ICAI Webinar on Sustainable Finance & ESG Ratings

Dr. Debashir Mitra, Dr. Sanjeev Kumar Singhal, other dignitaries present, esteemed panelists, Ladies and Gentlemen.

2. At the outset I would like to compliment the ICAI for organizing this webinar on a subject matter that calls for an immediate and comprehensive Global response. Two years back ICAI had constituted a Sustainability Reporting Standards Board (SRSB) with a mandate to produce comprehensive, consistent and comparable standards for measuring and disclosing non-financial information about an entity's alignment with Sustainable Development Goals. The idea is to infuse integrity and reliability in sustainable reporting at par with global best practices.

3. We all know that Growth is essential for Development, but are equally aware that we need responsible growth for achieving sustainable development. Today there are three main challenges before all of us – these are (a) Climate Change Challenges; (b) Business and Human Rights; and (c) Sustainable Development Goals. While Climate Change and SDGs are well known, Business & Human Rights issue is relatively more recent concept. This is based on the UN Guiding

Principles of Protect (State), Respect (Business) and Remedy (Legislation, Judiciary & administrative).

4. India has been a frontrunner on all these fronts. On Climate Change, we have given ourselves challenging targets, including 40% of electricity needs being met from non-fossil fuels by 2030. In CoP 26 the Indian Prime Minister committed Zero Carbon Emission by 2070. He also emphasized the need for developed countries to help developing countries and Least Developed Countries (LDCs) with affordable financing.

5. As far as Business and Human Rights and SDGs are concerned, India has brought out National Guidelines on Responsible Business Conduct, which is the basis of SEBI's BRSR. We may also refer to section 161 of the Companies Act 2013, which mandates that every director of a company shall, apart from furthering the interest of shareholders, equally protect the interest of employees, community and environment, which is very similar to ESG. Even section 135 of the Companies Act 2013, which makes CSR mandatory for profit making companies, recognizes the same objective.

6. Finance is the lifeblood to bring about economic development and Sustainable Finance leads to sustainable development. Over the

last few years sustainable finance has been growing rapidly in the form of green bonds, ESG bonds, social bonds, etc,. At global level, green bonds touched $ 0.5 trillion last year and are projected to cross $ 5 trillion by 2025 (CBI). Similarly, the other instruments such as ESG, sustainable bonds, transition bonds, sustainability linked bonds etc., have also become popular. Even Governments have come up with Sovereign Green Bonds. Recently UK raised GBP 10 billion and the Indian Finance Minister announced the intent of Government of India to raise Sovereign Green Bonds. However, the current flows of sustainable finance are miniscule compared with the projected need of $ 9 trillion per annum to achieve Zero Emission at global level by 2050.

7. To scale up we need a robust regulatory framework to identify (taxonomy such as ICMA principles, EU standards etc.,), measure (audit), disclose and rate sustainable debt instruments. Worldwide, regulators have been taking specific initiatives to have proper disclosures. For example, FCA UK introduced TCFD aligned disclosures for companies, life insurers, pension providers and issuers of listed shares and depository receipts. Singapore Exchange has also followed a similar approach of comply or explain. Further, it has decided to make it mandatory for certain sectors such as financial, agriculture, food & forest products, construction & transport.

8. IFSCA too has taken several initiatives. The listing regulations provide for a comprehensive regulatory framework for listing of Green Bonds, Social Bonds, ESG Bonds, Sustainability Bonds, Sustainability linked Bonds. In the last one year, many primary listings took place on IFSC exchanges totaling to over $ 5 billion. IFSCA has also come up with a framework of sustainable and sustainability linked financing for banks and finance companies.

9. Recently the IOSCO supported establishment of International Sustainability Standards Board under IFRS Foundation in order to set global standards on sustainability disclosures. This has become all the more important in the face of widespread concerns regarding green washing. Even ESG ratings has been questioned in the context of the ongoing Russian-Ukraine crisis.

10. Hence, it has become both imperative and opportune for ICAI to develop India Sustainability Standards which is aligned to global standards (like Ind AS is aligned with IFRS). The CA examination curriculum should be revised keeping the emerging challenges. In the end we all must remember that without gold standards in sustainability audit, ESG disclosures and ESG ratings, the investors will not come forward. As per an estimate, India needs more than $ 17 trillion to meet its SDG and climate change commitments and there would be a gap of over $ 10 trillion that has to be bridged by foreign capital. For that to

happen, we need to have the best in class sustainability reporting standards. Thank you.

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