing on and monitoring the commitment levels and performance of corporates towards their environment, social and governance (ESG) goals. They seek transparency and accountability in business practices and a thorough alignment of business objectives to social equity and environmental stewardship.

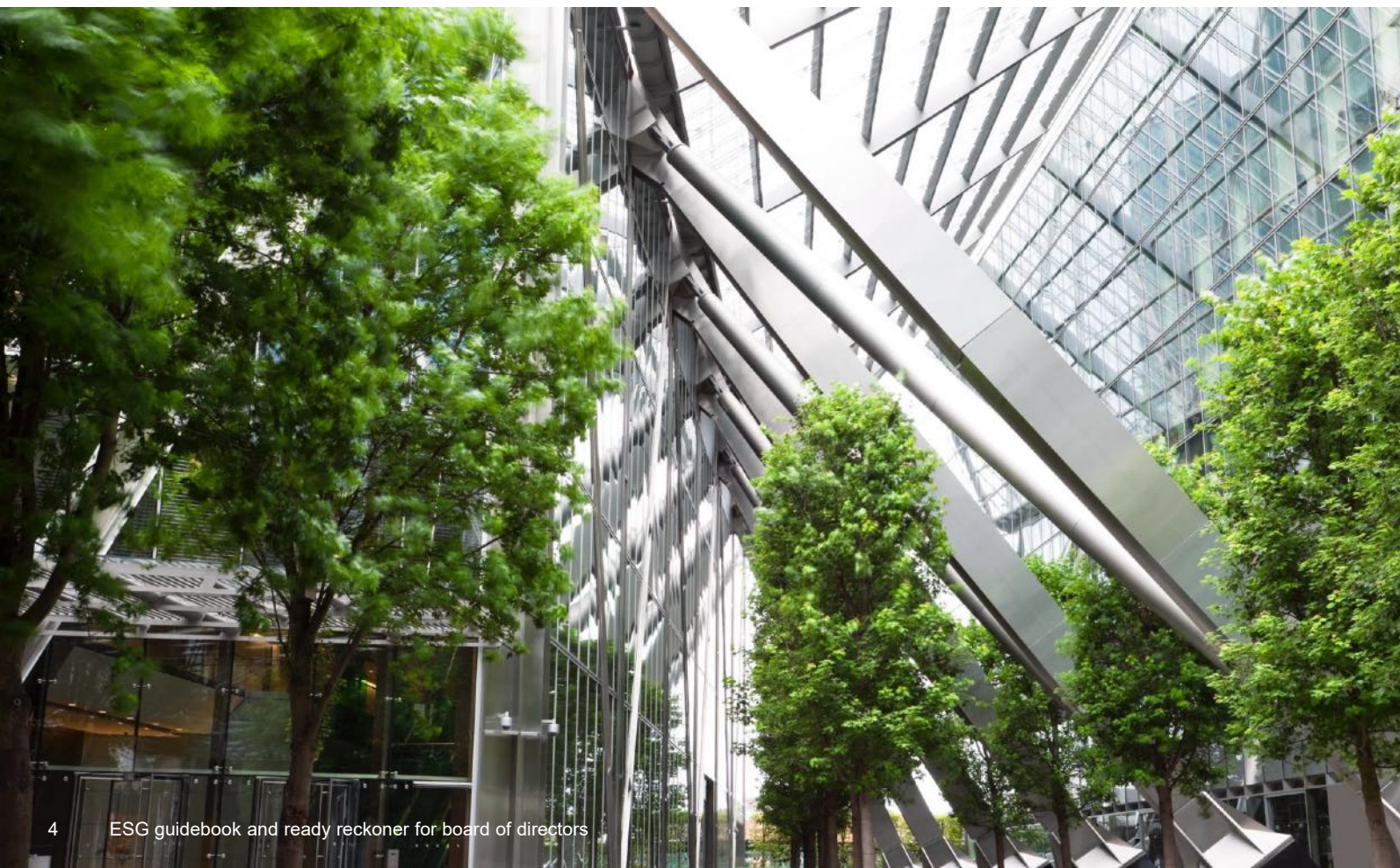
The increasing emphasis on ESG transformation across the globe has led to the development of ESG regulations and standards. In India, governing bodies like the Ministry of Corporate Affairs (MCA), the Securities Exchange Board of India (SEBI), the Central Pollution Control Board (CPCB) and the Ministry of Environment, Forest and Climate Change (MoEFCC), have laid down several guidelines and regulations which are specific to the Indian market. Companies must comply with ESG regulations based on the jurisdiction in which they operate.

These regulations and stakeholder expectations have pushed companies to embrace ESG aspects in their business strategy. As a result, board of directors (BoDs) around the globe have recognised ESG as an important agenda for boardroom discussions.

Confederation of Indian Industry (CII) and PricewaterhouseCoopers have collaborated to develop an 'ESG guidebook and ready reckoner for boards of directors' under the aegis of the CII Corporate Governance Council. This guidebook provides a practical, step-by-step reference to ESG and sustainability strategies based on leading global practices and frameworks.

For a significant number of Indian corporates, integrating all the guidelines, regulations and adhering to the reporting standards consolidated into the ESG report, may require guidance and support. In view of this, the guidebook provides an overview of ESG concepts and helps the reader understand the ESG ecosystem and delves deeper into the reporting fundamentals. The guidebook provides the BoDs with actionable insights to implement requirements in their organisations. It also includes an ESG ready reckoner with a checklist that acts as a manual to verify whether an organisation complies with the regulatory requirements. With this guidebook BoDs will be equipped in identifying risks and opportunities related to ESG and re-align their organisational purpose, vision-mission statements to integrate ESG as a key pillar of their growth strategy.

This guidebook is a practical step towards realising CII's mission and PwC's purposeful vision of creating a community of solvers who come together to solve some of the business world's most important problems. We hope that the readers will play a key role in creating a thriving and sustainable society.



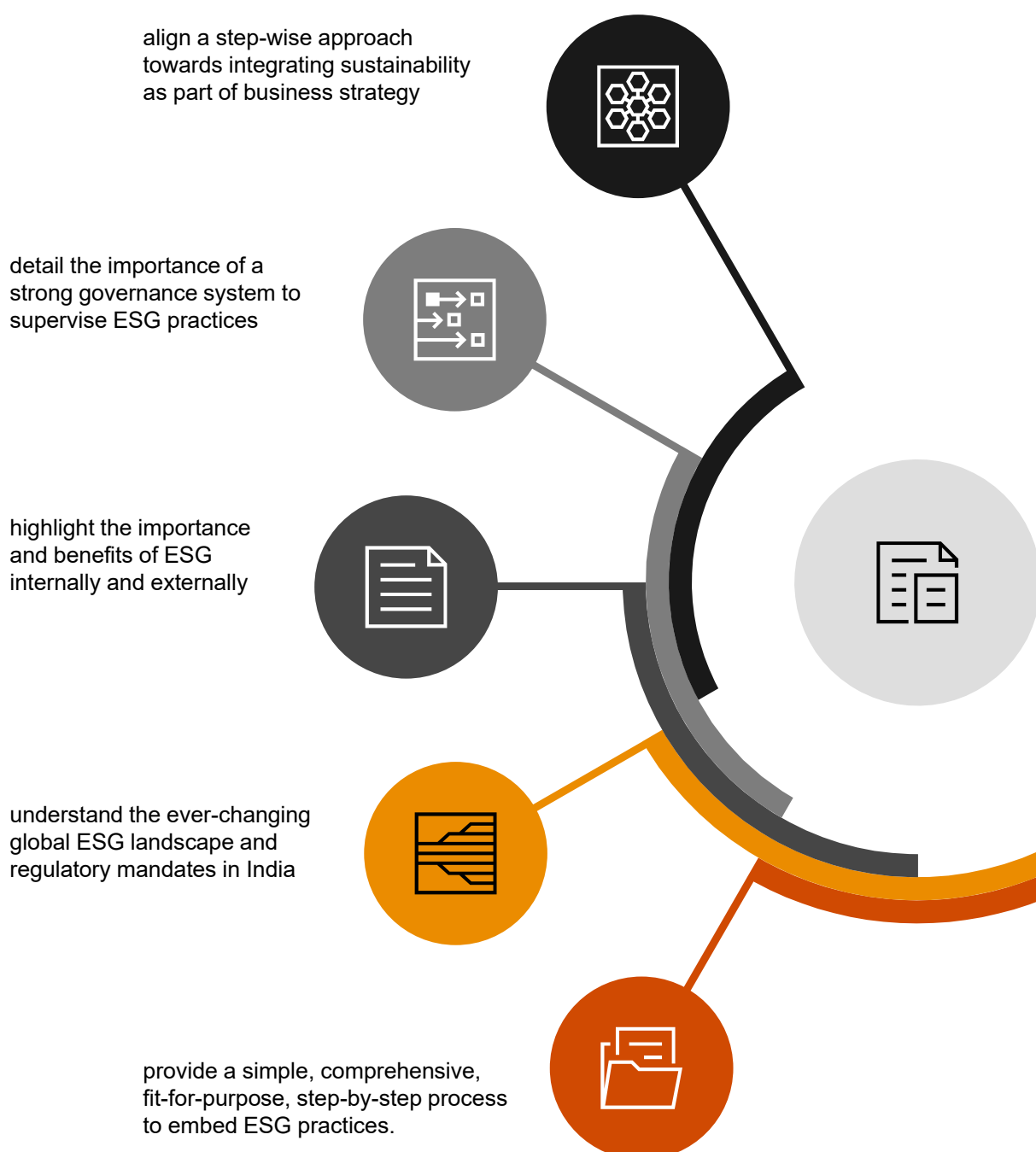
Key objectives of the guidebook

Organisations play a significant role in sustainable development; therefore, it is important that businesses make accurate, transparent, measurable, comparable and verifiable disclosures of their sustainability performance. Such disclosures are broadly classified as non-financial reporting related to the ESG aspects of corporates.

While the focus is on disclosures, corporates also need to invest a substantial amount of effort in terms of strategy alignment, policy development, governance, risk management, process implementation and capacity development in order to push the needle from being compliant to leveraging sustainable development to gain a competitive edge in the dynamic business world.

Without comprehensive knowledge of ESG principles and know-hows of incorporating ESG goals into the organisational framework, the expected benefits of the ESG mandate and guidelines for organisations and their stakeholders can be difficult to achieve. This guidebook aims to help Indian businesses in adopting ESG within the organisational structure, processes and performance.

The key objectives of the guidebook are to:



Understanding ESG for organisations

Human endeavours towards economic development and financial profitability have affected the geographical and intergenerational equity of societies and become a hinderance for inclusive development. The increase in population, higher income levels and technological advancements have led to the excessive use of natural resources at a scale which is not sustainable.

Numerous human-made systems, including those related to agriculture, extraction, production, storage, transportation and consumption operate and thrive at the expense of natural systems. Global consumption patterns drive the supply of resources from one location to another at a rate which exceeds the regenerative capacity of the planet's natural system. Therefore, a balanced, transparent, equitable and inclusive model of development is essential for sustaining the society, planet and economy.

ESG are the three pillars which are reshaping the way organisations conduct their business in an ever-evolving business landscape. Climate change, scarcity of natural resources and air pollution are examples of the E of ESG; while S includes social issues such as working conditions, product safety, human rights and data security, and G refers to governance issues such as ethics, board diversity, executive compensation and tax transparency.

A robust governance will not only have positive impacts internally but also ensure effective policies which could reduce environmental impact. These environmental policies in turn will create a lasting impact on the social aspects of the community. Subsequently, well-rounded social policies that leave a lasting impact on employees and communities will lead to positive company culture, a sign of good corporate governance.

ESG looks beyond the financial indicators of the company by considering the impact of non-financial indicators on the overall business. ESG metrics help investors and other stakeholders understand and assess a company's environmental footprint and social performance. They also help analyse the impact of social and environmental factors on the company, and its relationships with stakeholders and internal governance mechanisms to manage these factors. The investor community is becoming increasingly interested in the ESG aspects and the risks and opportunities related to investee entities' value creation potential.

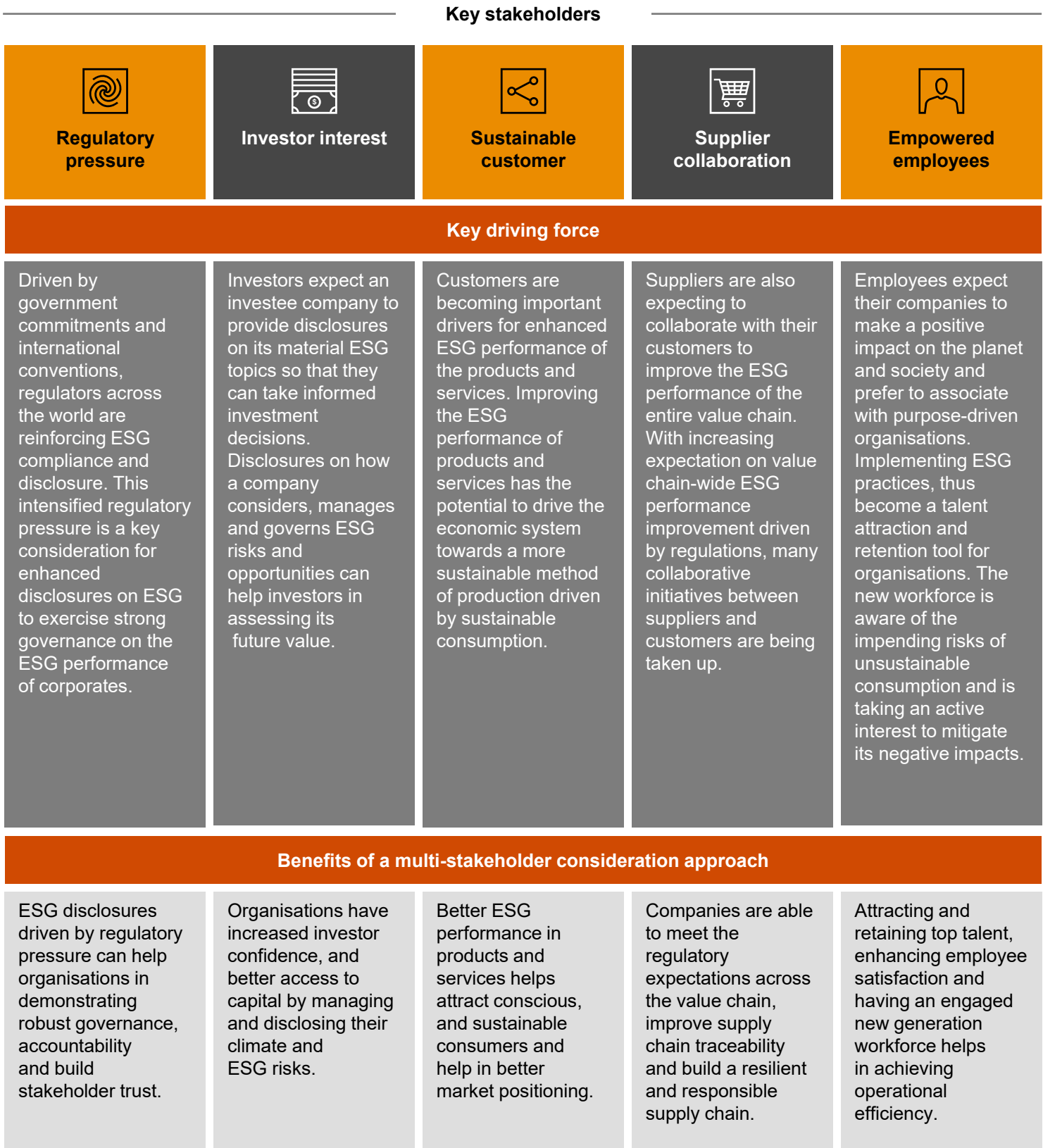
Businesses are an important part of the financial, economic, environmental and social systems and are equally impacted by the changes in these systems. For example, carbon emissions from business operations which contributes to climate change can result in natural calamities such as heat waves or floods which can impact the business. Embracing ESG with the purpose of solely adhering to mandates will only be beneficial in the short run. Adopting ESG practices in a holistic manner where businesses contribute and invest in the community and the environment will reap long-term benefits related to customer loyalty, reputation and value creation. This interconnectedness reflects on the idea that responsible actions lead to mutual benefits.

The ESG ecosystem

ESG practices of an organisation can impact several stakeholders, including investors, customers, suppliers, employees, regulators, rating agencies, media, government and society. The expectations of stakeholders from a company's ESG practices and performance is a key consideration when they develop and implement their ESG strategy while monitoring and disclosing their ESG performance. Figure 1 provides a brief description of the driving forces for various stakeholders and the benefits of stakeholder integration.



Figure 1: Key stakeholders in the ESG ecosystem



Source: PwC analysis

Global developments

The ever-evolving landscape of ESG is reshaping corporate strategies, driving sustainable growth and influencing investment decisions worldwide. Given below is an overview of the major ESG developments over the years:

1987, Brundtland Report²

The World Commission on Environment and Development published a report 'Our common future' developing the guiding principles of sustainable development. It is often cited as a pioneer in defining and popularising the definition of sustainability.

1997, The Kyoto Protocol, Kyoto, Japan⁴

An international agreement with the aim to reduce and control emissions of the main anthropogenic (human-emitted) greenhouse gases (GHGs), specifically aimed at industrialised countries in ways that reflect underlying national differences in GHG emissions, wealth and capacity to make the reductions. It set legally binding targets for developed countries.

2000, The Carbon Disclosure Project⁶

Established with an intention to support companies in disclosing their climate impact through an environmental disclosure framework. Primarily focused on carbon emissions, CDP's focus areas now include forests, supply chains, climate and water.

1972, United Nations Conference on the Environment in Stockholm, Sweden¹

The Stockholm Declaration with its 26 principles, created global awareness on the link between economic growth, pollution of the air, water, oceans and the well-being of people around the world.

1992, The Rio Summit, Rio de Janeiro, Brazil³

Focused on sustainable development, a global action plan, Agenda 21 was adopted. A key achievement was the establishment of the United Nations Framework Convention on Climate Change (UNFCCC) established as an international environmental treaty to combat 'dangerous human interference with the climate system' and to stabilise greenhouse gas concentrations in the atmosphere.

1999/2000 The UN Global Compact⁵

A United Nations pact aimed at uniting business and firms worldwide to adopt sustainable and responsible policies and report their implementation. It focused on ten principles in areas of human rights, labour, environment and anti-corruption.

¹ <https://www.un.org/en/conferences/environment/stockholm1972>

² <https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf>

³ <https://www.un.org/en/conferences/environment/rio1992>

⁴ https://unfccc.int/kyoto_protocol#:~:text=The%20Kyoto%20Protocol%2C%20like%20the,the%20impacts%20of%20climate%20change.

⁵ <https://unglobalcompact.org/>

⁶ <https://www.cdp.net/en>

⁷ <https://www.unpri.org/>

⁸ <https://www.globalreporting.org/>

⁹ <https://unfccc.int/process-and-meetings/the-paris-agreement>

¹⁰ <https://www.fsb-tcfd.org/>

2011, Global Reporting Initiative (GRI), G3 Guidelines⁸

A comprehensive framework with global best practices was launched with the aim to make sustainability reporting a common practice. In the latest update of 2021, GRI introduced new disclosures on human rights, due diligence and climate-related risks.

2015, Task Force on Climate-related Financial Disclosures (TCFD)¹⁰

An initiative to provide guidelines for businesses to disclose climate related risks and opportunities and the financial impacts of climate change on businesses.

2021, The Sustainable Finance Disclosure Regulation¹²

Aimed at increasing transparency in disclosing environmental, social, and governance (ESG) risks and impacts by financial market participants.

2015, United Nations' Sustainable Development Goals¹¹

17 goals developed by the United Nations with the aim to end poverty, protect the planet and ensure peace and prosperity for the people by 2030.

2006, The Principles for Responsible Investment⁷

A global framework urging investors to consider ESG aspects into their investment decisions.

2015/2016, The Paris Agreement⁹

An international treaty aimed at substantially reducing greenhouse gases in an effort to keep global temperatures under check.

The Conference of the Parties (COP)

An annual UN climate change conference which focuses on global climate action and negotiations.

During COP26 held in 2021, UN committed to reduce the use of coal. India presented five nectar elements (Panchamrit) of India's climate action¹³.

The main theme of COP27 of 2022, held in Egypt, was 'sustainable lifestyle and sustainable patterns of consumption to address climate change. A fund for 'loss and damage' was established in support of vulnerable countries¹⁴.

COP28 which was held in Dubai in 2023 was focused on making climate finance more available, accessible, and affordable to developing countries¹⁵.

¹¹ <https://sdgs.un.org/goals>

¹² https://finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector_en

¹³ https://en.wikipedia.org/wiki/2021_United_Nations_Climate_Change_Conference

¹⁴ https://en.wikipedia.org/wiki/2022_United_Nations_Climate_Change_Conference

¹⁵ https://en.wikipedia.org/wiki/2023_United_Nations_Climate_Change_Conference

ESG regulations in India

Besides global commitments, India's regulatory system has also established various regulations including comprehensive reporting requirements for corporates. The Ministry of Corporate Affairs, Government of India, has taken significant steps in providing guidance to businesses on their role in sustainable development through the National Guidelines on Responsible Business Conduct (NGRBC). The NGRBC consists of nine principles related to the role of corporations in sustainable development and also lists the specific roles to be played by the board of directors (BoDs) and management to ensure that these principles are followed.

The Securities and Exchange Board of India (SEBI) has prescribed Business Responsibility and Sustainability Reporting (BRSR) practices in line with the NGRBC by making the publishing of BRSR reports mandatory for the top 1,000 companies (by market capitalisation) in India from FY 2023 onwards. The new mandate, referred to as BRSR Core is aligned with global frameworks such as GRI and TCFD. Compliance with BRSR Core will be mandatory for the top 150 listed companies for FY 2024, top 250 for FY 2025, top 500 for FY 2026 and top 1000 for FY 2027^{16,17}. A detailed outline of the BRSR principles is provided in Annexure 1 of this paper.

With a focus on the Indian market, SEBI has introduced additional KPIs for assurance. SEBI has also set out new regulations for ESG rating providers effective 23 July 2023. It also mandates investment funds and schemes to invest at least 65% of their total assets (assets under management) in listed companies that have undergone BRSR core assurance.¹⁷

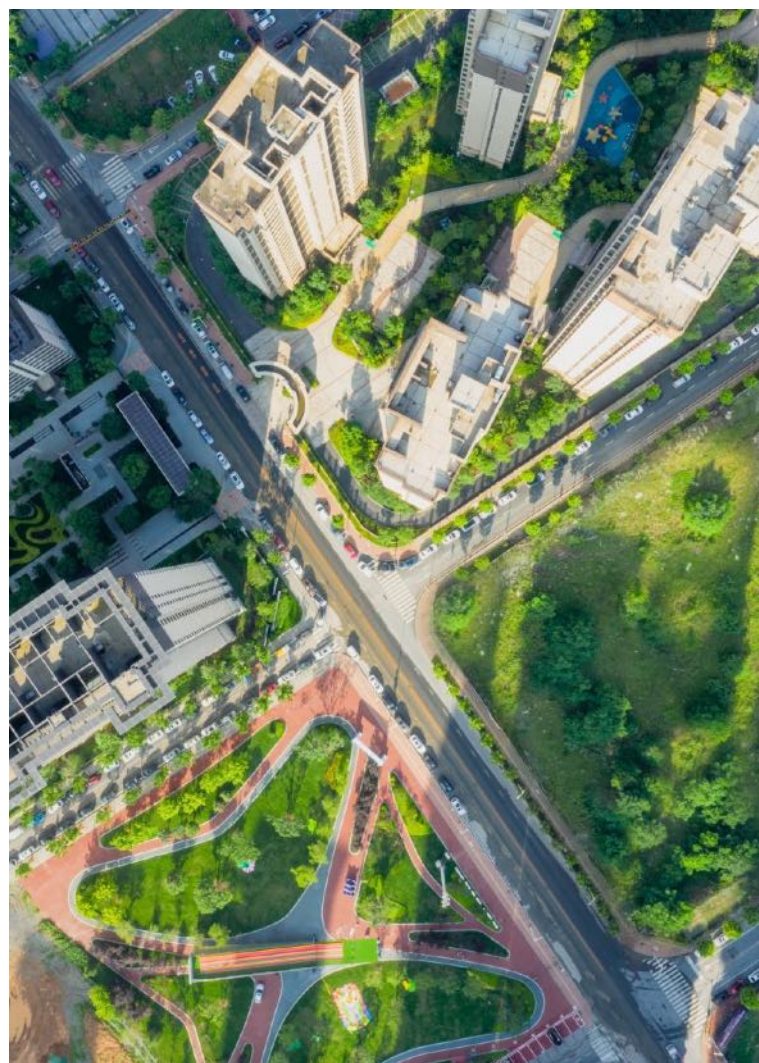
In a recent update, the Reserve Bank of India (RBI) has issued draft guidelines on disclosure framework on climate-related financial risks 2024, which is a mandate for regulated entities to disclose information on four major areas – strategy, key areas of governance, risk management, and metrics and targets¹⁸.

In February 2022, the Ministry of Environment, Forest and Climate Change, issued detailed guidelines on extended producer responsibility (EPR) to keep a check on waste generation, segregation and management, littering, etc.¹⁹

In 2024, India has made significant changes in its Carbon Credit Trading Scheme (CCTS) after which non-obligated entities are allowed to participate in trading of carbon credits.²⁰

The Central Consumer Protection Authority has proposed to issue guidelines on the 'Prevention and regulation of greenwashing' further emphasising the need for publishing accurate data and environmental claims by organisations. The act specifically applies to advertisements and endorsements, irrespective of the medium, which make any kind of environmental claims related to their product or services.

The recent legislations by the Government of India (GOI) indicate that regulators are pushing the needle for companies to adopt responsible business practices and contribute towards developing a sustainable and equitable economy.



¹⁶ <https://www.pwc.in/assets/pdfs/navigating-indias-transition-to-sustainability-reporting.pdf>

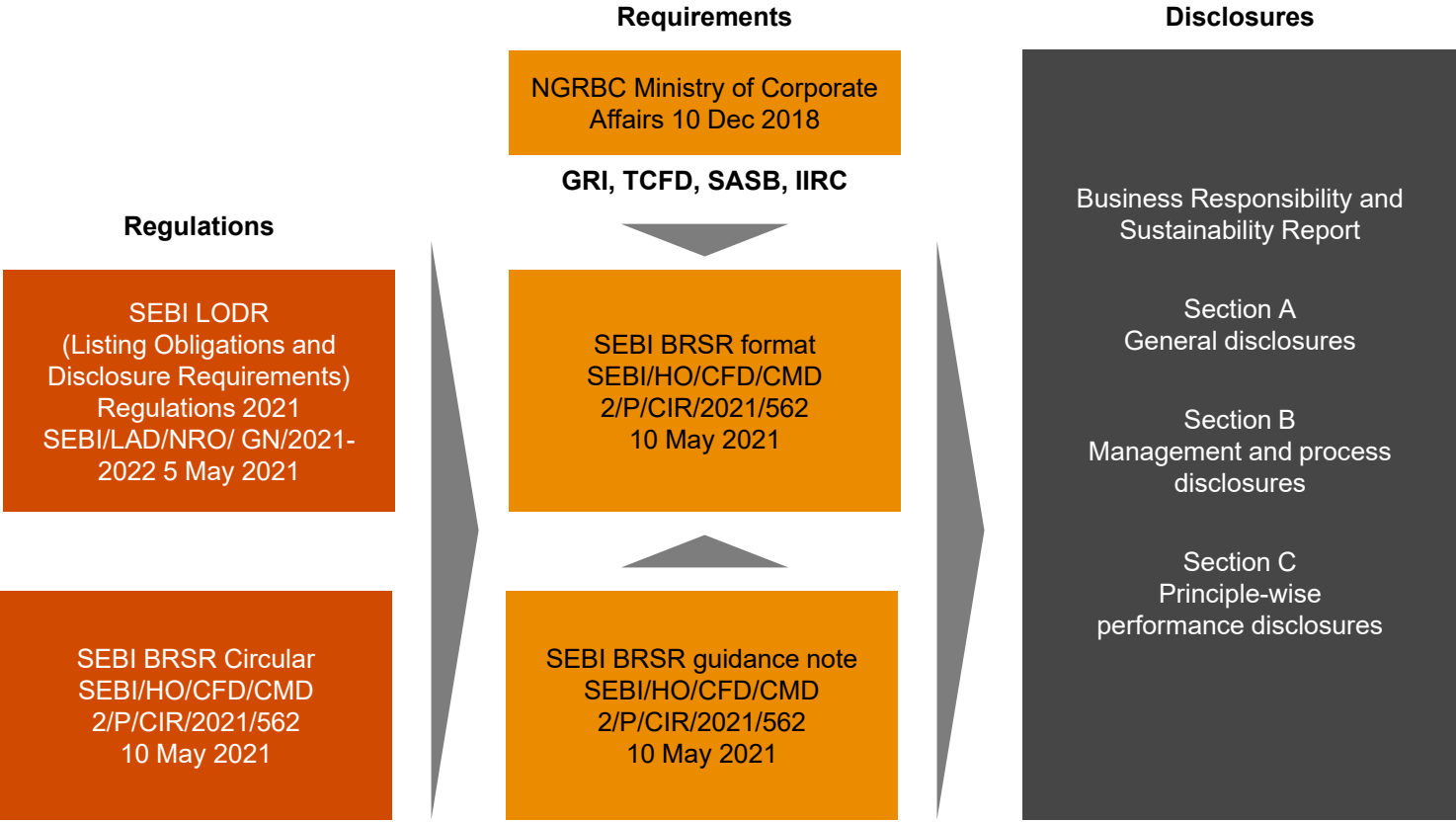
¹⁷ <https://www.livemint.com/market/stock-market-news/sebi-board-approves-balanced-esg-framework-prescribes-glide-path-for-top-150-listed-firms-from-fy24-11680105637131.html>

¹⁸ <https://www.pwc.in/blogs/disclosure-framework-on-climate-related-financial-risks-2024.html>

¹⁹ <https://eprplastic.cpcb.gov.in/#/plastic/home>

²⁰ <https://www.investindia.gov.in/team-india-blogs/indias-carbon-market-revolution-balancing-economic-growth-climate-responsibility#:~:text=The%20CCTS%20allows%20non%20obligated,to%20commence%20in%202025%2D26.>

Figure 2: BRSR regulations, requirements and disclosures



Source: PwC analysis
Annexure 1 provides a list of major reporting frameworks and standards.



The role of BoD in effective corporate governance

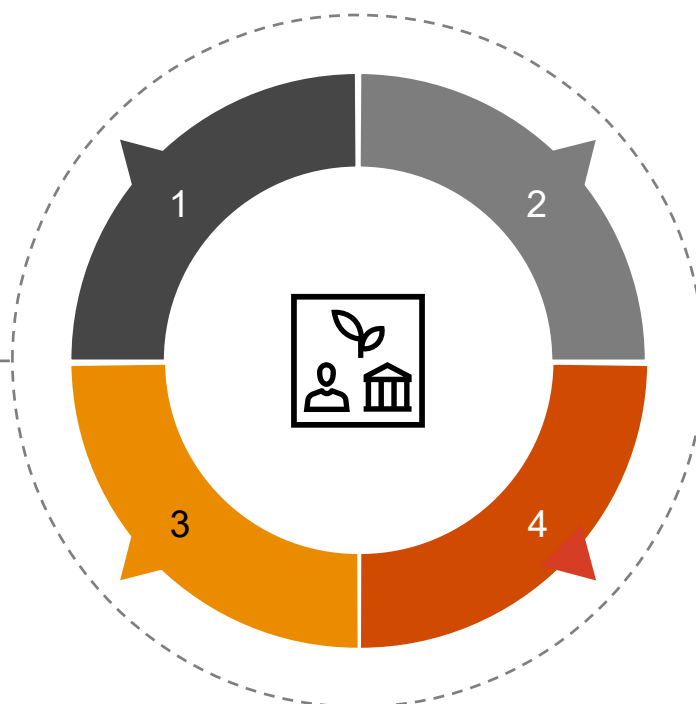
As per NGRBC, governance relates to how an organisation makes decisions, how it operates to achieve its objectives and how stakeholders have their say in the processes. The BoD are the key stakeholders responsible for shaping and providing an oversight of the governance framework of an organisation. Given below are the key responsibilities of the BoD to align the strategic decisions with best governance practices and meet the regulatory requirements:

Develop a strong governance structure:

- Establish a governance framework which defines the roles, responsibilities and processes. This includes structuring the BoD effectively to oversee the various facets of the company's governance aspects.
- Form specialised committees (e.g. audit, risk, compensation, ESG) with members with relevant expertise to address specific governance areas.
- Ensure a balanced composition of independent and non-independent directors to maintain objectivity and oversight.

Foster a culture of ethics and integrity:

- Develop and enforce a code of conduct which upholds ethical standards across all business practices and implement training programmes to reinforce these standards.
- Promote transparency in decision-making processes and financial reporting to build trust with stakeholders.
- Make the organisation's whistleblower mechanism easily accessible for internal/external stakeholders and ensure that the complaints are thoroughly investigated and addressed.



Risk management and regulatory compliance:

- Ensure adherence to applicable laws, regulations and industry standards. Monitor compliance and address any violations promptly.
- Develop and implement a risk management framework to identify, assess, and mitigate potential risks. Regularly review and update risk management strategies.
- Establish internal controls and standard operating procedures to safeguard the company's assets and ensure accurate financial reporting.

Driving corporate responsibility:

- Promote corporate social responsibility initiatives which can address social and environmental challenges.
- Integrate sustainability principles into business practices with a focus on reducing the environmental impact of the organisation's operations and ensure sustainable growth.
- Engage with stakeholders to understand their concerns and expectations and ensure that corporate responsibility efforts align with stakeholder interests.

Driving the adoption of ESG principles

The BoD play a key role in integrating ESG principles into the company's core strategy. For this, the BoD should address critical questions that guide the organisation's approach to ESG. Given below are a few questions which the BoD can consider to ensure that the organisations' ESG considerations are integrated with decision-making and fosters transparency, accountability, and long-term value creation:

ESG vision and strategy:

- What is the BoD's vision for ESG and how has the organisation's measurable outcomes aligned with NGRBC's principles?
- How does the BoD ensure that ESG objectives are fully integrated into the organisation's overall strategy?

Stakeholder engagement and materiality:

- Who are the major stakeholders considering the size and nature of the business, its model, geographies, products, services and markets?
- What ESG topics are most relevant to these stakeholders and how are these topics identified and prioritised?

Governance and oversight:

- Does the BoD include ESG experts or does it seek advice from specialists on specific ESG topics such as climate change?
- Has the BoD established an ESG committee and does this committee have the necessary expertise to address key ESG issues?
- How is the ESG leadership role defined and does the leader have the authority and influence needed to drive ESG initiatives effectively?

Policies, procedures and systems:

- What ESG-related policies and procedures are currently in place, how well do they align with the ESG strategy and NGRBC principles and are they accessible internally or publicly?
- How advanced are the organisation's ESG policies, procedures, and systems, and what relevant certifications (e.g. ISO 9000, 14000, 50000, 18000 and 45000) does it hold?
- What recent investments and portfolio adjustments have been made to integrate sustainability considerations into investment evaluations?
- What guidelines are in place to prevent misleading practices such as greenwashing in advertising and consumer claims? How does the company ensure its marketing accurately reflects its ESG commitments in line with regulatory guidelines?
- How does the organisation foster ethical behaviour and ensure compliance with both internal codes of conduct and external regulations?
- What systems are in place to prevent, detect and address ethical and compliance issues?
- How are stakeholder grievances and whistleblower complaints managed?
- How does the organisation use data management and technology to advance ESG goals and improve resource efficiency?
- What innovative practices are being adopted to tackle ESG challenges?

Reporting and performance:

- What frameworks or standards are used for ESG reporting, and how does the organisation engage stakeholders to gather feedback on ESG performance?
- How is ESG performance tracked and reported and which key performance indicators (KPIs) are used?

Human rights:

- What actions does the organisation take to uphold and protect human rights within its operations and supply chain?
- How does the organisation evaluate and address human rights risks, and what is the process for addressing any violations?
- Does the organisation manage toxic substances and hazardous waste which requires specialised expertise, and does it follow internationally accepted practices for handling these materials?
- Is there a history of soil and water contamination, and what remedial actions have been taken? Who oversees these remediation efforts?

Social responsibility and inclusion:

- What steps does the organisation take to ensure diversity and inclusion in the workplace and how are worker rights and safety managed?
- What specific measures and initiatives are in place to protect marginalised and vulnerable stakeholders?
- How does the organisation ensure minimum wages for regular and contract employees and what influence does it have on contractors to comply with wage standards?

Risk management and compliance:

- How does the organisation identify, track and mitigate ESG risks, and is there a person who is in charge of ESG compliance?
- Has the organisation assessed its ESG risk appetite and how is this assessment factored into investment decisions?
- Have there been any recent regulatory issues, violations or penalties related to ESG? If so, what corrective actions have been taken.



3

Strategic integration of ESG principles with organisational goals

3.1 Understanding the current state of an organisation's ESG principles

It is essential to assess where an organisation currently stands in terms of its ESG practices and performance. An organisation could be managing certain aspects of ESG within specific functions; however, it may not have a comprehensive view of the ESG impacts. Without this holistic view, the organisation may not be able to implement ESG elements across the organisation. Understanding the ESG status entails examining its current ESG practices and measuring them against industry standards, best practices and regulatory requirements. This evaluation aids in pinpointing areas of improvement and an understanding of crucial ESG concerns and risks critical to both internal and external stakeholders.



The questions given below may be useful to understand the current state of ESG maturity of an organisation:

What are the applicable regulations related to ESG given the cross-jurisdictional intersection of operations within the organisation?

How does the organisation benchmark its ESG performance against industry peers? What key performance indicators (KPIs) are used to measure ESG performance?

How does the organisation ensure oversight on ESG related matters? Does the organisation have an ESG committee or a dedicated team for overseeing ESG operations?

What are the key ESG risks and opportunities and how are these managed by the organisation?

How does the organisation engage with stakeholders (regulators, investors, customers, employees, communities) on ESG issues?

What training programmes are in place to educate employees, workers, the C-suite and BoD about ESG issues?

What are the long-term ESG goals and targets of the organisation and how is the progress towards these goals tracked and measured?

How is current ESG data managed? Are there any specific IT systems available for data management?

How does the organisation measure and report on the impact of its ESG initiatives? Does it seek a third-party assessment for its ESG-related disclosures?

Figure 3: An example of an ESG diagnostic dashboard

	Environmental			Social			Governance		
	Emission management	Biodiversity	Circularity	Health and safety	Diversity and inclusion	Human rights	Internal audits	Boards knowledge and skills in ESG	ESG risk management
Policy	✓	✓	X	✓	X	✓	X	✓	✓
Procedure	Present	Absent	Present	Present	Absent	Present	Absent	Present	Absent
Governance	Yes	No	Yes	Yes	No	Yes	Yes	Yes	No
YoY change	[]%	[]%	[]%	[]%	[]%	[]%	[]%	[]%	[]%
ESG framework									
Goals and targets	0 – 10	0 – 10	0 – 10	0 – 10	0 – 10	0 – 10	0 – 10	0 – 10	0 – 10

Source: PwC analysis

Appendix

- ✓ signifies that a policy has a defined purpose, scope, objective, a designated responsible person, grievance mechanisms, and adherence to relevant regulatory requirements
- Present indicates that a procedure incorporates roles and responsibilities, grievance mechanisms, regulatory compliance, documentation, continuous improvement, etc.
- + YoY change % signifies improvement in ESG performance of the company.
- indicates that ESG disclosures are crafted in alignment with recognised ESG frameworks and standards, including but not limited to GRI, UN SDGs, SASB, TCFD, as well as adhering to applicable regulatory mandates by entities such as the EU, SEC, SEBI, and other pertinent authorities.
- Goals and targets – progress towards set ESG goals, e.g. carbon neutral by 2030. Score of 10 indicates lower emissions and strong progress to set targets. Score of 0 indicates higher emissions from base year and negative progress to set targets.



3.2 Establishing governance structure

Effective governance begins with a robust board, a competent leadership team and a clearly defined accountability framework. The board can improve its oversight of sustainability initiatives by appointing an ESG/sustainability committee and defining the roles and duties. Organisations should devise strategies for recruiting and structuring their ESG teams, establishing reporting hierarchies and formalising governance processes at the managerial level.

A management-level committee is usually led by executives like the chief sustainability officer (CSO), chief technical officer (CTO) or the chief risk officer (CRO). The committee also oversees the senior management team, which is responsible for executing the ESG strategy on a day-to-day basis and managing operational details.

Below are some of the aspects which the board must consider while setting up an ESG /sustainability committee:

- If the committee is set up at a board level, it gives an opportunity for the entire board to actively take part in the ESG governance process which will help integrate ESG risk monitoring and ESG performance monitoring with the company's strategy planning, implementation and monitoring. However, this approach will require more time of all the board members.
- If the committee is setup at the sub-committee level, care should be taken to include members of the board who are dealing with those ESG topics which are of material interest to the company. Also, including independent directors with ESG subject matter expertise or consultations with specific subject matter expertise on priority ESG topics on a need basis may be considered.
- Another approach is to allocate specific ESG matters to other existing committees. For example, allocating the E of ESG to existing health, safety and environment committee is also followed by corporates during initial days of ESG adoption. However, having one board sub-committee responsible for all ESG matters is a more integrated and holistic approach considering the emerging strategic importance of the subject.

Though the composition of an ESG committee can vary depending on the size and structure of the organisation, it typically consists of a diverse group of individuals representing different groups/departments as illustrated below:

- **Board members:** Companies may consider including board members with expertise in specific ESG areas, particularly if an ESG topic (e.g. climate change, biodiversity, renewable energy, electric vehicles, etc.) is a transformational concern for the company.

- **Senior executives:** Key executives such as the CEO, CFO, COO, or other C-suite leaders may be included in the committee to provide high-level oversight and support the ESG initiatives.
- **Legal and compliance representatives:** Legal and compliance officers ensure that ESG initiatives comply with regulatory requirements and help manage risks associated with ESG issues.
- **Human resources (HR) representatives:** HR professionals contribute to the social aspect of ESG with a focus on employee well-being, diversity and inclusion, and labour practices.
- **Operations and supply chain representatives:** These members can provide insights into how ESG practices can be integrated into operational processes and supply chain management.
- **Investor relations representatives:** They ensure that the company's ESG efforts are communicated effectively to investors and other stakeholders.
- **Corporate communications/public relations:** These representatives help in crafting and disseminating the company's ESG messages to the public and other external stakeholders.
- **Environmental and social experts:** Professionals with expertise in environmental science, energy management, community engagement, human rights or related fields guide the company's environmental and social initiatives.
- **Risk management:** Risk officers can identify and mitigate potential risks associated with ESG factors.

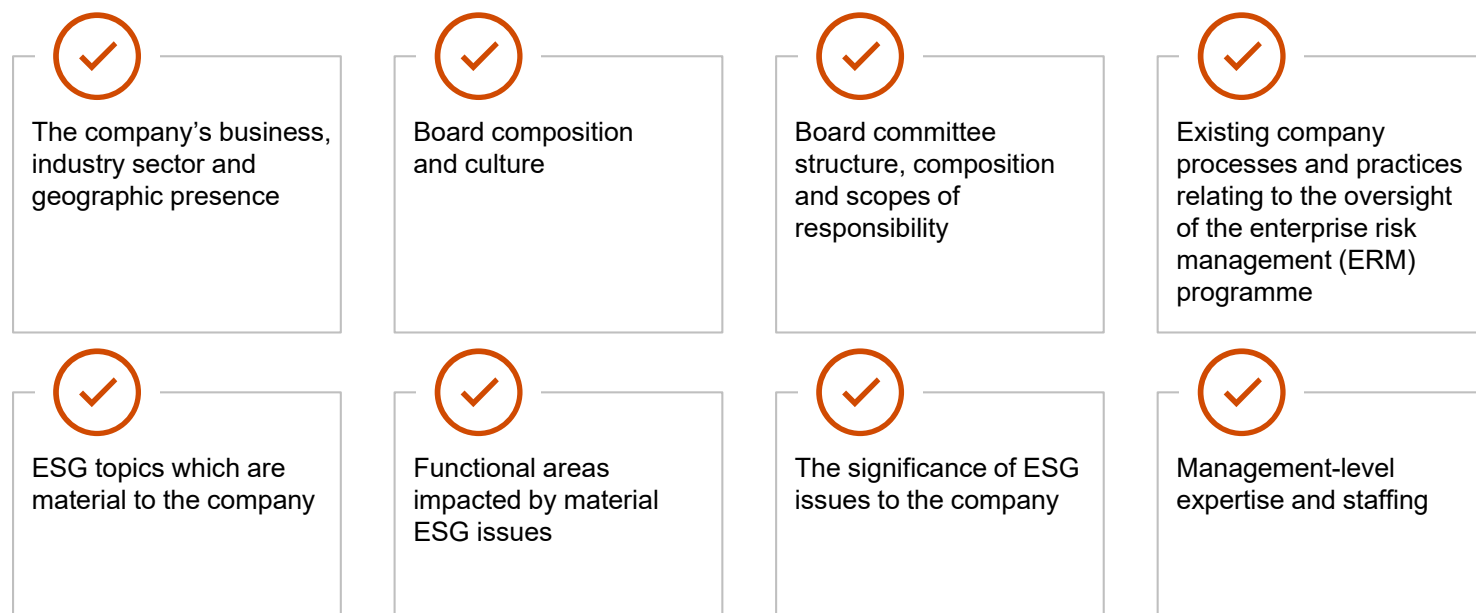
The committee may also include specialists in key ESG topics and functional heads of the departments who deal with the priority ESG topics.

Some of the key responsibilities of an ESG/sustainability committee are:

- meet periodically to assess the progress being made by an organisation on ESG initiatives and make strategic changes, if necessary
- include disclosures and shareholder/stakeholder perspectives for its integration into the ESG strategy of an organisation
- provide guidance on ESG risk assessments, mitigation plans and responsibility allocation
- work on strategy development to incorporate change in the policies
- serve as the grievance redressal committee for ESG-related issues in the organisation
- report to the BoD about ESG risks, mitigation plans, targets, progress and disclosures.

3.2.1 Governance process

There is no one-size-fits-all approach for allocating ESG oversight responsibilities among the board and its committees and the delegation of responsibilities may change over time. The manner in which a company's BoD exercises oversight is determined by a variety of factors, including:



Periodic governance maturity assessments should be conducted to evaluate and enhance the governance framework and foster continuous improvement. Additionally, as organisations and the external environment evolve, so must the ESG considerations. Therefore, the BoD should adopt a dynamic governance approach and regularly update their governance frameworks to reflect these changes.

3.2.2 Organisational design for cross-functional collaboration

Effective management of ESG initiatives involves more than top level strategies – it requires seamless collaboration across different departments within the organisation. Bringing ESG principles into operations means aligning various teams, each with a crucial role, in furthering the organisation's sustainability objectives. Whether its finance, HR or operations and supply chain management, collaboration is the key to ensure that the ESG goals are achieved. This collaborative strategy catalyses the impact of sustainability projects and positions the organisation to seize growth opportunities and address stakeholder expectations comprehensively. The figure below illustrates how cross-functional collaboration with specific functions can help in driving the ESG initiatives of a company.

Figure 4: Cross-functional collaboration in ESG efforts

Human resources: Collaborate to develop training programmes on ESG topics and ensure that sustainability values are reflected in human capital management (e.g. hiring practices and employee evaluations).

Marketing and communications: Ensuring that the company's sustainability initiatives are effectively communicated through various media channels.

Supply chain: Ensuring ESG assessment of the supplier, integrating ESG requirements into procurement processes and addressing supply chain risks.



Legal and compliance: Ensures adherence to ESG-related regulations and manage legal risks associated with ESG practices.

Research and development: Incorporate ESG criteria into product development and assess the environmental impact of new technologies.

IT and technology: Implement data management systems and track performance on ESG KPIs.

Source: PwC analysis

3.2.3 Fostering a culture of sustainability and developing ESG expertise

Organisational culture

Cultural change is essential for the successful ESG transformation of an organisation. Implementing the transformation programme for the organisational culture requires dedicated efforts across all levels of the organisation from the C-suite to the shop floor with a focus on ESG principles.

To effectively instil the shift in organisational culture, the company could consider the following steps:

- **Lead by example:** The leadership should visibly demonstrate their commitment to ESG principles through their actions and decisions.
- **Foster a transformative culture:** Cultivate an environment which values responsibility, trust, collaboration and innovation.
- **Use KPIs:** Define metrics to track the progress of embedding ESG values and practices throughout the organisation.
- **Align ESG goals with business strategy:** Ensure that the ESG objectives align with the company's business strategy to make them integral to decision-making processes.
- **Capacity building:** Provide training and resources for employees at all levels to enhance their understanding and skills related to ESG.
- **Acknowledge and reward progress:** Implement systems for recognising and rewarding achievements which contribute to the ESG goals.
- **Get stakeholders on board:** Bring in both external parties to join the ESG journey for varied viewpoints and perspectives.
- **Establish a framework:** Put in place systems like specialised teams or committees to manage and back ESG efforts and ensure that they are well-integrated into the organisation.

By incorporating these steps, organisations can foster an ESG-centric culture by actively involving, training and empowering the workforce since employee involvement is essential for driving cultural change towards effective ESG practices and advancing the overall ESG transformation journey.

Figure 4 illustrates that for a company to undergo an ESG transformation, it needs to blend formal structures with informal cultural aspects. When sustainable decision-making, incentives and performance metrics are in sync with values, collaborative networks and ongoing learning, organisations can achieve compliance and foster a culture of collaboration towards achieving the organisation's ESG goals.

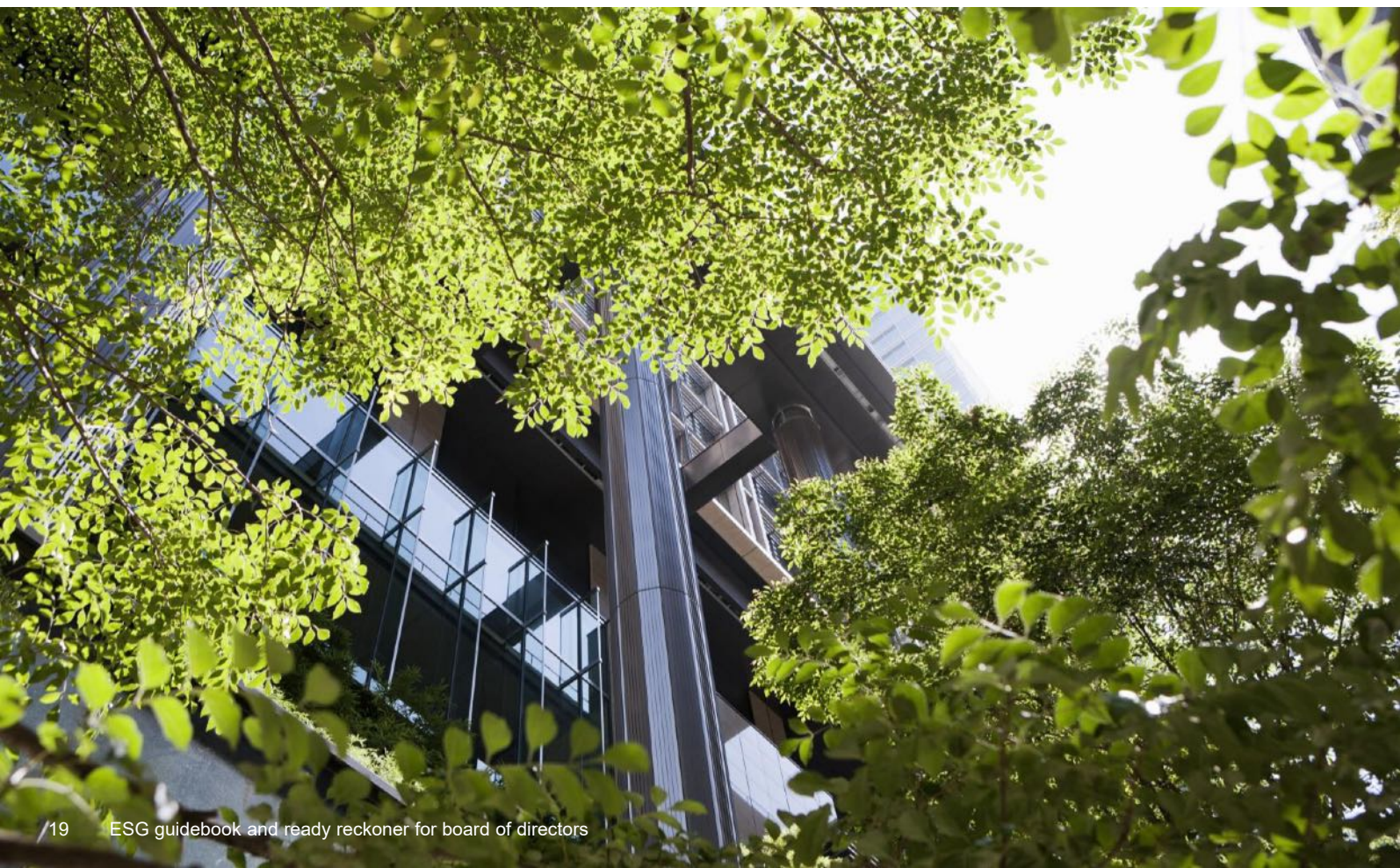


Figure 5: Integrating formal structures and cultural elements for effective ESG transformation

What most companies need to focus on

What companies need to leverage to accelerate ESG's cultural adoption



Source: PwC analysis

The role of people and performance in building ESG competency

ESG is a new and complex subject matter which has implications at the strategic, tactical and operational level. Therefore, implementing ESG principles within an organisation requires competence building at four levels:

- BoDs and top management require competence building as well as a change in their mindset to oversee the ESG strategy development, risk analysis, risk mitigation, ESG target setting and implementation.
- Functional heads require function-focused ESG competency building based on the material topic handled by the function, e.g. GHG emissions managed by the environmental function and diversity and inclusion managed by human capital requires subject-specific competency building.
- An overall awareness about the ESG strategy of the organisation, its value creation propensity and changing the approach of the employees is also essential for the organisation.
- Training and engagement to sensitise value chain partners is also needed in order to promote the adoption of these principles across the value chain.

3.3 Plan report framework

Double materiality

Double materiality assessment (DMA) is an exercise for companies to identify which sustainability matters are most material to the organisation and its stakeholders by evaluating their impact on environmental and social factors (inside-out perspective), while also considering how these factors influence the organisation (outside-in perspective).

Given below is a proposed framework for DMA:

Step 1: Create a list of sustainability matters

Organisations should examine their sector, operational locations and value chain to pinpoint pertinent sustainability challenges. Past materiality assessments, internal documentations such as impact evaluations and risk assessments, external resources such as sector analysis, benchmarks and ESG ratings, and stakeholder input serve as helpful starting points.

Step 2: Define impacts, risks and opportunities

To assess the importance of identified sustainability issues, organisations must define and specify the impacts an organisation creates as well as evaluate the related risks and opportunities presented by them.

The goal of risk identification is to recognise the risks that might disrupt operations, impair the entity's reasonable expectation of accomplishing its strategy and business objectives or substantially impact the entity's operating licence.

The identification of ESG-related risks, or risk screening, may be completed as the first step of ESG risk management. An organisation's existing risk inventory may be analysed to identify ESG-related risks. A root cause analysis can be conducted to find out where the risk is emerging from, and an impact analysis will help to identify the impact the risk may have on the business. Sector- or geography-specific risk reports, ESG reporting standards and peer ESG reports are relevant sources to identify ESG related risks.

Utilising external ESG subject-matter expertise is another way to ensure that emerging or longer-term ESG-related risks are analysed and prioritised effectively.

- **Identifying key risk indicators to monitor the risk**

Once the key risks have been identified, the indicators to monitor the specific risks should be identified and listed. The severity of each individual risk may also be quantified as low/medium or high. ESG issues which are important to an organisation should be prioritised based on their organisational goals and needs.

Surveys, workshops and interviews with risk owners and executives can be used to assess the risks and to understand future concerns.

Some of the steps for establishing ESG risk mitigation plans and allocating the responsibilities are:

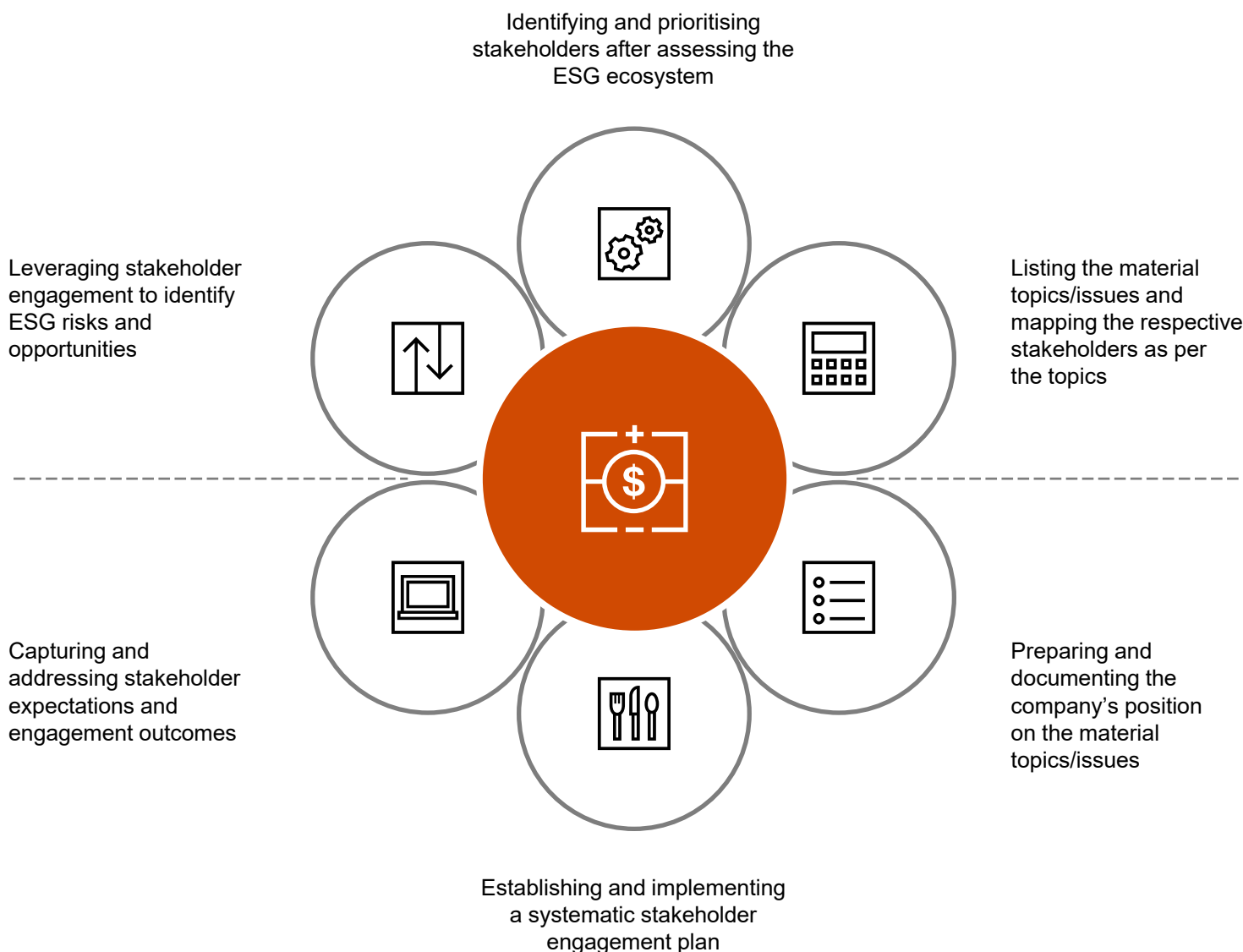
- Align risk analysis with corporate strategy by reviewing how the risks will impact the achievement of organisational objectives.
- Analyse the impact the risk has on the organisation and its stakeholders.
- The responsibility of providing an effective response in mitigating risks is allocated to appropriate functions and the respective functions are also asked to prepare a detailed risk response plan to be implemented and monitored regularly.
- Integrate the risk response into the decision-making of the concerned areas of the organisation by reporting the risks, progress of mitigation and related KRIs periodically.
- Implement the risk response plan to manage the risk.
- **Assessing the ESG risk appetite of the organisation**

ESG risks may be considered in an organisation's risk appetite statement (RAS) according to the definition of ESG risks in the disclosure. Incorporating ESG risks into a company's RAS can be effectively achieved through the use of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and Enterprise Risk Management (ERM) framework²¹. These framework offers a method for integrating ESG risks into the broader risk management process by ingraining them in the company's risk culture, governance structure and risk management practices. Firstly, the company should assess ESG risks within the context of its strategic goals and operations. Risks identified in the double materiality exercise can be grouped based on their impact on the business strategy of the company. These risks should be evaluated for their impact on achieving strategic objectives and incorporated into the risk assessment process. Subsequently the company can establish its risk tolerance for ESG-related risks delineating boundaries, for acceptable risk levels. Lastly, continuous monitoring and reporting of ESG risks should be put in place to ensure that they stay within the defined risk appetite and allow for adjustments to address changing risk scenarios.

²¹ <https://www.pwc.com/us/en/services/consulting/cybersecurity-risk-regulatory/coso-erm-framework.html>

Step 3: Engage with stakeholders

Engaging effectively with the stakeholders is an integral part of the double materiality process to uncover sustainability issues which are to be considered in the materiality assessment and provide valuable qualitative and quantitative perspectives on the impact, risks and opportunities of these issues. A strategic and systematic stakeholder engagement process may be integral to ESG risk analysis and reporting process within the ERM process which will help the organisation in mitigating the risks and identifying new growth opportunities by:



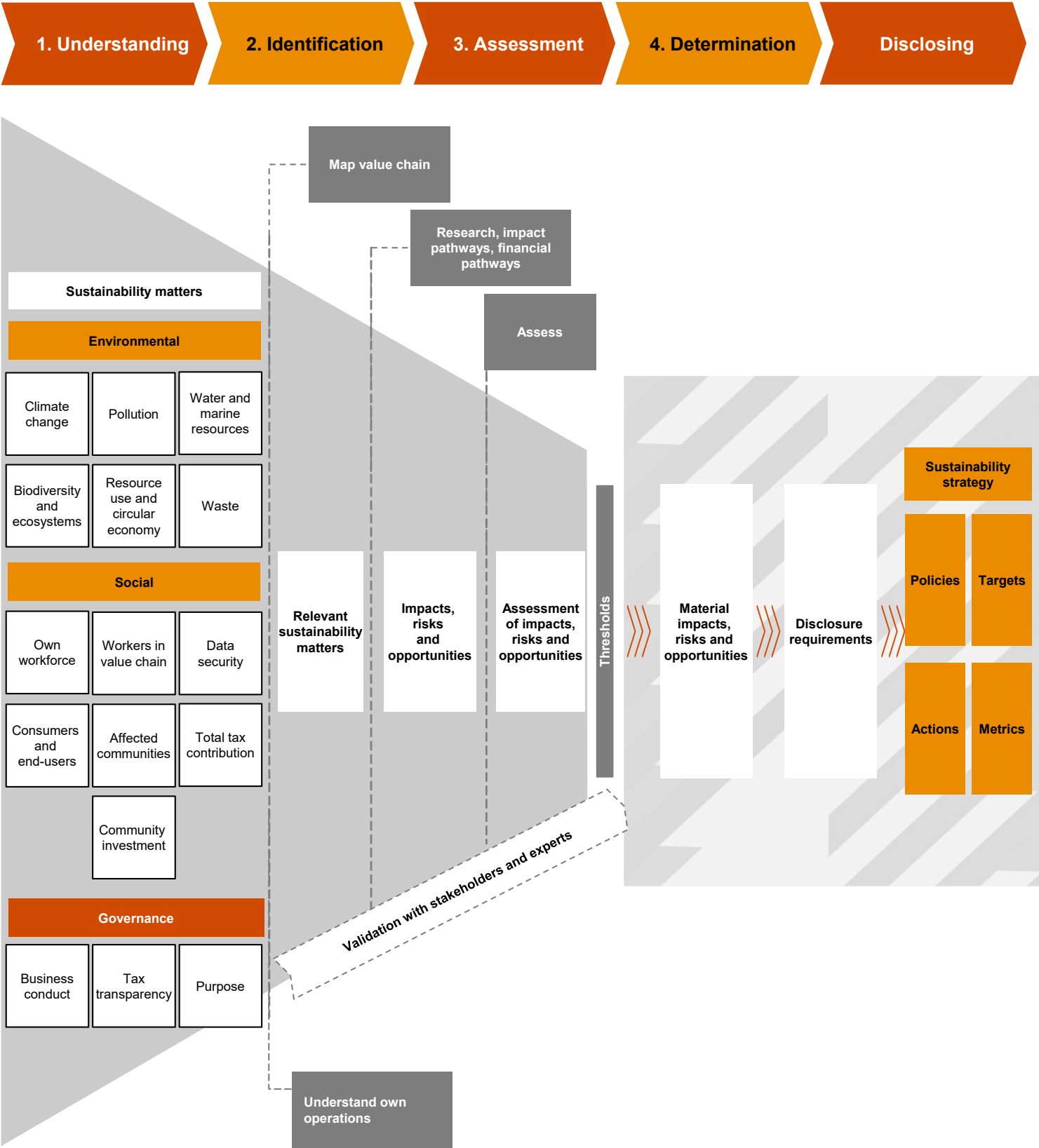
Step 4: Assess financial opportunities and risks

Evaluate the financial impact of the sustainability topics which have not yet been accounted for in the financial statements. Companies can determine the financial implications of these topics by assessing the likelihood of their occurrence and estimate the potential magnitude of the financial impact based on appropriate thresholds.

Step 5: Develop the materiality overview

After evaluating the impacts, both positive and negative, as well as the risks and opportunities, businesses need to further rank the identified negative impacts, positive impacts, risks and opportunities. By establishing a benchmark, these can be categorised into material and not material impacts, risks and opportunities.

Figure 6: An approach to conduct double materiality assessment²²



Source: PwC analysis

²² <https://www.pwc.dk/da/arrangementer/2024/webinar-dma-april2024.pdf>

3.4 Aligning the company's ESG goals with the organisational vision

To determine the vision and aspirations of the organisation, the company should consider the current performance level, its positioning in the competitive market and assess the peer and industry benchmarks. Setting the sustainability context at an organisational level may help in overall performance improvement.

3.4.1 Establish an organisation-wide ESG vision and mission statement

Organisations need to establish their ESG vision and mission statement by involving important stakeholders and engaging with them to gather insights. They should then craft a vision statement detailing their ESG pursuits and long-term goals and a mission statement outlining their actions and initiatives to reach these objectives. These statements should be seamlessly woven into the fabric of the organisation's culture and overarching strategic aspirations. The organisations ESG vision and aspirations are intricately linked to materiality as they should mirror the ESG concerns that matter most to the organisation and its stakeholders.

3.4.2 Define ESG goals and objectives

Businesses need to establish their ESG objectives by setting ESG goals and targets which are clear, specific, measurable, attainable, relevant and time-bound. These goals should focus on environmental impact, social responsibility and governance practices. It is vital to incorporate these ESG objectives into the company's overall business strategy to ensure that they align with and enhance the organisation's long-term vision and strategic direction.

3.4.3 Developing the ESG roadmap

Organisations need to create an ESG strategy which maps out a plan for reaching their ESG goals. This strategy should outline the steps, prioritise important actions, allocate resources efficiently and set clear KPIs to track the progress of the ESG targets and ensure the continuous improvement of the processes. Developing a roadmap to address the gaps in the ESG goals of an organisation will involve decision-makers from different departments like operations, HR and change management to collaborate and work together seamlessly along with the core ESG team.

3.4.4 The role of top management

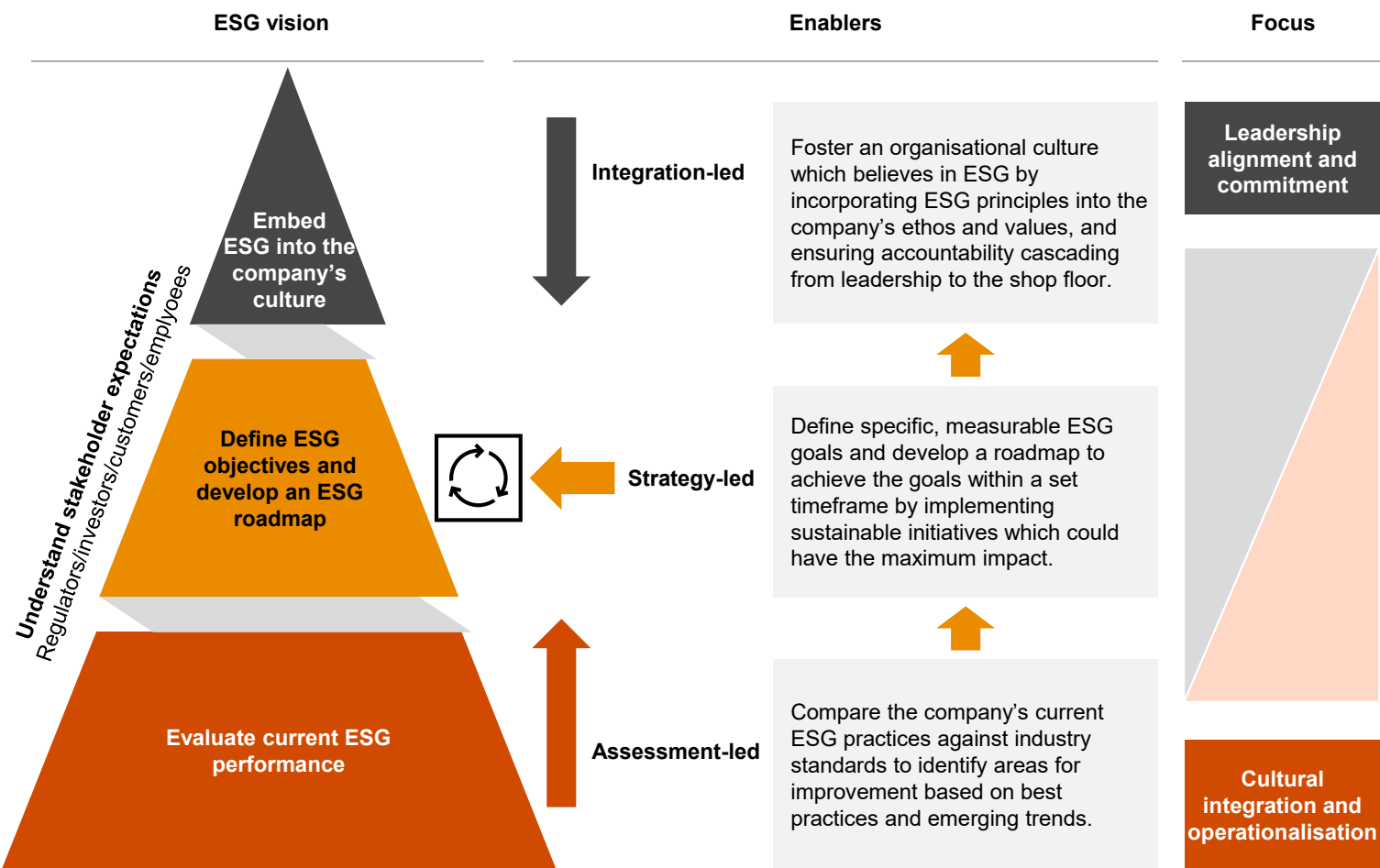
Companies need to ensure that top management is dedicated towards promoting the ESG vision across the organisation. Leadership should actively support ESG projects, provide the resources and set an example by demonstrating the desired behaviour to motivate the workforce.



3.5 Embedding ESG into the organisational culture

It is important for organisations to incorporate ESG values into the company's core values, policies and day-to-day operations. This should be evident in business procedures, decision-making processes and performance assessments to foster an encouraging environment to attain the ESG objectives. Figure 7 illustrates a three-pronged approach structured around assessment, strategy and integration for creating an ESG vision for an organization.

Figure 7: Proposed three-pronged approach for setting an organisation's ESG vision



Source: PwC analysis



3.6 Implementation and monitoring

It is necessary to establish an organisation-wide coordination structure such as programme management office (PMO) to coordinate and monitor the activities related to ESG performance. An ESG PMO will play a transformational role within an organisation similar to the chief information officer to embed digital capabilities within organisational functions. In addition to the internal role, the ESG PMO can also engage with external stakeholders.

Allocating responsibilities at the indicator level

An organisation may set precise goals which can be quantified and ensure that the data collected is useful, practical and verifiable. Meaningful data should be well-defined with appropriate boundaries and measurable outcomes.

A comprehensive structure for data collection, internal control system and clear ownership and responsibilities for data sources may be established for the process of collecting verifiable data.

Performance monitoring

Organisational ESG goals should be achieved in alignment with the traditional performance management systems and processes. ESG KPIs should be reviewed against the current KPIs. Efforts to rationalise the total number of KPIs may be taken to minimise management overhead and to avoid duplication of the KPIs and conflicts with the existing performance measures.

Monitoring and reporting

ESG performance is a public commitment and should be monitored and reported in the same manner as the financial and operational performance of an organisation. Monthly monitoring at a functional level and quarterly monitoring at a leadership level will be appropriate. For example, ESG indicators related to operations may be monitored more frequently at a functional level. Indicators related to social aspects like diversity and inclusion such as percentage of women in the workforce and pay parity may be monitored at quarterly interval or annual interval. Long-term targets such as achieving net zero by 2050, or carbon neutrality requires periodic monitoring as well as mid-course correction.

Verification and evidence tracking

ESG KPIs are technical and complex in nature. In many cases, the transformation of raw data into KPIs and aggregation of certain ESG KPIs, e.g. entity level KPIs covering subsidiaries and joint ventures require specific expertise. Since the KPIs are disclosed publicly and a diverse set of stakeholders use them for taking business decisions, the accuracy, balance, sustainability context, completeness and verifiability of the disclosure is extremely important. External assessment can provide an independent evaluation of the ESG disclosures and its underlying governance and control systems.

An organisation may commence the assurance process by:

- identifying KPIs which require assurance by assessing materiality and review the data collection process and its maturity
- engaging with external stakeholders to update its materiality assessment and put any process and control enhancements from internal audit/external evaluations into action
- identifying critical gaps in data availability, internal control, data management systems and evidence tracking with consultation from internal audit and external assessment and prepare an assurance readiness roadmap for audit committee
- examining the content of the ESG report and its methodology to ensure that they are updated and suitable for the purpose of internal and external assessment
- conducting pre-assessment examinations
- assuring that the targets set previously are being met.

Controls and checks should be established at regularised intervals to ensure that the company is on track to achieve the set targets and the data reported should be assured. In some regions it is mandatory that data reported is assured. Meeting targets also assures stakeholders that the company is diligent in its ESG endeavours. Real-time monitoring of progress and hiring a third party to assure that the targets are being met will ensure that there are no discrepancies, spillovers or lags in the progress against the set timeline for the company's ESG journey.

3.7 Consolidating and reporting

The first stage is to determine which initiatives are likely to result in significant reductions in ESG risks. The next step is building a governance and reporting framework that gives senior leadership direction and allows them to communicate the progress toward the goal.

The organisation may keep a track of the actions taken through a series of milestones in order to meet the target within the time frame determined for each process. ESG disclosures emphasise the need for continuous progress monitoring and including ESG updates in the company's periodic reports demonstrates its commitment to ESG targets. Furthermore, a company may also revisit the process of reviewing material topics on a regular basis. As the business becomes more matured in making ESG disclosures, the reporting process may evolve and become more extensive over time.

Some points which organisations can consider for drafting effective disclosure are:

Objective disclosures should be provided on a timely basis

Disclosures should be trustworthy, verifiable and transparent

Disclosures should be comparable within a sector, industry or portfolio of companies (using sector-specific indicators)



Information disclosed should be relevant to the reporting boundaries

Disclosures should be specific and complete within the reporting boundaries

Disclosures should be straightforward, balanced and easy to comprehend

Disclosures should be consistent over time (e.g. units of measurement)

Details on key reporting principles can be referred to in the Annexure 1.

Designing the report's structure and content

The structure of an ESG disclosure is based on the stakeholders' expectations which are gathered during the initial stakeholder engagements. The report and its contents may be viewed as an engagement tool to converse with company's stakeholders in a transparent and objective manner. The rationale and process of stakeholder engagement, materiality assessment, target setting, and governance responsibility allocation are some of the key disclosures considered. Sustainability reporting standards provide recommended contents to be included in the report but are flexible on the visual design and flow of the story developed by the reporting organisations.

Developing the report with appropriate stakeholders

Sustainability matters are defined as material when they represent significant impacts. These reports are designed to inform assessments and decisions by a wide-range of users such as business partners, civil society organisations, consumers, customers, employees and other workers, governments, local communities, non-governmental organisations, shareholders, suppliers, trade unions and vulnerable groups who want to understand a company's positive and negative contribution towards sustainable development.



Figure 8: Key points to consider while developing an ESG communication plan



Source: PwC analysis

Reporting format

Figure 8 illustrates the key points organisations should consider while drafting an ESG communication plan. Businesses should communicate the ESG performance and vision of the organisation to the stakeholders regularly. Stakeholders expect the reporting organisations to explain the structure of its ESG committee, its level of expertise, the process of identifying ESG risks and identifying risk mitigation to achieve company business strategy and objectives. ESG performance is evaluated by the stakeholders based on the reporting process adopted by an organisation. Sustainability reporting standards provide a recommended structure of disclosures which can address the basic expectations of the stakeholders. Regulatory authorities such as SEBI also provide specific guidelines on the structure and content of the reports.



4

Conclusion

In recent times, various factors have contributed to the unprecedented focus on ESG performance of corporates. Some of the factors are:

Community movements driving action from governments and corporates

Increasing regulatory requirements such as BRSR and extended product responsibility



Established scientific basis for negative impacts of environmental and social factors such as climate change, biodiversity and human rights on economic, social and financial systems

Intensifying stakeholder awareness on the subject aided by proliferation of social media

Government and private sector commitments such as Paris Agreement, UN SDGs and UN PRI

Although ESG disclosures are the primary driver for many organisations, adopting a strategic, structured and holistic approach can help organisations to build a sound foundation for integrating ESG into organisational strategy, governance, risk and performance management processes. Implementing ESG frameworks and assessments in the governance process of an organisation could help them develop a resilient organisation, a purpose-driven workforce and gain the trust of stakeholders in the long run.

Niti Aayog's SDG Index

According to SDG India Index 'The SDG Index is an aggregate measure which can be understood and used by everyone – policymakers, businesses, civil society and the general public.'²³ It has been designed to provide an aggregate assessment of the performance of the states and union territories (UTs) and to help leaders and change makers evaluate their performance on social, economic and environmental parameters. It aims to measure India's progress towards the SDGs for 2030.

The index is prepared for policy makers, civil society, businesses and general public. Since the objective of the NGRBC is to enable corporate participation in sustainable development, the index and its database can be useful for organisations to understand the sustainable development landscape of India and the states.²⁴

Global Reporting Initiative (GRI)

GRI was the first organisation to publish guidelines for sustainability reporting which, over a period of 25 years, was developed into the GRI sustainability reporting standards. The standards are published in a modularised manner consisting of universal standards which covers the foundation for reporting, general disclosures, topic specific disclosures and sector standards. GRI standards are the most widely used standards for sustainability reporting in the world. They have a holistic, interconnected structure and are widely considered to be the global standard for reporting on economic, environmental and social consequences.

According to GRI:²⁵

The GRI standards enable any organisation – large or small, private or public – to understand and report their impact on the economy, environment and people, in a comparable and credible way, thereby enhancing the transparency of their contribution towards sustainable development. In addition to reporting companies, the standards are also relevant to many stakeholders including investors, policymakers, capital markets and civil societies. The most recent version of GRI standards was published in 2021 and has come into effect from 1 January 2023.²⁶

Sustainability Accounting Standards Board (SASB)

SASB classifies business into 77 sectors and recommends individual metrics relevant to each sector across the three pillars of ESG. The SASB standards are known to enable businesses around the world to identify, manage and communicate financially material sustainability information to their investors.

From 1 August 2022, SASB standards and Value Reporting Foundation have been consolidated into the International Sustainability Standards Board which was established by IFRS foundation.²⁷

UN's Sustainable Development Goals

UN's member states established 17 goals in 2015 to implement the 2030 Agenda for Sustainable Development. Ending poverty and hunger, enhancing health and education, battling climate change and conserving seas and forests are some of the goals included in the SDGs. While the SDGs were intended for the UN member states, the UN Global Compact and the GRI have partnered up to help corporations report on the goals. These are becoming increasingly popular with every passing year. Under the 17 goals, the UN has set 169 KPIs to measure progress towards the goals.²⁸

TCFD

The Financial Stability Board (FSB) of the G20 established this committee in 2015 to develop voluntary guidelines for companies, banks and investors to use when disclosing climate-related financial risks and opportunities to their stakeholders. The framework published in 2017, aims to aid financial markets such as lenders, insurers and investors in assessing and pricing the risks and opportunities. It applies a financial materiality lens consistent with SASB standards. It is an investor preferred and investor oriented framework for the disclosure of finance-related climate risks to the organisation. Some countries, like the UK, have made disclosures using this framework mandatory for large firms in the country.²⁹ RBI's discussion paper on climate risk and sustainable finance refers to the TCFD framework as an initial framework which may be used by Indian regulated entities.³⁰

²³ https://sdgindiaindex.niti.gov.in/assets/Files/SDG3.0_Final_04.03.2021_Web_Spreads.pdf

²⁴ <https://sdgindiaindex.niti.gov.in/#/ranking>

²⁵ <https://www.globalreporting.org/standards/>

²⁶ <https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language>

²⁷ <https://www.sasb.org/about/>

²⁸ <https://sdgs.un.org/goals>

²⁹ <https://www.fsb-tcfd.org/>

³⁰ <https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/CLIMATERISK46CEE62999A4424BB731066765009961.PDF>

The Climate Disclosures Standards Board (CDSB)

CDSB is an international consortium of businesses and environmental non-governmental organisations (NGOs) that have created a framework for firms to incorporate and prioritise environmental and climate change-related data in their corporate financial reporting. The organisation's goal is to make it acceptable for businesses to report environmental data with the same rigour as financial data to give investors decision-relevant data and ensure stable capital markets. In annual or integrated reports, the CDSB framework assists companies in explaining how environmental issues affect their performance and demonstrating how they are addressing associated risks and opportunities to its investors.

On 31 January 2022, the Climate Disclosure Standards Board (CDSB) was consolidated into the IFRS Foundation to support the work of the newly established International Sustainability Standards Board (ISSB).³¹

UN's PRI

UN's PRI was launched in 2006 to assist investors in incorporating ESG concerns into their investment and ownership decisions. The global investor signatory network has grown from 100 to over 7,000 across 135 countries, representing over USD 121 trillion in assets under management. The six principles are a collection of voluntary investment principles backed up by 35 actions which investors can employ to include ESG in their investment strategy. PRI has made TCFD-based reporting essential for its signatories in 2020 and has aligned its activity with UN's SDGs.³²

International Integrated Reporting Council (IIRC)

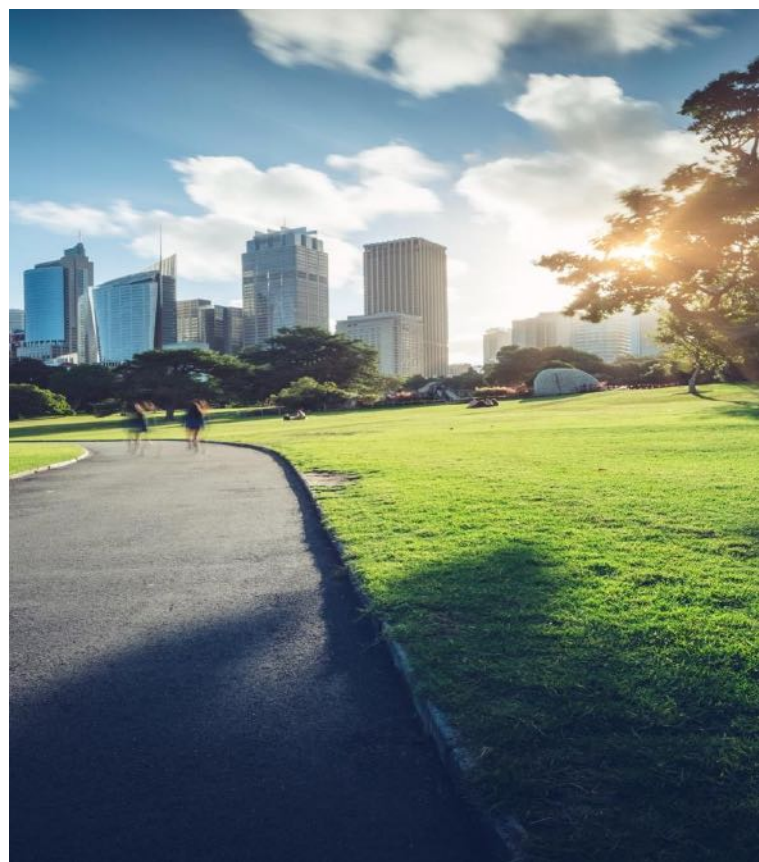
A framework for integrated reporting was published in 2013 by IIRC, which was followed by a three-month consultation process and trials in 25 countries. The framework defines the principles and concepts that will guide the overall content of an integrated report. An integrated report explains how the organisation's strategy, governance, performance and prospects all contribute to value creation. The primary goal of an integrated report is to explain to financial capital providers how an organisation creates value over time. It consists of a principle-based framework rather than specifying a detailed disclosure and measurement standard. From June 2021, IIRC merged with Value Reporting Foundation, which in turn was consolidated under ISSB.³³

Value Reporting Foundation (VRF)

The VRF was formed by the merger of the IIRC and the SASB in June 2021. It provides three key resources to help businesses and investors make decisions – integrated thinking principles, integrated reporting framework and SASB standards. These tools assist businesses and investors in developing a common understanding of enterprise value and how it is created, maintained or depleted over time and are collectively referred to as the Value Reporting Framework.

ISSB

The IFRS Foundation trustees announced the formation of a new standard-setting body – the ISSB – on 3 November 2021, established at COP26. The goal for ISSB is to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide information about companies' sustainability-related risks and opportunities to help investors and other capital market participants make informed decisions.³⁴



³¹ <https://www.cdsb.net/mandatory-reporting/947/are-we-headed-towards-mandatory-climate-disclosure>

³² <https://www.unpri.org/about-us/about-the-pri>

³³ <https://www.accaglobal.com/in/en/student/exam-support-resources/professional-exams-study-resources/strategic-business-leader/technical-articles/the-integrated-report-framework.html>

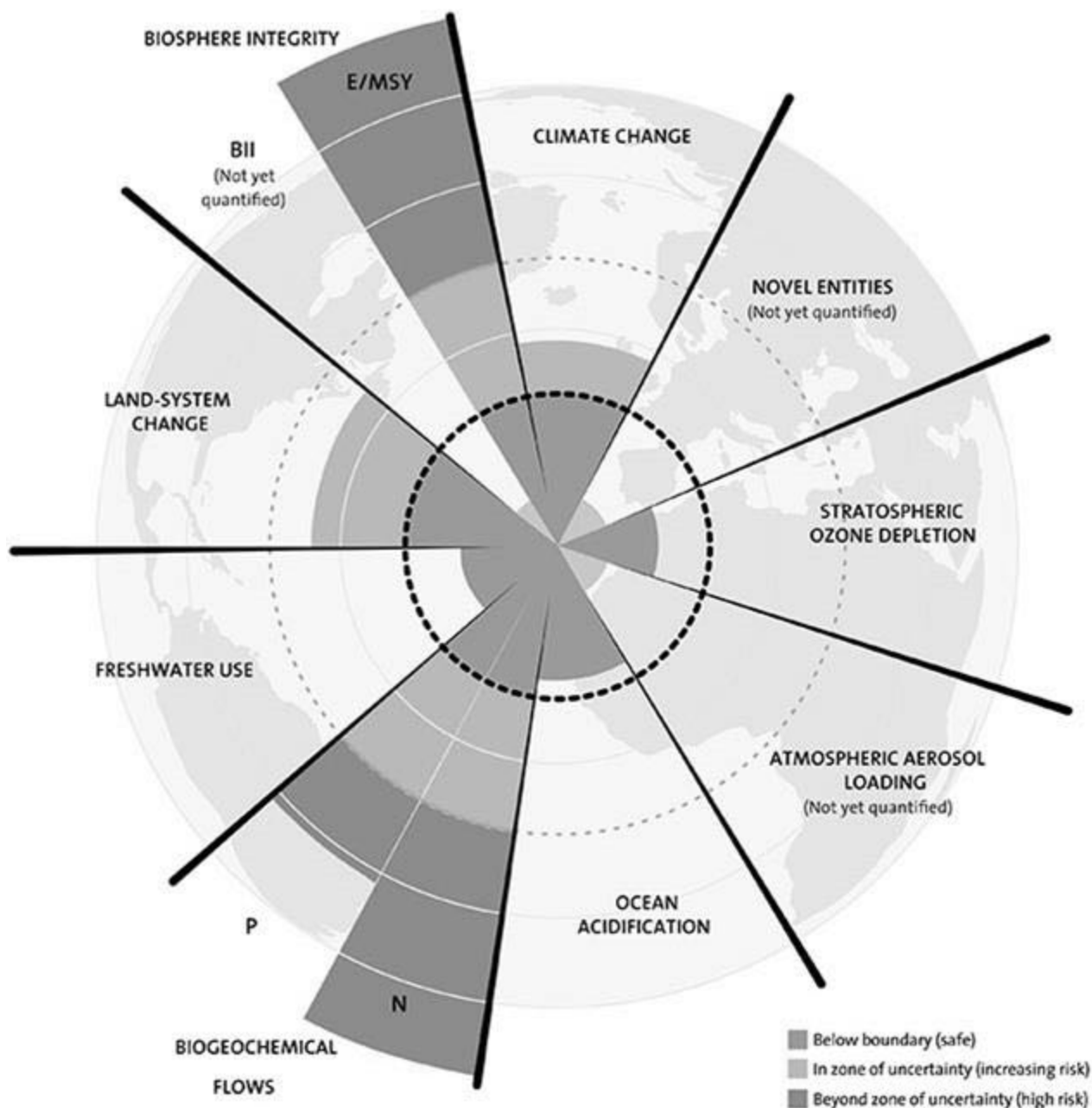
³⁴ <https://www.ifrs.org/groups/international-sustainability-standards-board/>

The evolution of ESG

Scientific background

In 2009, 28 internationally renowned researchers identified and quantified a set of nine planetary boundaries within which humanity can continue to develop in the future. Abrupt or irreversible environmental changes can occur with serious consequences for humankind if these limits are crossed. The issue of crossing planetary boundaries has made stakeholders and shareholders think about the future of business. Heeding the calls of stakeholders, organisations began disclosing the key sustainability parameters and standardising the reporting process. From this process, three key parameters emerged – environment (E), social (S) and governance (G).

Figure 9: Planetary boundaries³⁵



Source: <https://www.stockholmresilience.org/research/planetary-boundaries.html>

³⁵ <https://www.stockholmresilience.org/research/planetary-boundaries.html>

BRSR – the regulatory reporting mandate in India

In November 2018, the MCA constituted a Committee on Business Responsibility Reporting (the Committee) to finalise business responsibility reporting formats for listed and unlisted companies, based on the framework of the NGRBC. Through its 'Report of the Committee on Business Responsibility Reporting' (the Committee Report), the Committee recommended that BRR be rechristened BRSR, where disclosures are based on ESG parameters, compelling organisations to holistically engage with stakeholders and go beyond regulatory compliances in terms of business measures and their reporting. Reporting is mandatory for the top 1,000 listed companies (by market capitalisation) from FY 2022–23, while disclosure is voluntary for FY 2021–22. Thus, the Committee Report encourages companies to report their performance for FY 2021–22 in order to be better prepared to adopt this framework from the next FY³⁶.

As per SEBI's circular dated 10 May 2021, entities already preparing and disclosing sustainability reports based on internationally accepted reporting frameworks (such as GRI, SASB, TCFD or may cross-refer to disclosures made under these frameworks).³⁷

Structure³⁸

Section A:

General disclosures: This section contains details of the listed entity, products/services, operations, employees, holding, subsidiary and associate companies (including joint ventures), CSR, transparency and disclosure compliances.

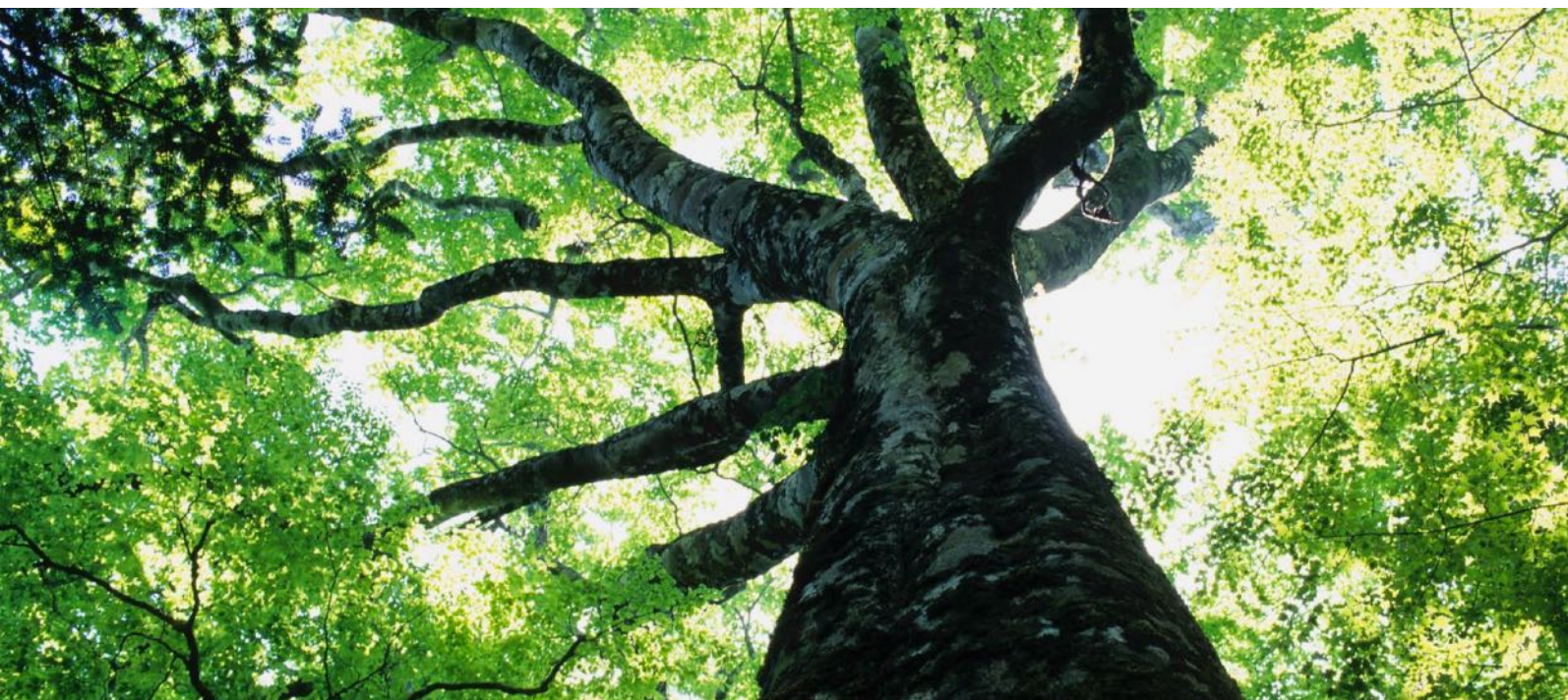
Section B:

Management and process disclosures contain questions related to policy and management processes, governance, leadership and oversight.

Section C:

Principle-wise performance disclosures: Companies are required to report the KPIs in alignment with the nine principles of the NGRBC highlighted in Figure 3. The section classifies KPIs into two sub-categories that companies are required to report upon.

- **Essential indicators (mandatory):** KPIs include data on training programmes conducted, environmental data on energy, emissions, water and waste, social impact generated by the company, etc.
- **Leadership indicators (voluntary):** Companies are expected to comply with these indicators for better accountability and responsible purpose. Some of the KPIs include data on life cycle assessments (LCAs), details on conflict management policy, additional data on biodiversity, breakup of energy consumption, Scope 3 emissions and supply chain disclosures.



³⁶ https://www.mca.gov.in/Ministry/pdf/BRR_11082020.pdf

³⁷ https://www.sebi.gov.in/legal/circulars/may-2021/business-responsibility-and-sustainability-reporting-by-listed-entities_50096.html

³⁸ https://www.sebi.gov.in/sebi_data/commndocs/may-2021/Business%20responsibility%20and%20sustainability%20reporting%20by%20listed%20entitiesAnnexure1_p.PDF

Figure 10: NGRBC Principles³⁹

1	Principle	Businesses should conduct and govern themselves with integrity, and in a manner that is ethical, transparent and accountable.
2	Principle	Businesses should provide goods and services in a manner that is sustainable and safe.
3	Principle	Businesses should respect and promote the well-being of all employees, including those in their value chains.
4	Principle	Businesses should respect the interests of and be responsive to all its stakeholders.
5	Principle	Businesses should respect and promote human rights.
6	Principle	Businesses should respect and make efforts to protect and restore the environment.
7	Principle	Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.
8	Principle	Businesses should promote inclusive growth and equitable development.
9	Principle	Businesses should engage with and provide value to their consumers in a responsible manner.

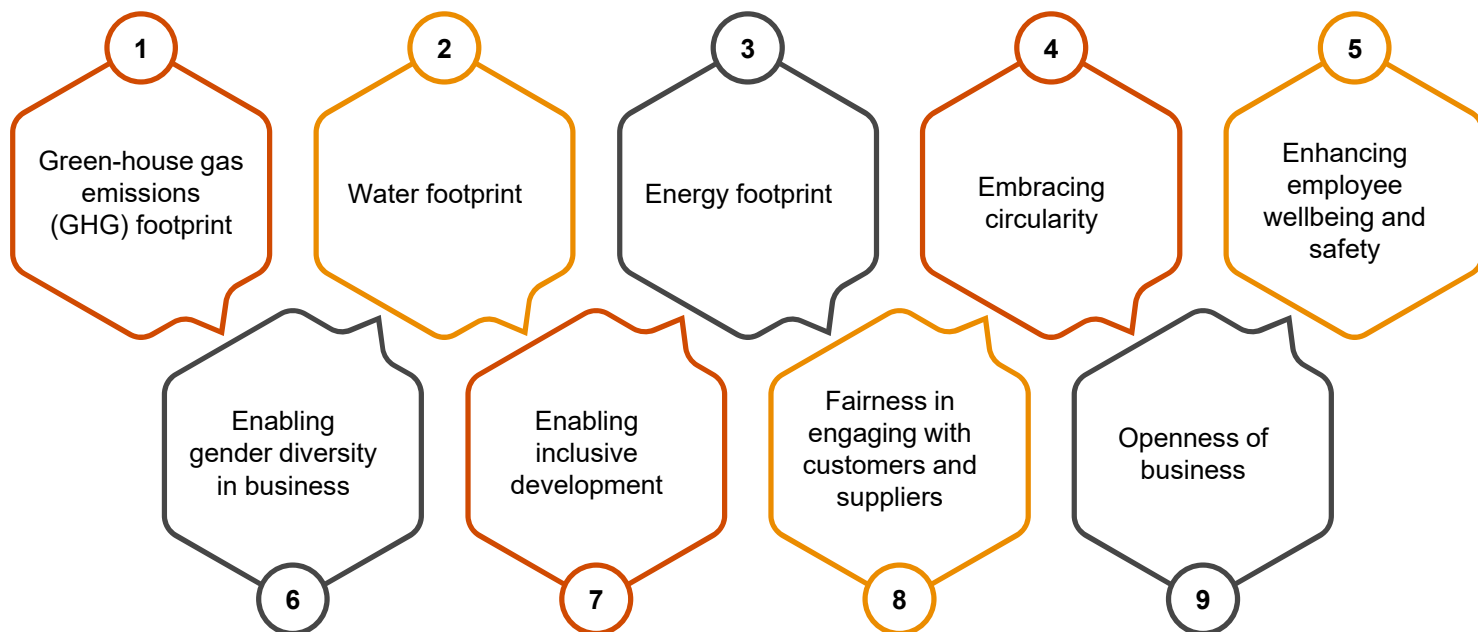
Source: <https://www.pwc.in/assets/pdfs/consulting/esg/business-responsibility-and-sustainability-report.pdf>



³⁹ <https://www.pwc.in/assets/pdfs/consulting/esg/business-responsibility-and-sustainability-report.pdf>

Format of BRSR Core⁴⁰

SEBI introduced BRSR Core in 2024 which encompasses a set of key performance metrics under the following nine ESG attributes:

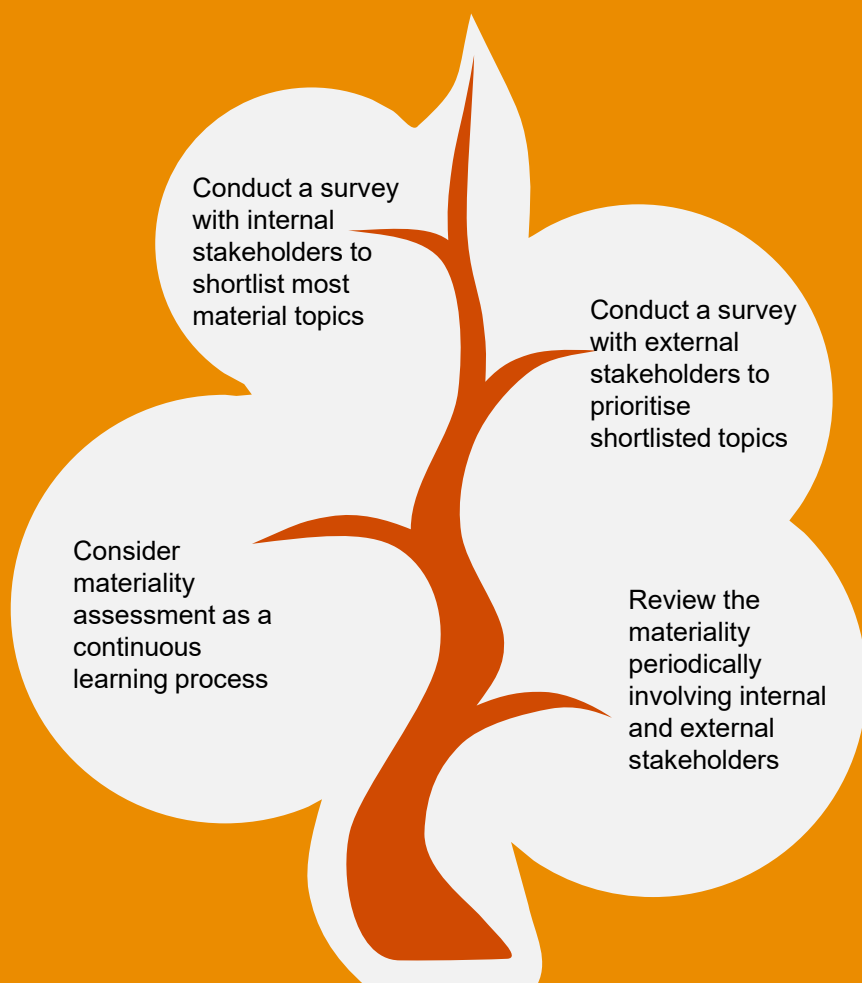


Key reporting concepts

Materiality

Material topics are the most important ESG-related topics relevant for an organisation. Identifying the material topic most relevant to the organisation's context is a fundamental step towards ESG reporting. This can be done in a comprehensive manner by involving organisational stakeholders – both internal and external. Often, the priorities of internal stakeholders about material topics will be different from those of external stakeholders. The priorities will also depend on the awareness, expertise and type of stakeholders. During the early days of reporting, awareness levels of various stakeholders will be limited. However, systematic and continuous efforts to enhance the awareness and knowledge of internal and external stakeholders will help improve the materiality assessment.

The recommendations given below can be helpful for materiality assessment:



⁴⁰ https://www.sebi.gov.in/sebi_data/commondocs/jul-2023/Annexure_I-Format-of-BRSR-Core_p.pdf

Stakeholder inclusiveness

Stakeholder inclusiveness is the principle of considering all stakeholder viewpoints when making an organisational decision. Organisations intend to address the expectations, viewpoints and aspirations of various organisational stakeholders through ESG reporting. A useful approach is to establish materiality assessment as a periodical process to review and understand most material aspects relevant to an organisation through stakeholder engagement. This engagement will provide the inputs required to decide the materiality of ESG topics as well as provide an opportunity to engage with the stakeholders to build their trust. Such materiality assessments and continuous stakeholder engagement will become a source for identifying new market opportunities.

Context and comparability

An organisation's ESG performance shall be considered within the wider context of sustainable development relevant to the ESG topic under consideration, the size and sector of the organisation, its business model and the geography in which it operates. Disclosure of management's approach and performance of ESG topics shall be done in consideration with the wider context for the stakeholders to understand the impact of the organisation. To provide context and comparability, reporting organisations may:



Ensuring reporting quality

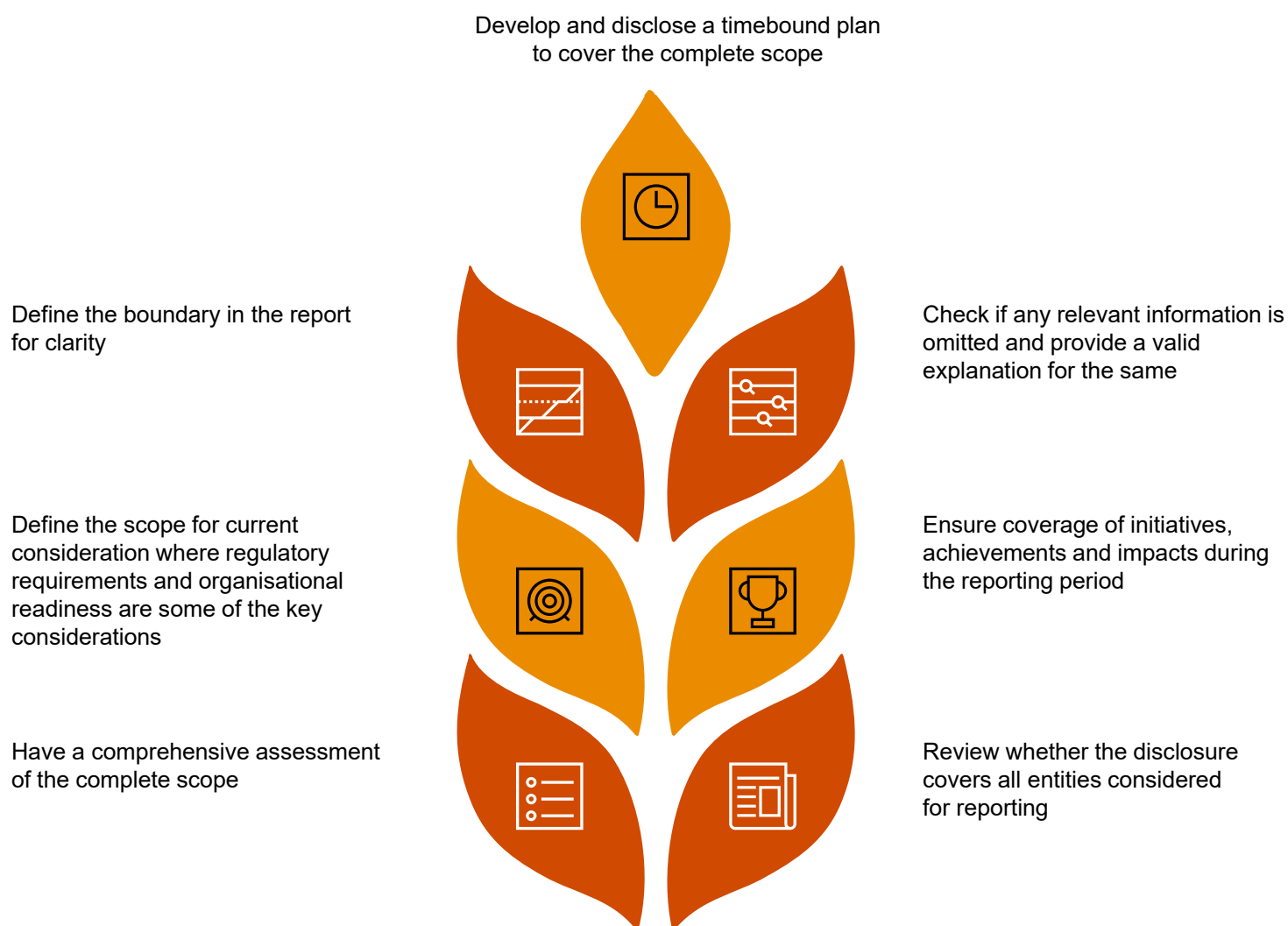
Aspects of quality of an ESG report should be established early in the process. Though these quality requirements will be useful while preparing the report, considering them during the identification of stakeholders, analysis of materiality and development of the measurement system is also essential to meet the quality requirements of an ESG report.

Completeness⁴¹

Another important aspect is to consider an organisation's business functions, subsidiaries, joint ventures, special purpose vehicles and the value chain from supplier till the end customer and, after careful consideration, decide the boundary of reporting. It is not mandatory to include all entities in the first report. However, it is expected that the report describes the boundary under consideration to provide the required amount of clarity to the reader.

For example, reporting on greenhouse gas (GHG) requires an assessment of Scope 1, Scope 2 and Scope 3 emissions. Scope 1 emissions are emissions that originate from sources within the organisational boundary. Scope 2 emissions are emissions which happen outside the organisational boundary, for instance, emissions emitted by the electrical utility provider for the electrical energy supplied for lighting and heating used within the organisational boundary. Scope 3 refers to emissions related to supplies, transportation, employee travel and products sold to the customers. For example, GHG emissions from automobiles is a Scope 3 emission for petroleum companies. An organisation may progressively establish measurement systems for Scope 1, Scope 2 and Scope 3. As per the BRSR reporting requirements, Scope 1 and 2 are classified as essential (mandatory) and Scope 3 is classified as leading (voluntary).

Providing complete information about ESG performance in accordance with established reporting structures and organisational framework can ensure that the data is comprehensive. Initiatives, achievements, impacts and performance during the reporting period should also be included to:



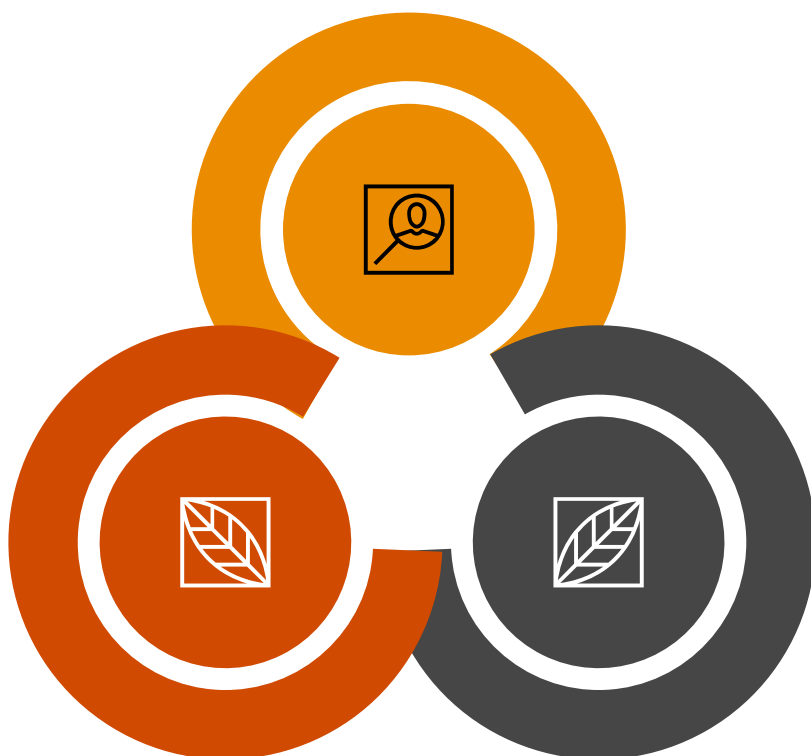
⁴¹ <https://www.globalreporting.org/pdf.ashx?id=12334>

Balance⁴¹

Balancing the positive and negative aspects of the ESG performance of an organisation is considered to be an essential quality of the reporting process. By giving due consideration to positive and negative performance, stakeholders can have a balanced view of the ESG performance and impact of the organisations. Facts have to be presented objectively and an organisation's opinion about the facts must be separately stated to prevent them from influencing its stakeholders. One can present the facts in a balanced way by:

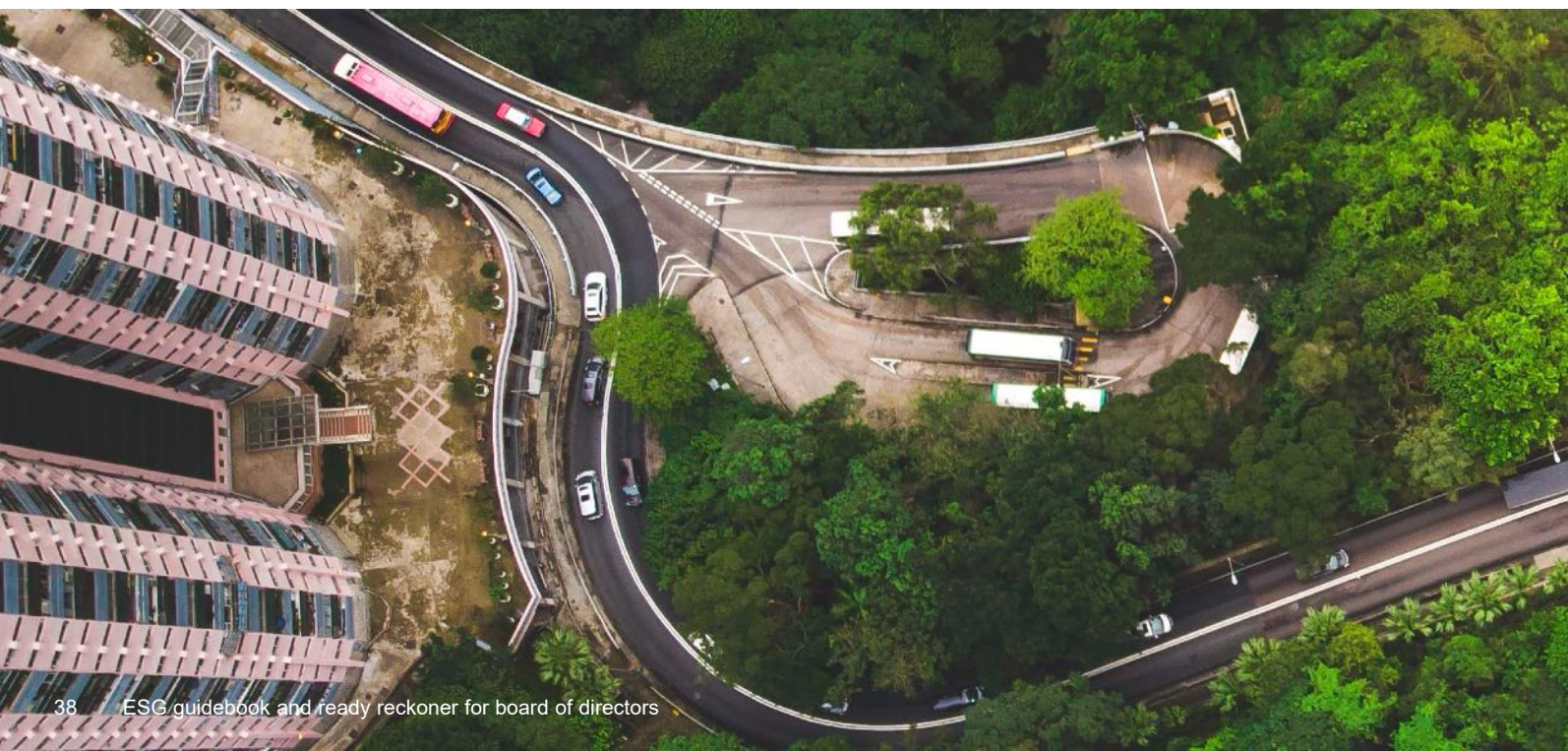
Adopting an objective language
when talking about the highlights

Highlighting the
positive and negative
performance trends



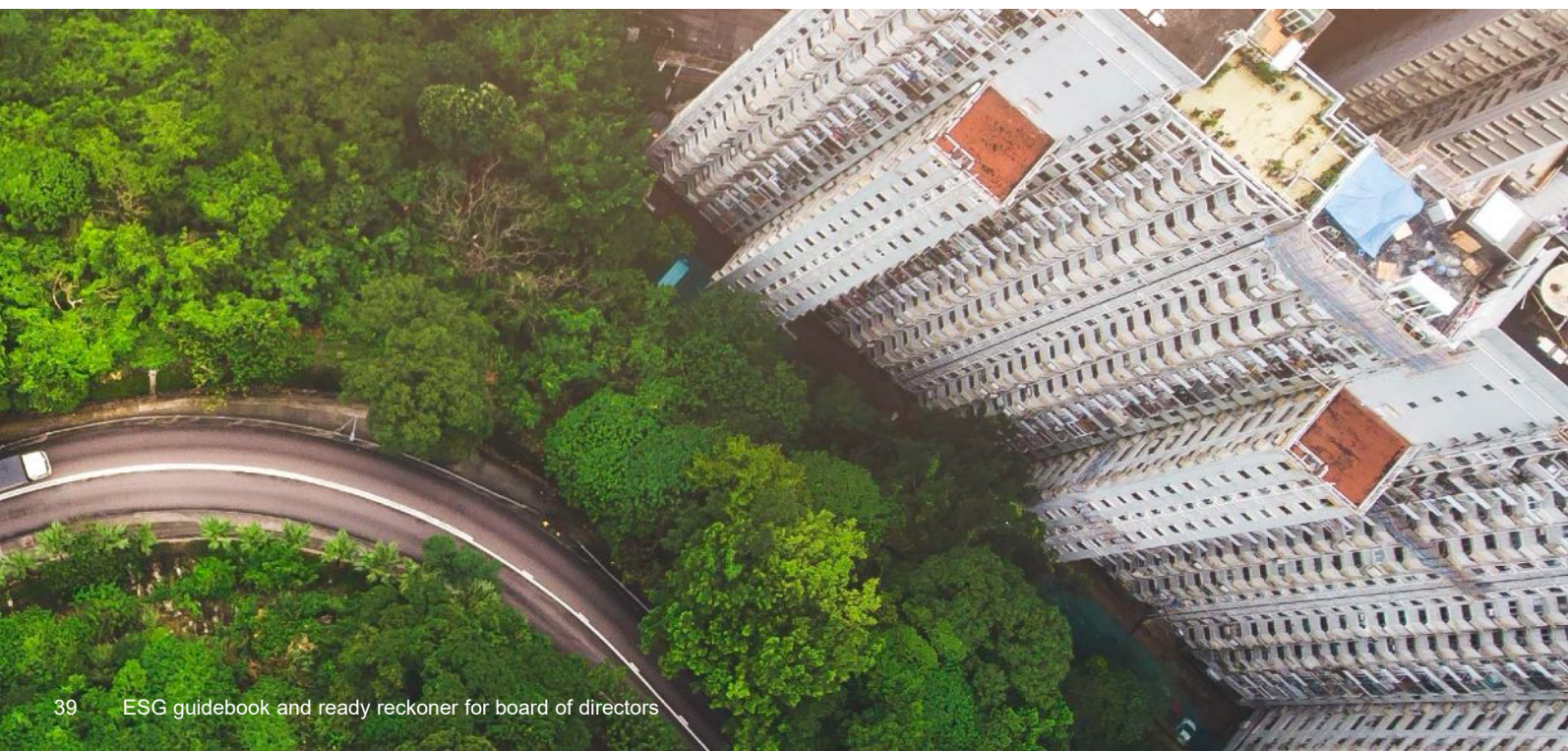
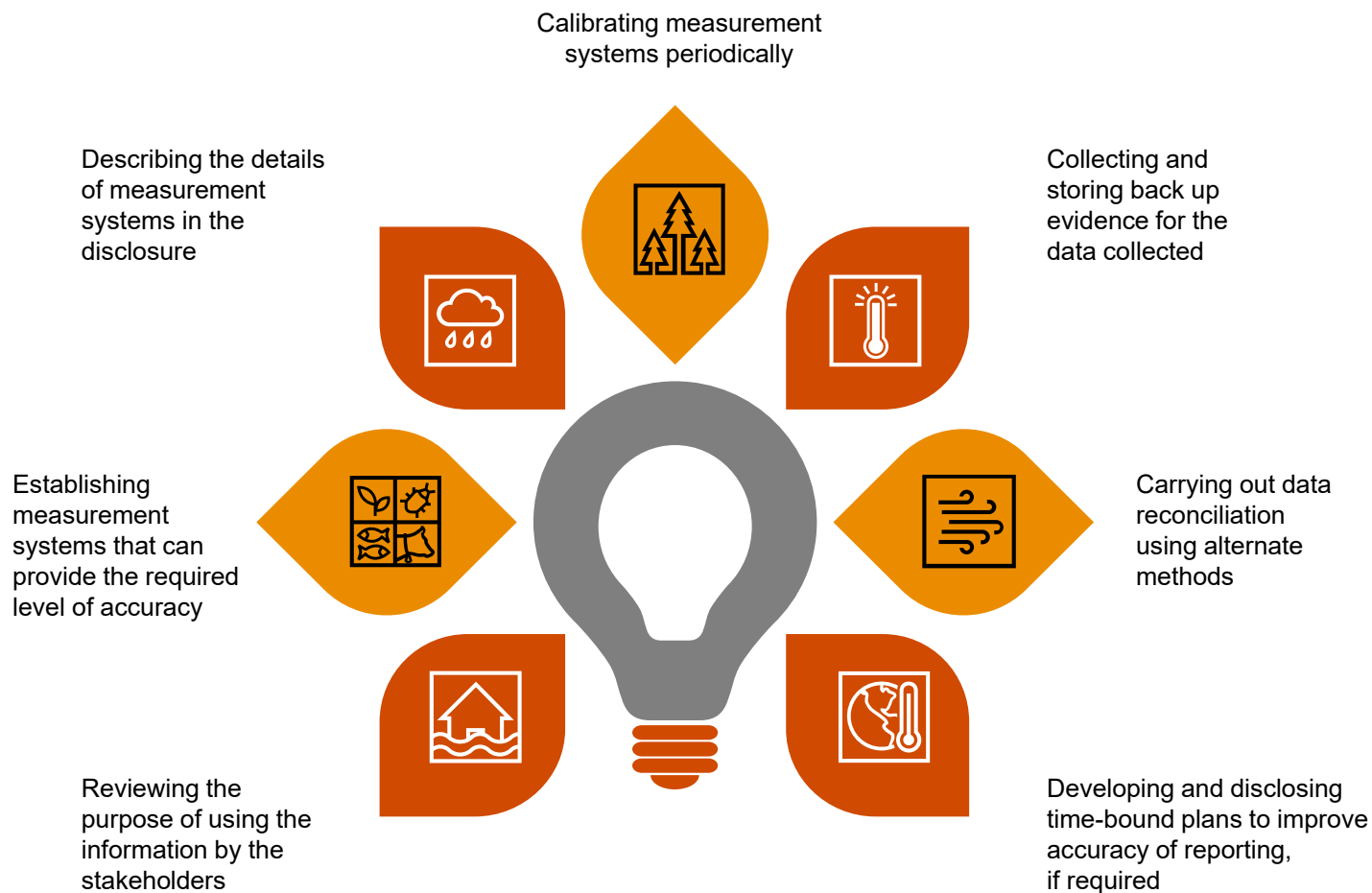
Differentiating between
facts and organisational
viewpoints

Disclosures which are not balanced will expose the company to reputational risks related to greenwashing. Assessing the positive and negative impacts of an organisation and its products and communicating the same in a balanced manner is an important requirement of ESG reporting to build stakeholder trust and to protect the company's reputation.



Accuracy⁴¹

Accuracy of information should be at a level that meets the purpose for which the information will be used by stakeholders. In case of quantitative information, the level of accuracy will depend on the measurement and consolidation techniques used. Qualitative information should be provided in accordance with the underlying evidence. Adequately describing the measurement systems by including the source, collection, calculation and aggregation methods adopted will help stakeholders understand the integrity of the disclosure and enhanced their trust in an organisation. Measurement systems can be devised and calibrated to ensure that the required level of accuracy is achieved at the data source level by:

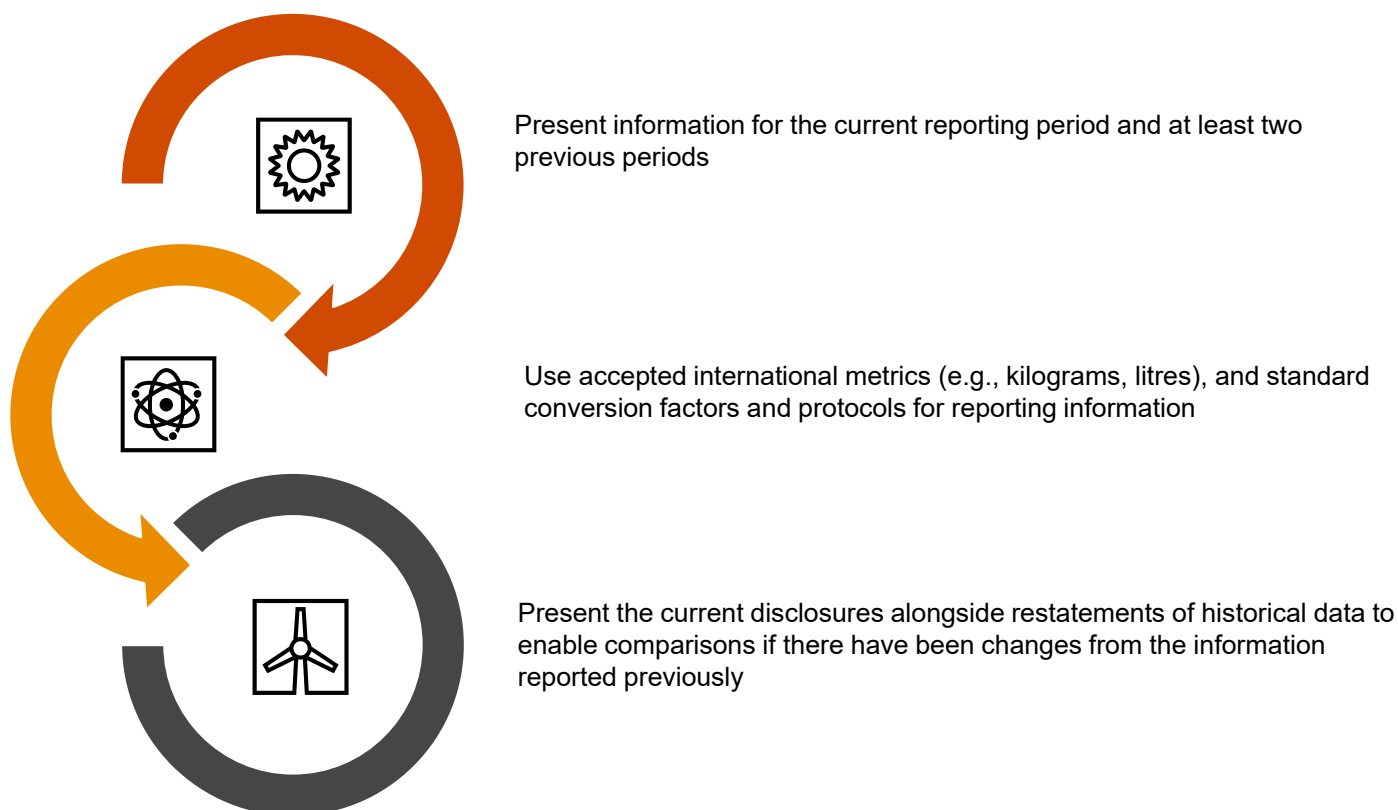


Clarity⁴¹

ESG reports are prepared with the objective of easy accessibility, understanding and use. The language and format of the report should be decided as per the stakeholders. The report may have pictorial or tabular representations to consolidate and present similar information for easy comparison. Wherever acronyms and complex technical terms are used, abbreviations and definitions must be provided. If the report refers to information disclosed elsewhere, a link or reference to the published report or webpage should be provided.

Comparability⁴¹

A report should disclose the information to assess the periodic progress of an organisation's performance across a specific time period, geography and entities such as subsidiaries and joint ventures. Mapping the trends over the years or comparison across entities and geographies can enhance the comparability of an organisation. Some of the ways in which information can be presented to provide context for the reader from them to understand the performance are:



Timeliness⁴¹

Disclosure timelines should be defined as a part of the overall framework. During the first report, the organisation may consolidate all its past achievements and performance. However, in the subsequent years, performance and achievements of the year can be highlighted. Past performance could be provided to compare the current performance.

Verifiability⁴²

Sufficient internal controls for the collection of data should be established. All back up evidence for the information disclosed should be stored in a controlled environment by the reporting organisation. This could minimise the risk of material misstatements in the report and support third-party assessments.

Organisation should be able to provide reasonable assessment of the uncertainties and risks associated with the disclosed information: internal controls, checks and balances should be implemented, and precautions taken to mitigate the risks and uncertainties.

Acknowledgements

We would like to express our gratitude to the Chair and members of the CII Corporate Governance Council and:

Sanjiv Bajaj, Chairman, CII Corporate Governance Council and Chairman and Managing Director, Bajaj Finserv Ltd

R Mukundan, Chairman, ESG Sub-group of the CII Corporate Governance Council, Vice President, CII and Managing Director and CEO, Tata Chemicals Ltd.

We would also like to thank members of the PwC team and the CII team:

Sanjeev Krishan, Chairperson, Sambitosh Mohapatra, Partner and Leader, ESG, Climate and Energy, Rohit Goel, Partner, ESG Risk Management and Compliance Service, Dr. Gargi Ghorpade, Executive Director, ESG Strategy and Transformation/Climate and Sustainability and Joseph Martin Chazhoo Francis, Senior Director and Markets Leader, ESG Platform, with contributions from Toshaj Oza, Somesh Das, Parth Thakkar and Mrunal Nawathe, PwC India.

Vikkas Mohan, Principal Adviser, Chitra Mittal, Senior Director, Chetna Agarwal, Deputy Director and Hunny Gureja, Deputy Director from Confederation of Indian Industry (CII)

Editorial

Rubina Malhotra

Design

Kanagavathi Murugaiah





About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 151 countries with over 360,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

© 2024 PwC. All rights reserved.

About CII

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering Industry, Government and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, with around 9,000 members from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 365,000 enterprises from 294 national and regional sectoral industry bodies.

For more than 125 years, CII has been engaged in shaping India's development journey and works proactively on transforming Indian Industry's engagement in national development. CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness, and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Through its dedicated Centres of Excellence and Industry competitiveness initiatives, promotion of innovation and technology adoption, and partnerships for sustainability, CII plays a transformative part in shaping the future of the nation. Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes across diverse domains including affirmative action, livelihoods, diversity management, skill development, empowerment of women, and sustainable development, to name a few.

For 2024-25, CII has identified "Globally Competitive India: Partnerships for Sustainable and Inclusive Growth" as its Theme, prioritizing 5 key pillars. During the year, it would align its initiatives and activities to facilitate strategic actions for driving India's global competitiveness and growth through a robust and resilient Indian industry.

With 70 offices, including 12 Centres of Excellence, in India, and 8 overseas offices in Australia, Egypt, Germany, Indonesia, Singapore, UAE, UK, and USA, as well as institutional partnerships with about 300 counterpart organizations in almost 100 countries, CII serves as a reference point for Indian industry and the international business community.

Confederation of Indian Industry

The Mantosh Sondhi Centre

23, Institutional Area, Lodi Road, New Delhi – 110 003 (India)

T: 91 11 45771000

E: info@cii.in W: www.cii.in



Data Classification: DC0 (Public)

In this document, PwC refers to PricewaterhouseCoopers Private Limited (a limited liability company in India having Corporate Identity Number or CIN : U74140WB1983PTC036093), which is a member firm of PricewaterhouseCoopers International Limited (PwCIL), each member firm of which is a separate legal entity.

This document does not constitute professional advice. The information in this document has been obtained or derived from sources believed by PricewaterhouseCoopers Private Limited (PwCPL) to be reliable but PwCPL does not represent that this information is accurate or complete. Any opinions or estimates contained in this document represent the judgment of PwCPL at this time and are subject to change without notice. Readers of this publication are advised to seek their own professional advice before taking any course of action or decision, for which they are entirely responsible, based on the contents of this publication. PwCPL neither accepts nor assumes any responsibility or liability to any reader of this publication in respect of the information contained within it or for any decisions readers may take or decide not to or fail to take.

© 2024 PricewaterhouseCoopers Private Limited. All rights reserved.

KA/September 2024 – M&C 40577

Copyright © (2024) Confederation of Indian Industry (CII). All rights reserved.

Without limiting the rights under the copyright reserved, this publication or any part of it may not be translated, reproduced, stored, transmitted in any form (electronic, mechanical, photocopying, audio recording or otherwise) or circulated in any binding or cover other than the cover in which it is currently published, without the prior written permission of CII.

All views, opinions, information, estimates etc. contained in this publication are of the respective authors and should not be understood as professional advice in any manner or interpreted as policies, objectives, opinions or suggestions of CII. Readers are advised to use their discretion and seek professional advice before taking any action or decision, based on the contents of this publication. The content in this publication has been obtained or derived from sources believed by CII and/or individual authors to be reliable but CII does not represent this information to be accurate or complete. CII or the contributing authors do not assume any responsibility and disclaim any liability for any loss, damages, caused due to any reason whatsoever, towards any person (natural or legal) who uses this publication.

This publication cannot be sold for consideration, within or outside India, without express written permission of CII. Violation of this condition of sale will lead to criminal and civil prosecution.

Published by Confederation of Indian Industry (CII), The Mantosh Sondhi Centre; 23, Institutional Area, Lodi Road, New Delhi 110003, India, Tel: +91-11-24629994-7, Email: info@cii.in; Web: www.cii.in

