

B S R & Co. LLP
Chartered Accountants

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Updated BRSR format and BRSR Core disclosures for value chain

As per the existing provisions of the SEBI Listing Regulations¹, top 1,000 listed entities² in India are required to file Business Responsibility and Sustainability Reporting (BRSR) as part of their annual report with SEBI from Financial Year (FY) 2022-23 onwards on a mandatory basis.

On 14 June 2023, SEBI amended the Listing Regulations to introduce the BRSR Core format for ESG disclosures to be made by the prescribed listed companies and their value chain. With the aim of integrating the value chain into the sustainability and ESG policies of an entity, on 12 July 2023, SEBI issued a circular prescribing the BRSR Core Framework for disclosures and assurance along with BRSR Core disclosures for value chain for the top 1,000 listed entities in a phased manner.

Some key takeaways are as follows:

- **BRSR Core and updated BRSR:** BRSR Core is a sub-set of BRSR, consisting of a set of Key Performance Indicators (KPIs)/metrics under nine ESG attributes. The BRSR Core specifies the data and approach for reporting on certain Environment, Social and Governance (ESG) parameters and assurance. It has been clarified by SEBI that the approach specified

in BRSR Core is a base methodology. Any changes or industry specific adjustments/estimations should be disclosed.

The key considerations are as follows:

- a) **KPIs of BRSR Core:** The new KPIs of BRSR Core are as follows:
 - Green-house gas (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
- b) **Revised format of BRSR (including BRSR Core):** The revised format of BRSR incorporates the new KPIs of BRSR Core. Additionally, there are certain leadership indicators (earlier voluntary in

2022-23) which have now been made mandatory in the new format of BRSR Core.

- c) **Applicability:** Top 1,000 listed entities (by market capitalisation) are required to make disclosures as per the updated BRSR format (including BRSR Core) from FY 2023 – 2024 onwards. Such companies should prepare and assess their level of preparedness in order to comply with the new BRSR disclosure requirements.



- d) **Reasonable assurance:** The circular provides that the top 150 listed companies (by market capitalisation) are required to obtain a reasonable assurance from an independent assurance provider on the BRSR Core disclosures from FY2023-24 and other companies to follow a glide path approach as below:

Financial Year	Applicability of BRSR Core to top listed entities (by market capitalisation)
2023 – 24	Top 150 listed entities
2024 – 25	Top 250 listed entities
2025 – 26	Top 500 listed entities
2026 – 27	Top 1,000 listed entities

1. Securities Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations),

2. As per market capitalisation as on 31 March of previous year.



- **BRSR Core for value chain:** The circular now requires certain listed entities to provide ESG disclosures of value chain as per BRSR Core.

Certain key considerations are as follows:

- Determination of value chain:** The value chain should encompass the top upstream and downstream partners of a listed entity, cumulatively comprising 75 per cent its purchases/sales (by value) respectively. Such reporting should be segregated for upstream and downstream partners or can be reported on an aggregate basis. Further, the scope of reporting and any assumptions or estimates, if any, should be clearly disclosed.
- Reporting format:** Disclosures for value chain should be made by the listed entity as per BRSR Core, as part of its Annual Report.
- Applicability:** The disclosures for the value chain is applicable to the top 250 listed entities (by market capitalisation), on a comply-or-explain basis from FY 2024-25.
- Limited assurance:** The above-mentioned companies should obtain limited assurance on a comply or-explain basis from FY 2025 – 26.

- **Assurance provider:** The circular lays down certain requirements to be evaluated by a listed entity while appointing an assurance provider:

- Expertise:** The Board of the listed entity should ensure that the assurance provider of the BRSR Core has the necessary expertise, for undertaking reasonable assurance.
- Independence:** The listed entity should ensure that there is no conflict of interest with the assurance provider appointed for assuring the BRSR Core disclosures. For instance, it should be ensured that the assurance provider or any of its associates do not sell its products or provide any non-audit/non-assurance related service including consulting services, to the listed entity or its group entities.

(Source: SEBI circular no. SEBI/HO/CFD/CFD-SEC-2/P/CIR/2023/122 dated 12 July 2023)

Rules notified for ESG Rating Providers (ERPs)

SEBI introduced amendments to the SEBI (Credit Rating Agencies) Regulations, 1999 by introducing Chapter VIA on ERPs on 3 July 2023. These regulations would be applicable to an ESG rating provider which is a person engaged in, or proposes to engage in, the business of issuing ESG ratings.

These regulations provide the base for rating agencies to become an ERP. It prescribes, *inter alia*, the eligibility criteria, transparency, governance and prevention of conflict of interest, rating process and monitoring, guidelines for registration, general obligations of ERPs, manner of inspection and code of conduct applicable to ERPs. These regulations are effective from 3 July 2023.

Subsequently on 12 July 2023, SEBI issued a master circular which lays down the procedural/disclosure requirements and obligations for ERPs. ERPs are required to comply with the conditions laid down in this master circular. The master circular consists of guidance on the following sections:

- **Registration, approval and surrender requirements:** It provides guidance with respect to registration mechanism for ERPs, approvals for change in control of ERPs, guidelines on suspension,

cancellation or surrender of certificate of registration.

- **Rating operations:** This section provides insights with respect to the types of ESG ratings/scores, business model for ERPs, rating process, guidance on monitoring and review of ratings, etc.
- **Reporting and disclosures:** The master circular provides guidance with respect to periodic and continuous disclosures. It also includes the guidelines for disclosures by ERPs on its website.
- **Internal audit for ERPs:** The master circular provides guidance on requirements related to internal audits along with other miscellaneous requirements applicable to ERPs.

(Source: SEBI notification no. SEBI/LAD-NRO/GN/2023/136 dated 3 July 2023 and circular no. SEBI/HO/DDHS/POD2/P/CIR/2023/121 dated 12 July 2023)



ESG investment norms

In June 2023, SEBI amended the MF Regulations to specify that the funds under ESG schemes should be invested in the manner as specified by SEBI periodically. In line with this, SEBI issued a circular implementing some key measures to facilitate green financing with a thrust on enhanced disclosures and mitigation of risks of mis-selling and greenwashing. Below are the broad categories discussed in the circular related to ESG investing schemes:

I. Thematic schemes on ESG strategies

The SEBI has introduced a separate sub-category for ESG investments under the thematic category of equity schemes, by including various strategies that the mutual funds can adopt to align their investments with ESG considerations. Additionally, SEBI has mandated that at least **80 per cent** of the total Assets Under Management (AUM) of ESG schemes should be invested in equity and equity related instruments of the chosen strategy. The remaining portion of the investment should not contradict the strategy of the scheme. There should be a clear distinction in terms of asset allocation, investment strategy of the mutual fund schemes launched etc.

II. Investment criteria

SEBI has mandated ESG schemes to invest at least **65 per cent** 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 will be applicable with effect from 1 October 2024.

In case of non-compliance by ESG schemes with the aforementioned investment criteria by 1 October 2024, an extension period to ensure compliance has been prescribed till 30 September 2025. However, ESG schemes cannot undertake any fresh investments in companies without assurance on BRSR Core during the extended period of one year.

III. Disclosure requirements

SEBI circular prescribed following disclosure requirements:

- *Scheme strategy*: The name of the ESG fund/scheme should clearly disclose the ESG strategy it is based on.
- *ESG scores of securities*: Disclosure of BRSR and BRSR Core scores provided by ESG Rating Providers (ERPs), along with name of ERPs, applicable with immediate effect.

- *Voting disclosures*: While disclosing votes

cast by AMCs on resolutions of their investee companies, mutual fund should disclose whether vote has been cast in favour or against the proposal on account of any ESG reasons. (*Applicable for annual general meetings held from 1 April 2024 onwards*)

- Annual fund manager commentary and disclosure of case studies:

- The requirement of annual fund manager commentary should be applicable from FY 2023-24.
- The disclosure requirement of case studies as prescribed in the circular should be applicable from FY 2024-25
- The engagement details should be disclosed from FY 2025-26 onwards.

IV. Assurance

A. Independent assurance

- SEBI has mandated an independent reasonable assurance on an annual basis for AMCs regarding their ESG scheme's portfolio being in compliance with the strategy and objective of the scheme stated in Scheme Information Documents (SIDs).

Such assurance is applicable on:

- 'Comply or explain basis' for all ESG schemes for FY 2022-23 by 31 December 2023.
- Mandatory basis for FY 2023-24 and onwards. Also, disclosure of assurance should mandatorily be made in the scheme's annual report.

- The AMCs should ensure that the assurance provider for an ESG scheme has the necessary expertise for undertaking reasonable assurance and there is no conflict of interest with the assurance provider appointed.

B. Certification by the board of AMCs

- Basis a comprehensive internal ESG audit, the board of directors of AMCs are required to certify compliance of ESG schemes with the regulatory requirements as a part of the annual report of the scheme.
- The board of directors of AMCs should provide the certificate for FY 2022-23 by 31 December 2023. Thereafter, the certification should be disclosed in the annual reports of the schemes.

(Source: SEBI circular SEBI/HO/IMD/IMD-I – PoD1/P/CIR/2023/125 dated 20 July 2023)



Stricter regulations related to disclosure of material events and information by listed entities

Regulation 30 of the Listing Regulations states that a listed entity which has listed specified securities³, is required to disclose material events or information to the stock exchange in accordance with Part A of Schedule III of the Listing Regulations.

On 14 June 2023, SEBI issued amendments⁴ to the Listing Regulations with respect to disclosure of material events or information. These amendments pertained to the following:

- Determination of materiality threshold and materiality policy (Regulation 30(4)(i) and (ii))
- Revised timelines for disclosure of material events (Regulation 30(6))
- Verification of market rumors (Regulation 30(11))
- Disclosure requirements for certain types of

agreements binding listed entities (Regulation 30A)

- Additions and modifications of disclosure of events specified under Para A and Para B of Part A of Schedule III

Subsequently, on 13 July 2023, SEBI issued a circular which specifies the details which a listed entity is required to disclose and the timelines for disclosure with respect to the events specified under Part A of Schedule III. It also provides guidance on when an event/information can be said to have occurred and on determination of materiality. The provisions of this circular are applicable from 15 July 2023.

For more details on this update, refer to the BSR Corporate Reporting Insights June edition.

(Source: SEBI circular no. SEBI/HO/CFD/CFD-PoD-1/P/CIR/2023/123 dated 13 July 2023)



3. Regulation (2)(1)(zi) of Listing Regulations defines specified securities as equity shares and convertible securities as defined under Regulation 2(1)(eee) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

4. SEBI Listing Regulations (Second Amendment) Regulations, 2023



Clarification on director appointment by debenture trustees

Regulation 23(6) of the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (NCS Regulations) obligates an issuer which is a company under the Companies Act, 2013 (2013 Act) to ensure that its Articles of Association (AoA) requires its Board of Directors to appoint a director which is nominated by the debenture trustee(s) in accordance with Regulation 15(1)(e)⁵ of the SEBI (Debenture Trustees) Regulations, 1993 (DT Regulations).

The above-mentioned obligation did not exist in case of an issuer which is not a company. In order to fill the gap, on 4 July 2023, SEBI issued a circular for issuers that are not companies. As per the circular, such issuers that are not companies, are required to submit an undertaking to their debenture trustees stating

that a non-executive/independent director/trustee/ member of its governing body should be designated as a nominee director in consultation with the debenture trustees in case of events mentioned in Regulation 15(1)(e) of the DT Regulations.

Additionally, debenture trustees should ensure compliance with the provisions of this circular by the issuer and themselves.

The provisions of this circular are applicable from 4 July 2023.

(Source: SEBI circular no. SEBI/HO/DDHS/POD1/P/CIR/2023/112 dated 4 July 2023)

Roles and responsibilities of trustees and Board of Directors of AMC's of mutual funds

As per the SEBI (Mutual Funds) Regulations, 1996 (MF Regulations), the trustees hold the property of the mutual fund in trust for the benefit of the unit holders and their primary role is to ensure that the Asset Management Companies (AMCs) appointed by them act in the best interests of the unitholders. Further, an AMC is responsible for managing the funds of the schemes and to ensure that the interests of the unitholders are protected.

With an aim to streamline the responsibilities of the trustees and AMCs, SEBI has issued a circular on 7 July 2023 prescribing the roles and responsibilities for the trustees and AMCs.

The key takeaways from the circular are as follows:

- **Core responsibilities:** The circular prescribes the core responsibilities for trustees which, *inter alia*, include:
 - a) The trustees should ensure fairness of the fees and expenses charged by the AMCs and should review their performance in its schemes vis-a-vis performance of peers or the appropriate benchmark
 - b) The trustees should take responsibility to address any conflict of interest between the shareholders/stakeholders/associates of the AMCs and unitholders

5. Regulation 15(1)(e) of DT Regulations requires the debenture trustees to appoint a nominee director on the board of the company in the event of:

- i. Two consecutive defaults in payment of interest to the debenture holders; or
- ii. Default in creation of security for debentures; or
- iii. Default in redemption of debentures.





ESG Reporting and compliance updates



SEBI updates



Other updates

- c) The trustees should do independent evaluation of the compliance by AMCs in relation to the identified key areas
- d) The trustees should ensure that AMCs have system level checks in place to prevent fraudulent transactions including front running by employees, form splitting/mis-selling by distributors etc.
- e) The trustees should ensure the operations of AMCs should not be unduly influenced by the AMCs Sponsor, its associates and other stakeholders of AMCs and that undue or unfair advantage is not given by AMCs to any of their associates/group entities.
- f) AMCs should have suitable mechanisms/systems to generate system based information/data/reports for evaluation and effective due diligence by trustees. Trustees should perform such reviews on a periodic basis.
- g) AMCs should submit exception reports/analytical information to the trustees, that add value to the process of exercising their oversight role. The trustees shall evaluate the nature and adequacy of the alerts and the manner of dealing with such alerts by AMCs.

- **Third-party assurance:** The trustees should rely on third party fiduciaries such as audit firms, legal firms, merchant bankers, etc. for carrying out due diligence on their behalf.
- **Appointment of a trustee company and meeting between trustee company and AMCs:** As per the provisions of MF Regulations, if the trustee is a company, the chairperson of the board of directors of such a trustee company should be an independent director. In case of companies that have already been appointed as trustees of a mutual fund, an extended time period of six months from 1 January 2024 has been provided to ensure compliance with the aforementioned requirement.

Further, the board of directors of the AMCs and the board of directors of the trustee company should meet at least once a year to discuss the issues concerning the mutual fund, if any, and future course of action, wherever required.

- **Unit Holder Protection Committee (UHPC):** As per the provisions of MF Regulations, the AMC is required to constitute a UHPC. The circular prescribes the roles and responsibilities of UHPC which, *inter alia*, include review of the various compliance issues relating to protection of

the interests of the unit holders and keeping the unit holders well informed and educated about mutual fund products, investor charter and compliant handling procedures. Annexure-1 to the circular provides the detailed guidelines for UHPC.

The provisions of this circular are effective from 1 January 2024.

(Source: SEBI circular no. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2023/117 dated 7 July 2023)

Eligibility criteria for sponsors of a mutual fund

SEBI, through its circular dated 7 July 2023, has prescribed the regulatory framework (the framework) for sponsors of a mutual fund with an aim to enhance the penetration of the mutual fund industry and to facilitate new types of players to function as sponsors of mutual funds. An alternative set of eligibility criteria has been introduced in order to facilitate fresh flow of capital into the industry, foster innovation, encourage competition, provide ease of consolidation and exit for existing sponsors.

Certain key points to consider from the framework are as follows:

- i. The framework stipulates the asset classes for deployment of minimum net worth requirements by AMCs
- ii. The framework lays down the requirements for acquisition of an AMC by a sponsor
- iii. The framework prescribes the conditions for permitting a private equity fund or a pooled investment vehicle or a pooled investment fund to sponsor mutual funds
- iv. The requirements and conditions with respect to reduction of stake, disassociation of sponsor and re-association of sponsor are also prescribed in the framework.

The provisions of point (i) are applicable from 1 January 2024 whereas the provisions stipulated in point (ii) to (iv) are effective from 1 August 2023.

(Source: SEBI circular dated 7 July 2023)



Audit working paper templates issued by the Institute of Chartered Accountants of India (ICAI)

Audit work papers are a crucial component of the statutory audit. Standard on Auditing (SA) 230, *Audit Documentation* emphasises the importance of audit documentation as evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. On 3 July 2023, the Auditing and Assurance Standards Board (AASB) of ICAI issued a publication on audit working paper templates with an aim to help the auditors in preparing their audit working papers in consistent and effective manner.

The publication consists of templates of various audit working papers which are required to be prepared by auditors during the course of their audit assignment. These templates are prepared in accordance with the requirements of SAs, Schedule III of the Companies Act, 2013 checklist, CARO 2020 checklist, etc.

(Source: ICAI announcement dated 3 July 2023)

Guidelines on remuneration of directors and Key Managerial Personnel (KMP) of insurers

On 30 June 2023, the Insurance Regulatory and Development Authority of India (IRDAI) issued remuneration guidelines for non-executive directors and KMP of insurers. These guidelines replace and supersede the guidelines issued in 2016⁶.

The guidelines are applicable to directors and KMPs of private insurers from Financial Year 2023-24. The guidelines require the insurer to complete the process of framing/reviewing the remuneration policy within 3 months of the issuance of these guidelines. The guidelines also prescribe the disclosure requirements for insurers in their notes to accounts forming part of the annual financial statements.

The key takeaways are as follows:

- **Directors:** The Board of Directors in consultation with the nomination remuneration committee should formulate and adopt a comprehensive remuneration policy and the same should be in compliance with the provisions of the

Companies Act, 2013 (2013 Act). The total for each non-executive director should not exceed INR20 lakh per annum. It is further stated that the non-executive directors would not be eligible for any equity-linked benefits. The guidelines also permit payment of sitting fees and reimbursement of expenses, subject to the compliance with the provisions of the 2013 Act. The guidelines further prescribe the age limit and tenure of non-executive directors along with the disclosures required in the notes to accounts with respect to director remuneration.

- **KMPs:** The remuneration policy should be approved by the board and should cover all the KMP. Further, the policy should not encourage KMPs to take inappropriate or excessive risks for their performance based variable remuneration. The policy should cover all aspects of remuneration structure including fixed pay, allowances, perquisites, retirement benefits, variable pay including

incentives, bonus, share linked instruments, joining/sign on bonus, etc. Accordingly, the guidelines provide clarity with respect to these elements of the remuneration structure, malus and clawback provisions, accounting and disclosures requirements.

(Source: IRDAI circular reference no. IRDAI/F&A/GDL/MISC/141/6/2023 dated 30 June 2023)



6. IRDAI Circular no. IRDA/F&A/GDL/LSTD/155/08/2016 prescribed remuneration guidelines for non-executive directors and managing directors/ chief executive officer/whole-time director.



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