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A DIGITAL INDIA SPECIAL ISSUE

SEBI Approves Key Proposals for ESG Disclosure Framework in India: What to Expect Ahead in 2024-25 BRSR

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INTRODUCTION

In its 208th board meeting held on December 18, 2024, the Securities and Exchange Board of India (SEBI) approved a series of regulatory measures aimed at streamlining compliance and promoting transparency for listed entities and their value chain partners. These initiatives focus on easing the operational and reporting burdens associated with Environmental, Social, and Governance (ESG) disclosures under the Business Responsibility and Sustainability Report (BRSR) framework. Recognizing the complexities of ESG reporting and its assurance, SEBI has adopted a phased approach to implementation, offering additional time and flexibility for businesses to align with the regulatory requirements.

This paper delves into the key items approved by SEBI in its 208th board meeting and examines their potential impact on the current ESG reporting framework under the BRSR.

1. DEFERRAL OF ESG DISCLOSURES FOR VALUE CHAIN PARTNERS

SEBI has decided to defer the mandatory ESG disclosures for value chain partners by one year, making them applicable from Financial Year (FY) 2025-26 instead of FY 2024-25. This move gives listed entities and their partners more time to understand the requirements, gather the necessary data, and set up internal systems to ensure compliance. Similarly, the "assessment or assurance" requirements for these disclosures have been postponed to FY 2026-27.

Impact: With an additional year to figure out their compliance strategies, companies and their value chain partners can take a more measured approach to implement ESG practices. This extension not only reduces immediate pressure but also allows entities to refine their internal processes and minimize the likelihood of errors or inconsistencies when the requirements come into effect. Smaller partners, in particular, benefit from the breathing room to prepare for these new responsibilities.

2. VOLUNTARY ESG DISCLOSURES FOR VALUE CHAIN PARTNERS

SEBI has approved replacing the earlier 'comply-or-explain' mandate with voluntary ESG disclosures for value chain partners. This acknowledges the operational challenges smaller businesses face and encourages a more gradual adoption of ESG practices rather than enforcing immediate compliance.

Impact: By making these disclosures voluntary, SEBI would give companies the flexibility to adopt ESG principles at their own pace. While this may lead to varied levels of participation initially, it creates a more inclusive approach, fostering long-term engagement within the value chain.

3. REDUCTION IN THE SCOPE OF VALUE CHAIN REPORTING

SEBI would reduce the scope of value chain reporting to include only the top upstream and downstream partners of a listed entity. These partners must individually account for 2% or more of the entity's purchases and sales (by value). Additionally, listed entities now have the option to limit their value chain disclosures to cover 75% of their total purchases and sales (by value).

Impact: This change will make it much easier for companies to meet their reporting requirements by narrowing the focus to a smaller, more significant group of value chain partners. Instead of having to track and disclose information about a vast network of stakeholders, businesses can concentrate their efforts on those partners who play a major role in their operations.

However, SEBI has left some ambiguity regarding what happens if the total upstream and downstream partners comprising 2% fall short of the 75% threshold for purchases and sales. It remains unclear whether value chain partners representing a smaller percentage would then need to be included to meet the requirement. This lack of clarity could lead to

varied interpretations and may require further guidance to ensure consistent implementation.

4. REPORTING OF PREVIOUS YEAR NUMBERS

In the first year of ESG reporting for value chain partners, SEBI has approved to make it optional for companies to include numbers from the previous year.

Impact: This decision would offer much-needed flexibility, recognizing that many businesses may not have the systems or data in place to provide historical figures right away. By allowing companies to focus solely on current numbers in their first year of reporting, SEBI is helping ease the transition into the ESG framework. This approach gives businesses the time to set up proper processes for tracking and reporting data, ensuring they're better prepared to include comparative figures in the upcoming years.

5. INTRODUCTION OF LEADERSHIP INDICATOR FOR GREEN CREDITS

SEBI has approved to introduce a new leadership indicator under Principle 6 of the BRSR, asking listed companies to disclose the Green Credits they have generated or procured. This requirement also applies to their top-10 value chain partners.

Impact: By encouraging companies to share details about their Green Credits, SEBI is fostering a culture of eco-friendly practices while allowing businesses

to highlight their contributions to a greener future. Extending this to the top-10 value chain partners amplifies the impact, ensuring that sustainability efforts are reflected not just at the organizational level but across the broader value chain.

6. SUBSTITUTION OF "ASSURANCE" WITH "ASSESSMENT OR ASSURANCE"

The board has approved to revise the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, to allow companies the option of either "assessment" or "assurance" for BRSR Core disclosures. "Assessment" refers to a third-party evaluation based on standards that will be developed by the Industry Standards Forum (ISF) in collaboration with SEBI. This change will apply to listed entities starting from FY 2024-25 and to their value chain partners from FY 2026-27.

Impact: By introducing the option of a third-party assessment, SEBI will provide companies with a more flexible and cost-effective way to meet disclosure requirements, especially during the initial implementation phase. This is particularly beneficial for entities that might find assurance to be too complex or resource-intensive. The phased rollout for value chain partners further eases the compliance process, allowing businesses and their partners to adapt gradually. The involvement of the ISF in setting the standards ensures that these assessments will be credible, standardized, and aligned with industry best practices, fostering trust and transparency.

DISCLAIMER

The information provided herein is based on the SEBI board's recent approvals in its 208th board meeting on December 18, 2024 and is intended for informational purposes only. These measures are currently at the proposal stage and have not yet been officially notified or implemented. As of now, no official circular or notification has been issued by SEBI regarding these changes. We await further guidance and formal communication from SEBI to clarify the details and timelines for implementation.

Read here: https://www.sebi.gov.in/media-and-notifications/press-releases/dec-2024/sebi-board-meeting_90042.html

Sonal Verma leads the ESG Practice in the firm as a Partner and Global Leader – Markets & Strategy. With his crossroad working with business & laws – he brings advice & technology for effective change management in the journey of ESG. Sonal is well acclaimed for his work in regulatory & compliance programs over the last decade. He had in the past worked with 1800 plus clients in India and 61 other countries globally. He has worked with the top 3 unicorns and many Fortune 500 companies. His clients have been across different industries, viz. Automotive and OEMs, Pharma and Life Sciences, Manufacturing, Chemical Industry, BFSI, Infrastructure and Utilities (including stateowned PSUs), e-Commerce and Fintech Companies, Diversified Conglomerates etc.

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