

# The BRSR Framework – A step towards Sustainable Value Creation



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In recent years, the environment, social, and governance (“ESG”) space has witnessed increasing regulatory measures mandating ESG disclosures across the world. To this effect, India has been no exception. In 2012, the Securities and Exchange Board of India (“SEBI”) mandated the top 100 listed companies by market capitalisation to include a Business Responsibility Report (“BRR”) in their annual report. In 2015, it extended the mandate to the top 500 listed companies by market capitalisation and further extended the mandate to the top 1,000 listed companies by market capitalisation in 2019. Thereafter, in 2021, SEBI enhanced the reporting guidelines in line with the existing and emerging global frameworks in ESG and climate disclosures<sup>1</sup> and laid out a new reporting format called the Business Responsibility and Sustainability Report (“BRSR”).

Disclosure as per BRSR will be mandatory for the top 1,000 listed companies by market capitalisation from financial year 2022-23, while any other company or entity may voluntarily do so. The BRSR provides for qualitative and quantitative disclosures, in line with the nine principles provided under the National Guidelines on Responsible Business Conduct (“NGRBCs”). Each principle has a set of mandatory or essential indicators and another set of voluntary or leadership indicators. The BRSR disclosure mandate accommodates both mature and nascent reporters by allowing a comprehensive format for experienced reporting companies under the 2015 SEBI Listing Obligations and Disclosure Requirements and a lighter version with minimal disclosure requirements for those who are beginners in ESG reporting. For companies that are disclosing ESG performance through other reporting frameworks or formats, the BRSR permits cross-referencing appropriate sections of such disclosures in the BRSR instead of repeating the disclosure.

While the BRSR is a commendable initiative towards implementing a consistent sustainability reporting framework and incentivising the incorporation of sustainable operations, the reporting entities may face a few hurdles while preparing the BRSR report. Some disclosure requirements under the BRSR framework may be considered granular, with subjective relevance to an investor or concerned stakeholder’s decision-making process. For instance, the requirement to disclose details of corrective actions taken by value chain partners,<sup>2</sup> complain or grievance in ‘any’ aspect of the NGRBCs,<sup>3</sup> detailed information regarding ‘other than permanent employees’,<sup>4</sup> dissected consumer complaints data,<sup>5</sup> etc., may result in a complicated compliance exercise to be adhered to by the reporting company. To address these concerns, companies will be required to strengthen their pre-existing operational, disclosure and reporting systems. Summarily, a few initiatives that companies can adopt include – establishing a comprehensive system of internal reporting to take stock of internal policies and supply chains, revisiting the general corporate approach to address liability concerns of various parties involved, further building on reporting requirements from the BRR, undertaking periodical checks by the management, incorporating contractual liability limitations, and obtaining third-party certifications confirming compliance requirements under the BRSR as indicated above.

The BRSR framework aims to create an ESG-conscious business network. Aligning with this objective, it has made ESG compliances as one of the key matrices to evaluate value chain partners, including upstream and downstream activities of a company, covering entities having direct and indirect business relationships with the company, and therein involving a wide array of parties. However, many large-scale listed companies with several value chain partners may find obtaining such ESG compliance related information from their value chain partners challenging. Further, even if such information is readily available or is willingly provided by all value chain partners, the reporting company will be unable to verify the accuracy of such information, thereby giving rise to uncertainty regarding the extent of liability tied to the company based on information provided by third parties. Such reporting entities could endeavour to ring-

fence their liability by either obtaining third party certification for material disclosures and/or entering into back-to-back arrangements with such value chain partners to pass-on such liabilities.

Complete and accurate disclosures are the cornerstone of any mandatory reporting framework. However, balancing the confidentiality of certain information and compliance with the reporting requirements may pose a practical challenge for some reporting companies. For instance, disclosure of details of markets served by the company could expose the strategy of the company and thereby increase reluctance in making disclosures. To address this and to encourage more companies to undertake meaningful ESG reporting under the BRSR framework, the BRSR framework could adopt a mechanism similar to the GRI standards wherein in the event that the disclosing company is unable to disclose information that is either confidential, legally prohibited or proprietary in nature, a declaration to that effect would suffice.<sup>6</sup>

Sustainability is here to stay, and therefore every measure taken to achieve this goal, whether regulatory or voluntary, must strive to realise the same to its fullest potential. The BRSR framework aims to be investor-centric and strives towards providing stakeholders with an extensive view of the company's financial and non-financial performance. While a few key areas still require the regulators' attention, companies can significantly drive change in their respective disclosure ecosystems to materialise the objectives with which the SEBI has promulgated this nuanced framework. This SEBI initiative serves as a milestone in regulatory effort towards achieving a system advocating long term sustainable value creation.

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<sup>1</sup> GRI: Global Reporting Initiative; SASB: Sustainability Accounting Standards Board; TCFD: Taskforce on Climate-related Financial Disclosures.

<sup>2</sup> Securities Exchange Board of India, Business Responsibility and Sustainability Reporting Format, Annexure I, Principle 3, Essential Indicators.

<sup>3</sup> Securities Exchange Board of India, Business Responsibility and Sustainability Reporting Format, Annexure I, Section A, General Disclosures.

<sup>4</sup> Securities Exchange Board of India, Business Responsibility and Sustainability Reporting Format, Annexure I, Principle 3, Essential Indicators.

<sup>5</sup> Securities Exchange Board of India, Business Responsibility and Sustainability Reporting Format, Annexure I, Principle 9, Essential Indicators.

<sup>6</sup> Global Reporting Initiative, GRI 1: Foundation 2021, Requirement 6, ISBN 978-90-8866-133-4, available at <https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/>.