NEW HORIZONS

ESG AND THE CFO

January 2024

ESG is
TAX

ESG is
ASSURANCE

ESG is
BUSINESS TRANSFORMATION

ABOUT

Non-Financial Reporting is on the CFO Agenda, what are the steps that need to be taken to gear up to the new challenges!

The CFO Board is registered as Association of CFO Welfare India, a Section 8 non-profit entity. Its shares are held by an independent trust.

Globally, ESG reporting is evolving rapidly. Stakeholders are increasingly demanding transparency in ESG reporting and have high expectations with respect to the quality of ESG disclosures. In view of this, standard setters around the world are developing sustainability reporting frameworks. Businesses in India have witnessed significant expansion and globalisation, and are operating in more than one jurisdiction, hence multiplicity of these standards is causing immense concern as companies gear up to be compliant and at the same time navigate the challenging economic and geo-political landscape.

Five years ago, India's ESG regulations, which are essentially a framework to evaluate the sustainability and ethical impact of a company or investment, were minimal or voluntary. Today they are comprehensive and mandatory, and considered to be at par with global sustainability and reporting standards.

In June 2023, the Securities Exchange Board of India (SEBI) amended the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) to introduce the BRSR Core and disclosures for a company's value chain. BRSR Core is a sub-set of the existing Business Responsibility and Sustainability Reporting (BRSR).

BRSR Core is applicable from FY 2023-24 to the top 1,000 listed entities (by market capitalisation).Subsequently, in July 2023, SEBI issued a circular to introduce the assurance requirements for BRSR Core. The circular requires the listed entity to ensure that there is no conflict of interest with the assurance providers appointed for assuring the BRSR Core. There are many such issues that this document discusses including the need for reporting emissions from suppliers, managing data and more.

Non-Financial metrics are increasingly becoming part of board discussions.

BRSR disclosures are mandatory, stringent and on par with global reporting standards. Non-financial

KEY DEVELOPMENTS SHAPING THE ESG AGENDA

WHY IS ESG IMPORTANT?

A changing regulatory environment compounded by heightened expectations from stakeholder groups from investors to employees to customers has made ESG a business imperative that cannot be ignored.

RISING C-SUITE, BOARD, AND MARKET ATTENTION ON ESG.

80% OF INDIA'S TOP 200 COMPANIES

have set climate goals and are actively pursuing strategies for climate leadership.

INCREASED EMPHASIS

on management of ESG-related policies and practices from **investors**, **employees**, **customers**, and **community at large.**

59% of CEOs in India want to invest 6% or more in making their companies more sustainable.[1]

Regulators and Investors want companies to be **transparent about their ESG policies** and managements and Board to be held accountable.

55% of CEOs in India believe that their companies digital and ESG initiates are related to growth.[1]

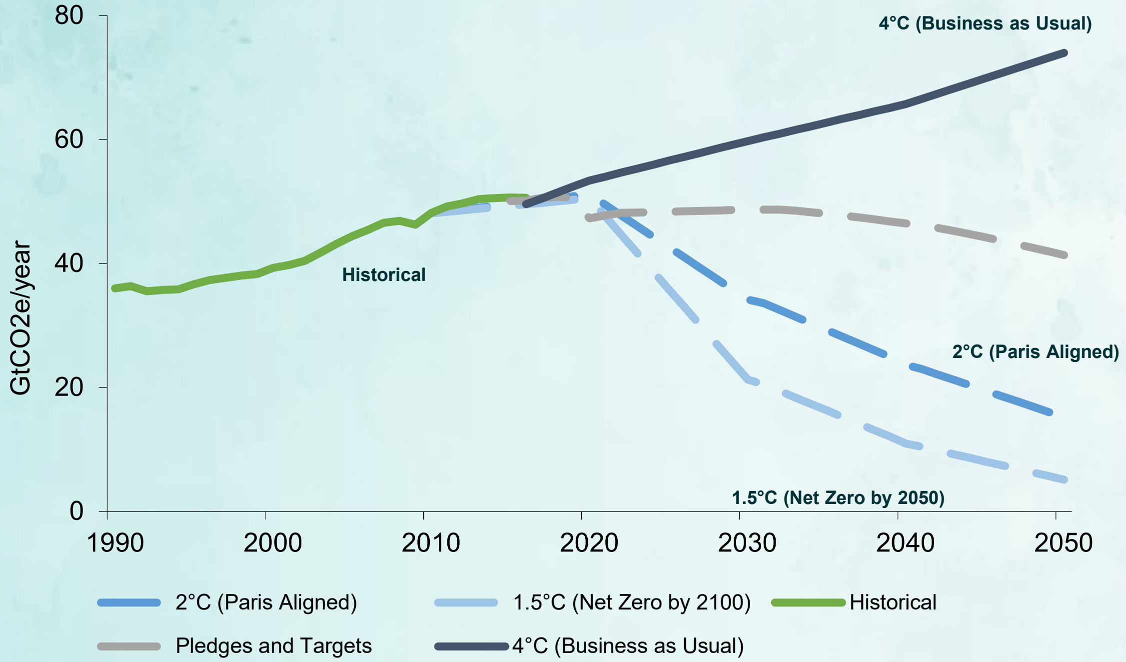
INCREASED FOCUS

by investors on ESG disclosures when making investment decisions.

THE WORLD IS NOT ON TRACK TO MEET THE PARIS AGREEMENT GOALS

Although more and more countries and companies have announced net-zero goals, existing targets are not enough to limit warming to 1.5°C.

GLOBAL EMISSIONS PROJECTIONS TO 2050



There is an immediate need to take action to limit the physical impacts of global warming with average global temperatures already >1°C above pre-industrial levels

Further action is needed across major economies to align us to the Paris Agreement

Current pledges and targets only take us part of the way to decarbonize globally

However, reaching Net Zero by 2050 will require an even further decline in global emissions to limit warming to 1.5°C

WHY COMPANIES NEED TO ACT NOW...

Physical Risks

Economic consequences of a 3 to 4° global warming trajectory. Natural disasters as a risk for **global operating business models** and **investments**.

Consumer & Employee Sentiment

Social **pressure**, rising **purchasing power** and **growing wealth** of the young environmentally conscious **generations "Y" and "Z"**.

Capital Markets

Emergence of **ESG premia** and increasing **pressure from asset managers**

Increasing importance of **green equity stories** and **ESG-related reporting**.

Regulatory Requirements

Increasing **disclosure mandates** in countries-India, EU, US

India Policy Shifts

Pledge to reach **climate neutrality by 2070** is shaping India's trajectory in infrastructure, energy, financial markets, exports and consumer markets. 4 out of 5 targets India has committed to have target dates of 2030.

EU Regulations

Indian multinationals may be required to comply with the elevated standard of EU regulation such as the **EU Green New Deal** and the **CSRD/EU Taxonomy**. Carbon tax is likely to have significant impact on Indian exports.

6 MEGA TRENDS DRIVING THE SUSTAINABILITY AGENDA

THE WORLD OF FUTURE WILL HAVE A SIGNIFICANT IMPACT ON BUSINESS RESPONSIBILITY AS WE KNOW IT TODAY

There is increasing evidence that the extreme weather events across the globe are being intensified by climate change. The consequences extend across food production, infrastructure design and maintenance, energy use, insurance and changes to supply chains. The collision of these macro-forces means that, the current model of capitalism is coming up against limits on many fronts. Risks are also increasing as extreme climate events such as floods, droughts, earthquakes and extreme temperatures are affecting business continuity and productivity.

IPCC has released reports stating that we are no longer on track to achieve the targets that we set out in the Paris Agreement. The world has seen high temperatures in Europe and the US, heavy floods in India and many such devastating events. The planet needs urgent action to reduce greenhouse gases to save the planet from a potentially catastrophic future.

6 MEGATRENDS SHAPING OUR WORLD

CLIMATE CHANGE

We are not on course to limit global warming to 1.5 degrees. As risks increase, countries, businesses and people are becoming more sensitive to climate change issues.

THE RISK OF STRANDED ASSETS

The shift to net-zero requires moving away from fossil fuels (coal, oil, and gas) and decarbonizing production processes and supply chains. These risks will impact the stability of the financial system.

INCREASED INEQUALITIES

In the future, increased opportunities will be limited to those who have digital access. People who are now being left behind in the digital revolution, and there is a likelihood that this will be a substantial number. Inequalities therefore might increase.

AI, DATA AND ALGORITHMS

Data is everywhere. And so are algorithms. Artificial intelligence and machine learning are likely to enable faster decision making, they are also causing many risks.

NEW MATERIALS AND TECHNOLOGIES

Developments in material sciences, will lead to improved utilisation of exiting raw materials, replacement of unsustainable products and processes by better ones, healthier products and reduced emissions. How we make, grow and ship things around will change. So will business models.

CIRCULARITY

Circular systems as opposed to linear ones will drive changes in business models. This will require new products that allow repair, extended use cycles, modular design and new paradigms.

ESG GLOBAL SURVEY ON SUSTAINABILITY REPORTING

96%
of G250 companies report on sustainability or ESG matters

49%
of the G250 acknowledge social elements as a risk to their business, with Western Europe as the leading region

GRI, TCFD and SDGs
form the most commonly used anchors for sustainability reporting

71%
of N100 companies identify material ESG topics

BRSR
Applicable to the top 1,000 listed entities

Fewer than half of G250 companies have leadership level representation for
sustainability

64%
of the G250 acknowledge climate change as a risk to their business

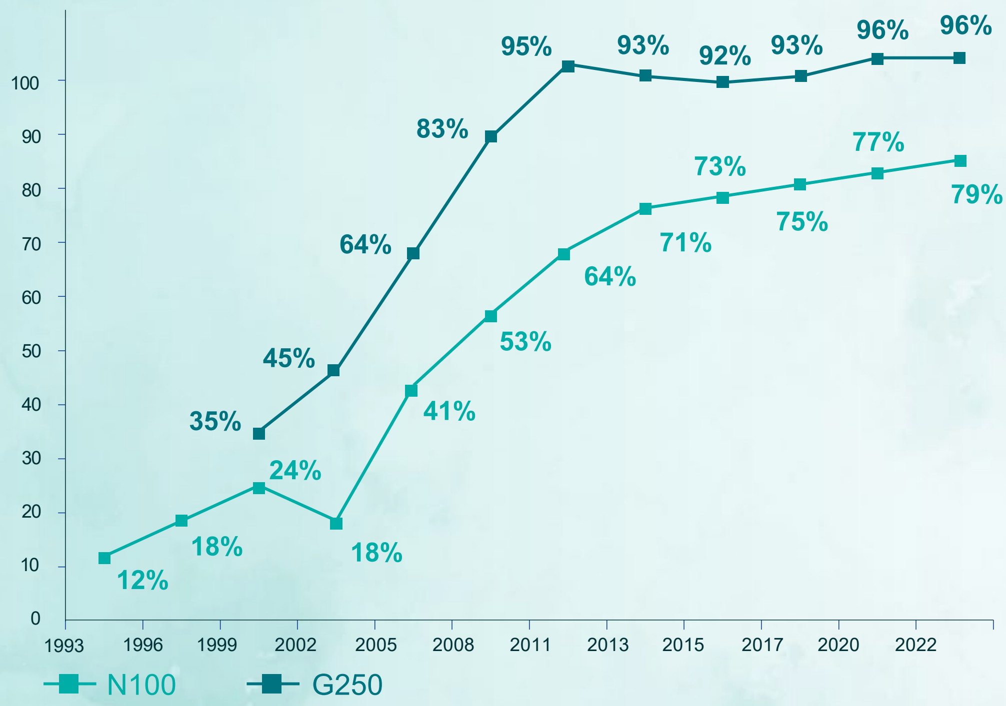
TCFD adoption nearly doubled in 2 years, going from
37% to 61%
among the G250

Source: KPMG

GLOBAL SUSTAINABILITY REPORTING INCHES CLOSER TO FULL DISCLOSURE AMONG WORLD'S LARGEST COMPANIES.

Sustainability reporting has become standard practice for many companies, with steady growth over the past decade. The proportion of the N100 group (the leading 100 companies in each country surveyed) that report has increased from around two-thirds to 79 percent. Amongst the world's top 250 companies (G250), the figure is 96 percent.

FIGURE 1: GLOBAL SUSTAINABILITY REPORTING RATES (1993-2022)



Base: 5,800 N100 companies and 250 G250 companies

Source: KPMG Survey of Sustainability Reporting 2022, KPMG International, September 2022

EVOLUTION OF BRSR REPORTING-TIMELINE

EVOLUTION OF NON-FINANCIAL REPORTING IN INDIA

FY2024-25

Assurance on BRSR Core for top 150 listed entities in FY2023-24 with a glidepath over 4 years for top 1000 companies

FY2023-24

14 JUNE 2023

SEBI amended Listing Regulations to include applicability of **BRSR Core** in a phased manner beginning with top 150 companies from FY23-24

MAY 2021

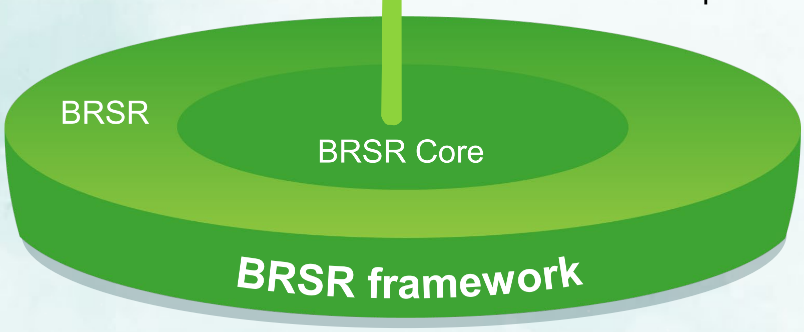
Mandatory BRSR reporting applicable to top 1000 companies from FY 22-23

NOVEMBER 2019

SEBI has extended the BRR requirement to top 1000 companies

DECEMBER 2015

SEBI mandate to top 500 listed companies to develop BRR as part of their annual report



CHALLENGES IN BRSR REPORTING

IN MARCH 2021, THE SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI) CAME OUT WITH A CIRCULAR ON 'BUSINESS RESPONSIBILITY AND SUSTAINABILITY' (BRSR).

The BRSR is a move forward from Business Responsibility Reporting (BRR) and aims to bring sustainability reporting at par with financial reporting and makes ESG disclosures and reporting more prominent.

THE RISE OF ESG

The BRSR has three sections:

Section A: General Disclosures

The objective of this section is to obtain basic information about the company-size, location, products, number of employees, CSR activities, etc.

Section B: Management Process

In this section, the company is required to disclose information on policies and processes relating to the National Guidelines for Responsible Business Conduct's (NGRBC) Principles concerning leadership, governance and stakeholder engagement. The purpose of this section is to understand whether the company has the building blocks in place that will enable and ensure responsible business conduct.

Section C: Principle-wise Performance

Responses to this section would indicate how a company is performing with respect to each principle and core element of the NGRBCs. This section requires companies to demonstrate their intent and commitment to responsible business conduct through actions and outcomes. Specific measures are sought concerning value chain, labour welfare and the representation of women and differently-abled on the board of directors of the company.

The questions in this section have been divided into two categories:

1. Essential: Those that are mandatory for all companies.
2. Leadership: Those that are voluntary and which provide an opportunity for companies to present their impacts and outcomes.

BALANCING GROWTH AND EMISSIONS ....AND REPORTING

India is on a growth trajectory. Historically, growth has always had a direct correlation to emissions. If India's growth were to continue- emissions too will rise. The question we need to answer is-How can we enable green/low carbon growth? **Can we build the India of tomorrow, reduce poverty and yet be a low carbon economy?**

Reducing supply chain emissions will have a big role to play in achieving this ambition.

Scope 3 emissions can be anywhere between 80-95% (on average) of an organization's total emissions.

This is also critical in measuring the risk exposure of a company and their trajectory to transition to a low carbon economy.

Scope 3 emissions help in comparing the carbon footprint of companies- example a company that outsources vs a company that is vertically integrated. Both of them while being in the same sector will report different emission numbers as 1 outsources emissions and the other doesn't.

However, measuring, calculating, and disclosing all kinds of emissions (scope 1,2 and 3) can be challenging. The more complex the supply chain, the more challenging the task.

THE ABSENCE OF CORRECT, ACTIONABLE DATA

The biggest challenge to reporting and assurance is the absence of verifiable non financial data. Organisations don't have robust systems to capture data in all their operations.

BRSR CORE: METRICS AND DATA FOR PROVIDING ASSURANCE

- GHG footprint
- Water footprint
- Energy footprint
- Embracing circularity-details related to waste management by the entity
- Enhancing employee wellbeing and safety
- Enabling gender diversity in business
- Enabling inclusive development
- Fairness in engaging with customers and suppliers
- Open-ness of business

Reporting entities can use secondary data including industry-average data, published emission factors, spend-based data, and proxy data, amongst others. Protocols like the GHG (Greenhouse Gas) Protocol, while ground-breaking in their time, are no longer suitable for today's dynamic and interconnected world. They rely on average historical data that no longer capture the complexity of modern supply chains and transportation networks. The result? Data that is anything but actionable.

SHORT TERM HURDLES AND INCREASE IN COSTS

While accuracy may increase over time. Significant hurdles are likely to be faced in the short term.

Take the case of value chain emissions. A single vendor may be supplying to multiple companies-each one of them asking for the same information in different formats. Unless carefully managed, varying degrees of data quality between any potential organisations disclosing their Scope 3 emissions could be difficult to compare. This is especially true if there is limited transparency in the data collection and calculation methodologies provided by organisations. Further, there may be no mechanism of checking accuracy and correcting data gaps for suppliers.

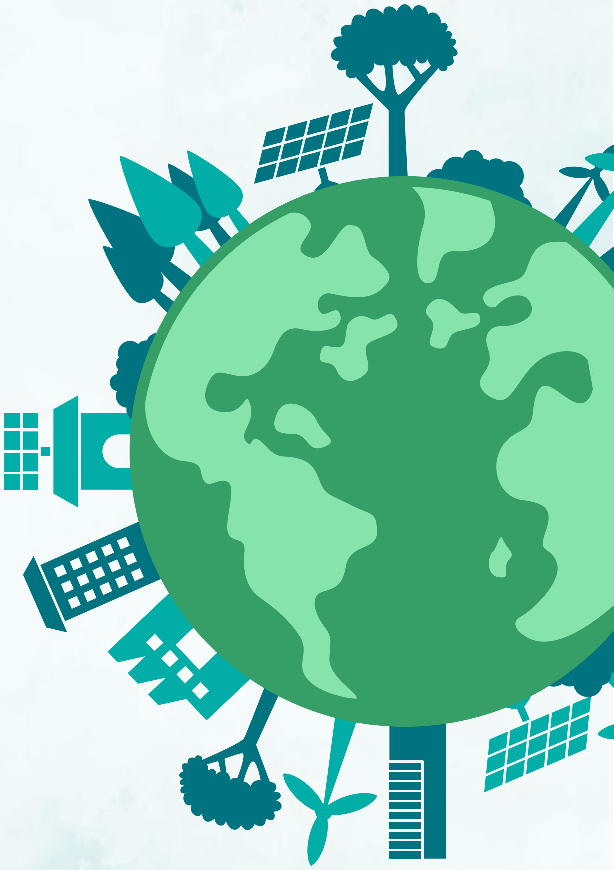
The challenges become even more when companies are located in remote locations and have global value chains.

GLOBAL VALUE CHAINS WILL HAVE LARGE GAPS

Influencing suppliers to share data when their home country has no such regulation will be a large challenge to overcome. Not all countries provide conversion factors or good quality data, so organisations may find it difficult to acquire both primary and secondary data. Primary data may be difficult to obtain from countries or territories with little to no mandatory emissions reporting, and where there has been little uptake of voluntary reporting.

MULTIPLICITY OF REGULATIONS

The winds of change are also blowing in the regulatory landscape. In addition to the SEBI BRSR, governments and international bodies are increasingly mandating the reporting of Scope 3 emissions. The IOSCO-IASB, the CSRD, the EU ETS, and SEC regulations are all indicative of a global shift toward greater transparency and accountability in sustainability reporting. If measures such as Carbon Border Adjustment Mechanisms or Mandatory Product Standards are introduced, additional monitoring and reporting of embedded emissions may be required.



NEW TRENDS IN ESG

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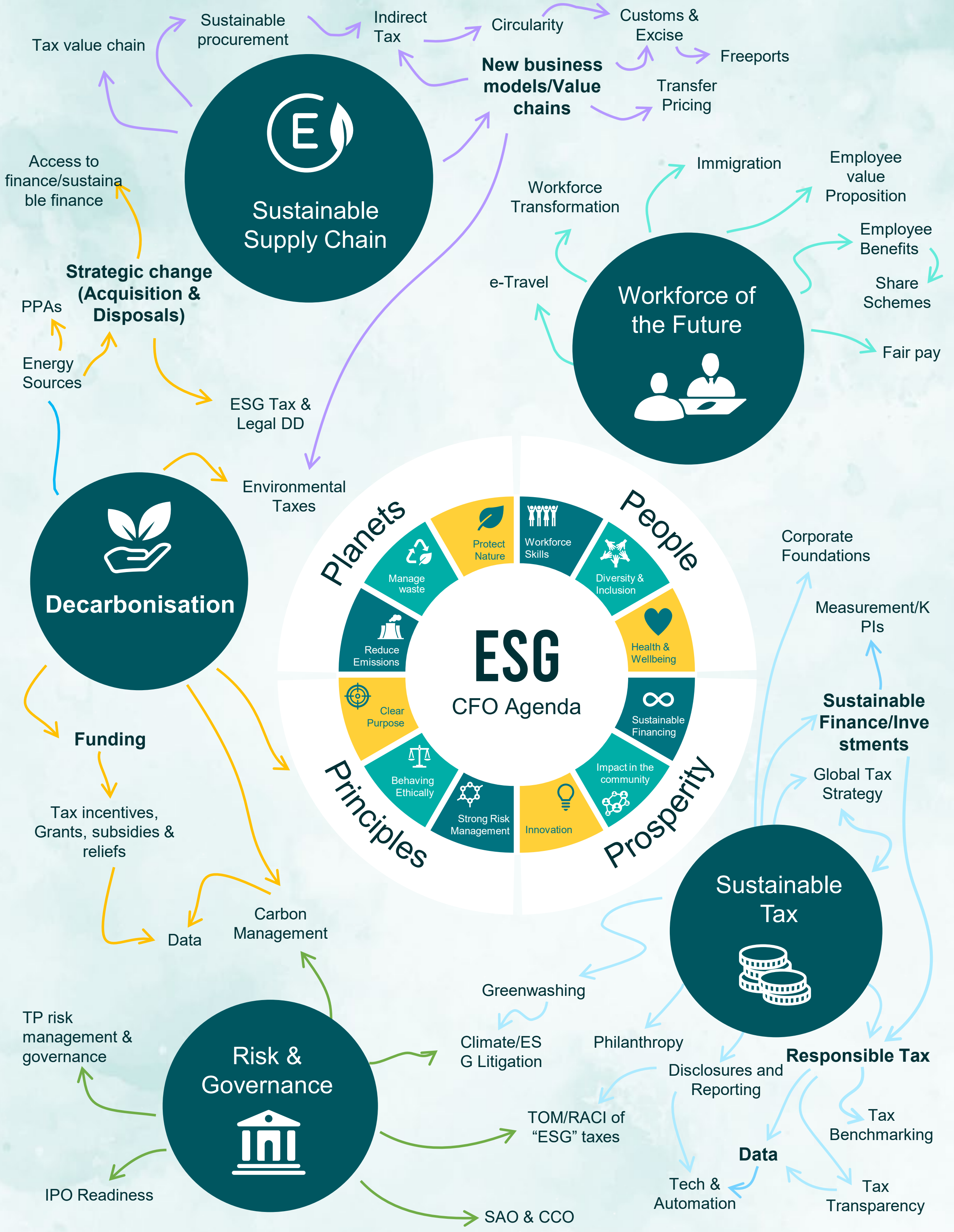
TRANSITIONING TO A SUSTAINABLE & RESPONSIBLE FUTURE

- An Embedded Sustainable Strategy
- Comprehensive
- Board Led



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DECARBONISATION

- Environmental Taxes
- Tax incentives, grants, subsidies, reliefs
- Power Purchase Agreements
- Carbon trading

WORKFORCE OF THE FUTURE

- Green benefits
- Business travel/hybrid working
- Employee value proposition
- Share schemes

SUSTAINABLE TAX

- Tax Transparency
- Disclosures & Reporting
- Sustainable investments/finance
- Global Tax Strategy

RISK & GOVERNANCE

- Data
- TOM/RACI of “ESG” Taxes
- Governance underpinning transparency

SUSTAINABLE SUPPLY CHAIN

- Transfer pricing
- Circularity
- Tax Value Chain
- Indirect tax

ESG HORIZONS

The journey towards active ESG for a company can move from reporting to steering the ESG agenda with solutions that span the entire value chain

Reporting → Steering

Strategy	1 Compliance	2 Business Orientation Opportunities and Risks	3 Re-inventing Business Incorporating ESG into DNA of Organization
ESG Assessment	Reporting requirements-	Benchmarking + Value creation	Digital twins
ESG targets	ESG, Tax and Assurance	Carbon accounting	IOT and asset monitoring
ESG Processes	ESG quality assurance	ESG in Supply chain	ESG-driven and optimized across supply chain
ESG KPI's	ESG certifications	Life Cycle assessments	Sustainable finance
ESG DATA	Regulatory reporting	Controlling of selected metrics	ESG planning, forecasting, steering
ESG Tech	ESG data management	Integrating ESG systems	ESG Knowledge management

ESG CAN HELP BUILD COMPETITIVE ADVANTAGE

ESG SOLUTIONS CAN DRIVE LONG TERM, ACTIONABLE IMPACT

BUILDING GREEN BUSINESSES

Leveraging ESG can help build new businesses with positive social and stakeholder impact. Green products and services can help rach new customers and new markets

CIRCULAR BUSINESS MODELS

Circularity driven by net zero targets and extended producer responsibility (EPR) need a re-imagining of business models. Products can have extended lifecycles and new ecosystems.

TECHNOLOGY CAN BE AN ACTIVE ENABLER OF ESG

Data driven processes with analytics can help companies realize their sustainability goals. This can help greater decision making and build carbon transparency. Reporting can be efficient and real time.

AUGMENTING, AUTOMATING AND INNOVATING

Building efficiencies through new technology can help find new ways of doing things. Innovations that bring fundamental change can build business transformation.

10 QUESTIONS CFOS SHOULD BE ASKING

01 Are you having conversations with colleagues in the business and C-suite to understand the ESG business priorities in order to develop an ESG strategy?

02 How is the company addressing ESG as a long-term strategic plan and embedding it into the company's core business activities (strategy, operations, risk management, incentives and corporate culture) to drive long term performance and corporate culture?

03 Have you done a scenario analysis of ESG business impacts and opportunities?

04 Has the company developed and implemented controls to ensure completeness and quality of the information being disclosed in the BRSR?

How are you linking your ESG initiatives to financial metrics?

05 Where are you storing your ESG data? Are you involving the CTO?

Is your company developing any new technology/products to support sustainability targets?

06 Do you have established processes and data feeds to meet new compliance/regulatory requirements (e.g. BRSR, CBAM, plastics packaging tax, EPR etc.)?

07 How is the business model (including supply and value chains) evolving to meet the ESG agenda? What does this mean for costs, tax, opportunities, risks & challenges?

08 How is your business managing its approach to carbon pricing (e.g. compliance and voluntary carbon offsetting or internal carbon pricing to meet your net zero ambitions?

09 What enhancements may be needed to your tax governance framework given its critical role underpinning the tax E & S (and evolving tax landscape)?

10 How can you build a realtime solution to your ESG needs?

What are the challenges for ESG efforts?

The white paper was prepared under the guidance of THE CFO BOARD members Ajay Patil, Cummins; Nitin Madan, Barclays; and KPMG knowledge partner Namrata Rana. Ashok Emani of NIIF, India contributed to this white paper.

THE CFO BOARD

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