# Accelerating the change: ESG reporting 2.0

August 2022

# Introduction


In an increasingly connected world, the risk and opportunity landscape for corporates across sectors has been evolving dramatically. Over the past two decades, technological disruptions and disasters of unprecedented scale have influenced the way stakeholders evaluate the resilience and sustainability of businesses. The current approach looks far beyond the traditional financial metrics to gain a holistic understanding of the value a company can create over time. Given the current context of rising social inequalities, a health crisis of unprecedented scale, mounting economic knock-on effects, global climate crisis and the acceleration of environmental degradation, performance of companies on ESG metrics has emerged as a critical evaluation parameter. Consequently, the demand for quality ESG disclosures could further surge in the near term. Companies that have kept pace with this rising stakeholder sentiment would have a clear advantage in winning their trust and building a reputation of being an organisation with foresight. However, there is a real opportunity for the laggards to step up their systems and align themselves to the new normal of corporate disclosures which mainstreams sustainability metrics.

This study aims to put into perspective key trends and current level of uptake of various sustainability reporting frameworks and guidelines for corporate leaders, Boards, and sustainability professionals. This study also presents insights for corporates to strengthen their ESG reporting by transitioning to an outcome-oriented approach. The findings of this study can also help other stakeholders appreciate the current pulse of the sustainability reporting landscape in India. This research captures the responses on ESG parameters for the top 100 companies by market capitalization (termed as N100) as on 31st March 2021.

The parameters cover:

- ESG reporting and assurance practices
- ESG governance enablers
- Stakeholder Engagement and Materiality Assessment
- Environmental and social targets
- Climate-related disclosures
- Biodiversity impact and metrics

This study presents quantitative and qualitative findings from the research undertaken. Key insights also bring in KPMG in India's experience of working with various Indian corporates in their ESG endeavours.

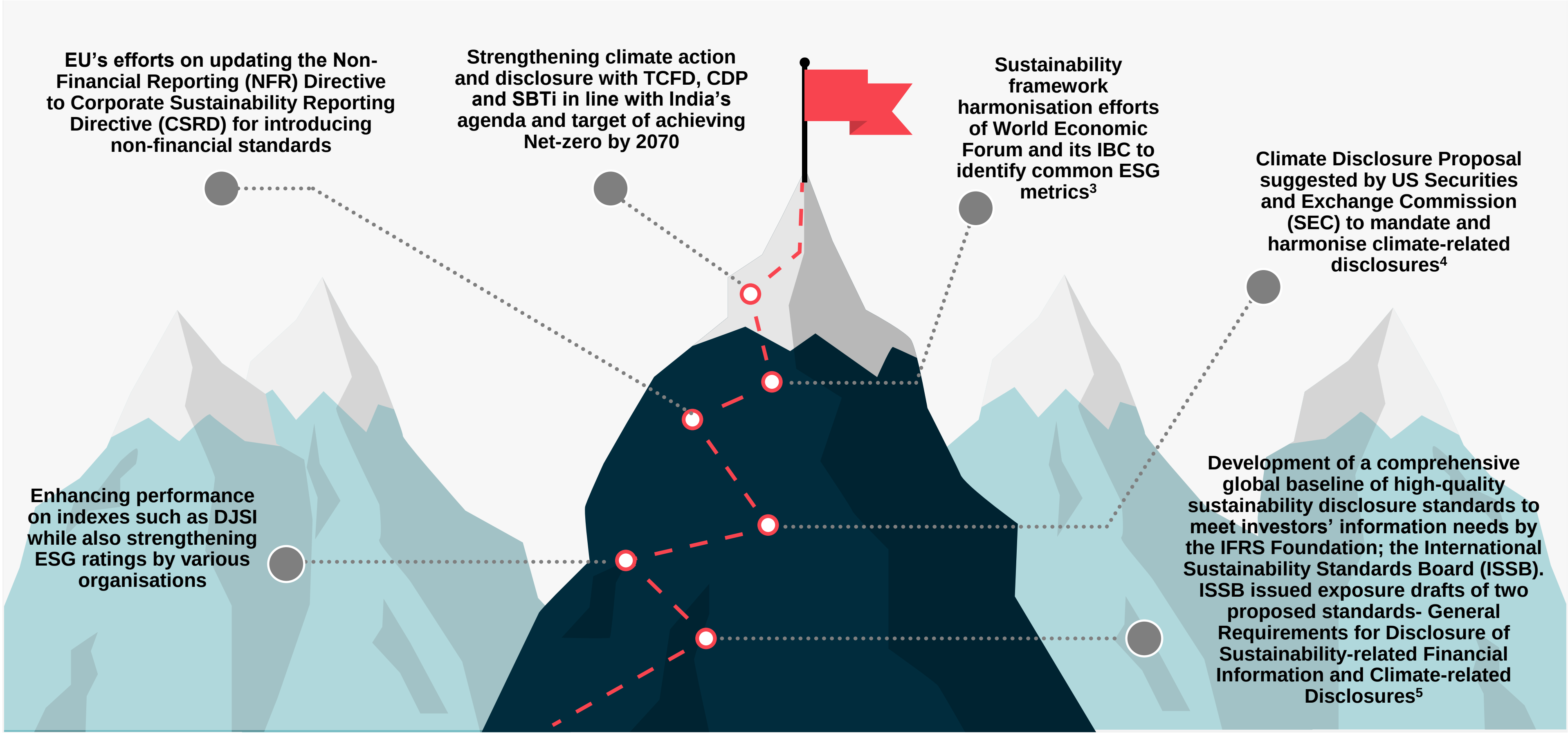
## N100 Sectors

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Alternative Energy | Automobiles and Parts | Banks | Beverages | Chemicals | Construction and Materials | Electricity | Electronic and Electrical Equipment | Financial Services |
| Food and Drug Retailers | Food Producers | General Industrials | Household Goods and Home Construction | Industrial Engineering | Industrial Metals and Mining | Industrial Transportation | Life Insurance | Mobile Telecommuni-cations |
| Nonlife Insurance | Oil and Gas Producers | Oil Equipment, Services and Distribution | Personal Goods | Pharmaceuticals and Biotechnology | Software and Computer Services | Support Services | Tobacco | Travel and Leisure |

# The ESG reporting landscape

Corporates have been exploring sustainability reporting in India for over two decades. Pioneering Indian corporates have been publishing sustainability reports since the early 2000s. In line with global trends, enhanced momentum on sustainability as a corporate agenda has been observed over the years. The Global Risk Report 2022[1] published annually by World Economic Forum, identified environmental and social risks as majority of top 10 significant risks in terms of severity and short-, medium-, long-term threat. The ongoing pandemic has further exposed corporate vulnerabilities, especially in the social dimension. Similarly, various stakeholders, like investors, have demanded greater transparency around the impact of such risks on the capital, operations, and overall performance of the business. Consequently, such factors have acted as a catalyst for the growing momentum among corporates to augment resources towards enhanced ESG reporting.

Regulatory mandates have played an important role in ushering corporates across sectors to engage in social and environmentally conscious approach to business. The crystallization of policy directives on ESG along with stakeholder demand for ESG disclosures have shaped the sustainability journeys of most N100 Indian corporates. However, corporates often struggle with what to report and how to report due to lack of standardization of ESG reporting. Efforts towards harmonization of sustainability metrics in the recent past by the Corporate Reporting Dialogue, European Financial Reporting Advisory Group (EFRAG), World Economic Forum and its International Business Council (IBC), as well as COP26 are bound to further influence the quality and scope of sustainability disclosures in India. Some key global and national initiatives that have caught corporate interest include[2]:




1. The Global Risks Report 2022, World Economic Forum, 2022
2. Task Force on Climate related Disclosures, Climate Disclosure Project, Science Based Targets initiative, Dow Jones Sustainability Index
3. Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation, WEF, 2020
4. SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors, U.S. Securities and Exchange Commission, 2022
5. ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures, IFRS, 2022

# Reporting in India

In the Indian context, corporates are rigorously navigating their way through regulatory and voluntary ESG reporting frameworks. Financial reporting has been a standard practice since the inception of accounting as it became a mandate for all public companies. However, the mandates in India are transforming to become more inclusive of societal needs and expectations. Furthermore, robust ESG disclosures can also support corporates to enhance their performance across a myriad of ESG rating indices and effectively respond to key stakeholder requirements.

Some of the prominent updates in the ESG disclosure realm include:

**Business Responsibility and Sustainability Report (BRSR)**

Effective 10 May 2021, the BRSR is an updated ESG framework mandated by SEBI for the top 1000 companies. Currently, companies are encouraged to adopt it voluntarily; however, it will be mandatory from the financial year 2022-23. The nine revised principles of the 'National Guidelines on Responsible Business Conduct (NGBRC) form the foundation of the BRSR. NGRBC recommended comprehensive extra-financial disclosures to push corporates to operate in a more sustainable manner. BRSR is an upgrade from Business Responsibility Report (BRR) as it is more inclusive and holistic towards the environmental, social and governance disclosures. Each principle consists of Essential indicators (mandatory basis) and Leadership indicators (voluntary basis) to measure and track corporate performance across non-financial parameters.

**Corporate Social Responsibility (CSR) reporting**

In 2021, the provisions of Section 135 and schedule VII of Companies Act 2013 went through an amendment. The focus shifted to bringing CSR projects and their corresponding impacts in the limelight. The reporting requirements and amendments are a positive step in the inclusion of key social parameters in the annual reports.

## Voluntary frameworks available for disclosures[8]

### Global Reporting Initiative (GRI)

Global non-profit organisation which guides reporting of ESG parameters through sector standards and guidelines. Provides disclosures that are widely employed due to their ease-of-use nature and a myriad of key performance indicators

### Sustainability Accounting Standards Board (SASB)

Industry-specific standards sustained under the auspices of the Value Reporting Foundation, established to guide identification of financially material ESG topics and reporting of value creation, preservation, and erosion.

### World Economic Forum (WEF): Measuring stakeholder capitalism

Represents universal and harmonised set of metrics. It contains a set of 21 Core and 34 Expanded metrics under the four Pillars of:

- Principles of governance
- Planet
- People
- Prosperity

### Task Force on Climate Related Disclosures

Climate focused disclosures in the four key areas of:

- Governance
- Strategy
- Risk Management
- Metrics and Targets

### Integrated Reporting <IR>

Principle based framework developed by the International Integrated Reporting Council (IIRC) to highlight the synergies between six capitals (natural, manufactured, intellectual, human, financial, social and relationship) for short-, medium- and long-term value creation.

### Sustainable Development Goals (SDGs)

Set of 17 goals and 169 targets that act as a blueprint for protection of planet, eradication of poverty and inequality, and achievement of world peace and prosperity by the end of 2030.

### UN Global Compact (UNGC) Principles

Principle based framework which aligns business strategy, policies, and operations with the universal concepts of:

- Human rights
- Labour
- Environment
- Anti-corruption

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6. Business responsibility and sustainability reporting by listed entities, Securities and Exchange Board, 2021
7. Corporate Social Responsibility (CSR), General Circular No. 14 /2021, Ministry of Corporate Affairs, 2021
8. About GRI Standards, 2022, About SASB, 2022, About SDGs, 2022

# Key milestones of India's ESG disclosure landscape[9]

**2000-2006**
1st version of the GRI guidelines launched in 2000, GRI G2 launched in 2002, GRI G3 launched in 2006

**2008**
RBI issued a letter to all scheduled commercial banks about their role on CSR, Sustainable Development and Non-financial Reporting

**2009**
MCA published the CSR guidelines

**2010**
Department of Public Enterprises issued CSR guidelines for Central Public Sector Enterprises, to have a board approved CSR Policy

**2011**
MCA published NVGs on Social, Environmental, and Economic Responsibilities of Business

**2012**
SEBI made it mandatory for the largest 100 listed companies to publish an annual business responsibility report

**2013**
- GRI G4 guidelines launched
- IIRC Launched the <IR> framework

**2014**
CSR law mandated companies of a particular scale and profitability to spend 2% of average profits of preceding years

**2015**
The 2030 Agenda for Sustainable Development at the UN Summit attended by over 150 heads

**2016**
- GRI sustainability reporting standards were launched
- SEBI published green bond guidelines

**2017**
- Final report with recommendations of TCFD launched
- SEBI released a circular encouraging top 500 companies to adopt Integrated Reporting

**2018**
Bombay Stock Exchange published Guidance Document on ESG Disclosures

**2019**
MCA revised NVGs to NGRBC to align with SDGs and the 'Respect' pillar of UNGP

**2020**
MCA prescribed a new format for Business Responsibility and Sustainability Report (BRSR), applicable to the top 1,000 listed companies by market capitalization

**2021**
MCA revised NVGs to NGRBC to align with SDGs and the 'Respect' pillar of UNGP

9. The numbers that are changing the world, KPMG, 2019, SEBI mandates additional compliances for issuers of non-convertible securities, KPMG 2021

# Unlocking inherent reporting benefits ?

Due to the growing momentum of ESG in the reporting dimension, companies are increasingly focusing on tracking, measuring, and communicating their ESG performance. As they transcend towards reporting and streamlining action towards the triple bottom line, companies can garner several inward as well as outward benefits.

## Inward Benefits

### Increased value creation

As evidence mounts, superior ESG performance can translate to augmented financial performance and restored confidence among shareholders

### Reducing regulatory intervention

External value creation can lead to greater freedom from regulatory pressures and less adverse risk from government action

### Access to capital

Addressing burgeoning investor demand for ESG action can break barriers to capital and unlock greater sources of funds for corporates

### Talent attraction and retention

Aligning practices with the ESG values of millennials and Gen-Z will create an inclusive work culture that fosters employee satisfaction, productivity, and enhanced brand value

## Outward Benefits

### Driving collective action

Enhanced ESG maturity and disclosure of performance against targets can elevate the value proposition of corporates to achieve global climate goals

### Unlocking competitive value

Robust ESG performance can enable corporates to identify strategic ESG opportunities and effectively meet competitive challenges

### Industry thought leaders

Companies can drive strengthened ESG performance to provide valuable insights on ESG topics that matter most to internal and external stakeholders

### Social license to operate

Showcasing external value addition through their activities and plans ensures trust and long-term business continuity

# Analysis of the current ESG reporting landscape

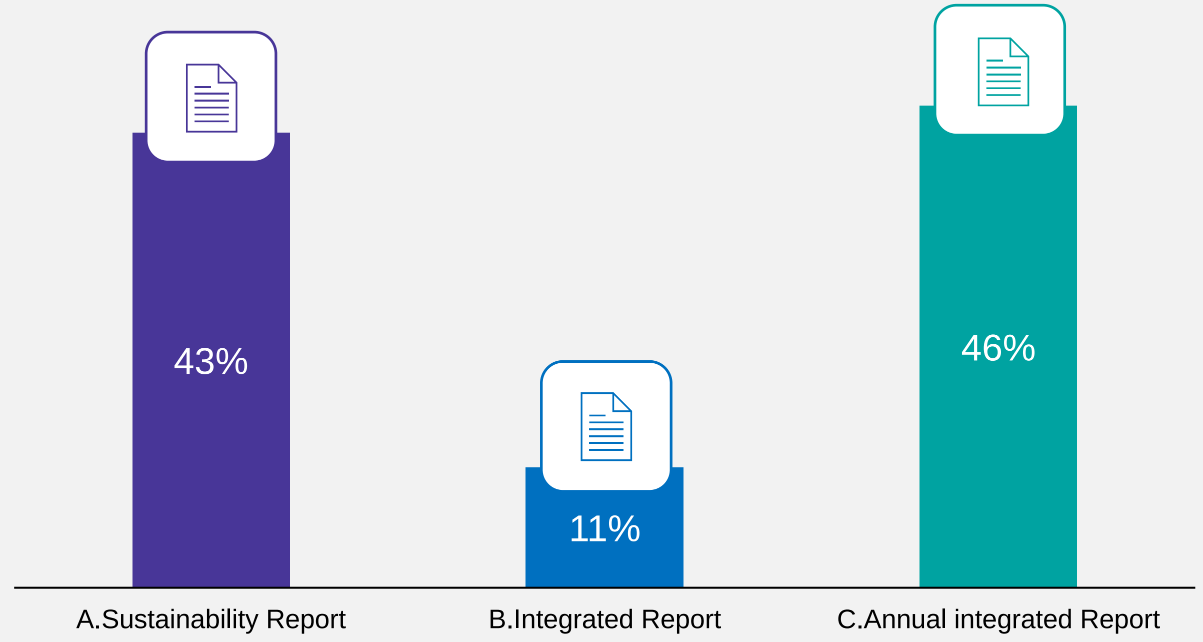
Over the last few decades, the societal and governmental expectations around excellent corporate performance have significantly changed. This has prompted the evolution of reporting landscape as companies align themselves to the changing requirements.

**Mandatory** → **Voluntary**

**100per cent of the N100** companies furnish a BRR report for non-financial disclosures as mandated by SEBI

**79per cent of the N100** Companies publish a stand-alone ESG Report

### Terminology used for ESG reporting (n=79)



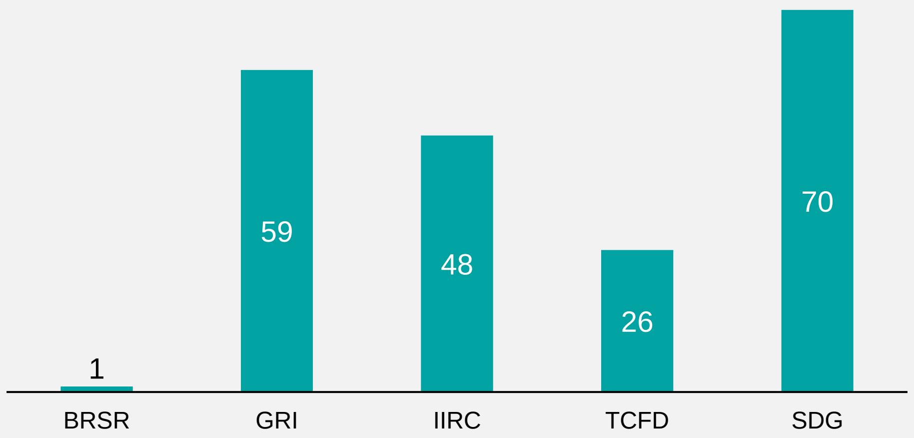

Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

Across the N100 companies, Annual Integrated Reporting is the widely used approach to showcase ESG performance. It helps companies provide information in a simple, concise, and holistic manner as it highlights the interlinkages between different capitals.

# Sustainability reporting frameworks landscape across the N100

**As sustainability emerges as a key area of focus, there has been a sudden surge in the corporate reporting frameworks, guidance, and protocols available for companies to showcase their business performance. The analysis suggests that most of the companies refer to Sustainable Development Goals (SDGs) as they build their sustainability narrative.**

**Standards/guidelines referred for ESG reporting (n=79)**



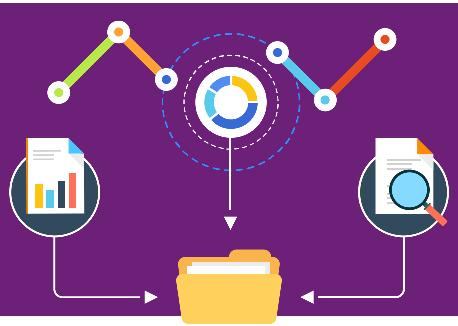

Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

India assured its commitment to the SDGs and global Agenda 2030 during the United Nations Sustainable Development Summit 2015[10]. SDGs being the most widely referenced corroborate the national commitment and drive towards sustainable development.

GRI standards and IR framework are most referenced after SDGs as they undergird transparent, reliable, and easy-to-use disclosures. However, there will be an uptake in the adoption of the BRSR due to the mandatory requirements from FY 2022-23. As per the research, certain companies have further taken a step beyond to employing more than one type of disclosure standards/guidelines. Thus, the analysis exhibits overlaps between different types of disclosure standards/guidelines.

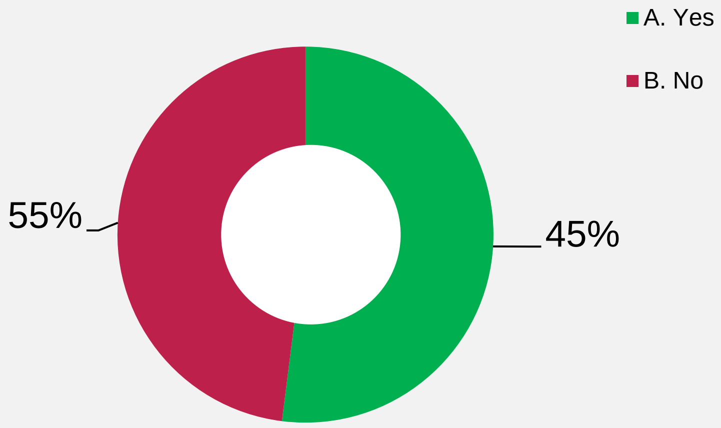
10. India's commitment to the SDGs, NITI Ayog, 2022

# Trends in Integrated Reporting



**In February 2017, Securities and Exchange Board of India (SEBI) recommended the top 500 companies to voluntarily transition to an integrated report. Adoption of integrated report <IR> framework or IR based on the guidance of International Integrated Reporting Council (IIRC), has increased from 20per cent to 45per cent since 2019[11].**

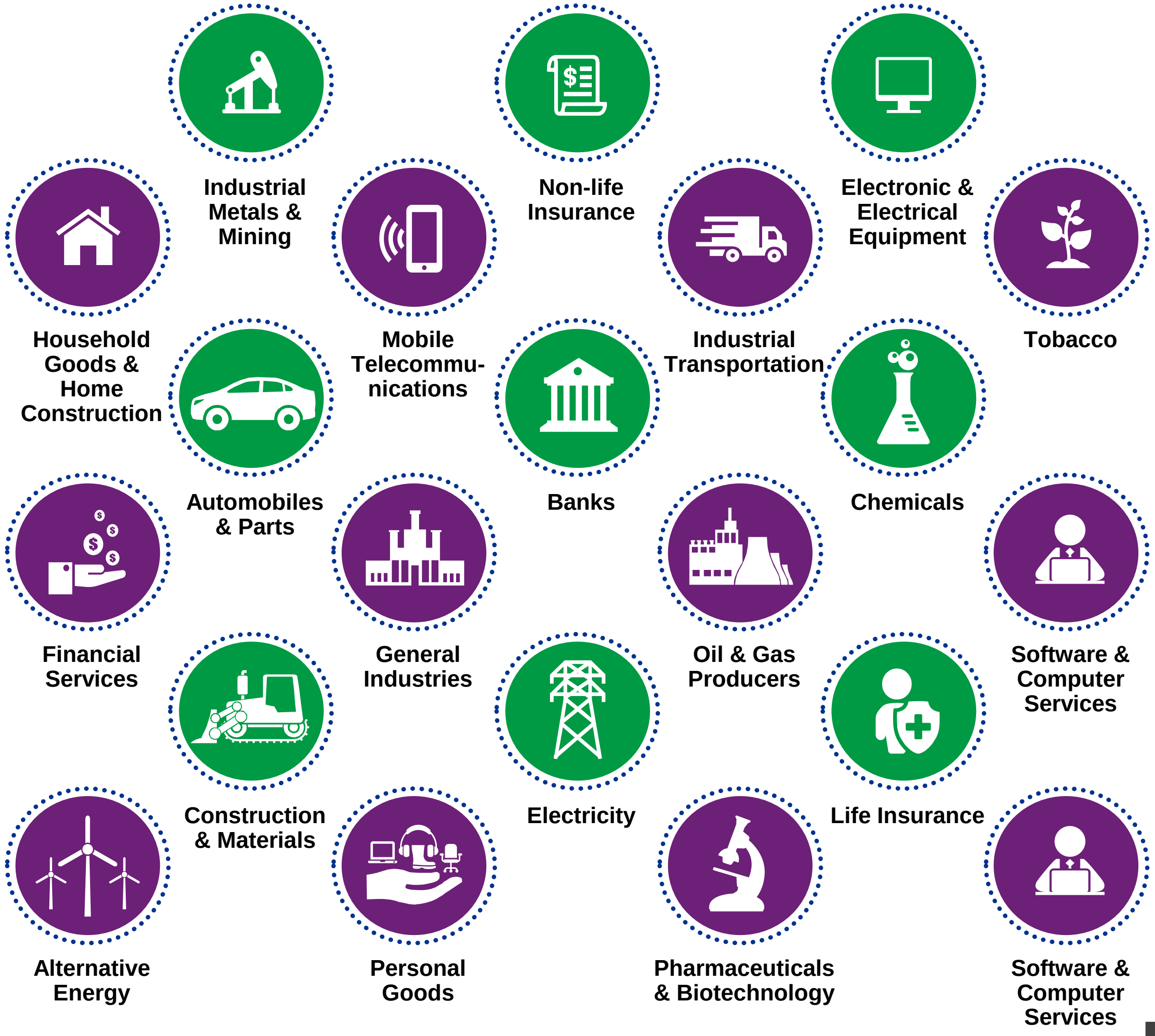
## N100 companies that have adopted Integrated Reporting




Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

## Leading sectors that have adopted the "integrated" thinking

*Only sectors with 100per cent adoption have been showcased*




Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

11. Insights on corporate reporting, KPMG, 2019

# Assurance Landscape

**Stakeholders and investors are increasingly relying on sustainability reporting to gauge how corporates manage, monitor, and enhance their ESG performance. As scrutiny around corporate governance gains momentum, corporates increasingly are subjecting themselves to third-party assurance of their ESG data.**

## Potential benefits of conducting external assurance

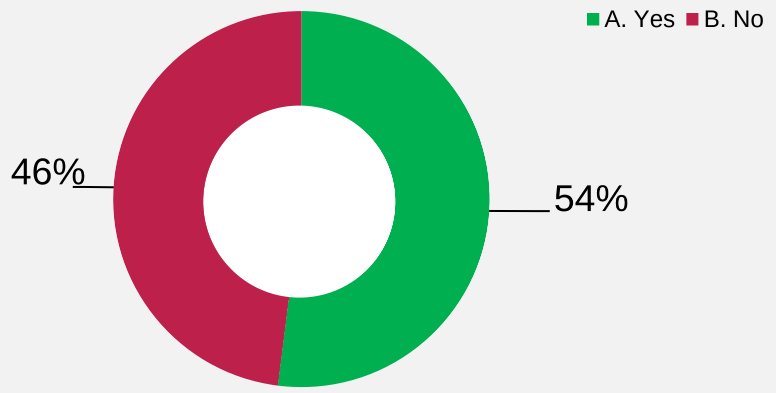
**Potential benefits of external assurance** =

- Increased recognition, trust, and credibility
- Reduced risk and increased value
- Improved Board and CEO level engagement
- Strengthened internal reporting and management systems
- Improved stakeholder communications

Currently, the assurance landscape in India is voluntary which is why it is still not a major practice across sectors. However, the percentage of companies opting for third-party assurance has increased by 11 per cent compared to FY 2018-19. This upward trajectory will continue as the world witnesses surge in non-financial reporting mandates.

The Corporate Sustainability Reporting Directive (CSRD) proposed a mandatory assurance (audit) of reported information to the European Commission in April 2021. This new directive introduced the requirement of 'limited' level of assurance for reported sustainability information. Additionally, in its 2022 Sustainable Finance work plan, the International Organization of Securities Commissions (IOSCO) identified independent assurance as a key element for credible sustainability reporting and is currently in the process of developing assurance standards. In parallel, BRSR in India is expected to further nudge companies to assure their sustainability data which will substantiate increased uptake of third-party assurance in the coming years.

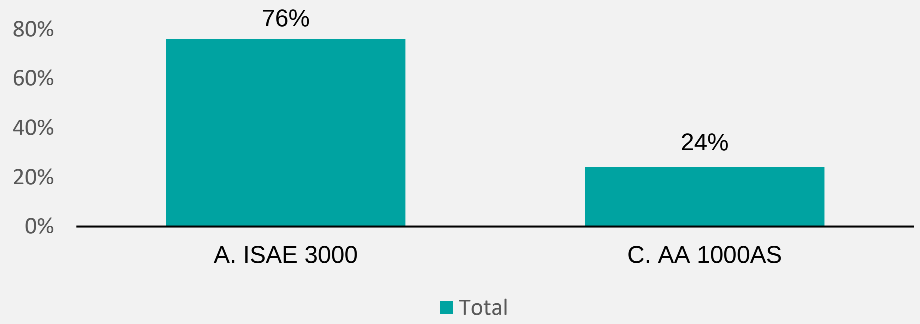
### N100 companies undertaking third party assurance on ESG disclosure




Source:

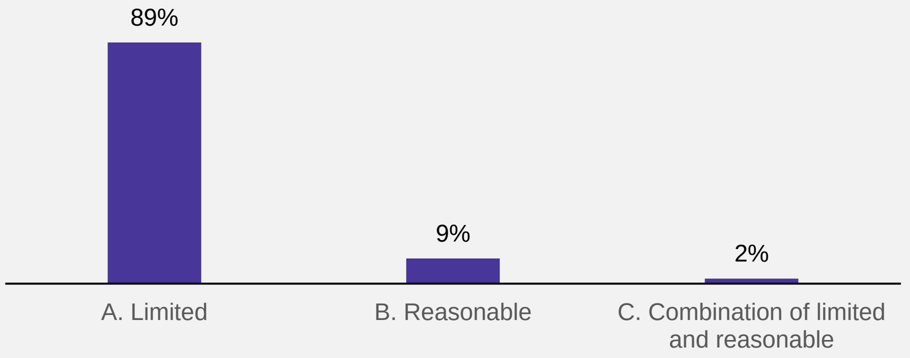
12. Insights on corporate reporting, KPMG 2019
13. Corporate Sustainability Reporting Directive proposal, European Commission, 2021
14. IOSCO's 2022 Sustainable Finance work plan strengthens the organization's commitment to increasing transparency and mitigating greenwashing, IOSCO, 2022

## Distribution of level of assurance opted by N100 Companies (n=54)




Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

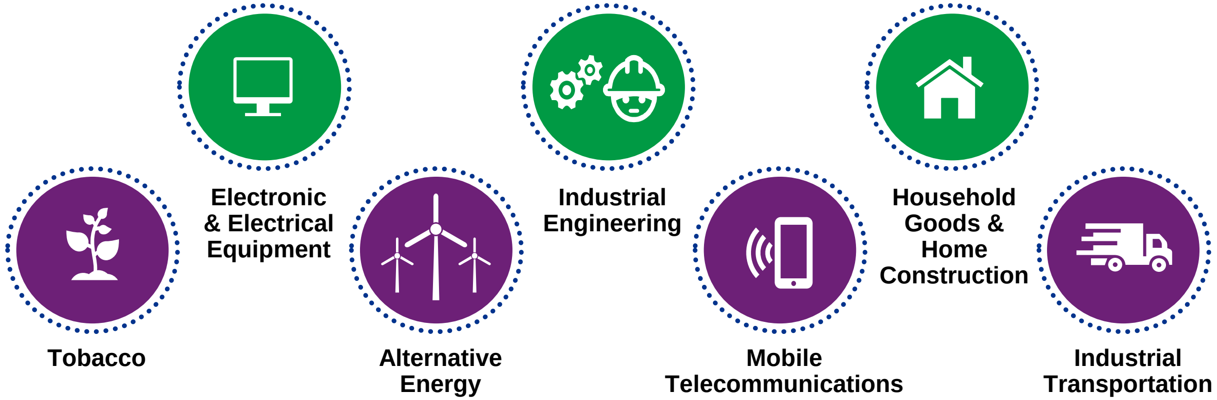
## Distribution of assurance standards used by N100 Companies (n=54)




Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

## Leading sectors who have opted for assurance statements in their ESG reports

*Only sectors with 100per cent adoption have been showcased*




Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

# Governance as an enabler[15]

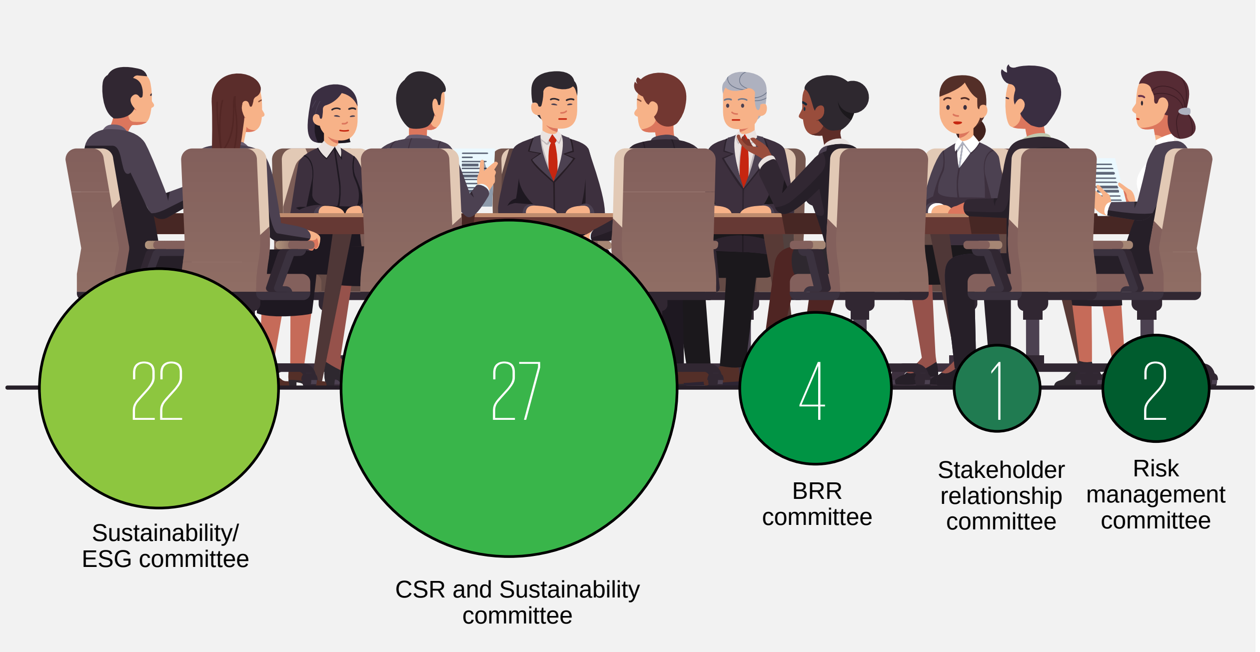
The unprecedented events of 2020 have garnered company stakeholders, such as investors, to draw Board's attention on a broad range of social, environmental and governance issues. This rising pressure will demand the Board to understand and oversee ESG risks and further align business practices with legislative requirements around ESG. Sustainability has transitioned from a "nice to have" to "must have" attribute as it becomes an essential item at the top of the board agenda for long-term continuity and value creation. Proliferation of ESG reporting mandates and enforcement around the globe have further broadened the scope of board responsibilities. The European Commission recently adopted the proposal on Directive on Corporate Sustainability Report due diligence which fosters corporate governance and responsible management systems.[16]

In India, SEBI mandated Business Responsibility Report (now Business Responsibility and Sustainability Report) encourages board oversight across ESG parameters. Moving beyond compliance, investor and shareholder activism has been on the rise. In 2021, adverse proxy votes, especially voting against directors who fail to incorporate credible plans to combat climate change have also been witnessed. Hence, corporates have gained cognizance of good governance underpinned by enhanced ESG performance. Lack of proper controls can adversely impact brand reputation, financial performance, and business continuity. Consequently, Boards should focus on developing business strategy with a sustainability lens and oversee ESG indicators, goals and metrics that can integrate sustainability in the fabric of the overall organisation.

**Mandatory** → **Voluntary**

| Mandatory | | Voluntary | |
|---|---|---|---|
| **100 per cent of the N100** | Companies have a CSR committee | **56 per cent of the N100** | Companies include ESG parameters under the purview of their Board level committee |

**Leveraging governance mechanisms (N=56)**




CSR and Sustainability Committee emerged as widely implemented due to the existence of CSR mandate in India. However, companies have also started to monitor ESG performance under the auspices of a Sustainability/ ESG committee

15. Key trends that will drive the ESG agenda in 2022, S&P Global, 2022
16. Just and sustainable economy: Commission lays down rules for companies to respect human rights and environment in global value chains, European Commission, 2022

# Significance of Stakeholder Engagement and Materiality Assessment (SEMA)

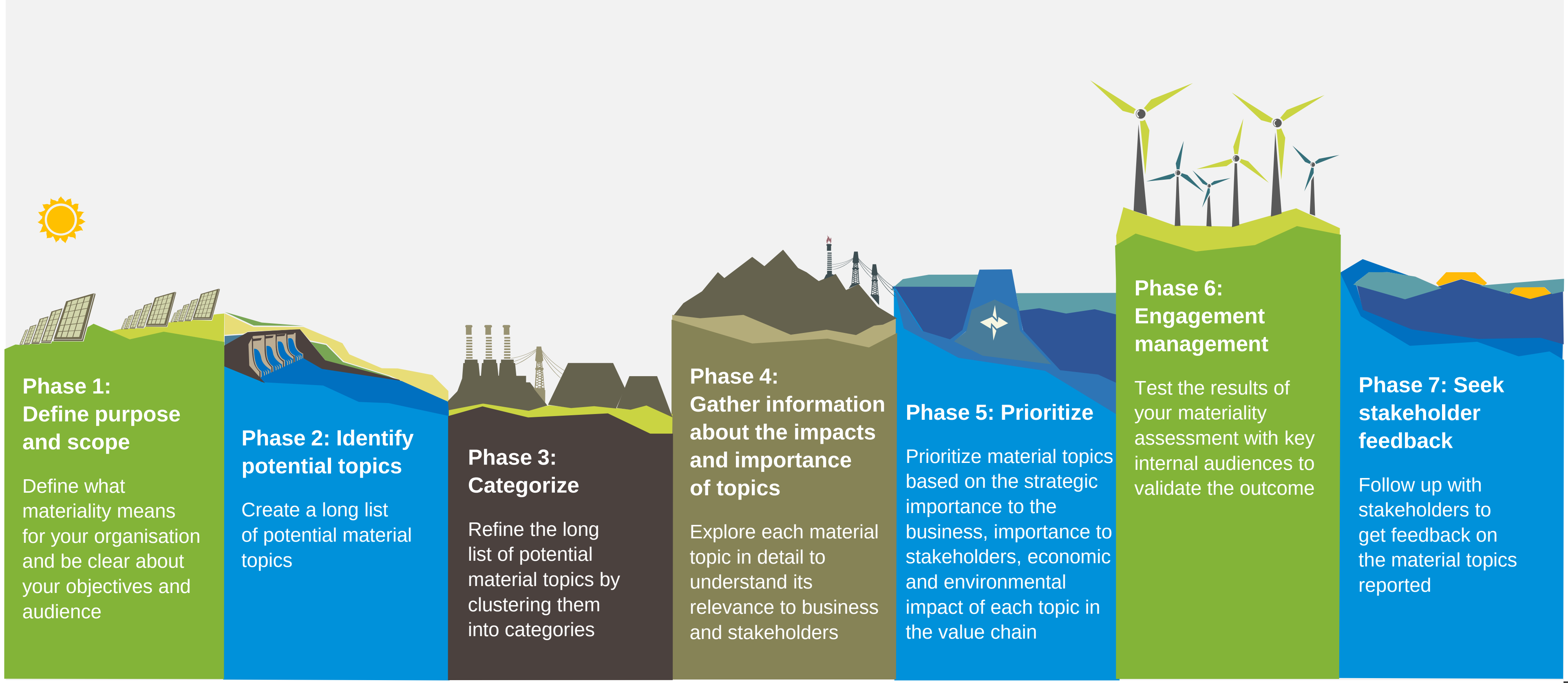
**ESG reporting augmented by continuous SEMA**

a. Action oriented
b. Responsive to stakeholders
c. Transformative

As companies transpire to attain the leadership position, exceeding stakeholder expectations is a vital part of their apex journey. Identifying, prioritizing, and communicating with key stakeholders puts the company in a better position to understand the social and environmental issues which loom around them. Moreover, inclusive feedback of all stakeholders is widely encouraged by all reporting frameworks and standards. Through regular and meaningful engagement with internal and external stakeholders, corporates can meet their expectations, recognize corporate value creation or erosion processes, and contribute to overall sustainable development.

As underscored earlier, stakeholder engagement aids corporates in ascertaining "material topics" or key topics of significance. Leading companies use materiality assessment to further cascade sustainability throughout the organisation. A systematic assessment aligns sustainability targets, goals, and strategy with unified priorities. Thus, SEMA addresses the polycentric and complex nature of ESG in an interdisciplinary and inclusive manner. It further equips corporates to manage risks, leverage opportunities and answer reporting questions such as: What to measure? How to measure? Why to measure?

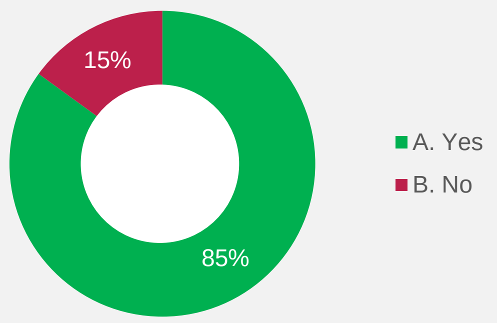
## Process of identifying material issues



# Stakeholder Engagement & Materiality landscape in India

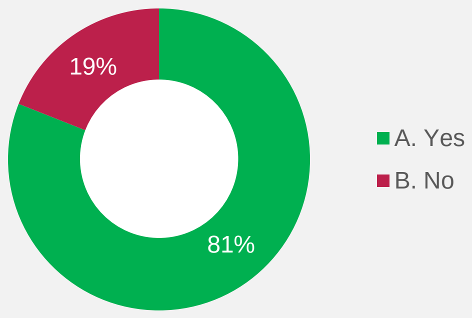
**Majority of the corporates recognise the importance of stakeholder engagement and materiality assessment for long-term business continuity and value creation. The analysis conducted suggests that majority of the companies publicly disclose their stakeholder engagement mechanism and are increasingly conducting a materiality assessment to determine the key material topics.**

## N100 companies disclosing stakeholder enagagement mechanism




Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

## N100 companies undertaking materiality assessment




Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

## Sectoral insights of laggards in SEMA disclosures

### Stakeholder Engagement


### Materiality Assessment


Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

## Benefits of consistent and regularized stakeholder engagement[17]

Corporates that are continuously abreast with the needs and expectations of their stakeholders enjoy a variety of benefits

Develop and align practices for effective business strategies which incorporate relevant social and environmental dimensions

Identify low-hanging fruits for unlocking long term business excellence by continuously monitoring and managing areas not currently addressed

Identify key material topics for concise, relevant, and informative reporting building credibility and trust

Assist in trend spotting, like climate change and water scarcity, which can impact value creation ability in the long-term

**Benefits Accrued from SEMA**

Define appropriate goals, KPIs, and strengthen internal and external communication

Efficient allocation of resources for addressing key ESG topics and concerns raised by the stakeholders

Integrate sustainability in the company DNA (wider business processes)

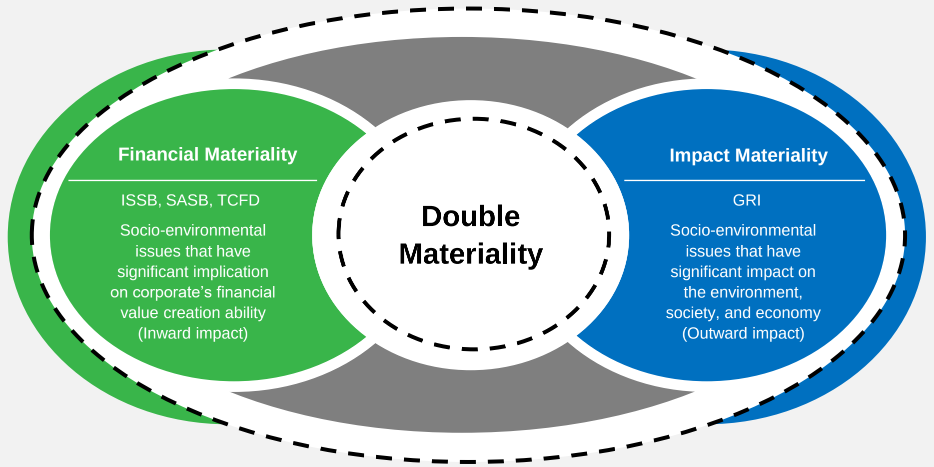
Identify ESG risks and leverage opportunities such as developing new product and service ergo receiving competitive advantage

17. Insights on corporate reporting, KPMG, 2019

# Way forward- Double materiality[18]

**Materiality is a cornerstone for several reporting standards and frameworks such as GRI, SASB, IR, among others. However, the concept keeps evolving as stakeholder awareness and consciousness of corporate impacts gain momentum. As the sustainability reporting landscape undergoes changes, corporates have the impetus to understand materiality concepts for not just fulfilment of their mandatory obligations but to demonstrate commitment towards sustainable development at large.**

The EU Non-financial Reporting Directive (NRFD) highlights: "Companies should disclose not only how sustainability issues may affect the company ('outside-in risks'), but also how the company affects society and the environment ('inside-out risks'), the so-called 'double materiality." Hence, for a more holistic representation of the impact created, corporates must report on financially material topics that influence enterprise value along with topics that are significant to the economy, environment, and people. For all material topics, the company must elucidate the financial implications on enterprise value and impact on social and environmental value creation. EU's European Sustainability Reporting Standards (ESRS), created by the European Financial Reporting Advisory Group (EFRAG) and GRI, will be based on double materiality; thus, underpinning both impact and financial materiality perspective.[19]




## Why companies should initiate the double materiality assessment

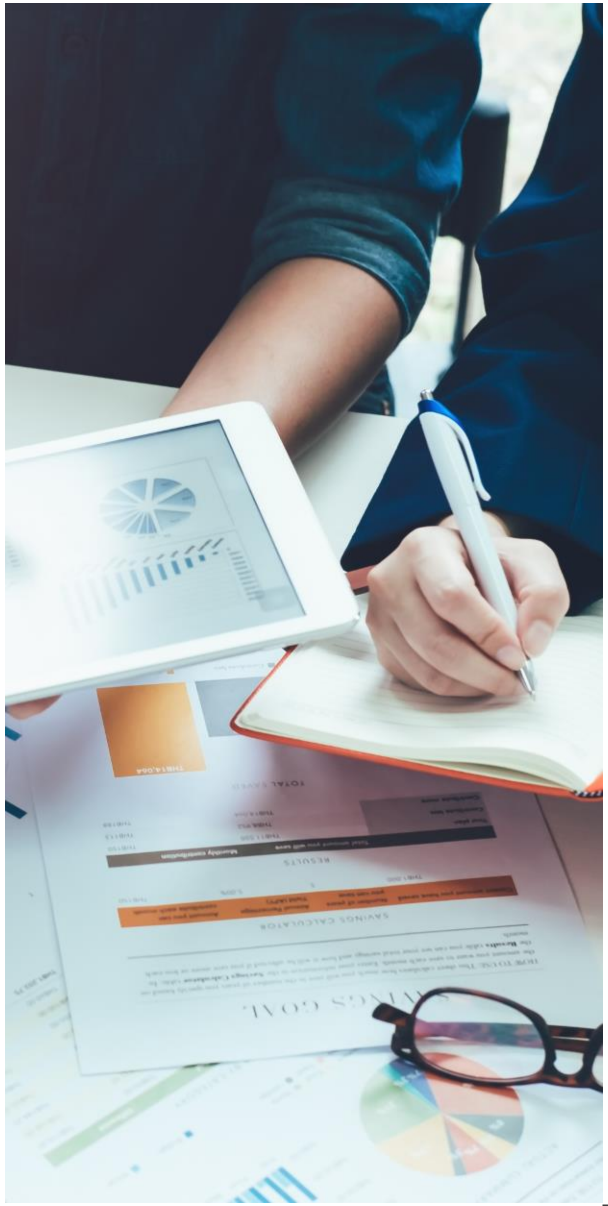

18. Non-financial Reporting Directive EPRS | European Parliamentary Research Service, January 2021
19. The materiality madness: why definitions matter, KPMG, 2022

# The compliance conundrum: accelerating ESG performance beyond compliance

**Inward impact** → **Progress on outcome-orientation** → **Outward impact**

**Comply** → **Monitor** → **Act** → **Evolve**

| | Comply | Monitor | Act | Evolve |
|---|---|---|---|---|
| **Key parameters** | **Mandatory ESG disclosures** | **ESG Governance** | **Voluntary ESG reporting and targets** | **Climate action** |
| **Current uptake** | **100per cent of N100 companies report on SEBI mandated BRR** | **56per cent of N100 companies include ESG parameters under the purview of their Board level committee** | **45per cent of N100 companies publish an Integrated Report**<br><br>**69per cent of N100 companies have targets linked to environmental parameters**<br><br>**65per cent of N100 companies have targets linked to social parameters** | **Out of 53per cent of N100 companies that have established carbon reduction targets, 44per cent have further undertaken Net Zero targets** |



# Deep dive into ESG performance and targets

## Accelerating environmental stewardship

The ever-increasing environmental challenges hold the potential to hinder long-term business growth and operations. With the strong interdependency of economic growth, profitability and natural resources, there exists a plethora of opportunities to leverage environmental stewardship and achieve long-term value creation. Energy, water, and waste, among others are some of the most important aspects of our physical environment. Access to reliable energy, clean water and responsible waste management are essential to the smooth functioning of economies and communities across the globe. In our journey to accelerate climate action, corporates must seize the opportunity to transition to a green economy and build resiliency for a more inclusive and equitable world.

### Key environmental metrics that are currently covered by myriad of mandatory and voluntary non-financial tools

- **Energy consumption within & outside the organisation**
- **Water withdrawal, consumption & discharge**
- **Waste generated & diverted from and to disposal**
- **Habitats protected or restored**
- **Scope 1, 2 & 3 emissions**
- **Supplier environmental assessment**

| Mandatory | | Voluntary | |
|---|---|---|---|
| 100per cent of the | Companies report on key environment parameters such as waste, water, and energy management | 69per cent of the N100 | Companies have established targets linked to environment parameters such as waste, water, and energy management |

Corporates must take cognizance of the impact of their policies and business operations on the environment or risk the adverse impact of being further exposed to climate and financial risks.[20] It is imperative to deploy energy transition solutions, accelerate innovation, support waste and water stewardship and mainstream environmental policies. Corporates can also look to establish long-term strategies and targets to support effective environmental disclosures. With increasing regulatory pressure, stakeholder activism and technological advancement, corporates would need to adopt a “beyond the mandate” mindset to scale up initiatives and boost environmental stewardship. Additionally, in order to drive comparable and insightful progress, it is imperative to support voluntary and ambitious environmental actions and targets that pave the way for effective translation of strategy into practice. Brief insight into the analysis conducted brings to light the momentum corporates must capitalize on, to move beyond the mandate.

## Voluntary adoption of targets linked to environment parameters: Sectoral Insights

***Only sectors with 100per cent adoption have been showcased***


Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

20. Understanding the “E” in ESG, S&P Global, 2019

# Addressing climate change and biodiversity loss

## The global climate agenda

The spectre of the climate crisis is hinged on key humanitarian and environmental risks, that without proper mitigation measures can fuel extreme natural disasters and act as a catalyst for geo-political conflict. Recognizing the interdependence of the climate on the environment, community and ecosystems can also enable better preparedness of key corporates, governments, and stakeholders to develop robust mitigation and adaptation measures. The 2021 United Nations Climate Change Conference (COP26) propagated renewed global climate commitments and accelerated momentum for countries to adopt net-zero targets. However, with the ambition to keep the 1.5 degrees C dream alive, progress towards the Nationally Determined Contributions (NDCs), aligned to net-zero targets must occur in the midst of a myriad of challenges, including geo-political conflict, social unrest, and climate disasters.

With stakeholders considering climate change as a material issue across the globe, there is increased regulatory and investor perusal to understand the consequential financial and non-financial implications across corporates, governments and stakeholders. In this regard, corporate reporting can play a critical role to enable increased transparency across climate-related risks and facilitate effective stakeholder dialogue across key ESG material interests and expectations. Global climate-related frameworks and initiatives such as The Task Force on Climate-Related Financial Disclosures (TCFD), Carbon Disclosure Project (CDP) and Science Based Targets initiative (SBTi), among others are also being increasingly adopted by corporates across the globe to effectively communicate and disclose climate-related impacts on business models, financial performance, and organisational resiliency.[21]

## Accelerating climate and biodiversity performance

Looking back at the past decade, India has continued to strengthen its climate commitments and accelerate its performance to establish itself as a climate leader. At COP26, India propagated its new climate targets, with a bold and ambitious approach to accelerate climate action. Furthermore, the Indian Prime Minister Narendra Modi announced India's five-fold climate action strategy 'Panchamrit'[22] to fast-track India's pace in meeting its climate-linked commitments.

Biodiversity has also been seen to play an essential role in providing vital ecosystem functions and contributes to climate adaptation. The adverse impacts of business operations on such ecosystems pose a multitude of risks on vital habitats and species across the globe. As per the WWF report, 2020, 68 per cent population of mammals, birds, reptiles, amphibians, and fish have declined since 1970 and 85 per cent of wetlands have disappeared over the last two centuries.[23] Despite multiple initiatives and policies, biodiversity has further declined between 2011 and 2020. [24] Such rapid extinctions and biodiversity loss will represent increased risk exposure and translate into severe impact on the global economy, business operations, climate, and communities.

According to UNEP, India is amongst the top performers to effectively address the objectives of the Convention on Biological Diversity. India has further proposed amendments to the Biological Diversity Act of 2002, by introducing the Biological Diversity (Amendment) Bill, 2021. The Bill focuses on facilitating an environment for collaborative research and investments and encouraging the cultivation of medicinal plants.[25]

## India's Climate Commitments

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| India will achieve its **non-fossil energy capacity** to **500 GW** by 2030 | India will meet **50per cent** of its energy requirements from **renewable energy by 2030** | India will **reduce** the total projected **carbon emissions** by **1 billion tonnes** by 2030 | India will **reduce the carbon intensity** of its economy by **less than 45per cent** by 2030 | India will **achieve Net Zero** by 2070 |

21. Corporate Reporting: Climate Change Information and the 2021 Reporting Cycle, September 2021
22. National Statement by Prime Minister Shri Narendra Modi at COP26 Summit in Glasgow, PIB Delhi, Shri Narendra Modi, November 01, 2021
23. OECD work in support of biodiversity, OECD, 2021
24. Post 2020- global biodiversity framework, IUCN, 2021
25. The Biological Diversity (Amendment) Bill, 2021

## Insights into climate-related and biodiversity disclosures across the N100 companies

**62 per cent**

Of the N100 companies identify and report on their Climate-related risks and opportunities

**53 per cent**

Of the N100 companies report on their carbon reduction targets, out of which, 36 per cent report on carbon intensity targets and 64 percent report on absolute carbon targets

**26 per cent**

Of the N100 companies exclusively disclose their Net Zero targets

**38 per cent**

Of the N100 companies link their carbon reduction targets to external global, regional, or national carbon targets

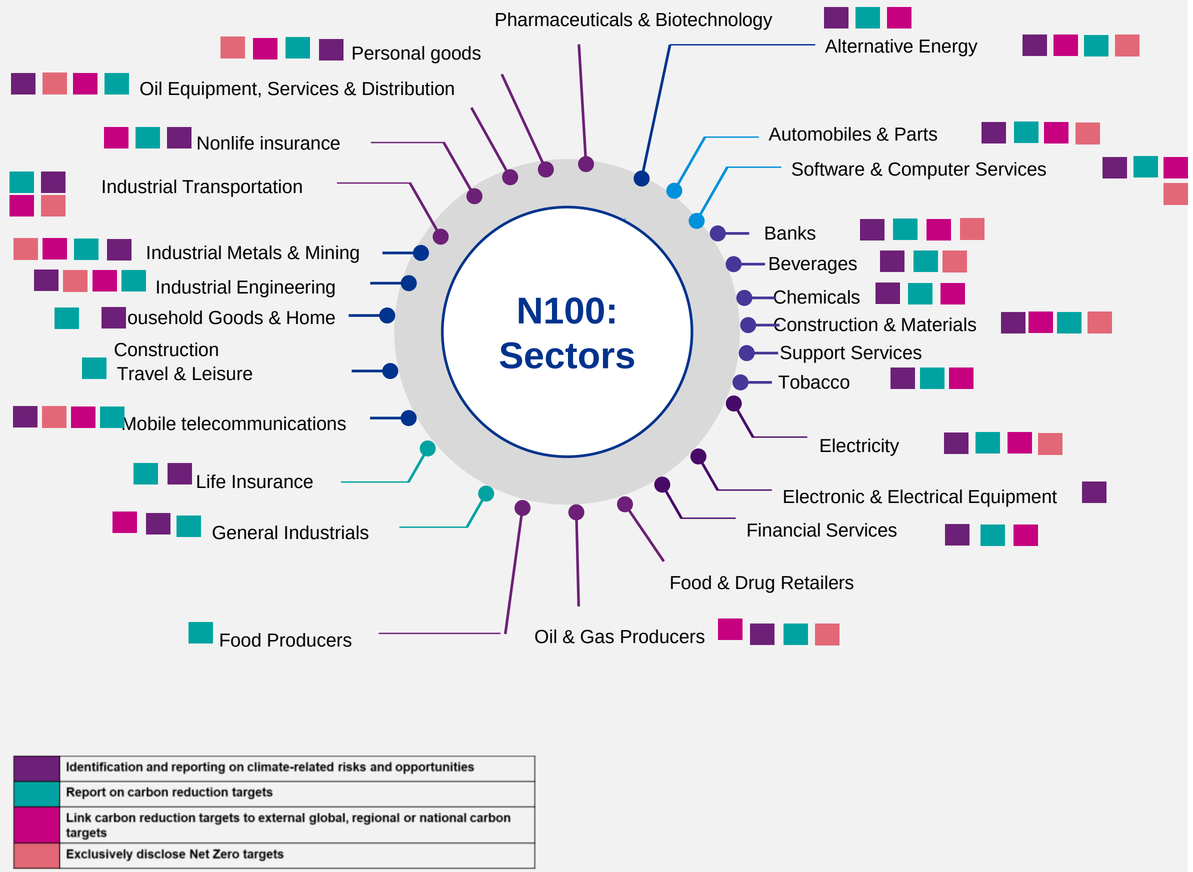
**14 per cent**

Of the N100 companies recognize the loss of biodiversity/ nature as a risk to business

**38 per cent**

Of the N100 companies report on the impact of their business activities on biodiversity/ nature

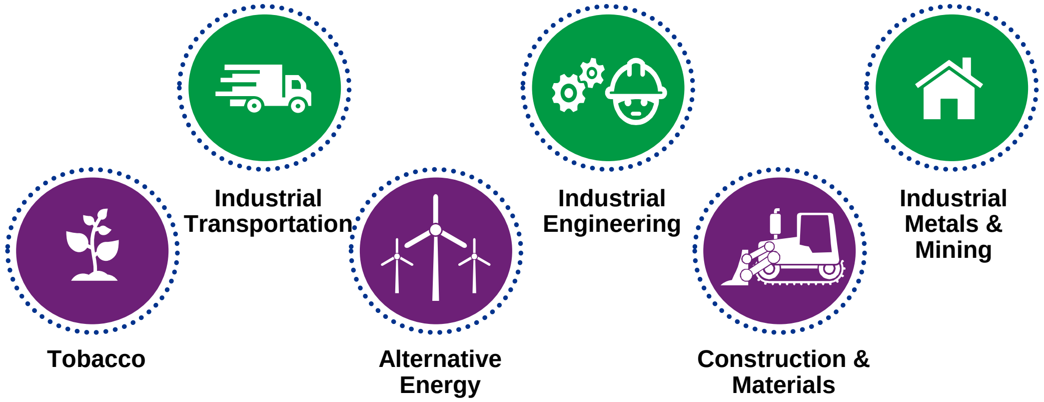
## Voluntary adoption of targets linked to climate parameters: Sectoral Insights




Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

## Voluntary adoption of targets linked to climate parameters: Sectoral Insights

***Only sectors with 100per cent adoption have been showcased***




Source:

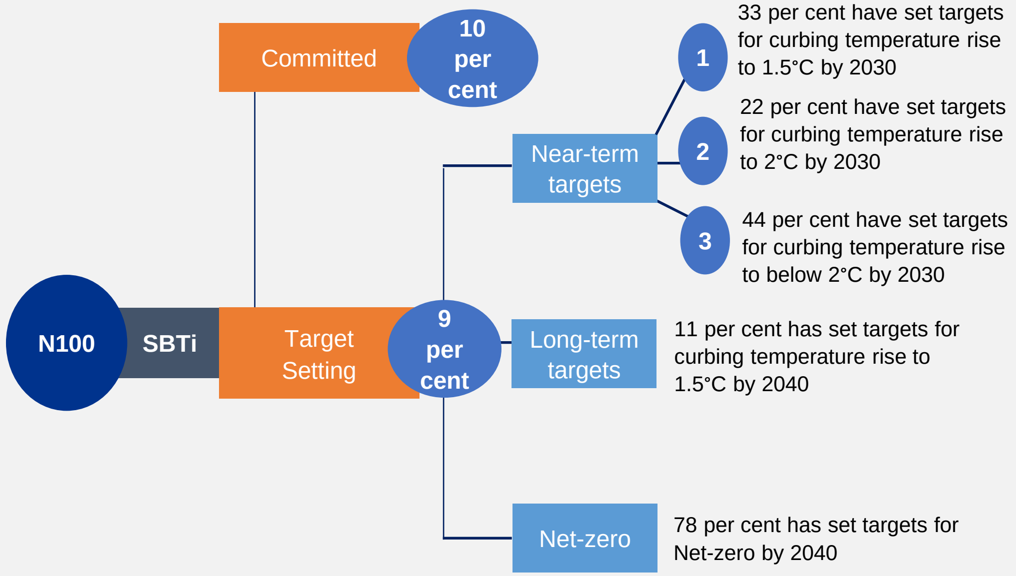
## Sectoral insights of best performers across companies who recognize the loss of biodiversity/nature as a risk to them

***Only sectors with 100per cent adoption have been showcased***


Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

## Science-Based Targets (SBTi)

After the Paris Agreement 2015, countries across the world started committing to curbing global temperature rise to below 2°C above pre-industrial levels. As Industries play a major role in emitting GHG emissions and contributing to temperature rise, they have commenced target setting to reduce their GHG emissions to half by 2030 and drop to net zero by 2050. Science based targets (SBTi) help companies gain a better understanding of their emission reduction along with helping them to increase their profitability, enhance investor relations and strengthen their brand reputation, amongst others. In this endeavor, several organizations have aligned with SBTi to accelerate efforts towards reducing their carbon footprint. Currently, 81% of the N100 have not declared their commitment towards SBTi. However, with the growing momentum in climate action landscape, an increase in such commitments would be expected. The detailed scenario for N100 companies is provided below:




Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

# Unlocking social value creation

There has been an uptick in corporate responsibility towards having an inclusive work environment. Pandemic has brought the ‘S’ in ESG at the forefront as equality, diversity, inclusion, employee well-being and development have become flashpoints for corporates. Although, such issues were already gaining traction in the last few years, the pandemic gave them a whole new push. There has been an increased frequency with which CEOs refer to issues pertaining to inclusion, fairness, and equity[26]. Such dynamic concepts have become the need of the hour as companies aim to retain and expand employee base as well as enjoy influx of fresh talent. Addressing employee expectations and societal needs can lead to higher level of employee satisfaction, enhanced reputation, and mould the corporate culture in an inclusive way.

There has been a recent surge in stakeholder activism, awareness, and regulations around social issues. This trend has further cascaded to supply chain of corporates as well. Due to this upward momentum, stakeholders now demand stringent action towards genuine social impact as well as greater transparency of their initiatives. International and national mandates such as EU Sustainable Corporate Governance Directive in Germany, Netherlands and France, and Business Sustainability & Responsibility Report in India further propel the inclusion of social agenda forward with credible monitoring, target-setting, and reporting

## Key social metrics that are currently covered by myriad of mandatory and voluntary non-financial tools


26. 11 Trends that Will Shape Work in 2022 and beyond, 2022

| Mandatory | | Voluntary | |
|---|---|---|---|
| 100per cent of the N100 | Companies report on key social parameters such as employee well-being, employee diversity, training, and development as well as Corporate Social Responsibility, among others. | 69per cent of the N100 | Companies have established targets linked to social parameters such as employee well-being, employee diversity, training, and development as well as Corporate Social Responsibility, among others. |

Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

## Sectoral insights of best performers and laggards for target-setting of social indicators

***Only sectors with 100per cent adoption have been showcased***

### Leaders

- Electronic & Electrical Equipment
- Alternative Energy
- General Industrials
- Tobacco
- Industrial Transportation
- Automobiles & Parts
- Household Goods & Home Construction
- Non-life Insurance
- Mobile Telecommunications
- Industrial Metals & Mining
- Industrial Engineering

### Laggards

- Beverages
- Food & Drug Retailers
- Support Services
- Travel & Leisure

Source: KPMG in India analysis 2022: top 100 companies based on market capitalization as on 31st March 2021

# Leveraging reporting as a tool to drive sustainability agenda

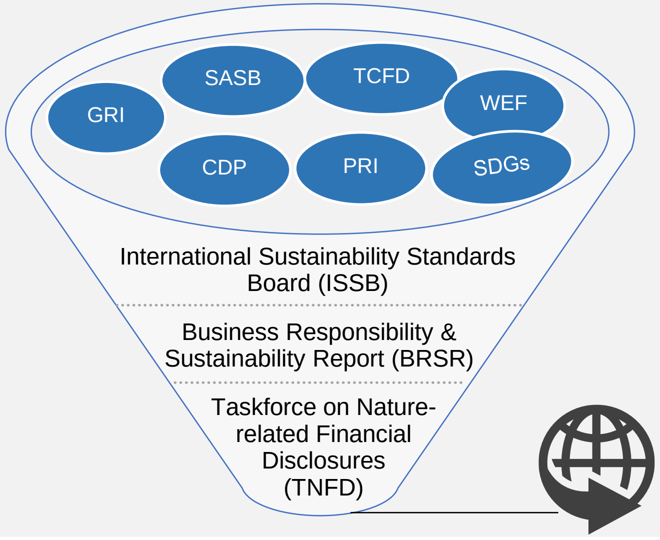
The analysis suggests that while corporates are largely compliant with their regulatory non-financial reporting requirements, some have even leapfrogged towards voluntary disclosures. The N100 companies are exceedingly addressing burgeoning stakeholder ESG demands as substantiated by the surge in ESG reporting and target setting. However, with numerous sustainability frameworks and standards currently available to leverage effective climate and ESG performance, there still exists a significant gap between stakeholder requirements and current ESG disclosures.

The International Organisation of Securities Commissions (IOSCO) in its Sustainable Finance work plan 2022 reiterated the requirement of credible, consistent, and quantitative metrics in reporting practices amidst an abundance of narratives and has planned a thorough review and possible adoption of the ISSB proposed general and climate-related standards.[27] Parallelly, priority must be given by corporates to ensure reporting practices are complete, comparable, and consistent, to effectively inform business strategy and risks, while identifying strategic climate and ESG opportunities to capitalise on.

## The way forward

- Ensure organisational readiness for mandatory ESG disclosures
- Enable preparedness for global harmonized ESG reporting standards and frameworks
- Encourage proactiveness towards voluntary ESG disclosures and initiatives
- Drive momentum to increase the uptake of climate disclosures and action
- Enhance robust governance levers to drive organisation wide ESG excellence
- Prioritize key stakeholder insights and drive stakeholder feedback across ESG disclosures and performance

## The evolving global reporting landscape




**ISSB** — Global baseline of comprehensive ESG standards catering to the needs of investors and other stakeholders

**BRSR** — SEBI mandated framework for assessing performance and disclosure across ESG parameters

**TNFD** — Global risk management and disclosure framework, aligned to evolving nature-related risks and opportunities to enable nature-positive outcomes

**Standardized, comparable and consistent reporting**

27. ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures, IFRS, 2022

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