KPMG

# First Notes

## SEBI introduces certain key changes in BRSR reporting

**23 December 2024**

**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

The Securities and Exchange Board of India (SEBI), under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('the LODR Regulations') mandates the top 1,000 listed entities in India to prepare the Business Responsibility and Sustainability Reporting (BRSR). BRSR consists of disclosures which require such listed entities to report on their performance against the nine principles as per the National Guidelines on Responsible Business Conduct.

On 12 July 2023, SEBI issued the framework for the disclosure and assurance requirements for BRSR Core, ESG disclosures for value chain and assurance requirements.

In May 2024, the Expert Committee for facilitating ease of doing business, made the following recommendations in relation to BRSR:

- **Reasonable assurance:** Substitute the term assurance with assessment as the usage of the term assurance inadvertently resulted in unintended consequences, additional financial burdens and challenges for the industry.

- **Value chain reporting:** Value chain shall encompass the upstream and downstream partners of a listed entity, individually comprising 2 per cent or more of the listed entity's purchases / sales (by value) respectively.
  For the first year of reporting ESG disclosures for value chain, i.e. FY 2024-25, it recommended that reporting of previous year numbers should be voluntary. It also recommended a 'voluntary' disclosures approach in place of 'comply or explain' approach for ESG disclosures for value chain and assurance thereof.

- **Green credit program:** In order to incentivise listed entities and their value chain partners to participate in generation of green credits, it recommended to introduce leadership indicator under Principle 6 of BRSR, i.e., 'Business should respect and make efforts to protect and restore the environment'. The indicator would explain how many green credits have been generated by the company and by the value chain.

## New development

With regard to the framework for disclosure and assurance requirements for BRSR Core, ESG disclosures for value chain and assurance requirements, SEBI, at its board meeting dated 18 December 2024 approved certain decisions (based on recommendations of the Expert Committee) relating to BRSR.

# Key changes in BRSR reporting

Additionally, SEBI, vide a circular dated 20 December 2024, issued the Industry Standards on Reporting of BRSR Core ('the Industry Standards'). These standards have been developed by the Industry Standards Forum (ISF) comprising ASSOCHAM, FICCI, and CII[1], and aim to facilitate the standardisation and ease of implementation of BRSR Core disclosures under the SEBI LODR Regulations.

The guidelines are designed with an objective to help listed entities comply with requirements outlined in Regulation 34(2)(f) of the LODR Regulations. Therefore, the listed entities should follow these industry standards to ensure compliance with SEBI's requirements on disclosure of BRSR Core.

This will be applicable for the financial year 2024-25 and onwards.

## Key takeaways

The infographic below illustrates some of the key takeaways  approved in this regard

### ESG disclosures for value chain

- ESG disclosures for value chain as well as 'assessment or assurance' thereof – **deferred by one year** (i.e., disclosures are applicable from **FY 2025-26** and assessment or assurance from **FY 2026-27**)
- Disclosures would be on voluntary basis (*extant requirement: comply-and-explain basis*)
- Value chain disclosures to cover top upstream and downstream partners, individually comprising **2 per cent or more** of the purchases and sales (by value). The entity may limit disclosure of value chain to cover **75 per cent of purchases and sales (by value)**, respectively
- Reporting of previous year numbers is **voluntary in case of first year of reporting** of ESG disclosures for value chain

### Disclosure of green credits

Introduced a **leadership indicator in Principle 6** of BRSR framework with respect to disclosure of Green Credits generated or procured by the listed entity and its top-10 value chain partners

### Assessment or assurance

Substituted 'assurance' with 'assessment or assurance' for BRSR Core disclosures.

This would be applicable for listed entities and value chain from **FY 2024-25** and **FY 2026-27 onwards**, respectively.

To access the text of the SEBI board meeting minutes, please click here.

[1] The Associated Chambers of Commerce and Industry of India (ASSOCHAM), Federation of Indian Chambers of Commerce and Industry (FICCI) and Confederation of Indian Industry (CII)

# Key changes in BRSR reporting (Cont.)

## Summary of key additional guidance as per the Industry Standards

It is pertinent to note that the Industry Standards supplement the BRSR Annexure II – Guidance note for Business Responsibility and Sustainability Reporting Format (BRSR Guidance Note) issued by SEBI and accordingly has normative reference to the same.

### Part A: General Requirements

- **Intensity-based calculations**

  The Industry Standards note clarifies that reporting entities should report intensity ratio for revenue adjusted for ‘Purchasing Power Parity’ (PPP) and ‘Output-based intensity’ for GHG emission intensity (Scope 1 and Scope 2 emissions), Water consumption intensity, Energy intensity, and Waste intensity. It also explains the manner of calculation of PPP and PPP Adjusted Revenue.

  It mentions that IMF publishes the PPP conversion rates for all currencies. Entities should use latest rate available for India on their website and disclose the rate used with the help of a note in BRSR. For Financial Year 2023-24 disclosures, the reporting entity should use the same PPP conversion rate for the previous Financial Year also.

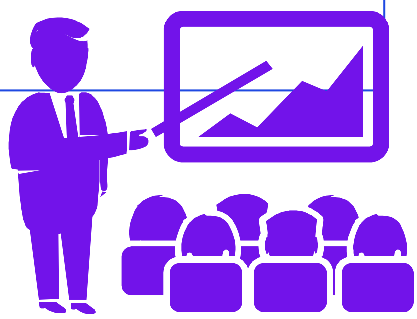
  Regarding ‘output-based intensity calculation’ it mentions that outputs vary for manufacturing and service sectors. Therefore, manufacturing entities should use the total output of products i.e. the Total Production to report intensity figures. Service entities should use input measures of Full Time Equivalent to report intensity figures.

  It also refers to BRSR Guidance Note Principle 6, Q No. 1, 3, and 6, and mentions that entities may on a voluntary basis provide intensity ratio based on other metrics – unit of product, production volume, size, number of full-time employees.

- **Spend-based approach to estimating environmental footprint**

  While calculating emissions, energy consumption, and/or water consumption, where a reporting entity does not have primary data and only have annual spend data for the item, the reporting entity may use a spend-based approach to estimate the corresponding emissions, energy consumption, and/or water consumption.

  The Industry Standards Note also provides a detailed guidance on spend-based methodology.



# Key changes in BRSR reporting (Cont.)

## Part B Attribute-wise requirement

| Attribute | Changes/clarifications introduced |
|---|---|
| **Attribute 1: Greenhouse Gas Footprint** | |
| **Scope 1** | New guidance is provided regarding 'recognised sources for emission factors'. It is necessary that reporting entities disclose the source of emissions factor used. |
| **Scope 2** | For Scope 2 emissions factors specific to grid power in India, the Industry Standards note requires use the latest applicable CEA-published grid emission factor, where measurable data is available.<br><br>In case the reporting entity does not have measurable data, the entity shall use a spend-based method to calculate electricity consumption. However, spend-based methodology should be used in a restricted manner and only initially when a data measurement is not in place.<br><br>It is suggested that every entity must eventually start measuring quantitative data and spend-based methodology can be used in initial years of reporting.<br>Where used, the reporting entity must specify the source of the spend-based consumption factor and explain its suitability for the purpose.<br><br>Companies should not go back to spend-based method after having and reporting measurable data.<br><br>Details on Spend-based methodology are provided in the Industry Standards Note. |
| **Attribute 2: Water Footprint** | The Industry Standards Note clarifies that where reporting entities which have offices, outlets, branches, and other facilities where direct measurement of water is not available or practicable, should use guidelines established by the Central Ground Water Authority (CGWA) to estimate water consumption.<br><br>For offices, outlets, branches, or other similar situations where directly measurement of water withdrawal, discharge, and consumption data, are available at a larger facility-level, then the sub-unit level water withdrawal, discharge, and consumption should be estimated. The Industry Standards Notes explains the formula to be used.<br><br>For other countries, use consumption rates representative of the country or region to the extent practicable. |
| **Attribute 3: Energy Footprint** | The Industry Standards Note requires that reporting entities to identify and report 'Power delivered through the local power connection' and these components should be reported under renewable and non-renewable category. |
| **Attribute 4: Embracing circularity – details related to waste management by the entity** | The Industry Standards Note refers to the BRSR Guidance note for this attribute. |

# Key changes in BRSR reporting (Cont.)

| Attribute | Changes/clarifications introduced |
|---|---|
| **Attribute 5: Enhancing Employee Wellbeing and Safety** | Regarding cost incurred on well-being, the Industry Standards Note clarifies that the Key Performance Indicators (KPI) should include:<br>• Five initiatives i.e., health insurance, accident insurance, maternity benefits, paternity benefits, day care facilities<br>• Health and safety measures including access to mental health.<br><br>Listed entities should prepare a schedule of cost incurred on all the above initiatives and the same should be based on the expenditure included in the relevant ledger heads in the audited trial. The schedule should include the following expenditure on well-being of employees and workers (including permanent and other than permanent employees/workers) which has been charged to the Profit & Loss account:<br>a. Actual cost incurred by the company on health insurance, accident insurance, day care facilities. Any cost of health/accident insurance borne by the employee will be excluded. However, in case the health/accident insurance has been facilitated/negotiated by the company for its employees, this may be mentioned by way of a note.<br>b. Cost for maternity and paternity benefits would include costs on any direct benefits provided to employees (such as Cabs for commuting, etc.) and actual salary paid to the employees during the maternity/paternity leave availed (as per Cost to company including variable pay, if the amount has been bifurcated employee wise).<br>c. Cost incurred by the company on health & safety measures (including mental health) like medical benefits to employees, annual health check ups, provision of doctors/ counsellors / clinics, fitness programmes, etc. should be included.<br>It also clarifies the definition of ‘revenue’, and ‘number of permanent disabilities’. |
| **Attribute 6: Enabling Gender Diversity in Business** | The Industry Standards Note clarifies of inclusions and exclusions for the term ‘total wages’, and on the term ‘complaints on Protection of Women from Sexual Harassment (POSH) withheld’. |
| **Attribute 7: Enabling Inclusive Development** | The Industry Standards Note clarifies various terms including as MSMEs, small producer, input material, total purchases, etc. Additionally, reporting under this KPI shall only be applicable to Indian entities within the reporting boundary. |
| **Attribute 8: Fairness in Engaging with Customers and Suppliers** | The Industry Standards Note clarifies that the reporting entities shall report the number of cyber security incidents in accordance with their reporting during the year to CERT-In as per the direction dated 28 April 2022 issued by the Indian Computer Emergency Response Team, under the aegis of the Ministry of Electronics and Information Technology, under Section 70-B (6) of the Information Technology Act 2000.<br><br>Reporting companies shall provide percentage of the cyber security incidents as reported to CERT-In that involved personally identifiable information of customers against the total cyber security incidents reported to CERT-In.<br><br>For cyber security incidents in jurisdictions outside India, reporting may be done basis regulatory requirement/reporting, if any, in the respective jurisdiction. In the absence of the same, the guidance in CERT-In should be used. |
| **Attribute 9: Open-ness of business** | The Industry Standards Note clarifies on definition of ‘other liabilities’, ‘cost of goods/services procured’, ‘trade payables’, ‘trading houses’, etc. |

To access the text of the Industry Standards, please click here

## Our comments

**Guidance provided by Industry Standards Forum**

We welcome the guidance provided by Industry Standards Forum as it helps providing definitions to various terms and provides guidance to bring consistency of disclosures by reporting entities. Companies would need to evaluate the approach used for FY 2024 *vis-a-vis* the guidance provided by Industry Standards Forum and identify areas which will require re-computation. These may require specific disclosures in the FY 25 BRSR in relation to comparative numbers impacted.

**Assessment or assurance**

The Industry Standards Forum (ISF), in collaboration with SEBI, will develop 'assessment' standards, ensuring alignment with regulatory objectives and avoiding unnecessary professional bias.

We wait ISF guidance on what third party assessment shall comprise. The choice of assessment will certainly broaden the horizon for the reporting entities to select the service providers, 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.

Recently, the International Auditing and Assurance Standards Board (IAASB) has issued the International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, which outlines general requirements for sustainability assurance engagements. This standard is designed to be profession-neutral, enabling its application by assurance practitioners, regardless of whether they are professional accountants or not.

The International Organisation of Securities Commissions (IOSCO) has reiterated its support to ISSA 5000 standard and believes that the standard can support high-quality assurance over sustainability-related information and may enhance consistency, comparability and reliability of sustainability-related information provided to the market. Additionally, IOSCO will continue to play a key role in promoting global consistency in the assurance of sustainability-related information.

In light of this, as SEBI is member of IOSCO board, it is imperative that while formulating the assessment standard in collaboration with ISF, SEBI provides guidance 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.

Companies and their management will be required to engage with stakeholders to determine whether assurance as per globally acceptable would be preferred.

**Value chain**

Today's strategic business planning heavily incorporates value chains, which encompass the entire lifecycle of a product or process from the procurement of materials to production, and through to consumption and eventual disposal or recycling. The potential for sustainability-related risks and opportunities exists not only within the entity itself but also throughout its entire value chain. Consequently, it is crucial for a company to report on the impacts and dependencies that lead to such risks and opportunities. Accordingly, companies would need to take key decisions on and work towards their preparedness for areas such as value chain related disclosures.

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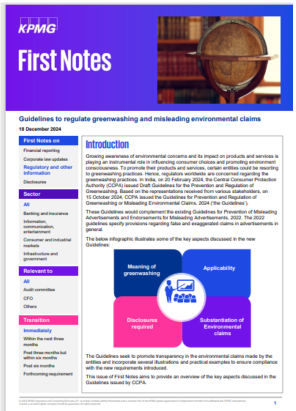
## Missed an issue of Accounting and Auditing Update or First Notes?


### Issue no. 101 – December 2024

The topics covered in this issue are:

- Gross vs net presentation of revenue under Ind AS 115
- ISSA 5000, *General Requirements for Sustainability Assurance Engagements*
- Regulatory updates

To access the publication, please click here




### Guidelines to regulate greenwashing and misleading environmental claims

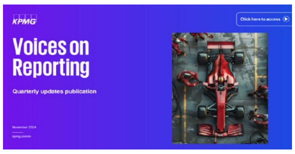
### 18 December 2024

Growing awareness of environmental concerns and its impact on products and services is playing an instrumental role in influencing consumer choices and promoting environment consciousness. To promote their products and services, certain entities could be resorting to greenwashing practices. Hence, regulators worldwide are concerned regarding the greenwashing practices. In India, on 20 February 2024, the Central Consumer Protection Authority (CCPA) issued Draft Guidelines for the Prevention and Regulation of Greenwashing. Based on the representations received from various stakeholders, on 15 October 2024, CCPA issued the Guidelines for Prevention and Regulation of Greenwashing or Misleading Environmental Claims, 2024 (‘the Guidelines’).

The Guidelines seek to promote transparency in the environmental claims made by the entities and incorporate several illustrations and practical examples to ensure compliance with the new requirements introduced.

This issue of First Notes aims to provide an overview of the key aspects discussed in the Guidelines issued by CCPA.

To access the First Note, please click here




### KPMG in India – Voices on Reporting quarterly updates publication

Voices on Reporting – Quarter updates publication (for the quarter ended 30 September 2024) provides a summary of key updates from the Ministry of Corporate Affairs (MCA), Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), National Financial Reporting Authority (NFRA) and the Institute of Chartered Accountants of India (ICAI).

To access the publication, please click here

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