

Regulatory Initiatives on ESG Disclosure Requirements in India

INTRODUCTION

Regulatory initiatives to build the legal frameworks around environmental, social and governance (“**ESG**”) disclosures in India, are at a nascent stage but are not of recent origin. Various regulators have gradually introduced requirements aimed at enhancing transparency and fostering corporate responsibility. In this note, we will examine these evolving ESG disclosure frameworks as implemented by the Securities and Exchange Board of India (“**SEBI**”), the Reserve Bank of India (“**RBI**”), and the International Financial Services Centres Authority (“**IFSCA**”), and analyze the regulatory gaps that these initiatives seek to fill.

THE REGULATORY LANDSCAPE

The SEBI introduced a set of expansive ESG reporting requirements for certain listed entities titled the ‘Business Responsibility and Sustainability Report’, in 2021, which were later consolidated and supplemented in 2023 (“**SEBI BRSR Standards**”). Recently, the SEBI Chairman announced that the SEBI is re-examining these requirements to ensure that qualitative disclosures are made, and the compliance burden on companies is reduced. The SEBI has also, on December 11, 2024, amended the Securities and Exchange Board of India (Issue and Listing of Non-Convertible Recently Securities) Regulations of 2021 (the “**NCS Regulations**”) by issuing the SEBI (Issue and Listing of Non-Convertible Securities) (Third Amendment) Regulations, 2024 (“**NCS Amendment**”). The NCS Amendment has, *inter-alia*, updated the existing disclosure regime for issuance of green debt securities in India.

In contrast to the broad-based disclosure requirements of the SEBI, the RBI seems to be following a more focused approach for ESG disclosures. On February 28, 2024, the RBI issued the draft ‘*Disclosure Framework on Climate-related Financial Risks*,

2024' (**"RBI Climate Disclosure Framework"**) inviting comments to address the need for better, consistent and comparable disclosures for the purposes of fostering early assessment of climate-related financial risks and opportunities by certain entities regulated by the RBI (**"REs"**) and facilitating market discipline. However, these are currently still in draft form. The RBI also released a 'Framework for acceptance of Green Deposits' in April 2023 (effective from June 01, 2023) (**"Green Deposits Framework"**), which allows REs to accept green deposits, which contains certain disclosure requirements to protect stakeholder interests and help raise capital to flow to green projects and activities.

The IFSCA has also issued guidance for certain fund management entities (**"FME"**) operating in International Financial Services Centres (**"IFSCs"**) in relation to disclosures for ESG schemes, which currently applies to IFSC-GIFT City. This guidance has been issued pursuant to the IFSCA (Fund Management) Regulations, 2022 (now replaced by the IFSCA (Fund Management) Regulations, 2025).

SEBI MANDATES

SEBI BRSR Standards

The SEBI BRSR Standards are mandatorily applicable for the top 1000 listed entities by market capitalization (including both companies and financial institutions), while other listed entities may report voluntarily. These entities must disclose essential indicators such as sustainable sourcing, energy consumption, and Scope 1 and 2 greenhouse gas emissions, with certain leadership indicators like Scope 3 emissions and environmental/social risks reported voluntarily.

In July 2023 and December 2024, SEBI expanded these standards by introducing additional ESG disclosures related to the value chains of top listed entities. Starting FY25-26, the top 250 listed entities will need to report on their value chain, covering upstream and downstream partners that make up at least 2% of their purchases and sales. However, entities may limit this disclosure to 75% of their total purchases and sales. The top 250 listed entities must also provide reasonable assurances, assessed by third-party evaluators, based on standards developed by the Industry Standards Forum, applicable to the listed entity from FY24-25 and its value chain starting from FY25-26. The Industry Standards Forum has recently prepared the BRSR-Core Reporting Standard with the objective to help companies comply with the BRSR Core disclosure requirements. Additionally, a new leadership indicator requires companies to disclose green credits generated or procured by their top value chain partners. This aligns with the Green Credit Program under the Green Credit Rules, 2023, aimed at promoting environmentally positive actions and restoring forest ecosystems.

Disclosures in respect of Green Debt Securities

The NCS Amendment was enacted by the SEBI to expand the scope of the sustainable finance framework in the Indian securities market. Among other changes, the NCS Amendment has updated, and seemingly inadvertently, removed disclosure requirements for the issuance of green debt securities in India. We note that the NCS Amendment has omitted Regulation 26 of the NCS Regulations, which has led to the omission of Chapters IX, IX-A and IX-B of the Master Circular which were adopted under and linked to Regulation 26. These had earlier proposed initial disclosure requirements to be made in offer documents, certain disclosures on a continuous basis in their financial statements and annual reports, protective measures to address the issue of greenwashing, and additional disclosure requirements for issue of transition bonds. The NCS Amendment has inserted a new provision in Regulation 12A which requires issuers of ESG debt securities to comply with “*such conditions as may be specified by the Board*”, which have not yet been specified. Accordingly, there exists a gap in relation to the disclosure framework for green debt securities. Please see our complete analysis on the NCS Amendment [here](#).

RBI MANDATES

RBI Climate Disclosure Framework

In contrast to the SEBI mandates described above which apply to a broader set of listed entities (including companies and banks alike), the RBI Climate Disclosure Framework applies only to specific REs such as scheduled commercial banks (excluding local area banks, payments banks, and regional rural banks), tier-IV primary urban co-operative banks (UCBs), all-India financial institutions (e.g., EXIM Bank, NABARD, SIDBI), and certain top and upper layer Non-Banking Financial Companies (NBFCs) (“**Specified REs**”). It also extends to foreign banks operating in India, but with limited disclosure requirements. Compliance with the RBI Climate Disclosure Framework is mandatory for the Specified REs and voluntary for other REs. The RBI Climate Disclosure Framework aligns with global standards, drawing on the Task Force on Climate-Related Financial Disclosures (TCFD) established by the Financial Stability Board in 2015. It recognizes climate change as a significant financial risk, encompassing both physical risks (from extreme weather events) and transition risks (from the shift to a carbon-neutral economy). Banks in India in particular face high exposure to high-energy intensive sectors, making climate change a medium-term risk.

The RBI Climate Disclosure Framework mandates disclosures in four key areas: governance, strategy, risk management, and metrics/targets. In relation to

governance, the Specified REs are required to disclose their internal governance processes, controls and procedures used in relation to managing climate-related financial risks and opportunities. Strategy-related disclosures are required to specify the strategy adopted by the Specified RE for identifying and managing climate-related financial risks and opportunities in the short-, medium-, and long-term. In respect of risk management and to help evaluate the bank's overall risk profile, the Specified REs are required to disclose their methodologies to identify, assess, prioritize and monitor climate-related financial risks. The Specified RE should also disclose the climate-related targets set by it, or as required by applicable law, and its progress and performance towards such targets.

Specified REs must, at a minimum, disclose baseline information, with some entities required to provide enhanced disclosures. Scheduled commercial banks, all-India financial institutions, and specified NBFCs must report both baseline and enhanced information, while UCBs can report enhanced information on a voluntary basis. The disclosures cover governance processes related to climate risk management, strategies for addressing climate risks across various timeframes, and methodologies for identifying and assessing these risks. Additionally, Specified REs must report on climate-related targets and the metrics used to measure performance, including details on their Scope 1, 2, and 3 greenhouse gas emissions.

Green Deposits Framework

Certain REs (i.e., the scheduled commercial banks specified above, small finance banks, and all deposit-taking NBFCs) are also required to adhere to certain limited disclosure requirements under the Green Deposits Framework. The RE is required to place a review report before its board of directors within three months of the end of the financial year. This report should include the following details: (i) amount of funds raised in the previous financial year that are green deposits; (ii) a list of green activities or projects (along with their description) to which proceeds of the green deposits were allocated; (iii) amount of funds allocated to such eligible green activities or projects; and (iv) a copy of the report obtained pursuant to a third-party verification process in relation to allocation of funds and the impact assessment report required to be obtained by the RE.

An RE is also required to make appropriate disclosures in its annual financial statements regarding the use of funds raised from green deposits at the portfolio-level, in a prescribed format, including information on the cumulative capital raised by the RE from the time it started accepting green deposits as well as the relevant sector in which such funds have been used.

IFSCA MANDATE

The IFSCA (Fund Management) Regulations, 2025 require Fund Management Entities (FMEs) with assets exceeding USD 3 billion to disclose in their annual reports how they identify, assess, and manage sustainability-related risks, and how these are integrated into their investment strategies. Such FMEs must also establish governance policies for managing such risks and comply with additional sustainability requirements set by the IFSCA. ESG schemes launched by FMEs must fully disclose their investment objectives, policies, risks, and benchmarks, with annual disclosures on ESG performance. The IFSCA Circular dated January 18, 2023 mandates these disclosures and requires FMEs to outline the risks associated with pursuing ESG objectives and their risk management practices.

Similar to SEBI mandates, the IFSCA mandates additional disclosures for ESG-labeled debt securities issued or listed in IFSCs to prevent greenwashing. Issuers must disclose ESG-related objectives, project selection processes, environmental and social risk assessments, use of proceeds, and sustainability targets. Continuous monitoring and disclosure of the environmental impact of financed projects are required, including performance indicators and progress towards sustainability goals. This ensures transparency in the issuance of green debt securities and helps stakeholders assess their actual ESG impact.

ANALYSIS

There is significant discourse on the need for specific climate-facing financial disclosures and climate-associated risks, particularly for banks and other financial institutions. Such risks have the potential to have far-reaching impact on financial markets, including higher credit risk for firms, price volatility, broken supply chains, and increased risk of default in both the wholesale and retail portfolios of banks.

The RBI mandates, particularly the RBI Climate Disclosure Framework would, if finalized and implemented, provide several significant benefits, particularly in fostering standardized climate-related financial disclosures for Specified REs. By integrating these disclosures into regular financial reporting, it helps enhance transparency, which facilitates shareholder engagement and broader participation in climate risk management. The RBI Climate Disclosure Framework's focus on governance, strategy, and climate-related targets allows stakeholders, including investors and insurers, to better understand a Specified RE's approach to managing climate risks and its potential for achieving risk-adjusted returns. This, in turn, will help REs play a

crucial role in financing the transition to a sustainable economy by providing credible and reliable data for informed decision-making.

Unlike the SEBI and IFSCA mandates, which focus primarily on broader ESG disclosures and do not specifically address climate-related financial risks in the same detail, the RBI Climate Disclosure Framework sets a novel and more comprehensive standard. Accordingly, it appears to fill in the gaps both in terms of the size and contribution of the institutions, as well as the nature and quality of the disclosures required to be made. Over a period of time, this would enable creation of standard and easily comparable information in relation to climate risks faced by Specified REs.

However, a key gap in the RBI Climate Disclosure Framework is its limited applicability, as it currently applies only to Specified REs, leaving out a broader range of financial institutions and entities that may also face significant climate-related risks. This in turn highlights the need for other regulators like SEBI and IFSCA to potentially extend their mandates to specifically address climate risk disclosures, filling the existing gap and offering a more holistic view of climate impacts across industries.

Another notable difference is the RBI Climate Disclosure Framework's requirement for standalone disclosures, which enhances comparability and standardization, especially when compared to SEBI's approach of consolidated reporting. This focus on standalone disclosures improves the quality and scope of the data, making it easier to assess the specific climate risks associated with individual entities, regardless of their diversified operations.

While the RBI Climate Disclosure Framework offers enhanced reporting and transparency, there are areas for improvement. The lack of third-party verification, as seen in SEBI and IFSCA mandates, could be addressed by the RBI to further ensure the credibility and accuracy of the disclosures. Additionally, the implementation of the RBI Climate Disclosure Framework, set for the 2025-26 financial year, will require substantial preparation from Specified REs. Accordingly, given that these requirements would be mandatory, it is recommended that Specified REs begin such processes well in advance to avoid penalties for non-compliance once the framework is implemented.

The RBI's October 2024 monetary policy statement acknowledges the challenges in implementing reporting standards due to a lack of high-quality data on local climate scenarios, forecasts, and emissions. Similarly, SEBI has committed to reviewing its mandates following industry feedback about difficulties in meeting broad requirements and the absence of reliable data. To address this, the RBI plans to establish the Climate Risk Information System (RBI-CRIS), which will include a public directory and

a phased data portal for REs. While details are still under development, such a system could significantly ease the compliance burden for REs under the RBI Climate Disclosure Framework. A similar inter-regulatory approach between the RBI, SEBI, and IFSCA for entities under these frameworks could facilitate better information sharing, creating high-quality datasets for disclosure. Such an approach would ease the compliance burden on entities which are covered by these reporting standards, and further enable such entities to focus on making more comprehensive and high quality disclosures.

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