SEBI

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Climate change/ESG related changes by SEBI

Climate change has been, in recent weeks, been literally the topic of the day, generating daily headlines in newspapers, thanks to the recent climate conference COP26 in Glasgow, the United Kingdom. There can be more than one opinion whether the conference has been successful and the ambitious pledges and commitments made there will be actually implemented and we may actually move towards a net zero situation.

However, for Chartered Accountants and capital markets generally, climate change specifically and ESG (Environmental, Social and Governance) generally has direct relevance. Companies are directly affecting climate change and even the reverse is true – that climate change is and will continue to affect companies and their businesses. Companies need to be conscious of the effect their activities are having on climate change. If they do not take corrective actions, regulators may intervene and take various measures. These measures may include taxes, regulations/requirements for approvals and even outright bans. On other hand, companies conscious of their obligations may benefit from subsidies and other relaxations.

Climate change may also affect certain businesses more than others. Some businesses may face losses and possibly may even go out of business wholly or partially.

SEBI, the regulator for capital markets, has shown close concern on this matter. In recent times, it has taken two measures which are worthy of note.

In May 2021, the Securities and Exchange Board of India (SEBI) has prescribed an elaborate format for reporting on Climate Change, and other issues through the Business Responsibility and Sustainability Reporting (BRSR), which is applicable mandatorily for the Top 1000 listed companies from FY 2022-23, and voluntarily from FY 2020-21.

More recently, on October 26, 2021, SEBI released a consultation paper seeking suggestions on what disclosures thematic ESG (Environmental, Social and Governance) mutual fund schemes should make, and what norms they should follow. The formats of reporting are increasingly quantitative with even precise financial impact.

The subject of reporting on ESG generally and climate change generally will only grow even further to help investors, other stakeholders and government know how companies are dealing with such matters. Chartered Accountants will also have to grapple the implications of various regulations as also accounting for the impact of climate change.