

First Notes



Proposal for top 1,000 listed companies to adopt BRSR voluntarily for FY20-21

26 August 2020

First Notes on

Financial reporting
Corporate law updates

Regulatory and other information

Disclosures

Sector

All

Banking and insurance
Information, communication, entertainment
Consumer and industrial markets
Infrastructure and government

Relevant to

All

Audit committee
CFO
Others

Transition

Immediately
Within the next three months
Post three months but within six months
Post six months

Forthcoming requirement

Background

Currently, top 1,000 listed companies¹ in India are required to furnish a Business Responsibility Report (BRR) to the stock exchanges as a part of their annual reports. The BRR should describe the initiatives taken by the listed companies from an Environmental, Social and Governance (ESG) perspective, in the format as specified by the Securities and Exchange Board of India (SEBI). Other listed companies may submit the BRR voluntarily².

The current version of BRR is based on the business responsibility and sustainability indicators contained in the *National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business* (NVGs) issued in 2011 by the Ministry of Corporate Affairs (MCA). These guidelines were updated as the *National Guidelines for Responsible Business Conduct* (NGRBC) in 2019.

In 2018, while the NVGs were being updated, it was decided that the SEBI-BRR framework should also be revised to reflect the changes made in the base document. Accordingly, MCA constituted a committee³ for finalising revised BRR formats for listed and unlisted companies.

New development

On 11 August 2020, MCA has issued the report of the committee on BRR. In this report, the committee has made recommendations with respect to implementation of BRR by companies. The report of the committee on BRR aims to align the changes in global environment, the Sustainable Development Goals (SDGs) and the United Nations Guiding Principles on Business & Human Rights (UNGPs) into the current reporting requirements as prescribed under the SEBI Listing Regulations. Accordingly, SEBI and MCA are expected to work together to materialise the recommendations of the committee.

This issue of First Notes aims to provide an overview of the recommendations made by the committee in its report.



1. Based on market capitalisation calculated as on 31 March of every financial year.
2. Regulation 34 of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulation, 2015 (Listing Regulations).
3. The committee was formed under the Chairmanship of Mr. Gyaneshwar Kumar Singh, Joint Secretary, MCA. The committee comprised of SEBI, MCA, three professional institutes and two eminent professionals who had worked on developing the NGRBC.

Overview of the recommendations

- **Business responsibility and sustainability formats:** The committee recommends that the format of reporting should be called the Business Responsibility and Sustainability Report (BRSR) (instead of BRR). This is expected to better reflect the intent and scope of the reporting requirement. It proposes two new formats for disclosures:

- A comprehensive format and
- A Lite version.

The information sought in the formats is a mix of quantitative and qualitative data. Quantitative data will allow for easy measurement and comparability across sectors, companies and in time. Qualitative data will help to capture the unique ways in which organisations have implemented and embedded responsible business conduct. These may be adapted by other businesses to their contexts.

- **Proposed framework:** The proposed framework will be applicable to both types of the new BSBR formats (i.e. the comprehensive format and the lite version). The proposed BRSR would consist of the following three sections:
 - Section A - General Disclosures:** This section contains the basic information about the company such as size, location, products, number of employees, top three products/services sold by the company by turnover, sectors in which the company operates, Corporate Social Responsibility (CSR) activities, etc.

The proposed formats require additional disclosures with respect to proximity of a company's operations to environmentally sensitive sites such as protected areas, water-stressed zones, etc.

- Section B - Management and process:** In this section, a company would be required to disclose information on policies and processes relating to the NGRBC principles concerning leadership, governance, and stakeholder engagement.

The purpose of this section is to understand whether the company has the building blocks in place that will enable and ensure responsible business conduct.

- Section C - Principle-wise performance:** In this section, the company would be required to demonstrate their intent and commitment to responsible business conduct through actions and outcomes. Responses to Section C will indicate how a company is performing in respect of each Principle and Core Element of the NGRBCs. Specific disclosures have been sought on value chain, labour welfare and representation of women and differently abled on the board of directors of the company.

The questions in this section have been divided into two categories:

- Essential:** Questions are mandatory for all companies.
- Leadership:** Questions are voluntary and provide an opportunity for companies to present their impacts and outcomes.

- **BRSR Lite:** In order to ease the sustainability reporting requirements, the committee has proposed a lite version of the BRSR format for companies reporting first time on sustainability reporting related issues such as unlisted companies. The committee proposed comparatively few essential and leadership category of questions in the BRSR Lite format.
- **Guidance note for BRSR:** The committee has also prepared a Guidance note for BRSR which defines and interpret the scope of each question to enable companies to disclose their actions on the principles in a more meaningful manner.
- **Scope of reporting to cover unlisted companies:** The committee recommended that the reporting requirement may be extended by MCA to unlisted companies based on specified thresholds of turnover and/or paid-up capital. Further, it recommended that smaller unlisted companies below this threshold can adopt a lite version of the format, on a voluntary basis.
- **Integration with the MCA21 portal:** The committee recommended that the BRSR be integrated with the MCA21 portal. This would ensure that all information already filed on the MCA21 portal by companies would be automatically filled while filing the BRSR.



Effective date: The committee recommended to implement the disclosures under BRSR effective from financial year 2021-22 in a phased manner over a period of five years.

Way forward

Business Responsibility Sustainability Index

In the long term, the vision of the committee is that the information captured through BRSR filings could be used to develop a Business Responsibility-Sustainability Index for companies. It expects that this information would also be used by banks, credit rating agencies and other financial institutions, along with financial information to assess credibility of a company/business.

Translation in other languages

The committee envisages that the report should be translated into local languages so that it is accessible to all stakeholders of the company. Further, it expects that in times to come, sector specific BRSR formats may also be developed so that the environmental and social performance of a sector can be assessed in depth by regulators and various stakeholders.

Five-year period

The committee expects that a five-year period may be explored for phasing the implementation to cover all companies gradually. Institutions such as the Indian Institute of Corporate Affairs and the National Foundation for Corporate Governance may play a proactive role to develop content for training and capacity building.



SEBI consultation paper



In accordance with the above, recently, SEBI has also issued a consultation paper on the 'Format for business responsibility and sustainability reporting' and proposed that the format for BRSR, as recommended by the committee, should be made applicable to top 1,000 listed companies by market capitalisation.

To begin with, it proposed that the new format should be adopted by the listed companies on a voluntary basis for the financial year 2020-21 and mandatorily from the financial year 2021-22.

Existing format of BRR will continue to apply in case the company choose not to adopt the new format in financial year 2020-21.

Comments on the proposed format have been invited up to 18 September 2020.

Our comments

Performance of a company is no longer evaluated only on financial metrics but also on how they contribute towards the society in terms of Environmental, Social and Governance (ESG) objectives. There is a high demand on the ESG disclosures than ever before and the revision to BRR to BRSR is coming at the right time. This is evidenced by 'assets under management in funds that abide by ESG principles have surpassed USD1 trillion for the first time on record. It comes after net inflows of USD71.1 billion between April of June this year, driven by growing investor interest in sustainable investment funds in the wake of the coronavirus pandemic'⁴.

Non-financial metrics and disclosures are increasingly relevant in articulating a company's value especially for new age companies and in the current COVID scenario. Such disclosures provide an opportunity to businesses to communicate in an open and transparent way with various stakeholders.

Some of the key features of the updated reporting requirements are as follows:

- **Proposed framework of BRSR:** The reporting requirement has been proposed to include reporting on sustainability related matters such as use of natural resources and social and economic inequality. The committee expects businesses to gain from such reporting in terms of increase access to capital, reduced financial risks, increase in value creation, demonstrating leadership and obtaining social licence to operate.

Considering the current appetite for reporting by companies, the committee proposed two separate formats of BRSR - comprehensive and a lite version. The reports intend to serve as a single comprehensive source of non-financial, sustainability information relevant to all business stakeholders including investors, shareholders and regulators.

4. CNBC article 'Sustainable investment funds just surpassed \$1 trillion for the first time on record' dated 11 August 2020.

Our comments (cont.)

The key changes made to the new BRSR report vis-à-vis the current BRR report⁵ are as follows:

- i. **Reporting sections:** The number of reporting sections have been reduced from five to three retaining, general information and principle-wise performance.
 - ii. **General disclosures section:** 'General disclosures' section has been expanded to include:
 - a. Location of plants or offices in protected areas i.e. areas in which human occupation or at least the exploitation of resources is limited such as national parks, wild-life sanctuaries, conservation reserves, community reserves and marine protected areas.
 - b. Disclosure on number of females comprising the board of directors and key management personnel.
 - c. Complaints/grievances on any aspect of the National Guidelines on Responsible Business Conduct in the financial year
 - d. Specific disclosures on high priority responsible business conduct and sustainability issues pertaining to environmental, social and governance matters that present a risk or opportunity to a company's business along with an outline regarding the approach a company is taking to address them.
 - iii. **CSR reporting:** Enhanced disclosures relating to CSR have been proposed. Those, *inter alia*, includes net profits of company for last three years, manner of CSR spent during the financial year and details of implementation agency. The disclosures now form part of general disclosures section (earlier disclosed under 'financial details of the company').
 - iv. **Principle-wise information:** Information sought under principal-wise performance section has been categorised as 'essential' and 'leadership'. While the essential level is expected from every business that has adopted the NGRBC, the leadership level is expected of businesses which aspire to progress to a higher level in their quest to be socially, environmentally and ethically responsible. Some of the important disclosures to be made under essential category includes:
 - a. Detailed description of number of trainings and awareness programmes for Board of Directors (BoD), Key Managerial Personnel (KMP), employees other than BoD and KMPs, workmen, etc.
 - b. Meetings/dialogues organised on responsible business conduct and sustainability with shareholders.
 - c. Details of fines/penalties/punishment/award/compounding fees/settlement amount paid in proceedings with regulators/law enforcement agencies imposed on your company by regulatory/judicial institutions in the financial year.
 - d. Details of disclosure of interest involving members of board of directors of the company and number of complaints received in relation to issues of conflict of interest of the directors
 - e. Details of Life Cycle Assessments (LCA) of any or all of a company's top three brands/products manufactured along with a list of three products/services whose design has incorporated social or environmental concerns and/or risks.
 - f. Details of percentage of Research and Development (R&D) and capital expenditure (capex) investments in specific technologies to improve the environmental and social impacts of product and processes total R&D and capex investments made by the company.
 - g. Details of processes in place to safely collect, reuse, recycle and dispose after sale and at the end of life of products, separately for (a) plastics (including packaging) (b) e-waste and (c) other waste.
 - h. Details of trainings provided to employees and workmen on human rights issues and policy(ies) of the company in the financial year along with the focal point (individual/committee) that is responsible for addressing human rights impacts or issues caused or contributed to by the business.
- **Extended applicability to unlisted companies:** Currently, BRR reporting is mandatorily applicable to top 1,000 (by market capitalisation) listed companies. The committee recommended that the reporting requirement should be extended to unlisted companies above a threshold to be specified by MCA in terms of turnover or paid-up capital. Those companies which will fall below this threshold, can apply the reporting requirement voluntarily using the Lite version of BRSR.

5. Format of BRR prescribed in SEBI circular no. CIR/CFD/CMD/10/2015 dated 4 November 2015.

Our comments (cont.)

- **Other sustainability reporting in India:** SEBI through its circular dated 6 February 2017 advised top 500 listed companies to voluntarily adopt Integrated Reporting (<IR>) effective financial year 2017-18. An integrated report aims to provide an insight about the resources and relationships used and affected by the businesses (referred to as 'capitals' in the <IR> framework⁶). The disclosures envisaged by <IR> are also intended to reflect the value creation by companies with the use of these capitals which would further enable informed investment decision making by stakeholders.
- **International practices:** The move towards BRSR is in line with the emerging trends globally on sustainability reporting. Governments of several countries such as Denmark, South Africa, China, Malaysia and Philippines require eligible companies to make disclosures in relation to their non-financial performance across ESG aspects. The national laws in some of the EU countries are also undergoing legislative changes in line with the EU Non-Financial Reporting Directive. Other countries like Australia, Mexico, USA and France have embarked on the journey of climate change related reporting.

The bottom line

Companies mandatorily required to prepare BRR should take cognisance of the additional reporting requirements proposed by the committee and SEBI. These changes may require updation of the systems or policies for implementation of BRSR requirements, once effective.

Other large companies in India should start evaluating the new reporting requirements of BRSR and assess their level of preparedness.

While defining the content elements, SEBI should also consider to allow flexibility to companies to disclose and present BRSR requirements at their discretion. This step would help companies to move away from a checklist approach to providing more qualitative disclosures that can provide additional colour to the articulation of the value the companies are creating as they undertake their primary economic activities.

The expectation is that companies would demonstrate leadership in business responsibility by transitioning from 'doing no harm' to proactively 'doing good'.



6. International <IR> framework by International Integrated Reporting Council (IIRC).

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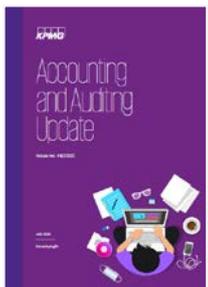
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Issue no. 48 – July 2020

The topics covered in this issue are:

- Interim financial reporting in light of COVID-19
- Analysis of disclosures on COVID-19 by listed entities
- Accounting of CSR related expenses - Key considerations
- Regulatory updates



Ind AS amendments including accounting for rent concessions and interest rate benchmark reforms

7 August 2020

Indian Accounting Standards (Ind AS) are largely converged with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). In the recent past, IASB along with IFRS Interpretations Committee (IFRIC) has issued various amendments to IFRS as part of annual improvement process or as specific amendments.

In line with the amendments made to IFRS, on 24 July 2020, the Ministry of Corporate Affairs (MCA) has issued amendments to certain Ind AS.

This issue of First Notes aim to provide an overview of the amendments made to Ind AS.



Voices on Reporting

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KPMG in India is organising a two-part webinar series to discuss the key implementation issues relating to Companies (Auditor's Report) Order, 2020 (CARO 2020) on 2 September 2020 and 11 September 2020, respectively.

For registration details, please click [here](#).

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