

**THOUGHTS ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG),
CORPORATE SOCIAL RESPONSIBILITY, SUSTAINABILITY AND ENVIRONMENT**

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NON-FINANCIAL INFORMATION

Non-financial information (NFI) is data that companies report on that is not related only to their finances. It can include information about a company's culture, governance practices, impact on the environment, workplace environment etc.

The non-financial information of the company has gained considerable importance as when used with financial data, it could give a comprehensive analysis of a business. Non-financial data like ESG compliances, corporate social responsibility information, corporate governance practices of companies, increases transparency and accountability thus, providing broader insights into the company, better flow of funds and overall more stable financial markets.

The European Union (EU) highlighted the importance of greater transparency by companies regarding both their financial and non-financial performance. The European Parliament and the Council of the European Union issued the EU-directive 2014/95/EU, which requires EU member states to mandate non-financial disclosures for large public interest entities (PIEs). The directive refers to non-financial information and proposes some examples of it but does not define what non-financial information is.

Few examples of non-financial information:

- a. Environmental concerns (Emissions, energy consumption etc.)
- b. Corporate governance information (Director independence, audit processes, executive remuneration etc.)
- c. Corporate Social Responsibility (CSR) Information
- d. Corporate innovation, intellectual capital information
- e. Customer satisfaction & customer loyalty

- f. Performance linked to nonfinancial value indicators e.g. market share, quality rankings, customer satisfaction survey data etc.
- g. Worker satisfaction & productivity, employee concerns, workplace environment
- h. Human rights policies, diversity policies, human resource development
- i. Philanthropy
- j. Operational efficiency

There is a growing recognition of a greater need for engagement between shareholders and the companies they are invested in. Investor perception about a company would mean how the investor envisions or sees the company. All outside investors in an organization, whether shareholders or creditors, have the right to receive certain corporate information, both financial and non-financial. Undeniably, many other rights can only be exercised when they have such information.

RESPONSIBLE BUSINESS IN INDIA

A transparent, ethical and responsible corporate governance framework, corporate social responsibility ethos, environment conscious policies and commitment to sustainability essentially emanates from the intrinsic will and passion for good governance and principles ingrained in the business entity.

Corporate Social Responsibility (CSR) is not a new concept in India. Many large corporate houses have been involved in serving the community. CSR policies, practices and programs are being comprehensively integrated by an increasing number of companies throughout their business operations and processes. Companies have specialized CSR teams that formulate policies, strategies and goals for their CSR programs and set aside budgets to fund them. CSR programs range from community development to development in education, environment and healthcare etc. and corporates increasingly join hands with non-governmental organizations (NGOs) and use their expertise in devising programs which address wider social problems.

India has comprehensive guidelines and regulatory provisions governing corporate governance. Some aspects of corporate governance have been enshrined in the law that is administered by the Ministry of Corporate Affairs, Securities and Exchange Board of India (SEBI) and other sectoral

regulators. The Companies Act, 2013 covers corporate governance widely through its various provisions such as appointment of independent directors on the Board of directors, CSR provisions, inclusion of directors' responsibility statement in the directors' report, constitution of audit committee, fixing maximum ceiling on remuneration that can be drawn by a director and those relating to oppression, mismanagement, etc. Further, environmental and other pieces of legislation also protect different stakeholders' interest, ensuring, in the process, good corporate governance.

The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR Regulations 2015) deals with ESG disclosures, corporate governance and corporate social responsibility norms that a listed entity should follow.

The regulatory framework related to environmental, social and governance (ESG) is not found in any one piece of legislation but various requirements are covered under several legislations, including the Companies Act 2013, Environment legislations in India, SEBI LODR Regulations 2015 and certain labour law legislations.

ENVIRONMENTAL SOCIAL AND GOVERNANCE (ESG)

The terms environmental, social and governance and corporate social responsibility are being used more widely to describe how businesses can show their commitment to sustainability. More and more organizations are integrating their ESG performance criteria into the strategies and policies of their organizations.

ESG is a quantifiable assessment of business practices using environmental, social and governance measures to assess the sustainability of a company. On the other hand, sustainability is a broader concept that aims to balance economic, social, and environmental aspects for the long term.

The term Environmental, Social, and Governance (ESG) was coined in 2004 by the United Nations Global Compact (a voluntary United Nations initiative for businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation) in a joint report with financial institutions titled Who Cares Wins.

ESG strategy focuses on reaching certain performance metrics and disclosures related to them. Organizations adhere to reporting on these performance criteria i.e. ESG reporting. These reports (mostly voluntary and sometimes to meet regulatory compliance requirements) then prove useful for investors and other stakeholders.

Constituents of ESG:

The goal of ESG is to capture all the non-financial risks and opportunities inherent to a company's business with respect to (but not limited to) the environmental, social and governance issues. The criteria comprising the ESG factors in an organization may include data and corporate policies with respect to the following:

- Environmental factors – May include climate change issues, greenhouse gas emissions, pollution mitigation, energy use, waste management, biodiversity loss etc.
- Social Factors – May include organization's relationship with various stakeholders. May also include data on diversity, equity, inclusion initiatives, human rights, customer protection, employee safety, health and working conditions, etc.
- Governance Factors – May include data and policies on ethics business practices, financial reporting standards, board diversity, executive compensation, management structure etc.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Corporate Social Responsibility (CSR) is associated with the conduct of corporations and in particular whether corporations owe a duty to stakeholders other than shareholders. While the phrase 'Corporate Social Responsibility' may be gaining momentum, the concept itself is not new. The question as to whether corporations owe duties to broader stakeholders has been debated at various times throughout the twentieth century.

There is no single globally accepted definition of CSR, however, the underlying essence of CSR is that it is an initiative by organizations to go beyond the legal requirements and ensure

fulfillment of the true spirit of law whereby the enterprise complies with the ethical standards and business norms and manages their business processes to make a positive impact on society and stakeholders. CSR rests on business conscience and ethics and can be explained as the corporate initiative to assess and take responsibility for the company's effects on the environment and impact on social welfare.

Most attempts to regulate CSR have resulted from public international bodies and non-government organizations (NGOs). There are several reporting standards followed internationally for measuring the social impact of corporate actions in the normal course of business so far as those are linked with its social responsibility. The International Organization for Standardization's voluntary standard ISO 26000 helps companies define social responsibility and provides practical guidance for achieving it.

Vide the Companies Act, 2013 the Ministry of Corporate Affairs, Government of India has introduced CSR as a mandatory provision by imposing statutory obligation on Companies to take up CSR projects towards social welfare activities. Section 134(3)(o), Section 135 and Schedule VII of the Companies Act 2013 as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 provide the regulatory framework with respect to CSR.

SUSTAINABILITY

Sustainability, in general terms, is the ability to maintain balance of a certain process or state in any system. It is now most frequently used in connection with biological and human systems. Corporate sustainability encompasses the business practices that keep a business going and perpetuate its success. It lets companies meet present needs without compromising the ability of the business to meet its needs in the future.

Sustainable development is a pattern of resource use that aims to meet human needs while preserving the environment so that these needs can be met not only in the present, but also for future generations. The term 'sustainable development' was popularized by the Brundtland Commission which coined what has become the most often-quoted definition of sustainable development as development that "meets the needs of the present without compromising the

ability of future generations to meet their own needs”. The Brundtland Commission, formally the World Commission on Environment and Development (WCED), known by the name of its Chair Gro Harlem Brundtland, was created by the United Nations in 1983 and published its report, ‘Our Common Future’, in 1987.

The many definitions and frameworks of sustainable development that now exist share a number of basic principles including:

- Concern for the well-being of future generations;
- Awareness of the multi-dimensional impacts of any decision viz. economic, environmental, social; and
- The need for balance among the different dimensions across sectors, themes and scale

The elusive goal of sustainable development, or sustainability as it is also called, is to make decisions and carry out programs and projects in a manner that maximizes benefits to the natural environment and humans and their cultures and communities, while maintaining or enhancing financial viability.

Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. A Sustainability Report discloses information on the company’s activities across the economic, social and environmental dimensions.

ESG and CSR are both ways that businesses use to demonstrate their commitment to sustainable business practices and achieving sustainability goals.

ADMINISTRATIVE FRAMEWORK

In India, there are various regulators regulating various aspects of responsible business, corporate governance, corporate social responsibility, ESG issues environmental viz. Ministry of Corporate Affairs (MCA), Securities and Exchange Board of India (SEBI) and Reserve Bank of India (RBI) etc. issue norms and guidelines from time to time. In addition, the Ministry of Environment, Forest and Climate Change and Ministry of Labour & Employment responsible for enforcement of environmental laws and labour laws respectively, play a meaningful role in ESG compliance in

their respective spheres. Also, the Ministry of New & Renewable Energy plays an important role in establishing goals and benchmarks for the renewable energy business in India.

1. The Ministry of Corporate Affairs: The MCA is the Indian government ministry which is primarily concerned with administration of the Companies Act 2013, the Limited Liability Partnership Act, 2008 & other allied Acts and rules & regulations framed there-under mainly for regulating the functioning of the corporate sector in accordance with law.

The main function of MCA is to administer the notified provisions of the Companies Act, 2013 and formulation of rules and regulations under the Act. Several committees are appointed by the Ministry of Corporate Affairs (MCA) to evolve corporate governance guidelines and the Ministry plays an important role in corporate governance. It is also responsible for administering the Chartered Accountants Act, 1949, the Cost and Works Accountants Act, 1959; and the Company Secretaries Act, 1980 and Complaints involving vigilance angle in respect of the MCA officials/officers received from various services.

2. The Securities and Exchange Board of India (SEBI): The Securities and Exchange Board of India was established on April 12, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992. SEBI was established to protect the interest of its investors. SEBI as the capital markets regulator, has an important role in ensuring business responsibility and sustainability reporting by certain categories of listed entities. It acts as a regulator and watchdog in enforcing corporate governance practices and environmental, social and governance metrics on corporate entities listed on stock exchange.

SEBI had issued SEBI (Listing Obligation and Disclosure Requirement), Regulations, 2015 on 2nd September 2015 which became applicable from 1st December 2015 for listed entities who has listed designated securities on recognized stock exchanges. These Regulations prescribe different Disclosure Requirements for different types of listed securities.

3. Reserve Bank of India (RBI): The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. It plays a leading role in

formulating and implementing framework aimed at integrating climate-related financial risks into India's regulatory regimes. The Reserve Bank of India in its Discussion Paper on Climate Risk and Sustainable Finance published in July 2022, identified the need for a framework to identify, assess, and manage climate-related risks. It released a 'Framework for acceptance of Green Deposits' in April 2023 which allows certain RBI regulated entities (REs) to accept green deposits. In February 2024, the Reserve Bank of India (RBI) issued draft guidelines on 'Disclosure framework on climate-related financial risks, 2024' for regulated entities (REs).

REGULATORY FRAMEWORK

The growing importance of ESG has resulted in organizations mandatorily or voluntarily reporting their ESG impact by using different types of ESG frameworks. ESG framework contain the metrics and qualitative elements that a company should disclose, as well as the format and reporting frequency.

The National Guidelines on Responsible Business Conduct

The Ministry of Corporate Affairs had issued The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011. These guidelines were a refinement over the Voluntary Guidelines on Corporate Social Responsibility 2009, released by the Ministry of Corporate Affairs in December 2009. Keeping in view the feedback from stakeholders, it was decided to revise the same with a more comprehensive set of guidelines that encompasses social, environmental and economical responsibilities of business.

In 2019, the Ministry of Corporate Affairs revised the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011 (NVGs) and formulated the National Guidelines on Responsible Business Conduct (NGRBC). These guidelines urge businesses to actualize 9 principles in letter and spirit.

The Government is also in the process of developing India's National Action Plan on Business & Human Rights (NAP) in consultation with various Ministries and State Governments. The Indian Institute of Corporate Affairs (ICA) through its Centre for Business and Human Rights supports

in Action Research leading to the preparation of the National Action Plan (NAP).

Corporate Social Responsibility under the Companies Act, 2013

The Ministry of Corporate Affairs has notified Section 135 and Schedule VII of the Companies Act 2013 as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 which come into effect from April 1, 2014, provide the broad framework within which the eligible companies are required to formulate their CSR policies including activities to be undertaken and implementation of the same.

Some important provisions with respect to corporate social responsibility of companies are:

- CSR Requirements under the Act are applicable to all types of companies including private companies
- Applicable to Every company having during any financial year - Net worth of Rs. 500 Crore or more; or Turnover of Rs. 1000 Crore or more or Net profit of Rs. 5 Crore or more.
- 2% of average net profits of the previous 3 years to be spent on CSR activities with disclosure to shareholders about the policy adopted in the process, giving reasons on failure of implementation
- Constitute a CSR Committee of the Board consisting of 3 or more directors, out of which at least 1 director shall be an independent director. Where a company is not required to appoint an independent director, it shall have in its CSR Committee 2 or more Directors.
- CSR Committee shall (a) formulate and recommend to the Board, a CSR Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII; (b) recommend the amount of expenditure to be incurred on the CSR activities; (c) monitor the CSR Policy of the company from time to time
- The Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the details about the CSR policy developed and implemented by the company in corporate social responsibility initiatives taken during the year
- If a company is in default in complying with the provisions of section 135(5) or (6), the company shall be liable to a penalty of twice the amount required to be transferred by the

company to the Fund specified in Schedule VII; or the Unspent Corporate Social Responsibility Account; or one crore rupees, whichever is less.

SCHEDULE VII - Activities which may be included by companies in their Corporate Social Responsibility Policies

- Activities relating to:
 - (i) Eradicating Hunger, Poverty and Malnutrition
 - (ii) Promoting Education
 - (iii) Promoting Gender Equality
 - (iv) Environmental Sustainability
 - (v) Protection of National Heritage
 - (vi) Measures for the benefit of Armed Forces Veterans
 - (vii) Rural Sports
 - (viii) Prime Minister's National Relief Fund
 - (ix) Research and Development Projects
 - (x) Rural Development Projects
 - (xi) Slum Area Development.
 - (xii) Disaster Management

Legislations having a bearing on Corporate Governance (CG)

Good governance of companies registered in India is ensured through the Companies Act 2013. Additionally, companies listed on the stock exchanges are also required to adhere to the corporate governance provisions specified by the Securities and Exchange Board of India (SEBI) through its Regulations, the most prominent one being the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) (LODR) Regulations, 2015. Moreover, certain sectoral regulators have also laid down specific norms, guidelines and codes pertaining to corporate governance for the sector specific companies. For e.g. Banks should adhere to the Act under which they are registered and Reserve Bank of India directions; Non-banking finance companies (NBFCs) apart from satisfying the provisions of the Companies Act under which they are registered should also comply with the Reserve Bank of India Directions;

Insurance companies are subject to compliance with IRDA guidelines in addition to other applicable legislations; Public Sector Enterprises are subject to Department of Public Enterprises (DPE) Guidelines etc. Additionally, there is requirement to adhere to Stewardship Code for Mutual Funds and Alternate Investment Funds (AIFs), Infrastructure Investment Trusts, Real estate investment trusts, Insurers etc.

Corporate Governance Provisions under the Companies Act 2013

These provisions inter-alia provide for effectiveness of the Board of Directors and the Board's processes viz. establishment of certain committees of the Board, holding of meetings of the Board, mandatory appointment of woman director on the board of listed companies, Independent Directors appointment and their role etc.

Some of the Provisions of Companies Act, 2013 related to Corporate Governance are:

- Appointment and qualification of Independent Directors (Section 149);
- Woman Director (Section 149);
- Appointment of Key Managerial Personnel of Company (Section 2(51) and Section 203);
- Enhanced disclosures and declarations in Financial Statements, Board Report etc. (Section 134)
- Annual evaluation of the performance of the Board, its Committees and of individual directors (Section 134(3))
- Formulation of Risk Management Policy (Section 134(3)(n))
- Corporate Social Responsibility provisions (Section 135)
- Appointment of Auditors & their mandatory rotation (Section 139)
- Appointment of Small Shareholders Director (Section 151)
- Duty of director of company to act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of the environment. (Section 166)
- Meetings of Board of Directors (Section 173) and Powers of Board (Section 179);

- Vigilance mechanism for directors and employees (Section 177(9))
- Mandatory establishment of certain committees of Board (Section 135, Section 177, Section 178)
- Remuneration Policy for the directors, key managerial personnel and other employees (Section 178)
- Concept of Related Party Transactions and arm's length pricing (Section 188);
- Secretarial Audit for bigger companies (Section 204)

Corporate Governance Provisions under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 [SEBI (LODR) Regulations 2015].

Some important Provisions of SEBI (LODR) Regulations 2015 related to Corporate Governance are:

- Formulation of Risk Policy (Regulation 4(2))
- Composition of Board of Directors (Regulation 17)
- Appointment of Independent Directors & their obligations (Regulation 16(1)(b), Regulation 17(1)(b), Regulation 25);
- Code of conduct for all members of board of directors and senior management of the listed entity (Regulation 17(5));
- Obligations of employees, senior management, key managerial personnel, directors and promoters (Regulation 26)
- Performance evaluation of independent directors (Regulation 17(10));
- Meetings of Board of Directors (Regulation 17(2));
- Mandatory establishment of certain committees of Board (Regulation 18, Regulation 19, Regulation 20, Regulation 21);
- Vigilance mechanism/Whistle-Blower Policy for directors and employees (Regulation 22)
- Concept of Related Party Transactions and arm's length pricing (Regulation 23);
- Corporate governance requirements with respect to subsidiary of listed entity (Regulation 24)

- Secretarial Audit and Secretarial Compliance Report (Regulation 24A)
- Prior Intimations (Regulation 29)
- Disclosures of events/information (Regulation 30, Regulation 33, Regulation 34, Regulation 46)
- Remuneration Policy relating to the remuneration of the directors, key managerial personnel and other employees (Schedule II, Part D (1))
- Policy on diversity of board of directors (Schedule II, Part D (3))
- Schedule II of the Regulations pertaining to Corporate Governance
 - Part A: Minimum Information to be placed before Board of Directors
 - Part B: Compliance certificate to be furnished by chief executive officer and chief financial officer
 - Part C: Role of the Audit Committee and Review of Information by Audit Committee
 - Part D: Role of Committees (Other than Audit Committee)
 - Part E: Discretionary Requirements

ESG Reporting – BRSR/ BRSR CORE – Framework for Assurance & ESG Disclosures for Value Chain

The main form of ESG reporting in India is BRSR/BRSR Core. In 2021, The Securities and Exchange Board of India (SEBI) vide circular No. SEBI/HO/CFD/CMD-2/P/CIR/2021/562 dated 10th May, 2021, had prescribed the Business Responsibility and Sustainability Report (BRSR) format replacing the Business Responsibility Report (BRR) making it an initially voluntary and subsequently mandatory comprehensive ESG reporting framework.

In July 2023, the SEBI, introduced the BRSR Core for assurance by listed entities and disclosures and assurance for the value chain of listed entities, as per the BRSR Core. The BRSR Core was introduced vide SEBI Circular SEBI/HO/CFD/CFD-SEC-2/P/CIR/2023/122 dated 12th July, 2023. The BRSR Core is a sub-set of the BRSR, consisting of a set of Key Performance Indicators (KPIs) /metrics under 9 ESG attributes: i. Green-house gas (GHG) footprint, ii. water footprint, iii. energy footprint, iv. embracing circularity - details related to waste management by the entity, v. enhancing employee wellbeing and safety, vi. enabling gender diversity in business, vii. enabling

inclusive development, viii. fairness in engaging with customers and suppliers and ix. open-ness of business.

Applicability of BRSR Core & ESG Disclosures:

From Financial year (FY) 2023 –2024, the top 1000 listed entities (by market capitalization) shall make disclosures as per the updated BRSR format (The BRSR format after incorporating new KPIs of BRSR Core), as part of their Annual Reports. Applicability of BRSR Core to top listed entities (by market capitalization) shall become mandatory, beginning with the top 150 listed entities in FY 2023–24, then top 250 listed entities in FY 2024 –25, then top 500 listed entities in FY 2025 –26, which will be extended gradually to top 1,000 listed entities by FY 2026–27.

Disclosures for value chain shall be made by the listed company as per BRSR Core, as part of its Annual Report. For this purpose, value chain shall encompass the top upstream and downstream partners of a listed entity, cumulatively comprising 75% of its purchases / sales (by value) respectively. Listed entities shall report the KPIs in the BRSR Core for their value chain to the extent it is attributable to their business with that value chain partner. The requirements of disclosure and assurance shall be applicable to the top 250 listed entities (by market capitalization), on a comply-or-explain basis from FY 2024-25 and FY 2025-26, respectively. The remaining listed entities may voluntarily disclose the BRSR or obtain the assurance of BRSR Core, for themselves or for their value chain.

ESG Rating Providers

SEBI has approved a framework for regulation of ESG Rating Providers (ERPs) by adding a chapter (Chapter IVA) under the existing framework pertaining to credit rating agencies viz. the SEBI (Credit Rating Agencies) Regulations 1999 [Inserted by the Securities and Exchange Board of India (Credit Rating Agencies) (Amendment) Regulations, 2023, w.e.f. 4.07.2023.] Thus, ESG Rating Providers are regulated under the provisions of Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999 that inter-alia prescribe guidelines for

registration of ERPs, general obligations of ERPs, manner of inspection and code of conduct applicable to ERPs.

Entities engaged in or proposed to be engaged in the business of issuing ESG ratings, will now need to be registered with SEBI. Registration requirements, Rating operations, Reporting and Disclosure norms, Internal audit for ERPs and other miscellaneous provisions etc. have also been further clarified by SEBI vide the Master Circular for ERPs SEBI/HO/DDHS/POD3/P/CIR/2024/45 dated May 16, 2024.

ESG Mutual Funds Schemes

SEBI vide its Circular SEBI/HO/IMD/IMD-I –PoD1/P/CIR/2023/125 dated 20th July 2023, permitted launch of multiple ESG schemes with different strategies by Mutual Funds. Any scheme under the ESG category shall be launched with one of the following strategies

- a. Exclusion
- b. Integration
- c. Best-in-class & Positive Screening
- d. Impact investing
- e. Sustainable objectives
- f. Transition or transition related investments

Minimum 80% of the total assets under management (AUM) of ESG schemes shall be invested in equity & equity related instruments of that particular strategy of the scheme. The remaining portion of the investment shall not be in contrast to the strategy of the scheme. Mutual Funds shall endeavour to deploy a higher proportion of the assets towards the scheme's strategy under the ESG theme and make suitable disclosures.

Presently, the ESG schemes of Mutual Funds are mandated to invest only in such companies which have comprehensive Business Responsibility and Sustainability Reporting (BRSR) disclosures. However, vide the circular, it is decided that 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 balance AUM of the scheme can be

invested in companies having BRSR disclosures. This requirement shall be applicable with effect from October 01, 2024. Such ESG schemes which are not in compliance with the aforesaid investment criteria as on October 01, 2024, shall ensure compliance with the requirement by September 30, 2025. During the said period of one year, ESG schemes shall not undertake any fresh investments in companies without assurance on BRSR Core.

SEBI has also prescribed disclosure norms for ESG labelled mutual fund schemes including mandatory disclosures to be made in the scheme information documents, disclosure of specific strategy in the nomenclature of ESG schemes etc.

Green Debt Securities

SEBI regulates green debt securities SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 and the NCS Regulations) read with Operational Circular for issue and listing of Non-Convertible Securities (NCS), Securitised Debt Instruments (SDI), Security Receipts (SR), Municipal Debt Securities and Commercial Paper (CP) dated August 10, 2021 ('NCS Operational Circular').

Chapter IX of the NCS Operational Circular specifies the following with reference to issuers of green debt securities:

- (a) Additional disclosure requirements in the offer document;
- (b) Continuous disclosure requirements in annual report and financial results; and
- (c) Responsibilities of the issuer

However, SEBI undertook a review of the regulatory framework for green debt securities and vide Circular SEBI/HO/DDHS/DDHS-RACPOD1/P/CIR/2023/023 dated 6th February, 2023, revised the disclosure requirements of green debt securities.

Vide SEBI circular SEBI/HO/DDHS/DDHS-RACPOD1/P/CIR/2023/020 dated February 03, 2023, SEBI lays down 'Dos and don'ts relating to green debt securities to avoid occurrences of greenwashing'.

Green Deposit Framework

The Reserve Bank of India released a Framework for acceptance of green deposits with effect from June 1, 2023 vide its Circular RBI/2023-24/14 DOR.SFG.REC.10/30.01.021/2023-24 dated 11th April 2023. Vide the Circular, RBI regulated entities (REs) viz. scheduled commercial banks and deposit taking non-banking financial companies including housing finance companies etc. can accept green deposits by adhering to the framework.

A green deposit refers to an interest-bearing deposit received by an RE (Regulated Entity) for a fixed period, with the proceeds earmarked for allocation towards project/activities which yield environment benefits. REs shall be required to allocate the proceeds raised through green deposits towards the green activities/projects which encourage energy efficiency in resource utilization, reduce carbon emissions and greenhouse gases, promote climate resilience and/or adaptation and value and improve natural ecosystems and biodiversity.

To ensure effective allocation of green deposits, REs must put in place a Board-approved Financing Framework (FF) for deploying the proceeds and establishing a process for evaluating project viability and assessing the impact of the funds deployed. The allocation of funds raised through green deposits by REs during a financial year shall be subject to independent third-party verification/assurance, which shall be done on an annual basis. REs also need to make appropriate disclosures in their Annual Financial Statements.

Carbon Credit Trading Scheme 2023

The Central Government has notified the Carbon Credit Trading Scheme, 2023 (CCTS) vide S.O. 2825(E) dated 28th June 2023 and amendment notification S.O. 5369(E), dated 19th December 2023, under the powers conferred by clause (w) of section 14 of the Energy Conservation Act, 2001 which defines the Indian carbon market where a national framework is established with an objective to reduce or remove or avoid the greenhouse gases emissions from

the Indian economy by pricing the greenhouse gases emission reduction through trading of the carbon credit certificates.

The scheme defines the two mechanisms namely, compliance mechanism and offset mechanism. In the compliance mechanism, the obligated entities shall comply with the prescribed greenhouse gases (GHG) emission reduction norms in each compliance cycle of CCTS. The obligated entities who reduce their GHG emission intensity below the prescribed GHG emission intensity shall be eligible for issuance of Carbon Credit Certificates. In the offset mechanism, the non-obligated entities can register their projects for GHG emission reduction or removal or avoidance for issuance of Carbon Credit Certificates.

Green Credit Programme

Green Credit Programme (GCP) was launched in October 2023. It is an initiative within the government's broader Lifestyle for Environment or LIFE movement. The Green Credit Rules, 2023, have been notified on 12th October 2023 under the Environment Protection Act 1986. These rules put in place a mechanism to encourage voluntary environmental positive actions resulting in issuance of green credits.

The GCP has the following objectives:

- To encourage voluntary plantation
- Registration of land on the web portal to build a land bank which can be offered for plantation activities. This land inventory will be available to individuals/entities for voluntary plantation, plantation under CSR and for plantation under Accredited Compensatory Afforestation.
- Registration of activities related to plantation on the web portal, either on land selected from the land bank or any other land.

Entities who can register land for plantations include individuals, gram panchayat/municipalities, communities, institutions, mining companies for reclaimed mining land, forest departments for degraded forest land. The types of land that can be registered include degraded forest land,

watershed areas, waste land, etc. The entities who can undertake these tree plantation activities include individuals/institutions/communities etc.

The generation of Green Credit under Green Credit Rules, 2023 is independent of the carbon credit under Carbon Credit Trading Scheme 2023.

Governance structure of GCP includes the steering committee members from concerned ministries/departments, experts and institutions. The Indian Council of Forestry Research and Education (ICFRE) is designated as GCP administrator and is responsible for implementation and management of GCP. Digital process of GCP includes dedicated web platform and GC registry for streamlining the operations. In addition to these methodologies and guidelines, including registration, accounting and GC issuance, monitoring ensures the transparency and accountability of GCP.

INTERNATIONAL ENVIRONMENT TREATY – UNFCCC

The United Nations Framework Convention on Climate Change (UNFCCC) is an international environmental treaty that sets general goals and rules for confronting climate change. It was entered into force on 21st March 1994. The UNFCCC provides the basis for concerted international action to mitigate climate change and to adapt to its impacts. Its provisions are far-sighted, innovative and firmly embedded in the concept of sustainable development. States and regional economic integration organizations may become Parties to the Convention. Currently the Convention has been ratified by 198 parties. India signed UNFCCC on 10th June 1992 and ratified it on 1st November 1993.

The objective of the UNFCCC is to “stabilize greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system”. In pursuance of this objective, the UNFCCC establishes a framework with:

- Broad Principles
- General Obligation

- Basic Institutional Arrangements; and
- An intergovernmental process for agreeing to specific actions over time (including through collective decisions by the Conference of the Parties (COP) (the supreme decision-making body of the UNFCCC), and as well as other international legal instruments with more specific obligations – such as the Kyoto Protocol and Paris Agreement)

The Kyoto Protocol - The Kyoto Protocol is an international and legally binding agreement to reduce greenhouse gas emissions worldwide and is an addition to the UNFCCC treaty. The Kyoto Protocol was adopted in Kyoto, Japan, on 11 December 1997 and entered into force on 16 February 2005. The major feature of the Kyoto Protocol is that it assigns mandatory targets for 37 industrialized nations and the European Community to reduce their emission of the specified 6 greenhouse gases (GHGs). Overall, these targets add up to an average 5 per cent emission reduction compared to 1990 levels over the five-year period 2008–2012 (the first commitment period). India acceded to the Kyoto Protocol on 26th August 2002. In Doha, Qatar, on 8 December 2012, the Doha Amendment to the Kyoto Protocol was adopted for a second commitment period, starting in 2013 and lasting until 2020. As of 28 October 2020, 147 Parties deposited their instrument of acceptance, therefore the threshold of 144 instruments of acceptance for entry into force of the Doha Amendment was achieved. The amendment entered into force on 31 December 2020.

The Paris Agreement - The Paris Agreement was adopted on 12 December 2015 at the twenty-first session of the Conference of the Parties to the United Nations Framework Convention on Climate Change held in Paris from 30 November to 13 December 2015. It was adopted by 196 Parties at the UN Climate Change Conference (COP21) in Paris, France, on 12 December 2015. It entered into force on 4 November 2016. India ratified it on 2nd October 2016.

The Paris Agreement builds upon the Convention and – for the first time – brings all nations into a common cause to undertake ambitious efforts to combat climate change and adapt to its effects, with enhanced support to assist developing countries to do so. Its overarching goal is to hold “the increase in the global average temperature to well below 2°C above pre-industrial levels” and pursue efforts “to limit the temperature increase to 1.5°C above pre-industrial levels.” However,

in recent years, world leaders have stressed the need to limit global warming to 1.5°C by the end of this century. To limit global warming to 1.5°C, greenhouse gas emissions must peak before 2025 at the latest and decline 43% by 2030.

Nationally Determined Contributions (NDCs) are national climate plans that outline how countries will reduce greenhouse gas emissions and adapt to climate change. They are a central part of the Paris Agreement and are required to be updated every five years. As a party to the United Nations Framework Convention on Climate Change (UNFCCC) and the Paris Agreement, India has submitted multiple Nationally Determined Contributions (NDCs) to the UNFCCC.