भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CONSULTATION PAPER ON ESG DISCLOSURES, RATINGS AND INVESTING

1. Objective

This Consultation Paper seeks public comments on the regulatory framework of ESG Disclosures by listed entities, ESG Ratings in the securities market and ESG Investing by Mutual Funds in order to facilitate balance between transparency, simplification and ease of doing business in an evolving domain.

2. Background

2.1 In recent years, there has been a growing recognition of the significant economic and financial impact of climate change and environmental, social and governance (ESG) risks. In the past 3 years, a number of ESG funds have been launched, including in India. As ESG Investing becomes mainstream, companies have been urged by both investors and regulators to make detailed ESG related disclosures to their stakeholders. The use of ESG ratings and rating products is also growing, as investors increasingly factor ESG parameters in their investment decisions. In this backdrop, securities market regulators have felt a need to streamline these three areas of ESG Disclosures, ESG Ratings and ESG Investing.

2.2 In India, SEBI has mandated the top 1000 listed companies (by market capitalization) to make ESG disclosures as per the Business Responsibility and Sustainability Reporting (BRSR) from FY 2021-22 on a voluntary basis and mandatory from FY 2022 - 23. SEBI is working on developing a regulatory framework for ESG Rating Providers (ERPs), pursuant to public consultation in this regard. SEBI, through AMFI, has also mandated disclosures for ESG labelled Mutual Funds.

2.3 However, opportunities for streamlining remain in each of the aforementioned areas. In the area of ESG disclosures, the need for assurance and expanding the scope of disclosures beyond the stand-alone listed entity, are key requirements. Further, given that different jurisdictions have different NDCs (Nationally Determined Contributions) & have adopted varied transition paths and have diverse operational realities, sustainability related risks, opportunities and impact may vary across geographies. There is therefore a need for ESG Rating providers to factor in the local / domestic context while assigning ESG ratings. In the area of ESG Investing, there is a need to ensure robustness of disclosures and undertake measures to mitigate the potential risk of green-washing and mis-selling.

2.4 To address the above concerns, SEBI, in May 2022, constituted the ESG Advisory Committee (“EAC / Committee”) to make recommendations to streamline the regulatory framework for ESG Disclosures, ESG Ratings and ESG Investing (Reference – Press release dated May 06, 2022[1]). The Committee had representatives from corporates, investors, rating providers, Mutual Funds, industry bodies, academicians, technical experts and other stakeholders and was chaired by Shri. Navneet Munot, MD and CEO, HDFC AMC.

2.5 The Committee gave its recommendations in the areas of ESG Disclosures, ESG Ratings and ESG Investing. This Consultation Paper is based on the recommendations of the EAC and internal deliberations. The same is divided into three parts - Part A, Part B and Part C on ESG Disclosures, ESG Ratings and ESG Investing, respectively.

3. PART A - ESG Disclosures

3.1 Need for review

3.1.1 SEBI has mandated the top 1000 listed companies (by market capitalization) to make filings as per the Business Responsibility and Sustainability Reporting (BRSR) from FY 2022 - 23. In FY 2021 – 22, more than 175 companies reported on the BRSR framework, on a voluntary basis.

3.1.2 With the BRSR becoming mandatory from this financial year (FY 2022-23) and a number of stakeholders such as investors and ESG rating providers placing reliance on disclosures made in the BRSR, assurance becomes key for enhancing credibility of disclosure and investor confidence. Another area where more visibility and transparency is required is ESG disclosures by supply chain participants of Companies. EAC focused its discussions on the said issues and identified few critical areas for mandatory assurance.

3.1.3 In addition to the above, EAC also deliberated on other areas such as enhancing of BRSR by shifting few leadership indicators to essential, sector specific disclosures to bring in greater standardization in reporting, reporting boundaries including segment wise disclosures for conglomerates operating in multiple segments & disclosures on a consolidated basis, along-with assurance of the entire BRSR. However, considering that the reporting on BRSR is still at a nascent stage, aforementioned areas in the reporting format are recommended to be taken up at a later stage once the existing disclosures have stabilized.

[1] https://www.sebi.gov.in/media/press-releases/may-2022/sebi-constitutes-advisory-committee-on-environmental-social-and-governance-esg-matters_58794.html

3.1.4 Considering the above, this Consultation Paper seeks public comments on the areas of assurance of certain key ESG Disclosures by corporates along with reporting and assurance of ESG footprint of the supply chain of companies.

3.2 Proposals for Public Consultation

3.2.1 Assurance of sustainability disclosures

a. Assurance of sustainability reports, is key to bringing credibility and maintaining investor confidence.

b. Assurance can be either limited or reasonable. Limited Assurance is being adopted globally by jurisdictions as it is relatively easy to implement. However, due to its inherent nature, limited assurance draws relatively low confidence, while reasonable assurance despite being relatively more expensive, draws more confidence.

c. In order to achieve the twin objectives of improving credibility and limiting the cost of compliance, **BRSR Core** (**Annexure 1**) has been developed for reasonable assurance which consists of select Key Performance Indicators (KPIs) under each E, S and G attributes / areas that needs to be reasonably assured. The BRSR Core framework also specifies the methodology to facilitate reporting by corporates and verification of the reported data by an assurance provider.

d. The following approach was adopted by the EAC in developing the BRSR Core[2] -

i. Quantifiable and outcome oriented metrics
The KPIs sought in the BRSR Core are quantifiable to the extent possible, so as to facilitate comparability of the disclosures. The KPIs also incorporate metrics that are reflective of sustainable outcomes in companies. To illustrate, one of the metrics recommended by the Committee is 'gross wages by gender' which is reflective of whether a Company has gender diversity practices which attract and retain women in its workforce.

ii. Relevance of the attributes / areas in the BRSR Core
The BRSR Core contains factors that are relevant to both the manufacturing and service sectors and are relevant in the Indian Context. Thus, under the 'S' parameters, attributes such as job creation, and

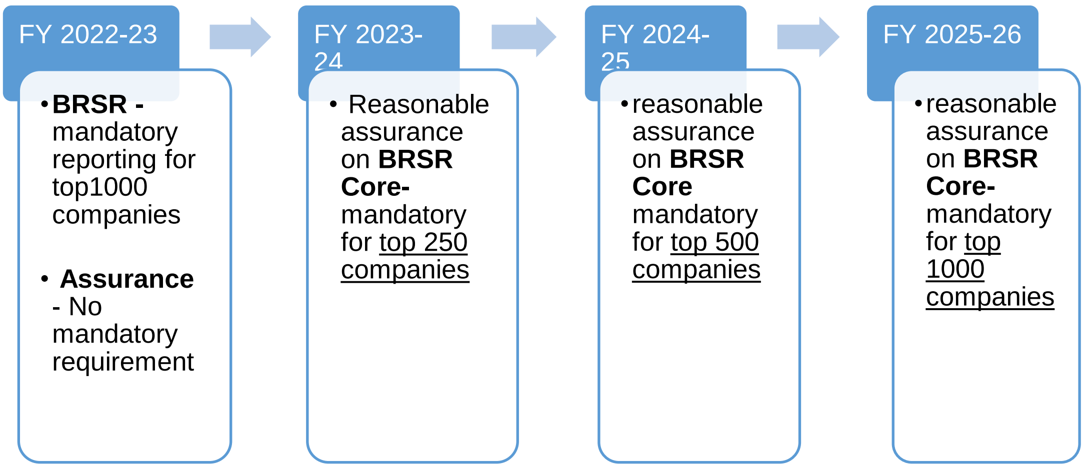
[2] Refer Annexure 1 for the format of the BRSR Core

inclusive development are considered. The ‘G’ parameters include open-ness/ concentration of business including related party transactions.

iii. **Comparability across jurisdictions**
The KPIs in the BRSR Core, contain a number of intensity ratios, such as intensity of Green-House Gas (GHG) emissions, water consumption, waste generation etc., so as to enable comparability, irrespective of the size of the Company. These intensity ratios are based on both revenue and volume. Considering that these ratios are also used by global investors and global ERPs, it is felt appropriate that intensity ratios based on economic value adjusted for Purchasing Power Parity (PPP) should be computed in addition to the normal intensity ratios, for global comparability to be fairer to low cost / developing economies. In the first phase, country level PPP may be used and over time, sector specific PPP may be developed.

e. The comprehensive BRSR shall be updated to incorporate KPIs proposed in BRSR Core that are currently not present in the comprehensive BRSR.

f. In keeping with a glide path approach, reasonable assurance of KPIs in BRSR Core may be mandated in a gradual manner, as under:



g. *<u>For Public Comments – Issue 1</u>*
Comments are sought on the following issues:
i. Whether the attributes and KPIs specified in the BRSR Core are appropriate.
ii. Whether assurance should be obtained only on the attributes and KPIs proposed in the BRSR Core, or on the comprehensive BRSR.
iii. Whether the methodology proposed for assurance is appropriate.

iv. *Whether intensity ratios based on economic value adjusted for PPP, should be computed in addition to normal intensity ratios, for global comparability.*

v. *Whether the timelines proposed at point 3.2.1 (f) above, are appropriate for implementation.*

3.2.2 <u>ESG disclosures for supply chain</u>

a. At present, the metrics related to the supply chain of a Company are covered under leadership indicators in the BRSR, that may be reported on a voluntary basis. However, for a number of companies, significant ESG footprints such as the use of natural resources, employment practices, emissions and wastages may be found in their supply chain. Thus, investors are increasingly seeking ESG disclosures for the supply chain, so as to get a complete picture of the ESG risks and impact associated with the products and services provided by the Company.

b. At the same time, it is recognized that there are a number of complexities associated with ESG disclosures for supply chain. Considering that a number of supply chain partners may be small, unlisted firms, it may be difficult for such companies to track and report on a large number of ESG metrics. Further, for certain companies, especially in the manufacturing sector, there may be multiple tiers of suppliers within their supply chains.

c. In view of the above, it is thus proposed to introduce a limited set of ESG disclosures i.e. BRSR Core in a gradual manner and on a "comply-or-explain" basis. The proposed implementation plan, is illustrated below:

FY 2024 - 25

- ESG disclosures as per BRSR Core, for supply chain for top 250 companies (by market cap) on a "comply-or-explain" basis
- Assurance <u>not mandatory</u>

FY 2025 - 26

- ESG disclosures as per BRSR Core, for supply chain for top 250 companies (by market cap), on a "comply-or-explain" basis
- Assurance <u>on 'comply-or-explain' basis</u>

d. *<u>For Public Comments – Issue 2</u>*
Comments are sought on the following issues:

i. *Whether there is a need to introduce ESG disclosures for supply chain of listed entities.*

ii. *If so, should such disclosures be made as per the BRSR Core or comprehensive BRSR.*
iii. *Whether assurance of disclosures of supply chain should be specified.*
iv. *Whether timeline as proposed at point 3.2.2 (c) above, for implementation of ESG disclosures and assurance for supply chain is appropriate.*

4. PART B - ESG Ratings

4.1 Need for review

4.1 In order to enhance transparency in ESG ratings and mitigate conflict of interests in ESG rating providers (ERPs), SEBI had issued a Consultation Paper seeking feedback on the need for a regulatory framework for ERPs in the securities market. Pursuant to feedback received during public consultation, a regulatory framework for ERPs is under development.

4.2 Another area that needs deliberation in this space is whether ERPs factor in the domestic context while assigning ESG ratings. This need is felt since ESG in emerging markets, is different as compared to developed jurisdictions. Emerging markets have a different set of environmental & social challenges and it is critical for ERPs to consider these while assessing company's ESG risks / opportunities and impact. Thus, there is a need for a unique set of metrics that should be factored in, while assigning ESG ratings. For instance, in the Indian context, issues such as job creation in smaller towns, gender diversity at an employee level, and inclusive development are much more relevant than in the developed markets.

4.3 In view of the above, the ESG Advisory Committee identified ESG parameters that are relevant to Indian context that may be integrated in at least one of the ESG ratings for an Indian company. This Consultation Paper seeks public comments on the same.

4.2 Proposal for Public Consultation

4.2.1 ESG ratings with Indian context

a. During its deliberations on identifying ESG parameters that are critical as well as those that are unique to the Indian context, the Committee was cognizant that it was not attempting to standardize or prescribe a uniform methodology for ESG ratings. The efforts of the Committee were geared towards identifying a minimum set of parameters to bring in consistency and aid ERPs in adopting a broad common approach, so as to make ESG ratings comprehensive as well as contextual. While identifying these parameters, the Committee endeavored to ensure that they are reflective of environmental, social and governance outcomes.

b. Based on the recommendations of the committee and internal deliberation, a list of 15 ESG parameters that have an Indian context is appended at **Annexure 2**. It may be noted that there would be no restriction on the ERPs to evolve additional customized ratings for specific user groups, depending on user needs.

c. A brief on the approach adopted while identifying the aforementioned list, is placed below:

i. Environmental Parameters

India has its own standards, disclosure mandates and norms set by various bodies, such as the Perform Achieve and Trade (PAT) scheme, Extended Producer Responsibility (EPR) scheme etc. It is natural for Indian companies to align their processes as specified by Indian standards. Therefore, it is imperative for ERPs to assess companies based on these standards as mapped against global standards. Any areas of differences can be used to suitably adjust / annotate the ratings.

ii. Social Parameters

Social realities of India are different and unique from developed nations. For instance, workforce diversity assessment is an important social factors assessed by ERPs, however the metrics of such assessment would vary across jurisdictions. In developed countries, presence of women directors on boards may be reflective of workforce diversity whereas in India, an enabling environment and more comprehensive gender diversity in the entire workplace is even more relevant, which gets reflected, for instance, in the percentage of gross wages paid to women by the companies.

iii. Parameters on Governance

A common feature of listed companies in India is the presence of promoters or controlling shareholders. A significant aspect of governance, arising from such ownership is the potential for conflict of interest between the controlling and minority shareholders. One area where this conflict may typically arise, is Related Party Transactions (RPTs). Further, while SEBI has placed significant responsibility on Independent Directors (IDs) for

RPT approvals, there have been concerns on whether IDs are truly independent.

In view of the above, the parameters identified cover areas related to RPTs and Independent Directors such as percentage of against votes by non-promoter shareholders on RPTs and IDs, royalty payments etc. Further, given that RegTech systems can aid companies in automating and improving compliance, another parameter identified is whether a Company has RegTech /Systems solution for monitoring and evidencing compliance.

d. *<u>For Public Comments – Issue 3</u>*

Comments are sought on the following issues:

i. *Whether the identified parameters are appropriate for ERPs to factor in ESG aspects that are contextual to the Indian domestic markets, in their ESG ratings.*

ii. *Whether the proposed guidance on environmental measures is appropriate?*

4.2.2 <u>ESG Ratings on assured indicators</u>

a. It is observed that currently, ESG Ratings are generally assigned based on self-reported data by corporates, without any third-party assurance of such data. Since investors are placing increased reliance on these ratings for making investment decisions, it is imperative that these ratings are reliable.

b. In this context, since the proposed BRSR Core provides for disclosure of assured KPIs, it is proposed that in addition to their other products, ERPs shall also provide a **Core ESG rating**, which shall be based on information / reports that are assured / audited / verified.

c. *<u>For Public Comments – Issue 4</u>*

Comments are sought on the following issues:

i. *Whether there is a need for a Core ESG Rating, based on limited ESG indicators that are assured / audited*

ii. *Whether having Core ESG Ratings would increase the reliability of ESG ratings*

5. <u>PART C - ESG Investing</u>

5.1 Need for review

5.1.1 In the area of ESG investing, AMFI in consultation with SEBI has *inter-alia* prescribed the following norms for ESG schemes of Mutual Funds:

a. Disclosures in Scheme Information Document (SID) such as scheme name to reflect nature and extent of the scheme's ESG focus, Investment Objective to provide transparency about the nature and extent of the scheme's ESG related investment objectives, Investment Strategy – Exclusions, Integration, Best-in-Class & Positive Screening, Impact investing, Sustainable Objectives etc.
b. Disclosures related to engagement undertaken by AMCs for ESG schemes (Monitoring and Evaluation, stewardship and shareholder engagement disclosures, periodic portfolio disclosures and maintenance of ESG policy related to investments)
c. General obligations related to declaration, resource augmentation, marketing material and development of common sustainable finance-related terms and definitions in line with global standards etc.

5.1.2 Additionally, in order to standardize the ESG scoring process, SEBI has advised AMFI to empanel ERPs based on the parameters proposed by a Working Group set up by SEBI, under each of the three pillars viz. Environment, Social and Governance. ESG schemes are required to use scores arrived at by AMFI empaneled ERPs and publish securities wise and scheme wise scores in the monthly portfolio disclosures w.e.f August 01, 2022.

5.1.3 Since the concept of ESG investments and standardized disclosures for funds in the ESG space is still emerging, there is a need for consistent, comparable, and decision-useful scheme disclosures to enable investors to make informed investment decision and to prevent greenwashing. Accordingly, the ESG Advisory Committee provided recommendations on expanding the disclosure norms for ESG funds and on measures that may be brought in to improve transparency, with a particular focus on mitigation of risks of mis-selling and greenwashing and other related areas.

5.1.4 Based on the recommendations of the ESG Advisory Committee and further analysis, comments on proposals relating to ESG schemes of Mutual Funds are being sought.

5.2 Proposals for Public Consultation

5.2.1 Enhanced Stewardship Reporting for ESG schemes

a. Voting disclosures by ESG schemes

i. The importance of institutional investors in capital markets across the world is increasing and they are expected to shoulder greater responsibility towards their clients / beneficiaries by enhancing monitoring and engagement with their investee companies. Towards this, increased engagement by AMCs/Mutual Funds is imperative for improved corporate governance in the investee companies as well as for protection of the interest of the unitholders.

ii. Mutual Funds under the current regulatory framework are required to mandatorily follow a Stewardship Code in relation to their investments in listed companies which *inter-alia* includes having a clear policy on voting, compulsory voting in respect of the resolutions including Social and Corporate responsibility issues, related party transactions of the investee company etc., and public disclosure of voting decisions along-with rationale for decision.

iii. In order to have more transparency on the votes cast by ESG funds on resolutions of their investee companies, it is proposed that AMCs need to provide better clarity on 'in favour" or "against" votes cast on resolutions in a year by disclosing if the resolution has or has not been supported due to any environmental, social or governance reason.

iv. Further, as the Mutual Funds may have holdings in the same investee company(ies) under non-ESG funds also, in cases where the voting approach for ESG and non-ESG schemes is same, the reporting may be made on a fund house level on "in favour" or 'against" votes. However, in instances where the voting approach for ESG and non-ESG schemes is not similar, AMCs should provide details and rationale for "in favour" or "against" votes cast on resolutions for ESG schemes and non-ESG schemes separately.

v. Voting disclosures to be mandated from FY 23-24 i.e, for annual general meetings held from April 01, 2023 onwards.

vi. *<u>For Public Comments – Issue 5</u>*
   1. *Comments on the proposal at para 5.2.1(a)*
   2. *Whether enhanced voting disclosures should be from April 01, 2023 onwards?*

b. Disclosure of case studies

For further enhancement of stewardship reporting requirement, the following is proposed:

i. ESG schemes can start with details of case studies where the fund manager/analysts have engaged with portfolio companies with a clear objective of engagement. In case the engagement is on topics requiring multi-year engagement, the strategy for the same should be reported.

ii. The engagements carried out for exercise of votes may also be reported here.

iii. Further, when the case studies mature, ESG schemes would be expected to report how many engagements were carried out in a year, the modes of communication employed, and if any outcomes were achieved in the reporting year. This could be done based on number of companies covered and percentage of AUM covered.

iv. In this regard, if ESG schemes have a specific objective, then reporting should be done on engagements and outcomes achieved (if any) based on that objective in the reporting year. Funds that feed in ESG funds, and any new funds that fall under the umbrella of ESG, like low carbon funds/gender diversity funds/impact funds etc. would also have the same requirement of enhanced stewardship reporting.

v. A glide path is proposed in this regard wherein the disclosure of case studies may be carried out after one year (i.e, from FY 2024-25 onwards) and coverage of engagement number of company wise and AUM-wise, after one more year (i.e, from FY 25-26 onwards).

vi. For Public Comments– Issue 6

1. *Whether any other area needs to be covered under disclosure of case studies?*
2. *Is the glide path suggested appropriate?*

5.2.2 Mitigation of risks of mis-selling and greenwashing

The possibility of risk of greenwashing can exist at both investee company level as well as the scheme level and thus needs to be mitigated at both levels. With regard to greenwashing at investee company level, SEBI in this consultation paper has proposed mandatory assurance of disclosure in BRSR Core for top 250 companies from FY 2023-24. Further, ERPs are proposed to be mandated to provide BRSR Core rating based on information/report that are assured/verified/audited.

Having regard to the above, the following is proposed for mitigation of green washing at scheme level.

a. An ESG scheme shall invest at least 65% of its AUM in companies which are reporting on comprehensive BRSR and are also providing assurance on BRSR Core disclosures. The remaining investments of the scheme shall be in companies reporting on BRSR.

b. Considering that BRSR Core is proposed to be effective from FY 2023-24, the aforementioned investment norms is proposed to be made effective from October 01, 2024 onwards. The schemes which are not compliant with abovementioned criteria as on October 01, 2024 may be provided a time period of one year i.e. till September 30, 2025 for compliance. During the said period of one year, no fresh investments in companies without BRSR Core disclosures should be taken up till the required criteria is met.

c. Under the monthly portfolio disclosure, security wise BRSR Core rating/scores shall also be disclosed as and when the same is made available by ERP.

d. It is further proposed that a third party reasonable assurance regarding the scheme portfolio being in compliance with stated strategy and objective of the scheme, may be introduced on a "comply or explain basis" from April 01, 2023 and may be made mandatory from April 01, 2024.

e. It is also proposed that certificate from Mutual Fund may also be mandated from April 01, 2023 (i.e, for FY 2022-23) based on an internal ESG audit which may include checking the SID, Stewardship Reporting and Responsible Investment Policy of the ESG Fund etc., to ensure what is being claimed in these documents is true and factual. In this regard, it needs to be discussed whether a Trustee or AMC certificate should be mandated.

f. As regards making Trustees responsible for a certificate, reference is drawn to a Consultation paper floated by SEBI on February 09, 2023 (SEBI | Consultation Paper on Review of Role and Obligations of Mutual Fund Trustees*)* which discusses that while the MF Regulations over a period of time have cast various responsibilities over the Trustees, there are certain key areas which should be the focus for the Trustees and can be considered as their "core responsibilities" requiring independent due diligence and evaluation by the Trustees. The said core responsibilities have been identified keeping in mind the overarching role of Trustees to address any conflicts between interests of unit-holders and that of AMC's stakeholders. The said paper also proposes that certain responsibilities of Trustees, being operational in nature, can be delegated to the Board of AMCs.

g. *<u>For Public Comments – Issue 7</u>*
   i. *Are the measures suggested at para 5.2.2 appropriate?*
   ii. *Is the glide path suggested at para 5.2.2 appropriate?*
   iii. *Whether additional certificate from Trustee or Board of AMC based on internal audit is required?*
   iv. *If yes, whether the responsibility of addressing green-washing risks can be categorized as one of core responsibilities of the Trustees and whether they should carry out independent due diligence on the same?*
   v. *Or, should only the Board of AMC be made responsible for certifying in this regard?*

5.2.3 <u>Classification of ESG schemes</u>

a. Presently, Mutual Funds can launch only one ESG scheme under thematic category of Equity schemes. Considering that AMCs may want to launch multiple diversified ESG schemes under the ESG category, a new category for ESG schemes is proposed to be introduced. Thus, each AMC may be permitted to launch one ESG schemes each under following ESG sub-categories (*indicative description at* **Annexure 3**):
   i. Exclusions
   ii. Integration
   iii. Best-in-class & Positive Screening
   iv. Impact investing
   v. Sustainable objectives

   In this regard, the standardized criteria for different ESG strategies may be prescribed by Association of Mutual Funds in India (AMFI).

b. Further, ESG schemes under the proposed new category may be permitted with minimum 80% investment of total assets in equity/debt stocks of a particular theme as per the sub-categories. However, residual portion of the investment should not be starkly in contrast to the philosophy of the scheme from the theme. AMCs should endeavor to have a higher proportion of the assets under the ESG theme and make suitable disclosures.

c. *<u>For Public Comments – Issue 8</u>*
   i. *Whether a new category for ESG schemes should be introduced?*
   ii. *Is the criteria for new category specified in the proposal appropriate?*

5.2.4 <u>Other proposals</u>

a. Presently, the Mutual Funds are required to ensure that the name of the scheme accurately reflects the nature and extent of the scheme's ESG focus taking into account investment objective and strategy followed. In this regard, to have increased transparency, it is proposed to mandate the AMCs to include the name of the particular ESG strategy in the name of the concerned fund/scheme. For example, XYZ ESG Exclusionary Fund, or ABC ESG Best-in-class Fund etc. This requirement may be made mandatory from April 01, 2023.

b. As mentioned at para 5.1.2 above, ESG schemes are required to use scores arrived at by AMFI empaneled ESG rating providers to publish securities wise score along with weighted average Fund Score in the monthly portfolio disclosures. However, disclosure of the name of rating provider is not mandated by SEBI. Thus, it is proposed to mandate ESG schemes to disclose name of the ESG rating provider alongside the score disclosures in the monthly portfolio disclosures. This requirement may be made mandatory from April 01, 2023.

c. <u>Annual Fund Manager Commentary</u>

i. It is proposed that under the Fund Disclosures, annually a section of 'Fund Managers' Commentary may be added which may highlight the following:
   - Explanation of how ESG strategy is applied on the fund
   - How engagements are carried out
   - Any escalation strategy that the FM may have applied with respect to ESG factors on the portfolio companies
   - Specific examples or comment on observations in the portfolio companies in the reporting year
   - Annual tracking of ESG rating movements in the investee companies

ii. Further, with respect to annual tracking of ESG rating movement, as the ESG schemes may continue to have investments in companies where there is no BRSR disclosures till September 2023, the FM commentary should suitably disclose percentage of AUM invested in such companies and its impact, if any, on the Fund score.

iii. It is proposed to make disclosure of Annual FM Commentary from April 01, 2024 (i.e, for FY 2023-24) onwards.

d. *<u>For Public Comments – Issue 9</u>*

i. Are the proposals at paras 5.2.4 (a-c) appropriate?

ii. Is the implementation date(s) and/or glide path suggested appropriate?

6. Public Comments

6.1 Public Comments are invited on the above proposals. The comments / suggestions may be provided in MS Excel file, as per the format given below:

Name of entity / person / intermediary/ Organization: **Classification (Individual, Intermediary, Academic, Media, Law Firm, ERP, Corporate, Mutual Fund):** **Contact Details:**				
Sr. No.	**Issue no. of the Consultation Paper**	**Relevant Extract**	**Comments / Suggestions**	**Rationale**

6.2 Comments may be sent on or before March 06, 2023 by email to consultationcfd@sebi.gov.in. While sending the email, kindly mention the subject as “Comments on Consultation Paper on ESG Disclosures, Ratings and Investing”.

Annexure 1- Format of BRSR Core

Sr. No.	Attribute	Parameter	Measurement	Data & Assurance Approach
1	Change in GHG footprint	Total Scope 1 emissions (Break-up of the GHG into CO_2, CH_4, N_2O, HFCs, PFCs, SF_6, NF_3, if available)	GHG (CO_2e) Emission in Mn MT / KT / MT Direct emissions from organization's owned- or controlled sources (Guidance to be given on owned and controlled sources)	1. Absolute Fossil Fuel (Coal, Natural Gas, Diesel, FO etc.) Consumption (Mn MT / KT / MT / MM BTU etc.) 2. Emission Factor (GHG in CO_2e / UOM) - IPCC or Actual Testing from Accredited Test Lab 3. Quantity of Carbon Capture (Mn MT / KT / MT) 4. GHG emissions in CO_2 equivalent by process (Non-Fuel Source) Mn MT / KT / MT / MM BTU 5. Total Scope 1 Emission: Point 2 x Point 1 - Point 3 + Point 4
		Total Scope 2 emissions (Break-up of the GHG (CO_2e) into CO_2, CH_4, N_2O, HFCs, PFCs, SF_6, NF_3, if available)	GHG (CO_2e) Emission in Mn MT / KT / MT Indirect emissions from the generation of energy that is purchased from a utility provider	1. Total Consumption of Purchased Power (MW), Steam (MT), Refrigeration (MMBTU) 2. GHG (CO_2e) Emission Factor across all purchased energy sources - IPCC or actual from the supplier (audited certificates) 3. Total Consumption x GHG Intensity
		GHG Emission Intensity (Scope 1 +2)	Total Scope 1 and Scope 2 emissions (MT) / Total Revenue from Operations adjusted for PPP	1. Total Emission (Scope 1 & 2) as above 2. Total Revenue from Operations - From Audited P&L Statement 3. PPP (USD / INR)
			Total Scope 1 and Scope 2 emissions (MT) / Total Output of Product or Services	1. Total Emission (Scope 1 & 2) as above 2. Company & Sector Specific (i.e., No. of Vehicles Produced, MT of Material Produced, Data in Mn TB, No. of Seats / Travel Class, No of Rooms)

Sr. No.	Attribute	Parameter	Measurement	Data & Assurance Approach
			Total Scope 1 and Scope 2 emissions (MT) / Revenue from Operations (Rs. Cr) / Unit (Adjusted for Price Volume Parity)	1. Total Emission (MT) 2. Total Revenue (Rs) 3. Total Measuring Units (Occupancy, MT of Material, No. of Seats, etc.) Emission Intensity (Price & Volume Adjusted) = Total Emission / Revenue / No. of Units i.e., for Hotel Industry the Price Volume adjusted emission can be – GHG (CO_2e) Emission / Total Occupancy / Revenue
2	Change in water footprint	Water consumption from (i) Surface water	Mn Lt / KL	1. Input water flow meter logs (Calibrated Meters) 2. Third Party Invoices / Quantity Certification
		(ii) Groundwater		
		(iii) Third party water		
		(iv) Seawater / desalinated water		
		(v) Others		
		Total volume of water consumption (in kilolitres)		1. Input water flow meter logs (Calibrated Meters) 2. Output water flow meter logs (Calibrated Meters) 3. Input Water - Output Water
		Water consumption intensity	Mn Lt or KL / Rupee adjusted for PPP	1. Consumption as above 2. Total Revenue from Operations (from audited P&L) 3. PPP (USD / INR)
			Mn Lt or KL / Product or Service	1. Consumption as above 2. Company & Sector Specific (i.e., No. of Vehicles Produced, MT of Material Produced, Data in Mn TB, No. of Seats / Travel Class etc)

Sr. No.	Attribute	Parameter	Measurement	Data & Assurance Approach
			Water Consumption / Revenue / Unit of Product or Services	1. Total Water Consumption (KL) 2. Total Revenue (Rs) 3. Total Measuring Units (Occupancy, MT of Material, No. of Seats, etc.) Emission Intensity (Price & Volume Adjusted) - Total Water Consumption / Revenue / No. of Units
		Water Discharge by levels of Treatment	Mn Lt or KL	1. Untreated Water 2. Primary Treatment (Removal of material that floats or settle out i.e Filtration, Screening, Sedimentation etc) 3. Secondary Treatment (Removal of Dissolved organic Matter i.e. Oxidation, Digestion etc) 4. Tertiary Treatment (Disinfecting Water i.e. removal of pathogens, Phosphorous, Nitrogen etc)
			Mn Lt or KL / Rupee adjusted for PPP	1. Discharge as above 2. Total Revenue from Operations (from audited P&L) 3. PPP (USD / INR)
			Mn Lt or KL / Product or Service	1. Discharge as above 2. Company & Sector Specific (i.e., No. of Vehicles Produced, MT of Material Produced, Data in Mn TB, No. of Seats / Travel Class etc)
3	Investing in reducing its environmental footprint	R&D and capital expenditure (capex) investments in specific technologies to improve the environmental and social impacts of product and processes	R&D for Env & Social Impact / Total R&D Capex for Env & Social Impact / Capex Investment (Represented in %)	1. R&D investments in Rupee on sustainability projects (Salaries, IPR Fees, Licenses, Collaborations, Materials & Consumables, Proportioning of fixed cost and common costs) 2. Capex Investments in Rupee for Sustainability Projects (R&D Capex, Plant Capex, Supply Chain Capex etc. 3. Total R&D and Capex Investment (from financials)

Sr. No.	Attribute	Parameter	Measurement	Data & Assurance Approach
4	Embracing circularity - details related to waste management by the entity	Plastic waste (A)	Kg / MT	Absolute weight of the packaging material (Bags, Bottles, Pallets etc.) discarded as defined under the plastic waste management rules 2016 and amendments thereof
		E-waste (B)	Kg / MT	Discarded Computers, televisions, cell phones, VCRs, stereos, DVD players, copiers, and fax machines etc. as listed under e-waste management rules 2016 and amendments thereof
		Bio-medical waste (C)	Kg / MT	Solids and liquid waste including its container and any intermediate product, which is generated during the diagnosis, treatment or immunization of human beings or animals or research activities as listed under Bio-medical waste management rules 2016 and amendments thereof
		Construction and demolition waste (D)	Kg / MT	Construction waste as per C&D waste management Rules 2016 and amendments thereof like concrete, plaster, metal rods / wires, wood, plastics etc.
		Battery waste (E)	Kg / MT	Discarded batteries i.e., Li-ion, Alkaline, Lead Acid etc used in vehicles, computers & laptops, mobiles other electronics, UPS, Power Back up etc. as per Battery Waste management Rules 2016 and amendments thereof
		Radioactive waste (F)	Kg / MT	Discarded material such as paper, plastic, clothes, equipment, machine parts etc having exposure to radiation across Nuclear Power Plants, Hospitals, Research Laboratories, Industrial Applications etc.)
		Other Hazardous waste. Please specify, if any. (G)	Kg / MT	As per hazardous waste management rules of CPCB

Sr. No.	Attribute	Parameter	Measurement	Data & Assurance Approach
		Other Non-hazardous waste generated (H). Please specify, if any. (Break-up by composition i.e., by materials relevant to the sector)	Kg / MT	Waste not identified as Hazardous as per CPCB
		Total waste generated (G + H)	Kg / MT	self-explanatory
		Waste intensity	Kg or MT / Rupee adjusted for PPP	1. Total waste as above 2. Total Revenue from Operations (from audited P&L) 3. PPP (USD / INR)
			Kg or MT / Unit of Product or Service	1. Total waste as above 2. Company & Sector Specific (i.e., No. of Vehicles Produced, MT of Material Produced, Data in Mn TB, No. of Seats / Travel Class etc)
		Each category of waste generated, total waste recovered through recycling, re-using or other recovery operations	Kg or MT	Absolute quantity
			Intensity	Kg of Waste Recycled Recovered /Total Waste generated
		For each category of waste generated, total waste disposed by nature of disposal method	Kg or MT Intensity	1. Amount of material in MT disposed through Incineration 2. Amount of Material to Landfill 3. Amount disposed through third parties 4. Any other method Kg of Waste Recycled Recovered /Total Waste generated
5	Enhancing Employee Wellbeing and Safety	Spending on measures towards well-being of employees and workers – cost incurred as a % of total revenue of the company	In % terms	To check sources including – • Insurance Policies & Premium Paid Details • Infant Care Policy • Amount billed/invoices towards providing such facilities *(The following measures may be included – health insurance, accident insurance, maternity benefits, paternity benefits, day care facilities, health & safety measures including access to mental health)*

Sr. No.	Attribute	Parameter	Measurement	Data & Assurance Approach
		Details of safety related incidents for employees and workers	Number of Permanent Disabilities	To check on the basis of claims
			Lost Time Injury Frequency Rate (LTIFR) (per one million-person hours worked)	1. Total number of lost time injuries 2. Total No. of working hours 3. LTIFR = (Total number of lost time injuries *10,00,000) / Total No. of working hours
			No. of fatalities	To check on the basis of claims as reported to the Factory Inspector
6	Enabling Gender Diversity in Business	Gross wages paid to females as % of wages paid	In % terms	Employee Master / Register
		Complaints on POSH	• Total Complaints on Sexual Harassment (POSH) reported • Complaints on POSH as a % of female employees / workers • Complaints on POSH upheld	
7	Enabling Inclusive Development	Input material sourced from following sources as % of total purchases,– *Directly sourced from MSMEs/ small producers, and Sourced directly from within the district and neighbouring and / or aspirational districts*	In % terms – As % of total purchases by value	self-explanatory
		Job creation in smaller towns – Wages paid to people employed in smaller towns (permanent or non-permanent /on contract) as % of total wage cost	In % terms – As % of total wage cost	Place of employment of employees /workers (Place to be categorised based on with RBI classification system on rural / semi-urban / urban / metropolitan)

Sr. No.	Attribute	Parameter	Measurement	Data & Assurance Approach
8	Fairness in Engaging with Customers and Suppliers	% of negative media sentiment	In % terms	
		Number of days of accounts payable	(Accounts payable *365) / Cost of goods/services procured	To check from financial statements
9	Open-ness of business	Concentration of purchases & sales done with trading houses, dealers, and related parties Loans and advances & investments with related parties	• Purchases from trading houses as % of total purchases • Number of trading houses where purchases are made from • Purchases from top 10 trading houses as % of total purchases from trading houses	1. RPT audited by Financial Auditors (Refer Financial Audit Report) 2. Financial statements / invoices
			• Sales to dealers / distributors as % of total sales • Number of dealers / distributors to whom sales are made • Sales to top 10 dealers / distributors as % of total sales to dealers / distributors	
			Share of RPTs (as respective %age) in - • Purchases • Sales • Loans & advances • Investments	

The Committee also recommends that guidance may be given to companies on the following:

- Units of volume for different sectors (such as room occupancy-days for hotel industry) that may be used for calculating intensity ratios based on volume
- Pin codes may be made available with regard to reporting on aspirational districts and towns under job creation
- Country level Purchasing Power Parity

Annexure 2- List of ESG Parameters with an Indian Context

E/S/G Pillar	Factors	Data Point
Parameters		
Environment	Energy	Perform, Achieve and Trade (PAT) - Does the entity have any sites / facilities identified as designated consumers (DCs) under the Performance, Achieve and Trade (PAT) Scheme of the Government of India? (Y/N) If yes, disclose whether targets set under the PAT scheme have been achieved. In case targets have not been achieved, provide the remedial action taken, if any.
Environment	Water	Zero Liquid Discharge - Has the entity implemented a mechanism for Zero Liquid Discharge
Environment	Waste Management	Extended Producer Responsibility (EPR) - Extended Producer Responsibility (EPR) is applicable to the entity's activities (Yes / No). If yes, whether the waste collection plan is in line with the Extended Producer Responsibility (EPR) plan submitted to Pollution Control Boards?
Environment	Land Use and Biodiversity	Does the company have operations in or around ecologically sensitive areas (such as national parks, wildlife sanctuaries, biosphere reserves, wetlands, biodiversity hotspots, forests, coastal regulation zones etc.)?
Environment and Social	CSR	Amount spent in CSR as a percentage of regulatory requirement on a look-through basis i.e. where CSR activities are undertaken by trusts / foundations, whether the funds have been actually utilized by these entities
Social	Inclusive development	Job creation in smaller towns
Social	Inclusive development	Sourcing from MSMEs and aspirational districts - Input material sourced from following sources as % of total purchases
Social	Diversity	Disclosure of wages and salary by gender (%)
Social	Diversity	Job creation and availability of infrastructure conducive for differently abled

E/S/G Pillar	Factors	Data Point
Governance	Compliance	Does the company have a RegTech / Systems solution for monitoring and evidencing compliance
Governance	Governance	Percentage of "against" votes amongst non-promoter shareholders on appointment of independent directors
Governance	Related Party Transactions	Percentage of "against" votes amongst non-promoter shareholders on RPTs
Governance	Royalty	Royalty payments - Is the increase in royalty over the last five years higher than increase in PBT? If yes provide values for last 5 years and the reason for increased royalty.
Governance	Related Party Transactions	Share of RPTs (as respective %age) in - • Purchases • Sales • Loans & advances • Investments (except for PSUs)

Guidance	
1	ERPs should consider India specific standards/ laws/guidelines for rating of energy efficiency/green building initiatives (eg. GRIHA, IGBC or Energy Conservation Building Code (ECBC)etc.)
2	ERPs should consider India specific standards/laws/guidelines for rating of air emissions (eg. ZED certifications, emission regulations under AIR Act, Continuous Emissions Monitoring System requirements etc.)
3	ERPs should consider India specific standards/laws/guidelines for rating of GHG emissions (eg. Initiatives and targets under Perform, Achieve and Trade (PAT) scheme, National Action Plan on Climate Change, Environment Protection Act, Ozone Depleting Substances Rules, CPCB/SPCB Guidelines, India GHG Programme etc.)
4	ERPs should consider India specific standards/laws/guidelines for rating of waste management (eg. Solid Waste Management Rules, Plastic Waste Management Rules, Bio-medical Waste Management Rules, Electronic Waste Management Rules, Hazardous Waste Management Rules, Fly Ash Utilization Policy, EPR Guidelines etc.)

Guidance	
5	ERPs should consider India specific standards/laws/guidelines for rating of Chemical safety (eg. Ban on single use plastics, ban on 27 agri-chemicals etc.)
6	ERPs should consider India specific standards/ laws/guidelines for rating of Effluent/Wastewater (eg. Zero Liquid Discharge policy, Common Effluent Treatment Plants related provisions etc.)
7	ERPs should consider India specific standards/laws/guidelines for rating of Water (eg. Areas notified by the Central Ground Water Board (CGWB) as over exploited or critical area, implications of Water Act, Water Cess Act etc.)
8	All intensity ratios should be factored in after adjusting for PPP

Annexure 3 - Indicative Description of ESG Sub-Categories

1. **ESG Exclusions Scheme:** Exclude securities based on certain ESG related activities, business practices, or business segments. The strategy should specify
   i. the characteristic / type of exclusion (Adverse impact, Controversy, Faith)
   ii. threshold or condition for exclusion, and
   iii. reference, where applicable, to any law/ regulation/ third-party standard/ guideline/ framework used in the establishment or evaluation of the criterion.

2. **ESG Integration Scheme:** Explicitly consider ESG related factors that are material to the risk and return of the investment, alongside traditional financial factors, when making investment decisions.

3. **ESG Best-in-class & Positive Screening Scheme:** Aim to invest in companies and issuers that perform better than peers on one or more performance metrics related to ESG matters.

4. **ESG Impact Investing Scheme:** Seeks to generate a positive, measurable social or environmental impact alongside a financial return and how the Fund Manager intends to achieve the impact objective. Provide methodology used to assess the effect that investments have, or may have, on environmental or social or governance issues. Describe the process for identifying and avoiding, mitigating, or managing adverse effects that the scheme or underlying companies' activities have, or may have, on environmental or social issues. The fund should seek a non-financial (real world) impact and evaluate if that impact is being measured and monitored.

5. **ESG Sustainable Objectives Scheme:** Aim to invest in sectors, industries, or companies that are expected to benefit from long-term macro or structural ESG-related trends. Describe the focused objective including rationale for focusing on that objective.