ESG – REDEFINING A NEW ERA OF INVESTMENT

ESG Investments have attracted wider attention from both investors and customers worldwide. These kinds of investments largely follow a triple – bottom – line approach that combines financial returns with environmental and social norms. Investment decision – making processes and investment analyses are increasingly emphasizing the sustainability of investments and adherence to environmental, social and governance (ESG) norms. These forms of investments always involve a contradiction between simple profit maximisation and ESG integrated profit maximization options.

One of the crucial ingredients of sustainable investment is transparent ESG reporting and disclosure of information. While ESG reporting and disclosure have a legal standing in many countries, they are voluntary in nature in many others. The reporting and disclosure of information are vital for investors and customers to understand corporate houses' long-term business and investment strategies and assess their sustainability quotient.

The increasing perils of the environmental and climate – related crisis have recently emerged as compelling factors for countries to mobilize private investors as important stakeholders in achieving the sustainable development goals (SDGs) by incorporating ESG factors into investment processes and investment decision – making systems. There is an expectation that business entities will play a pivotal role in and bear significant social and environmental responsibilities for taking appropriate measures to minimize the mounting environmental and societal crisis.

ESG Investments – Global Scenario

Globally, ESG investments have achieved momentum as a mechanism attracting both investors and consumers. There are three direct drivers of such rise in ESG investments.

-Increasing recognition that integrating ESG factors could generate salutary effects on investors risks and returns.

-Aspirations of the beneficiaries and clients about the transparency of the money that companies are investing and the role that ESG investments can play in meeting these aspirations.

-Increasing legal framework for ESG investments and the legal imperatives for such investments in various countries across the world.

Observations have indicated increasing interest in ESG integration in investment decision making processes worldwide, with an annual growth rate of 24%. Geographically, the US and Europe are the largest contributors. Though ESG integration has yet to accelerate in Asia, there has been a surging demand for ESG investments in Asian countries. Countries like Japan are the front-runners, and several other countries are extending their ESG investments.

ESG Investment Scenario in India

ESG Investments in India are at very nascent stage of development, though they have been evolving fast. Considering India's developmental priorities, the integration of ESG elements into the investment decision making processes is becoming crucial to address the persisting societal challenges and increasing environmental and climate threats.

Recently, the Government of India has realized the importance of integrating ESG factors into business processes and has actively promoted this through various reforms and regulations. Businesses in India have realized the imperative of seizing the opportunity to tap renewables, and more corporate entities are adopting this approach.

Indian corporations are increasingly integrating ESG factors into their business decision making process. For instance, several asset-management companies, such as Axis Mutual Fund, ICICI Prudential and Aditya Birla Sun Life, have launched ESG integrated scheme and are increasing adopting ESG norms in their investment decision-making processes. It is being observed from the National Stock Exchange (NSE) that ESG indexed companies have fared well compared with non-ESG indexed companies.

Legal Framework Governing ESG Investments in India

As ESG Investment in India are at the budding stage, the government has implemented a host policy and regulatory initiatives to drive them. The Ministry of Corporate Affairs (MCA) along with the Securities Exchange Board of India (SEBI) has come up with the regulations on the ESG Investments in India.

MCA has formulated various governance norms with respect to the environment sustainability. Besides, the norms formulated by MCA, the capital market regulator, SEBI has announced multiple circulars on various aspects of sustainability investment in the country and the reporting structure of such investments.

Recently, India has introduced new environment, social, and governance (ESG) reporting requirements for the top 1,000 listed companies in the country by market capitalization. The Securities and Exchange Board of India (SEBI) stipulates that the disclosure must be made through a new format, namely the Business Responsibility and Sustainability Report (BRSR). BRSR reporting has been made voluntary for FY 2021-22 but will be mandatory from FY 2022-23.

Further, SEBI has released a Circular on Business Responsibility and Sustainability Reporting by listed entities and a consultation paper (very recently, on 26th October 2021) seeking the comments of the public and stakeholders on ESG Mutual Fund Schemes. As per both of these documents, companies are required to make the following disclosures before the SEBI:

- ESG Risks faced by the Company
- Strategy to mitigate such risks
- Financial consequences that may be reflected in the Company's performance due to these risks
- Agendas that promote sustainability and sustainability goals of the Company
- Environmental aspects of the Company such as the emission of greenhouse gases, waste generation and management, water consumption etc.
- Social aspects such as gender diversity and inclusivity, employee welfare policies, wages etc.
- Assessment reports on Corporate Social responsibility, social impact etc.
- Disclosures related to consumers such as data privacy and security, product details etc.

The SEBI has also suggested that the scope of ESG Risks and opportunities of a scheme or fund should be reflected in its name as well as its investment strategy and objective. ESG investing shall no longer remain an optional practice. All Asset Management Companies shall be required to comply with ESG norms, and their investment objectives shall be drafted accordingly.

Conclusion

The assessment of policy and legal pronouncements around ESG investing in India unravels some interesting patterns and paths. First, the scope of policies has widened over the years, in line with the emphasis on ESG investments. Second, a gradual movement from voluntary regimes to mandatory regimes has characterized the evolution of policies. Third, there has been a recent emphasis on corporate entities' reporting and disclosure of information.

The evaluation of the sustainability initiatives of a select set of corporate entities indicated that key environmental sustainability goals, such as the reduction of Greenhouse Gas (GHG) emissions, enhancing energy efficiency, procurement of green energy, efficient use of water, waste management, and waste recycling, dominate their ambitions, and they do not assign equal priority to the social sector component of ESG investments.

Further, it is also pertinent to highlight that global reporting standards and frameworks are important to ensure that disclosures are consistent and comparable everywhere. Investors are now committing considerable amounts of money to companies that are progressive in governing and operating in an ethical and sustainable manner. Businesses that understand the need to adjust to changing socioeconomic and environmental conditions are better positioned to spot growth advantages and handle competitive forces.