

## The rise of the ESG regulations

### Why in news?

Environmental, Social and Governance (ESG) considerations need to be included by investors in a company's risk profile in order to accurately assess the enterprise.

### What is Environmental, Social and Governance (ESG)?

- **ESG** - Environmental, social, and governance (ESG) investing refers to a set of standards for a company's behaviour used by socially conscious investors to screen potential investments.
- **Environmental criteria** - It considers how a company safeguards the environment, including corporate policies addressing climate change, for example.
- **Social criteria** - It examines how it manages relationships with employees, suppliers, customers, and the communities where it operates.
- **Governance** - It deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

### How ESG differs from CSR?

- **CSR** - India has a robust [corporate social responsibility \(CSR\)](#) policy that mandates that corporations engage in initiatives that contribute to the welfare of society.
- This mandate was codified into law with the passage of the 2014 and 2021 amendments to the Companies Act of 2013.
- **CSR Fund** - It requires companies with a net worth of ₹500 crores or minimum turnover of ₹1,000 crores or net profit of ₹5 crores in any financial year, to spend at least 2% of their net profit over the preceding 3 years on CSR activities.
- On the other hand, ESG regulations, differ in process and impact.
- **U.K. Modern Slavery Act** - Companies with annual sales of £36 million should publish the efforts they have made towards analysing the risks of human trafficking, child labour and debt bondage in their supply chain.
- **EU's Sustainable Finance Disclosure Regulation** - It requires banks, financial markets to disclose how they integrated sustainability risks into their investment processes.

### Why is ESG relevant in India?

- **Regulating bodies** - India has long had a number of laws and bodies regarding environmental, social and governance issues, including the Environment Protection Act of 1986.
- **NGT** - Quasi-judicial organisations such as the National Green Tribunal (NGT) govern employee engagement and corporate governance practices.

- **BRSR** - The Securities and Exchange Board of India (SEBI), revised the annual Business Responsibility and Sustainability Report (BRSR) required by the 1,000 largest listed companies in India.

*The BRSR requirements are based on the National Guidelines for Responsible Business Conduct (NGRBC), which mandate that businesses: Conduct and govern themselves with Ethics, Transparency and Accountability.*

### **What are the implications for Indian companies?**

- **Different from CSR** - Compliance with ESG regulations, both originating in India and elsewhere around the world, thus, pose a significantly different challenge than India's CSR regulations.
- **China factor** - India should take full advantage of the growing decoupling from China and play a more prominent role in global supply chains and the global marketplace overall.
- This is particularly true when the supplier's own supply chains have several layers.
- **Shell companies** - Ownership that is obscured through shell companies can present additional challenges.
- **Due diligence** - ESG due diligence needs to be supported within the company with detailed procedures for assessing risks and controls for assuring that no corners are cut.

### **Reference**

1. [The Hindu | The rise of the ESG regulations](#)

