First Notes

SEBI proposes amendments to BRSR Core assurance and value chain requirements

12 June 2024

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Immediately

Within the next three months

Post three months but within six months

Post six months

Forthcoming requirement

Introduction

Based on the requirements of Regulation 34(f) of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations), the top 1,000 listed entities in India are filing the Business Responsibility and Sustainability Reporting (BRSR) as part of their annual report from Financial Year (FY) 2022-23. BRSR includes disclosures on the reporting entity's performance in relation to the nine principles of the 'National Guidelines on Responsible Business Conduct' (NGBRCs) issued by the Ministry of Corporate Affairs (MCA) in 2019.

Further, on 12 July 2023, SEBI introduced specific requirements for the top 1,000 listed entities to include a set of Key Performance Indicators (KPIs)/metrics relating to the nine ESG attributes as part of the respective entity's BRSR (hereinafter referred to as BRSR Core). Additionally, SEBI prescribed reporting a requirements relating to company's value chain, on a comply-or-explain basis from FY 2024-25. In addition to these reporting requirements, SEBI required reporting entities to obtain reasonable assurance in relation to BRSR Core (starting with the top 150 listed entities in India from FY 2023-24) from an independent competent agency and limited assurance on a comply-or-explain basis in relation the value chain disclosures from FY 2025-26.

Pursuant to an announcement of the Union Budget for FY 23-24, an expert committee (the Committee) was formed with an objective to review the provisions of LODR Regulations and SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations), from the point of view of facilitating ease of doing business. The Committee deliberated the public comments received in response to SEBI's press release dated 4 October 2023, which invited comments for simplifying, easing and reducing the cost of compliance under various SEBI Regulations. These public comments, *inter-alia*, included comments on the regulatory framework for BRSR.

New development

Based on the recommendations of the Committee, which were also deliberated at the SEBI ESG Advisory Committee, on 22 May 2024, SEBI issued a consultation paper to propose changes to the requirements of BRSR and BRSR Core under LODR Regulations.

The last date to provide comments is 12 June 2024.

This issue of First Notes aims to provide an overview of the recent proposals issued by SEBI relating to BRSR Core

Overview of the recommendations

I. BRSR Core assessment

Based on the recommendation of the committee, SEBI proposes changes to BRSR assurance requirements. Following table discusses the proposed requirements:

	Current requirements	Proposed requirements
Assurance requirements	BRSR Core requires listed entities to obtain reasonable assurance in a phased manner	○ Replace the term 'assurance' with 'assessment' in the LODR Regulations and SEBI circulars related to BRSR and BRSR Core. ○ The Industry Standards Forum (ISF), in collaboration with SEBI, will develop 'assessment' standards.
Applicability	Mandatorily applicable to listed entities to obtain reasonable assurance over glide path beginning with top 150 listed entities from FY 2023-24 onwards.	○ **Financial year 2023-24:** Listed entities may choose to either undertake an 'assessment' or 'reasonable assurance' of BRSR Core disclosures. ○ **Financial year 2024-25:** 'Assurance' requirement will be replaced with 'assessment' of BRSR Core.

II. Value chain reporting

Currently, the ESG disclosures for the value chain are applicable to the top 250 listed entities (by market capitalisation), on a comply-or-explain basis from FY 2024-25. Further, such listed entities should obtain limited assurance on a comply-or-explain basis from FY 2025-26. The circular provides that value chain should encompass the top upstream and downstream partners of a listed entity, cumulatively comprising 75 per cent its purchases/sales (by value) respectively. Such reporting may be segregated for upstream and downstream partners or can be reported on an aggregate basis.

Proposal

In relation to value chain reporting, SEBI proposed following changes to the framework:

- **Assessment instead of limited assurance:** The current requirement of limited assurance for value chain by listed entities to be substituted by 'assessment'.
- **Composition of value chain: There are two alternatives given in the consultation paper:**
  - Value chain partners to include upstream and downstream partners that individually account for 2 per cent or more of the listed entity's purchases or sales by value, or
  - a cumulative threshold of at least 75 per cent of the listed entity's purchases or sales by value, in addition to the individual 2 per cent or more threshold. Listed entities would need to disclose the percentage of total sales and purchases covered by the value chain partners for which ESG disclosures.
- **Applicability:**
  - For the first year i.e. for financial year 2024-25, previous year's numbers for ESG disclosures for value chain partners for would be voluntary
  - Recommends a 'voluntary' disclosure approach rather than a 'comply-or-explain' approach for ESG disclosures for the value chain and its assurance.

	Current requirement		Proposal	
Year	**2023-24**	**2024-25**	**2023-24**	**2024-25**
	-	ESG disclosures of value chain on comply-or-explain basis	ESG disclosures of value chain – Voluntary	ESG disclosures of value chain – Voluntary
	Limited Assurance from FY 2025-26 on comply-or-explain basis		Assessment/assurance from FY 2025-26 voluntary	

Overview of the recommendations (cont.)

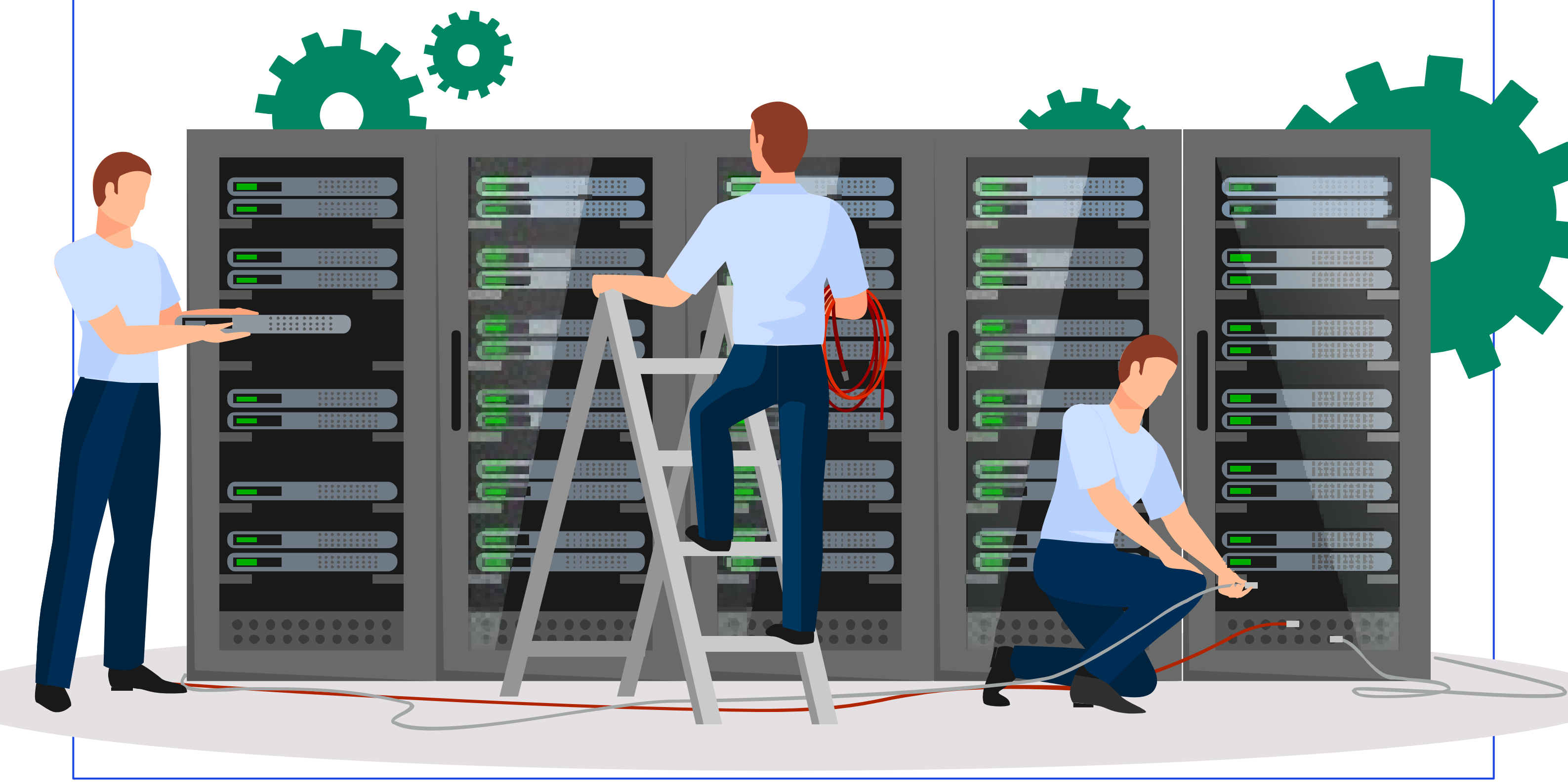
III. Green Credit Program

In 2023, the Ministry of Environment, Forest and Climate Change (MoEFCC) notified green credit program through Green Credit Rules, 2023. The green credit program includes eight activities for environmental preservation and protection that go beyond greenhouse gas emissions reduction or removal. In this regard, on 22 February 2024, the MoEFCC notified the methodology for calculation of green credit in respect of tree plantation under the green credit program.

The notification on tree plantation methodology provides that the Green Credit generated in lieu of tree plantation under the Green Credit Rules, 2023 may be used for reporting under environmental, social and governance leadership indicator or under corporate social responsibility under the applicable rules made under any law for the time being in force.

Considering above mentioned provisions, SEBI proposed disclosure of green credits under leadership indicator of Principle 6 of BRSR, i.e. 'Business should respect and make efforts to protect and restore the environment'. Following is the proposed disclosure:

	Current requirements	Proposed requirements
Disclosure requirements under Principle 6 of BRSR	None	Disclose: How many Green Credits have been generated: • By the company • By the value chain partners



Our comments

As part of the outreach and the subsequent deliberations by the Committee, it appears that the hurdles faced by the covered listed entities in terms of their readiness for reasonable assurance for BRSR Core and readiness for providing disclosures for the value chain were key factors considered as the basis for the Committee's recommendations.

However, we believe that there are few key points for consideration on the proposals in the consultation paper. They are as follows:

- **Reasonable assurance for BRSR Core:** Accuracy, reliability and completeness of information included in the BRSR were key considerations for SEBI when it introduced the requirements for reporting BRSR Core and reasonable assurance thereon. However, the rigour involved in obtaining reasonable assurance may be significantly high especially as the requirement applied to a wider pool of companies (top 1,000 were proposed to be covered by 2026-27). While, traditionally, financial statements have been covered by a reasonable assurance framework, the level of preparedness for reporting entities for a similar exercise for a topic which is nascent and fast evolving may have been key drivers for the feedback and the proposal to replace the requirement of reasonable assurance with assessment.

  It is pertinent to note that globally, most jurisdictions, have introduced or proposing to introduce requirement of assurance of sustainability related information a year or two after the reporting requirements kick in. Considering that the reporting entities covered by these requirements may need time to implement processes and controls, the requirements of assurance are also generally restricted to limited assurance for the initial years.

  It will therefore be important for the ISF to consider this context while developing the detailed guidelines for assessment. Many of the top 1,000 listed entities deal with customers based in overseas jurisdictions who often require assured sustainability information of the respective reporting entities. Consistency with the approach adopted by other jurisdictions may help in keeping the requirements comparable and help such listed entities avoid duplication in efforts. Alternatively, this may also be achieved by SEBI allowing listed entities a choice of obtaining limited assurance or assessment depending on the considerations applicable to the respective entity.

- **Service providers, sustainability standards and related considerations:** According to the Committee, the term 'assurance providers' is generally associated with audit providers and accordingly, the Committee believes that replacing the term assurance with assessment will prevent association with any one profession. While this will certainly broaden the horizon for the reporting entities, the assessment standards to be developed by ISF will, therefore, be required to be drafted in a manner which facilitates interpretation and application by professionals with diverse backgrounds.

  International Organisation of Securities Commissions (IOSCO) plays a pivotal role in harmonising the assurance of sustainability-related disclosures worldwide. Through its comprehensive fact-finding efforts and global stakeholder engagement, IOSCO has noted a rising demand from investors for dependable assurance on sustainability-related information. According to IOSCO, investors have underscored the necessity for assurance and ethics standards that are uniform and comparable on a global scale. In response, the International Auditing and Assurance Standards Board (IAASB) has proposed the International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, which outlines general requirements for sustainability assurance engagements. This proposed standard is designed to be profession-neutral, enabling its application by assurance practitioners, regardless of whether they are professional accountants or not. The final standard is anticipated to be released before the end of 2024.

  In light of this, it is imperative that while formulating the assessment standard in collaboration with ISF, SEBI should strive to develop a standard that aligns with global benchmarks and assurance requirements. This alignment will ensure that external assurance/assessment significantly contributes to reinforcing trust and confidence in both financial and non-financial reporting. This will reflect SEBI's commitment to fostering a robust ecosystem for sustainability reporting that aligns with global practices and meets investor demands for high-quality, reliable sustainability-related information

- **BRSR Core basis for ESG ratings and investment criteria:** SEBI Regulations require ESG schemes of mutual funds to invest at least 65 per cent of its Assets Under Management (AUM) in companies which have included BRSR in their annual report and have obtained reasonable assurance on BRSR Core. These requirements are applicable from 1 October 2024 onwards.

  Further, SEBI master circular on ESG Rating Providers (ERPs) states that ERPs to provide Core ESG rating, Core Transition or Parivartan Score, and Core Combined Score based on BRSR Core of the rated entity. However, Core ESG rating to be based on third-party assured or audited data disclosed by the company. These requirements may also require to be updated once the final approach has been determined by SEBI after considering the responses to the discussion paper.

Our comments (cont.)

- **Redefining value chain partners:** The Committee proposed to rationalise the definition of value chain partners to cover only significant partners and limited to include those upstream and downstream partners of a listed entity. It has given two proposals i.e. either individually comprising 2 per cent or more of the listed entity's purchases or sales (by value), respectively or a cumulative threshold of at least 75 per cent of the listed entity's purchases or sales by value, in addition to the individual 2 per cent or more threshold.

  The relaxation would bring relief to the companies that are heavily dependent on their supply chain e.g. auto sector, pharma sector, cement sector, chemicals sector, etc. Considering that many of the supply chain partners may be operationally small and unlisted firms, and it might be challenging for such companies to monitor and report on the ESG disclosures required under current BRSR Core framework. The listed companies would need to support their supply chain companies to develop processes, to train, and collect data for the ESG disclosures. Therefore, clarification in the definition of value chain is likely to help streamline the processes of ESG reporting for value chain and help make it more manageable for listed entities while ensuring transparency and accountability in their value chain.

  However, it is important to note that SEBI also proposes for voluntary disclosure requirement for the value chain instead of 'comply-or-explain basis'. It is not clear whether the proposal is to make assurance voluntary or make the disclosure of value chain voluntary and SEBI should clarify this aspect.

- **Green credit disclosure in BRSR:** As per the proposal, disclosures on green credits generated by the company and the value chain partners will be an additional leadership indicator added under BRSR. The amendments have been proposed considering the notification of tree plantation methodology by the MoEFCC under the Green Credit Rules.

The bottom line

As organisations progress on their ESG journey and prepare to disclose ESG targets and metrics, it's crucial to recognise that gathering ESG Key Performance Indicators (KPIs) should transcend mere regulatory compliance. It should be a strategic endeavour to produce meaningful, actionable insights that can be seamlessly integrated into the company's core mission and strategy.

Considering the demand for high quality ESG information that is accurate and robust, there is a need to strengthen ESG practices in India so that they are consistent and comparable at the global level. Therefore, it is important that SEBI when evaluating recommendation of the Committee with regard to the consultation paper and keeping assessment profession-neutral, it should seek to align with the global reporting and assurance requirements in particular those being developed in consultation with IOSCO such as ISSA 5000 proposals.

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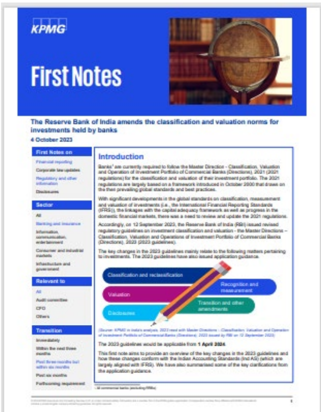
Issue no. 94 – May 2024

The topics covered in this issue are:

- Accounting for online gaming sector
- IFRS 19, Subsidiaries without Public Accountability: Disclosures
- Regulatory updates

To access the publication, please click here



RBI amends the classification and valuation norms for investments held by banks

04 October 2023

Banks are currently required to follow the Master Direction - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021 (2021 regulations) for the classification and valuation of their investment portfolio. The 2021 regulations are largely based on a framework introduced in October 2000. It is based on the then prevailing global standards and best practices.

With significant developments in the global standards on classification, measurement and valuation of investments (i.e. the International Financial Reporting Standards (IFRS)), the linkages with the capital adequacy framework as well as progress in the domestic financial markets, there was a need to review and update the 2021 regulations.

Accordingly, on 12 September 2023, the Reserve Bank of India (RBI) issued revised regulatory guidelines on investment classification and valuation- the Master Directions – Classification, Valuation and Operations of Investment Portfolio of Commercial Banks (Directions), 2023 (2023 guidelines). The key changes in the 2023 guidelines mainly relate to the matters mentioned below. The 2023 guidelines have also issued application guidance for ease of implementation.

The 2023 guidelines are applicable from **1 April 2024**.

To access the First Note, please click here

KPMG in India is pleased to present Voices on Reporting – Annual updates publication March 2024

Voices on Reporting – Annual updates publication (for the year ended 31 March 2024) provides a summary of key updates from the Securities and Exchange Board of India (SEBI), the Ministry of Corporate Affairs (MCA), the Reserve Bank of India (RBI), and updates from the Institute of Chartered Accountants of India (ICAI). It also includes ESG updates i.e. BRSR requirements, ERPs, ESG investment etc.

To access the publication, please click here

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