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India raises the bar on ESG disclosures

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India has long had a framework for corporations to disclose the corporate social responsibility initiatives they undertake for the benefit of society at large. The list of qualifying CSR activities, however, is intentionally broad, ranging from supporting the protection of historically important sites to promoting safe drinking water. The increasing emphasis of both investors and regulators around the world on the more narrowly defined ESG metrics led the Securities and Exchange Board of India (SEBI) to introduce, in 2021, an ESG disclosure framework for the country's 1,000 largest listed companies. This ESG disclosure framework, the Business Responsibility and Sustainability Report (BRSR), is built off of the nine principles set forth in India's 2018 National Guidelines on Responsible Business Conduct. The BRSR is a comprehensive document, requiring companies to report on metrics ranging from percentage of R&D and capital expenditure on technology to improve the environmental and social impact of products and processes to the percentage of employees that have health insurance.

Increasing reliability, broadening scope

The BRSR represents a significant step forward in developing a sophisticated ESG regulatory regime akin to those being developed in major global economies while also maintaining an emphasis on priorities specific to India. This March saw another important step in India's ESG evolution, with SEBI's approval of enhancements to the initial BRSR disclosure framework.

The consultation paper released in February seeking public comment on the proposed changes noted two major factors driving the need for improved ESG disclosure.

The first is the need for a higher level of assurance regarding the reliability of reported data to "enhance credibility of disclosure and investor confidence." Until now, the BRSR reporting metrics have been to the standard of limited assurance—evidence is systematically gathered, but without the level of depth, evaluation, and risk assessment that defines the higher standard of "reasonable assurance." In order to increase confidence in ESG disclosures while ensuring that compliance requirements remain attainable, SEBI has established "BRSR Core"—a subset of the BRSR's ESG metrics that must be measured with reasonable assurance. The BRSR Core requirement will apply to India's largest 150 companies in FY 2023-2024 and to the top 1000 companies in FY 2026-2027. The metrics proposed for the new BRSR Core cover a wide range of areas. For example, the BRSR Core metrics include waste recovered through recycling, percentage of wages paid to workers in smaller towns (to promote more inclusive economic development) and percentage of media coverage that is negative (to measure fairness in engaging with customers and suppliers).

Importantly, to combat greenwashing in ESG financial products, SEBI is also requiring ESG ratings providers to rate companies on their compliance with the SEBI Core reasonable assurance disclosures and to require ESG financial products to invest at least 65 percent of their assets under management in companies that are complying with the BRSR Core disclosures. Compliance with those disclosures will thus have concrete implications for the company and its position within the investor community.

The second major ESG disclosure goal of the consultation paper is improving disclosure regarding the supply chains of reporting companies. Currently, the metrics relating to a company's supply chain are covered under the BRSR's "Leadership Indicators"—metrics that are both voluntary and conducted with limited assurance. However, as the consultation paper notes, there is an increased perspective among investors that

a comprehensive understanding of a company's ESG impact and risk must include its supply chain. At the same time, SEBI recognizes that there are significant complexities regarding supply chain disclosure, including the fact that many suppliers may be small firms and that companies may have many tiers of vendors in their supply chains.

SEBI is thus proposing that, starting in FY 2024-2025, India's top 250 listed companies also disclose the BRSR Core metrics for their suppliers, on a "comply or explain" basis. Although assurance would not be mandatory during the first year, starting in FY 2025-2026, assurance for supply chains would be on a "comply or explain" basis as well.

Implications for Indian companies

These regulatory priorities bring significant implications for the compliance function of major Indian companies. Some of the work meeting the higher level of assurance proposed for ESG disclosures will be done by accounting firms. But for many metrics, the responsibility will fall to the company itself—requiring the company to conduct due diligence on its operations and possibly those of its suppliers. It will no longer be sufficient for companies to take at face value internal records on water consumption or its expenditures on health insurance and employee childcare.

And beyond the new BRSR Core, the February consultation paper includes a list of proposed parameters that ESG ratings agencies adopt to reflect ESG priorities specific to India. These include whether the company has operations in or around ecologically sensitive areas and its sourcing from micro, small and medium-sized businesses. While these evaluations would be under the purview of the rating agency, it would still be incumbent upon the company to have clear-eyed, reliable answers to these questions itself, so that it can proactively manage its ESG footprint.

SEBI's recent revisions to the ESG reporting framework are likely to be only one step in India's ESG regulatory evolution; the trend toward broader and more reliable ESG data is likely to only continue. India's large, listed companies thus need to prepare to ensure that their ESG disclosure capabilities—whether in-house or through working with external resources—are at the level needed to operate under greater scrutiny.



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