

# DECODING THE BRSR: A GLOBAL LENS ON BUSINESS SUSTAINABILITY AND ESG COMPLIANCE

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## ABSTRACT

The Securities and Exchange Board of India (SEBI), vide an Amendment to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 introduced a transition from the preparation of the Business Responsibility Report (BRR) to the Business Responsibility and Sustainability Report (BRSR) in order to align corporate governance mechanism in India with the global trend of ESG compliance. BRSR requires the top 1,000 listed entities by market capitalisation to prepare a Sustainability Report based on the National Guidelines on Responsible Business Conduct (NGRBC).

The step is seen as a shot in the arm when it comes to reporting on the Sustainability Risks of businesses and furthering the principles of fairness, transparency and accountability with respect to the ESG Practices employed by the Companies. The same is seen to be a vital parameter to evaluate a Company's performance when it comes to investors and other stakeholders. The paper analyses the BRSR regime and its reliability, cites global references & best practices and conducts a comparative analysis followed by recommendations.

**Keywords: Business Responsibility, BRSR, Corporate Governance, Disclosure, ESG, SEBI, Sustainability Risks**

## INTRODUCTION

On 5<sup>th</sup> May 2021, the Securities and Exchange Board of India (hereinafter referred to as SEBI), notified an amendment to Regulation 34(2)(f) of the SEBI (Listing Obligations and Disclosure Requirements [LODR]) Regulations, 2015, thereby marking a transition to an ESG-oriented reporting and disclosure-compliance regime; by replacing the mandate requiring listed entities<sup>1</sup> to submit a Business Responsibility Report (BRR) with that of a Business Responsibility and Sustainability Report (BRSR) with effect from Financial Year (FY) 2022-23.<sup>2</sup>

The amendment came at a time when the role of corporations has been increasingly linked to the effects on climate change mitigation strategies, sustainable development and, more particularly, the COVID-19 pandemic.

<sup>1</sup> Top 1,000 listed entities based on market capitalisation.

<sup>2</sup> Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021, No. SEBI/LAD-NRO/GN/2021/22, clause 3(XXI).

Moreover, inspiration has been taken from the practices of several internationally accepted reporting frameworks in order to harmonise the domestic corporate governance mechanism with the global best practices.<sup>3</sup> The introduction of BRSR is largely influenced by the outcomes of the **Report of the Committee on Business Responsibility Reporting in 2020**.<sup>4</sup>

The BRSR is a report format which requires listed entities to report and disclose their performance and compliance under the nine principles of the National Guidelines on Responsible Business Conduct (NGRBC).<sup>5</sup> The NGRBC are the revised version of the National Voluntary Guidelines on the Social, Environmental and Economic Responsibilities of Business (NVGs), 2011 guided by the compliances under the Sustainable Development Goals, 2015 and the United Nations Guiding Principles on Business and Human Rights.<sup>6</sup>

## LITERATURE REVIEW

In order to effectively develop on the existing literature pertaining to the BRSR mechanism evolved by SEBI, the following literature has been referred to. Since the practice of BRSR is novel, considering that its mandatory implementation began in FY 2022-23, the objective data involving Company Reports and reporting effectiveness is limited.

The relevance of this exercise has been recognised in the discussion by **(Debnath and Kanoo, 2022)**<sup>7</sup> wherein it has been concluded that a Company's performance needs to be judged on its ESG compliance and not on the financial results alone. **(Banerjee, 2022)**<sup>8</sup> has concluded, based on the analysis of the advantages and drawbacks of the BRSR, that it would be effective in achieving sustainability accounting and be largely accepted in India.

Contributing to the existing literature and legal governance system are some of the practices followed by various countries and economic organisations pressing large companies to disclose their ESG-related **risks, practices (internal and external) and impacts**. The **Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 (SI 2022/31)** in the UK, aims to mandate public interest companies and private companies<sup>9</sup> to disclose their, inter alia, climate-related risks by FY 2024-25.<sup>10</sup> The **European Union** amended

<sup>3</sup> Securities and Exchange Board of India, Press Release No. 15/2021, SEBI Board Meeting (March 25, 2021), [https://www.sebi.gov.in/media/press-releases/mar-2021/sebi-board-meeting\\_49648.html](https://www.sebi.gov.in/media/press-releases/mar-2021/sebi-board-meeting_49648.html).

<sup>4</sup> Ministry of Corporate Affairs, Report of the Committee on Business Responsibility Reporting, 2020, [https://www.mca.gov.in/Ministry/pdf/BRR\\_11082020.pdf](https://www.mca.gov.in/Ministry/pdf/BRR_11082020.pdf), (last visited: May 02, 2024).

<sup>5</sup> Securities and Exchange Board of India, Circular No. SEBI/HO/CFD/CMD-2/P/CIR/2021/562, Business Responsibility and Sustainability Reporting by Listed Entities (May 10, 2021), [https://www.sebi.gov.in/legal/circulars/may-2021/business-responsibility-and-sustainability-reporting-by-listed-entities\\_50096.html](https://www.sebi.gov.in/legal/circulars/may-2021/business-responsibility-and-sustainability-reporting-by-listed-entities_50096.html).

<sup>6</sup> Ministry of Corporate Affairs, National Guidelines on Responsible Business Conduct, [https://www.mca.gov.in/Ministry/pdf/NationalGuideline\\_15032019.pdf](https://www.mca.gov.in/Ministry/pdf/NationalGuideline_15032019.pdf)

<sup>7</sup> P. Debnath & R. Kanoo, Business Responsibility and Sustainability Reporting: A Way Forward for Indian Corporate Disclosure, *Journal of Commerce and Trade* 17, no. 2 (2022): 23–31, <https://doi.org/10.26703>.

<sup>8</sup> Debisree Banerjee, Dynamics in Accounting: An Exploration of Sustainability with Special Reference to Business Responsibility and Sustainability Report (BRSR) in India, *Journal of Academic Advancement* 1, no. 1, 13, 13-16 (2022), DOI: 10.58574/jaa.2022.v1.i1.03.

<sup>9</sup> Having more than 500 employees.

<sup>10</sup> **Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 (SI 2022/31)**

the Accounting Directive, 2013<sup>11</sup> to bring in **transparency** in social and environmental information provided by Companies by introducing the Non-financial Reporting Directive.<sup>12</sup> The Singapore Exchange in 2016 introduced the mandate of sustainability reporting.<sup>13</sup> A new section, ‘Part D’, was added to Appendix C2 of the **Hong Kong Listing Rules** in 2024, constituting disclosure rules regarding ESG Compliance.<sup>14</sup>

As recently as **6th March 2024**, the Securities and Exchange Commission in the **USA** adopted The Final Rules pertaining to the “*Enhancement and Standardization of Climate-Related Disclosures for Investors*”.<sup>15</sup> This means that the concept of **Sustainability Disclosures** is contemporary and vibrantly & rapidly developing at a global level.

As far as analyses based on the practical compliance of businesses are concerned, a study by (N & S, 2019)<sup>16</sup> concluded that all Companies studied in the process performed ‘good’ as far as Reporting under BRR was concerned. Whereas (Agnihotri & Kumar, 2019)<sup>17</sup> found a disparity concerning the lack of qualitative information in the BRR of Adani Trans.

## RESEARCH QUESTIONS

- Whether the BRSR qualifies to be a comprehensive and reliable source of Non-Financial & Sustainability Accounting and Risk Assessment for the stakeholders.
- Whether the BRSR conforms to the Internationally Accepted Reporting Standards.

In answering the above questions, the paper also attempts:

- To discuss the relevance of BRSR in corporate governance and analyse its effectiveness in Risk Assessment and Disclosure.
- To evaluate the interoperability of BRSR with other Sustainability Disclosure Report Formats.
- To conduct a comparative analysis of the BRSR with other internationally established, contemporary reporting mechanisms with respect to Sustainability Disclosures.

## ANALYSIS

<sup>11</sup> Directive on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, (Directive 2013/34/EU)

<sup>12</sup> Non-financial Reporting Directive (Directive 2014/95/EU, NFRD)

<sup>13</sup> Singapore Exchange. (2016). SGX-ST Listing Rules Practice Note 7.6 Sustainability Reporting Guide, [http://rulebook.sgx.com/net\\_file\\_store/new\\_rulebooks/s/g/SGX\\_Mainboard\\_Practice\\_Note\\_7.6\\_July\\_20\\_2016.pdf](http://rulebook.sgx.com/net_file_store/new_rulebooks/s/g/SGX_Mainboard_Practice_Note_7.6_July_20_2016.pdf)

<sup>14</sup> HKSE New Climate Disclosure Requirements – Changes to the HK Listing Rules

<sup>15</sup> Securities and Exchange Commission, The Enhancement and Standardization of Climate-Related Disclosures for Investors, Release Nos. 33-11275; 34-99678, <https://www.sec.gov/files/rules/final/2024/33-11275.pdf>.

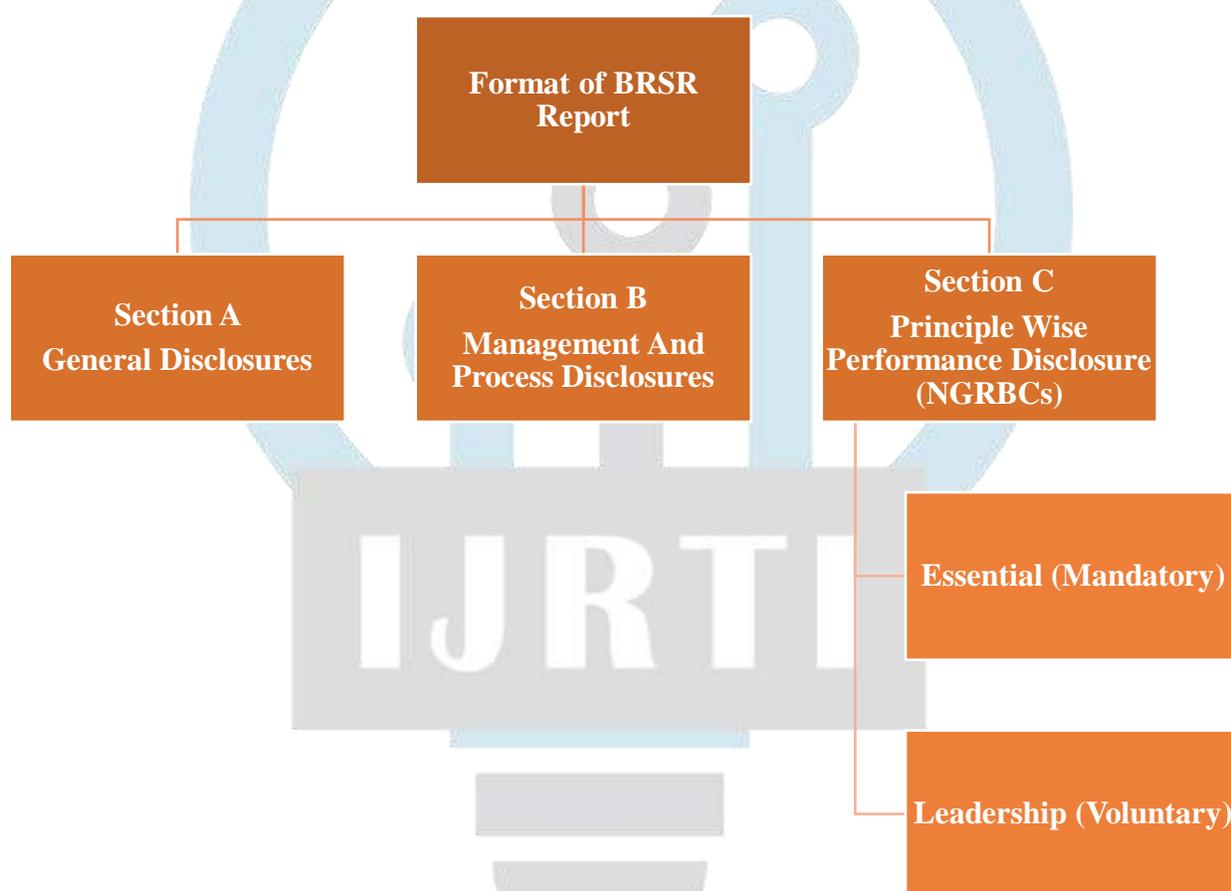
<sup>16</sup> N. A. & S. D. M., Sustainability Reporting Practices in India: An Analysis of Compliance Level of BRR Requirements among Indian Companies, International Journal of Education, Modern Management, Applied Science & Social Science 01, no. 01 (2019): 53–58.

<sup>17</sup> S. Agnihotri & P. Kumar, Business Responsibility Reporting as a Tool of Non-financial Reporting: A Comparative Study of Select Indian Power Sector Companies, Journal of Research in Business and Management 7, no. 4 (2019): 65–73.

Sustainable Accounting constitutes an important factor in investor choice & decision-making and assessing a Company's performance and risks associated with sustainability. As mentioned in the UNCTAD Report titled *"The Rise of the Sustainable Fund Market and its Role in Financing Sustainable Development,"* the period between 2016 and 2020, saw doubling of the number of Sustainable Investment Funds<sup>18</sup> holding Assets Under Management of more than \$1.7 Million.<sup>19</sup>

Given these global developments as a pretext, the **Committee** constituted by the Ministry of Corporate Affairs on '**Business Responsibility Reporting**', taking into consideration the fact that investors had been increasingly focusing on sustainability investing, recommended that the BRR be converted into BRSR.

The BRSR contains the following Sections:



Out of the three, the most detailed is Section C which is based on the 9 NGRBC Principles. The BRSR is not industry-specific and provides a standardised form as far as the concerned disclosures are considered.

<sup>18</sup> It refers to those Investment Funds that incorporate ESG parameters into their decision-making procedure. Focus is laid on sustainable and responsible investing strategies whereby preference is given to Companies adopting sustainable practices.

<sup>19</sup> UNCTAD, *The Rise of the Sustainable Fund Market and its Role in Financing Sustainable Development*, UNCTAD/DIAE/2021/1, (2021).

## Scope and Applicability

A distinctive provision of BRSR is its applicability to only the top **1,000 listed entities** by market capitalisation. Every term in the provision is supposed to convey a meaning that is vital to the BRSR's scope and effect on the corporate sector. Listed 'entities' are different from listed 'companies'. According to the Companies Act, 2013, Limited Liability Partnership Act, 2008 and other laws, it is understood that the term entity is wider than company and includes several other business formats, not necessarily amounting to a company. Similarly, the term 'listed' is also vital. There is a greater responsibility for those companies which issue shares to the public because of the higher degree of responsibility and accountability due to the involvement of public funds. Moreover, looking from a shareholder/investor perspective, it is only natural and practical that BRSR covers 'listed entities' since the investors have a first-hand interest as far as making investment decisions is concerned. However, the condition of market capitalisation is not the case for all countries. Some countries such as the UK and the USA, have mandated Companies to fulfil the compliance of reporting ESG-Disclosures based on the number of employees or by virtue of being a public interest company such as a banking or insurance company.

There might be difficulty in ascertaining which entity shall prepare the BRSR because the Market Capitalisation might fluctuate every year. Moreover, the calculation of the Market Capitalisation based on the rank of a Company seems to be skewed because it does not actually represent the effect of the operations of the Company. Furthermore, it can lead to unfairness and distortion because the difference between the 1000<sup>th</sup> Entity and the 1001<sup>st</sup> Entity might be negligible, as depicted in the figure below.

Figure: List of Top 2000 Companies as per Market Capitalisation as of 31.03.2024 given by BSE.<sup>20</sup>

Sr. No.	Scrip Code	Company Name	MKTCAP as on 31st March,24 (In crores)
990	532022	FILATEX FASHIONS LTD.	1880.17
991	540602	GTPL Hathway Limited	1877.01
992	539799	Bharat Wire Ropes Limited	1875.92
993	512267	MEDIA MATRIX WORLDWIDE LTD.	1874.69
994	530555	PARAMOUNT COMMUNICATIONS LTD.	1872.83
995	539594	Mishtann Foods Limited	1868.43
996	543974	VISHNU PRAKASH R PUNGLIA LIMIT	1868.41
997	517041	ADOR WELDING LTD.	1863.93
998	544142	Shipping Corporation of India	1860.4
999	500150	FOSECO INDIA LTD.	1858.27
1000	502450	SESHASAYEE PAPER & BOARDS LTD.	1857.36
1001	533263	ORIENT GREEN POWER COMPANY LTD	1843.76
1002	541034	JINDAL DRILLING & INDUSTRIES I	1843.34
1003	543971	Bondada Engineering Limited	1840.82
1004	541167	YASHO INDUSTRIES LIMITED	1839.2
1005	526729	GOLDIAM INTERNATIONAL LTD.	1822.46
1006	500333	PIX TRANSMISSIONS LTD.	1822.1
1007	532698	NITIN SPINNERS LTD.	1820.97
1008	543389	Sigachi Industries Limited	1805.65

<sup>20</sup> Top 2000 Companies as on 31 March 2024 based on market capitalisation, BSE, [https://www.bseindia.com/downloads1/Top2000Companies\\_as\\_on\\_31March2024\\_based\\_on\\_market\\_capitalisation.zip](https://www.bseindia.com/downloads1/Top2000Companies_as_on_31March2024_based_on_market_capitalisation.zip), (last visited: May 02, 2024).

## Connecting to Internationally Accepted Norms

Several internationally accepted standard disclosure formats have emerged over the years. The Task Force on Climate-Related Financial Disclosures (TCFD) recommendations provide for specifically climate-related disclosures. The Sustainability Accounting Standards Board (SASB) Standards<sup>21</sup> and Global Reporting Initiative (GRI) Standards<sup>22</sup> cover broader aspects related to sustainability as a whole. These govern on how exactly shall companies disclose their information.

Another provision that ensures BRSR's success and relevance is the enablement of cross-referencing of disclosures. The possibility of duplication and that of several entities already preparing sustainability reports by following internationally accepted reporting frameworks, such as GRI, SASB, TCFD, etc., has been duly recognised.<sup>23</sup> The BRSR thus, allows entities to cross-reference its disclosures made elsewhere. This is a constructive provision that effectively counters red-tapism and facilitates ease of reporting disclosures.

## CONCLUSION & RECOMMENDATIONS

Based on the above analysis, it is concluded that the need for Sustainability Reporting/ESG-Disclosures is felt, and the mandate of the BRSR by SEBI is a step in the right direction. Not only the shareholders, but multiple stakeholders are also expected to have access to these standardised disclosures of companies pertaining to their ESG performance and **Sustainability-related Risks**, thereby aiding them in making informed decisions.

Furthermore, the 9-point principle-based Report Format indeed gives comprehensive information on Sustainability Reporting and Risk Disclosure. The provision of interoperability is also useful in bringing the Indian standards in tandem with the global standards.

On the other hand, it is suggested that the condition of applicability of BRSR Norms shall not depend on the **rank threshold** based on market capitalisation. Instead, a specific threshold based on the amount of market capitalisation shall be determined which can be revised periodically.

Lastly, there might be problems associated with inadequate and misleading reporting as seen in several cases concerning financial records and books of accounts. Newer problems, such as greenwashing, may emerge. The regulators and the entities together, will have to contemplate and craft solutions to avoid these so that the exercise of BRSR remains meaningful.

<sup>21</sup> SASB, <https://sasb.ifrs.org/standards/download/>, (last visited: May 02, 2024)

<sup>22</sup> GRI, <https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/>, (last accessed: May 02, 2024)

<sup>23</sup> SEBI (2021), *Annex II - Guidance Note for Business Responsibility & Sustainability Reporting Format*, [https://www.sebi.gov.in/sebi\\_data/commndocs/may-2021/Business%20responsibility%20and%20sustainability%20reporting%20by%20listed%20entitiesAnnexure2\\_p.PDF](https://www.sebi.gov.in/sebi_data/commndocs/may-2021/Business%20responsibility%20and%20sustainability%20reporting%20by%20listed%20entitiesAnnexure2_p.PDF).

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## ANNEXURE I

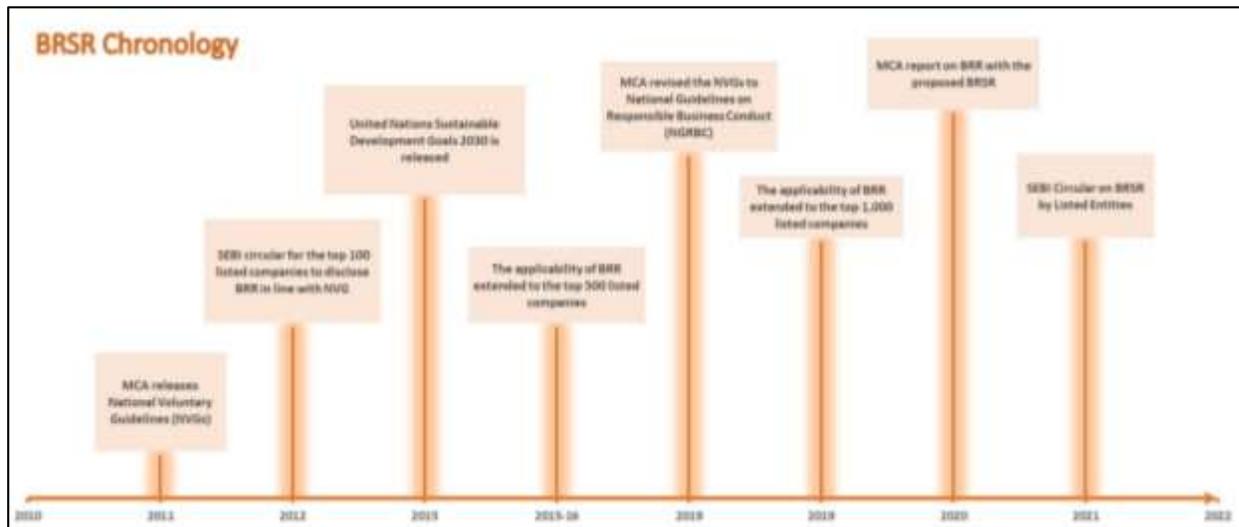


Figure: BRSR Chronology of events. Taken from: Bhawana Menghnani and Shekhar Prabhu, Business Responsibility and Sustainability Reporting (BRSR) – An Exploratory Study, Proceedings of the International Conference on Industrial Engineering and Operations Management Istanbul, Turkey, March 7-10, (2022), <https://ieomsociety.org/proceedings/2022istanbul/1039.pdf>

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## ANNEXURE II

Sr. No.	Jurisdiction	Old Report	New ESG-Focused Report	Target Companies	Laws, Legal Regulations, Amendments introducing ESG-Risk Disclosure	Link
1	INDIA	BRR	BRSR	Top 1,000 Listed Entities as per Market Capitalisation	Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021	<a href="https://www.sebi.gov.in/legal/regulations/may-2021/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-second-amendment-regulations-2021_50100.html">https://www.sebi.gov.in/legal/regulations/may-2021/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-second-amendment-regulations-2021_50100.html</a>
2	UK	Non-financial information statement'	Non-financial and sustainability information statement	public interest companies and private companies having more than 500 employees	The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022	<a href="https://www.legislation.gov.uk/uksi/2022/31/made">https://www.legislation.gov.uk/uksi/2022/31/made</a>

3		NA	NA	Traded LLP or Banking LLP that (a) has more than 500 employees; or (b) is a parent LLP and the aggregate number of employees for a group headed by the LLP is more than 500.	The Limited Liability Partnerships (Climate-related Financial Disclosure) Regulations 2022	<a href="https://www.bdo.co.uk/getmedia/2ed36a96-10b1-4039-8ff1-dabfbd81452d/limited-liability-partnership-2022.pdf?_gl=1*1tlrpxc*_ga*NDQxNDE4OTAyLjE3MTQ2NDQ3ODA.*_up*MQ..">https://www.bdo.co.uk/getmedia/2ed36a96-10b1-4039-8ff1-dabfbd81452d/limited-liability-partnership-2022.pdf?_gl=1*1tlrpxc*_ga*NDQxNDE4OTAyLjE3MTQ2NDQ3ODA.*_up*MQ..</a>
4	EU	NA	NA	Large listed companies, banks and insurance companies ('public interest entities') with more than 500 employees are required to publish reports	Non-financial Reporting Directive (Directive 2014/95/EU, NFRD)	<a href="https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/654213/EPRS_BRI(2021)654213_EN.pdf">https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/654213/EPRS_BRI(2021)654213_EN.pdf</a>
5	USA	NA	NA	NA	Final Rules pertaining to the "Enhancement and Standardization of Climate-Related	<a href="https://www.sec.gov/files/rules/final/2024/33-11275.pdf">https://www.sec.gov/files/rules/final/2024/33-11275.pdf</a>

					<i>Disclosures for Investors</i>	
6	HONG KONG	NA	ESG Report	NA	The Hong Kong Listing Rules in 2024	<a href="https://en-rules.hkex.com.hk/sites/default/files/net_file_store/HKE_X4476_3841_VER31171.pdf">https://en-rules.hkex.com.hk/sites/default/files/net_file_store/HKE_X4476_3841_VER31171.pdf</a>
7	SINGAPORE	NA	NA	Listed Companies	SGX-ST Listing Rules, 2016	SGX Core ESG Metrics/

