Companies should avoid greenwashing in BRSR reporting

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The SEBI has laudably made reporting called Business Responsibility and Sustainability Reporting (BRSR)) in May 2021 covering environmental, social, and governance mandatory aspects for the top 1000 listed companies w.e. for the financial year 2022-23 and on a voluntary basis for the Financial Year.

The three domains of the reporting requirements, namely, environmental, social, and governance pose significant challenges in measurement, and, in assessing impact inter-se and with financial results. Understandably, FY 22-23 being the first year, the compliance of the SEBI requirements, as BRSR for the year of a few of the companies suggests, has been more in a letter than spirit and lacks clarity, reliability, and transparency. For example, some emissions are reported multiple times or assumptions for measuring those, and those from supply and distribution chains are not supported by underlying assumptions. Worse than this is - financial reporting without proof of claims or a proper basis, or having a label on the product with false claims or assertions made which are truthful but irrelevant, and the like. These are not being regulated and are not subjected to audit often misguiding, if not deceptive for consumers, investors, lenders, and other stakeholders.

The auditors in general have relied on the assertions made by the management in the BRSR report without assessment thereof and of physical, transitional, legal, and reputational risks posed on the financial results or very sustainability of the entity or its financial or business model. Historically, there are a number of instances where large and small companies in the financial sector, and in non-financial sectors such as energy, construction, and agriculture have suffered severely because of ESG and in particular climate change-related risks. Financial statements in most of these companies are however presented based on the assumption of business as usual ignoring imminent or emerging climate risks imminent or emerging risks.

The potential financial implications arising from climate-related and other emerging risks may arise due to changes in the useful life of assets, changes in the fair valuation of assets; changes in provisions for onerous contracts or contingent liabilities arising from fines and penalties, changes in expected credit losses for loans and other financial assets. Contrary to the general belief, the current accounting standards without mentioning specifically mentioning ‘climate or ESG ‘risks require the companies to consider the impact of material impact of such risks on financial statements.

> ‘ **The BSRR framework issued by SEBI is comprehensive. It is high time that an enabling ecosystem is institutionalized for its effective compliance by the companies before the law and the regulators as**

in US and European countries intervenes to stringently fix accountability. The US Securities and Exchange Commission (SEC) has proactively taken action in a number of cases on ESG and greenwashing matters even on misleading statements by the companies on their commitment to sustainability.

Lenders, investors, and insurers are as well increasingly getting sensitized to the ESG risks in their portfolios and they are demanding more transparency and reliability in measurement and reporting from their clients. They should not only effectively monitor the borrowers but also assess the implications of these risks on quality of the their portfolio. The expected loss assessment should include ESG considerations.

Companies on their part while preparing and presenting financial statements should consider emerging risks, including climate-related risks that investors may require. These together with information on the effects thereof and underlying assumptions should be disclosed in financial statements and in the non-financial information voluntarily or under regulatory requirements for example board's report.

Companies offering financial products, for example, green bonds that are green or market products which carry sustainable or climate-friendly labels must conduct thorough due diligence before making such claims and clearly explain why they consider these products sustainable or climate-friendly.

‘ **ESG reporting and greenwashing are expected to continue as hot topics in the years to come. The competition and Markets Authority in the UK published its Green Claims Code for the companies in the year 2021. Mandatory application of the BSRR framework in India will lead to fairness, accuracy, and substantiated ESG claims and minimize greenwashing.**

The board of directors of the companies should sensitize themselves and take measures to institutionalize the ESG systems and processes. Merely setting up CSR or ESG committees of the board may not be sufficient.

About the author-Ashok Haldia is Former Secretary, the Institute of Chartered Accountants of India.

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