THE SOCIAL IMPACT ASSESSOR

YOUR INSIGHT JOURNAL

March 2025

ICMAI Social Auditors Organisation

(A Section 8 Company promoted by The Institute of Cost Accountants of India)

Social Stock Exchange

SEBI vide its notification dated 25th July, 2022 has made amendments in the SEBI (ICDR) Regulations, 2018, and SEBI (LODR) Regulations, 2015. Copies of these amendments are being circulated with this communique. These amendments have been made to provide Social Enterprises with additional avenues to raise funds through the Social Stock Exchange (SSE), which is a novel concept in India. It provides eligibility of organizations to raise funds through Social Stock Exchange, eligibility of entities to be classified as "Not for Profit Organization", eligibility of entities to be classified as "For Profit" Social Enterprises, means through which Social Enterprises can raise funds, and obligations of Social Enterprises.

Furthermore, to strengthen the governance framework in these entities, & provide better confidence to such investors, SEBI has introduced the concept of Annual Impact Report by a Social Auditor. The purpose of this Social Audit is to ascertain the impact made by the Social Enterprise through its activities, intervention, programs or projects implemented during the reporting period. The annual impact report shall be audited by a Social Auditor.

ICMAI Social Auditors Organisation (ICMAI SAO)

To enroll & regulate the Social Auditors and also to prescribe the Social Audit Standards, the Institute of Cost Accountants of India, in compliance with SEBI Regulations, has incorporated a section 8 company titled ICMAI Social Auditors Organization. The ICMAI SAO will enroll eligible CMAs & others as Social Auditors and focus on their capacity building through continuous professional advancement with emphasis on adherence to the highest ethical standards and compliance with the Social Stock Exchange requirements.

SOCIAL AUDITORS ICMAI वसुधैव कुटुम्बकम् ORGANISATION

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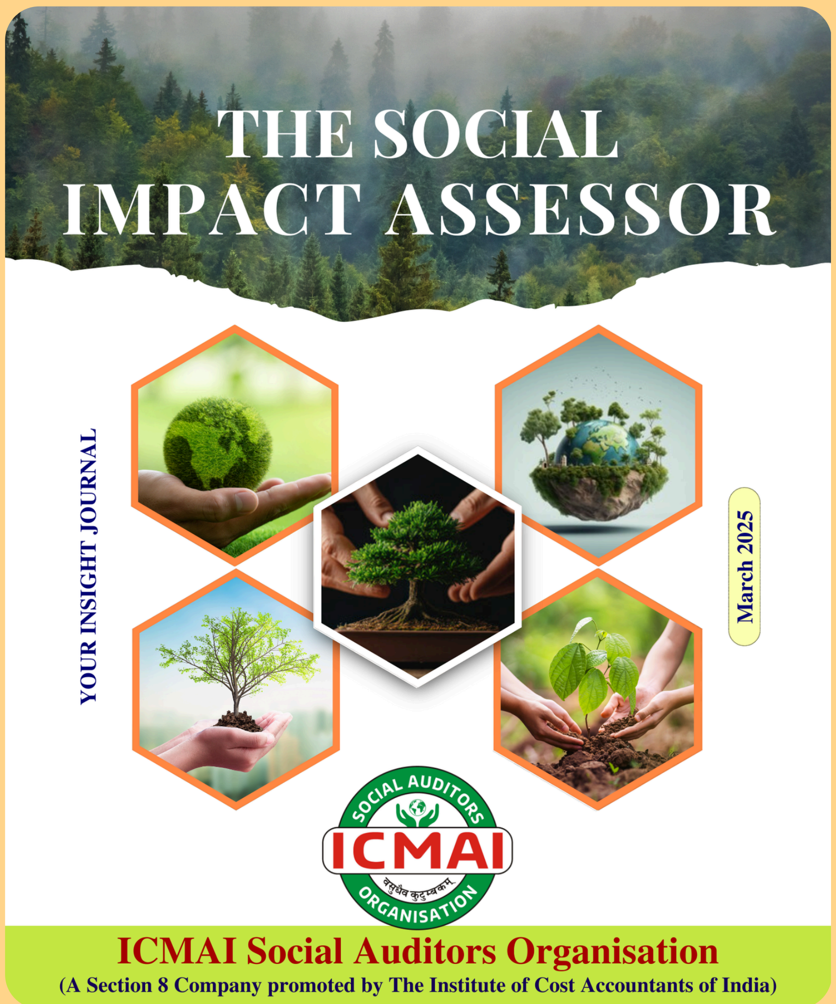

March 2025

IN THIS ISSUE...

FROM THE CEO's OF DESK, ICMAI SAO

CMA (Dr.) S K Gupta

The Social Stock Exchange has the potential to democratize giving. To attract donors to the Social Stock Exchange (SSE), we need to focus on highlighting the transparency, accountability, and measurable social impact that the platform provides, actively reach out to potential investors with a strong focus on their values, showcase successful social enterprises already listed, and utilize targeted marketing strategies to reach the right audience, including high-net-worth individuals and impact investors seeking to align their investments with their social goals; additionally, ensure listed organizations provide detailed information about their social impact metrics and clearly articulate their mission and impact goals.

Identify and actively engage with potential investors who prioritize social impact, including philanthropic foundations, impact investment funds, and high-net-worth individuals with a strong social conscience and partner with NGOs, social impact organizations, and industry associations to reach a wider network of potential donors.

It is also required to be ensured that all listed organizations clearly articulate their mission, social impact goals, and how their activities create positive change in society. Encourage listed organizations to regularly update investors on their social impact progress through transparent reporting mechanisms.

A R T I C L E S

ICMAI Social Auditors Organisation

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Impact Investing : Making a Difference and a Profit

CMA (Dr.) S K Gupta

Chief Executive Officer - ICMAI Social Auditors Organisation

The Perspective

The world continues to be plagued by poverty, inequality and the loss of biodiversity. These issues are exacerbated by natural and manmade disasters like tsunamis, droughts, war and climate change. Aside from government intervention, solutions to these social and environmental problems have traditionally been funded by philanthropy and development aid. Typically, philanthropy has been limited to foundations and high net worth individuals that have accumulated enough wealth to then redistribute it through grants to projects that have humanitarian aims. Philanthropy is voluntary and often an unreliable source of consistent funding. Typically, it has relied on the generosity and personal interest on behalf of the giver, rather than a reciprocal relationship between grantor and grantee. The impact investment market provides capital to address the world's most pressing challenges in sectors including energy, microfinance, healthcare, sustainable agriculture, infrastructure and housing. This strategy is based on the idea that you can align your investments with your personal and philanthropic values while realizing financial returns.

Understanding Impact Investing

The term impact investing was first coined in 2007 by the Rockefeller Foundation. A basic goal of impact investing is to help reduce the negative effects of business activity on the social or physical environment. It may sometimes be considered an extension of philanthropy.Impact investing is an investment strategy that seeks to generate financial returns while creating a positive social or environmental impact. Investors who follow impact investing consider a company's commitment to corporate social responsibility or the duty to positively serve society as a whole.

Impact investing is an approach that aims to contribute to the achievement of measured positive social and environmental impacts. It has emerged as a significant opportunity to mobilize capital into investments that target measurable positive social, economic, or environmental impact alongside financial returns. A growing number of investors are incorporating impact investments into their portfolios. Many are adopting the SDGs and other goals as a reference point to illustrate the relationship between their investments and impact.

Impact investing is the act of purposefully making investments that help achieve certain social and environmental benefits while generating financial returns. It's a broad term that refers to everything from investing in companies with an explicit mission aligned with your values to avoiding investing in companies that do not meet those criteria. It can also be defined more expansively to include donating to non-profits and projects that blend these charitable funds with investment capital to support larger or higher-risk projects that may not otherwise be financially viable.

The impact investing market is relatively new but is growing rapidly, and is making progress in converging towards common frameworks for managing investments for impact. Some $2.3 trillion of assets have an intent for impact, of which $636 billion of these assets clearly have impact management and measurement processes in place.

More than $400 billion is managed in accordance with the Impact Principles, the market standard for how to manage an investment portfolio for impact. Many of these investors use the Joint Impact Indicators to measure and report on progress.

Why impact investing?

"The defining challenge of the 21st century will be to transform the system governing markets so that they work for, rather than against, sustainability" – One Planet Business: Creating Value Within Planetary Limits .Impact investing challenges the long-held views that social and environmental issues should only be addressed by governments and philanthropists, and that market investors should focus exclusively on achieving financial returns. The impact investing market offers diverse opportunities for investors to advance social and environmental solutions through investments that produce both financial and impact returns. The adoption of the SDGs and the launch of the Financing for Development agenda in 2015 has given a strong boost to impact investing. The need to achieve SDGs- which will require $5-7 trillion/year of financing - has changed the conversation around impact from project level impacts, often in small social enterprises, to how to achieve impact at scale.

Specifically, the focus on the SDGs has raised the sights of impact investors beyond project-level impacts towards systemic impacts which can move the needle on the SDGs. At the same time, the Financing for Development Agenda for the SDGs has brought a wider range of fund managers and investors to the table, wanting to ensure that their investments are aligned with the SDGs.

What are the types of impact investing?

There are many different ways to invest for social or environmental impact or both. Here are a few common ones:

- Invest in mutual funds, exchange-traded funds (ETFs) or bonds that choose companies that align with values that matter to you. Many of these funds select companies according to faith-based criteria, environmental practices or human rights. (See "What is socially responsible investing?" below.
- Avoid investing in companies whose practices you disagree with. Some investors, for example, avoid "sin" stocks, like producers of alcohol, tobacco or weapons.
- Make a charitable donation or a charitable grant to organizations or projects that blend charitable support with investment capital to support higher-risk projects that may not otherwise be financially viable. New initiatives to address a societal need may not be financially feasible or profitable until they can cross a threshold that lets them compete in the marketplace—and may even be nurtured in the non-profit space first. There are several Non-profit organizations that specialize in making impact investments. The profits generated from their investments, if any, are then reinvested into new projects.
- Invest directly in private companies or funds with an explicit social mission. This may be through venture capital investment or share purchases. For example, you could invest in companies that focus on solar power, carbon sequestration or alternative fuels.
- Lend to a non-profit, whose mission you want to support. One way to accomplish this is through a non-profit loan fund. Loan funds allow lenders to pool their capital and spread their risk in a diversified portfolio.

Approaches to Impact investing

Impact investment is an umbrella category of investment strategies designed for dual return—both financial and social/environmental—but there are many ways to approach this strategy.

- Negative Screening - The simplest form of impact investing is to opt out of investing in companies that work against the investor's social or environmental goals. For instance, an investor may choose not to invest in "vice" companies (e.g. tobacco or firearms manufacturers), or may choose not to invest in companies with poor environmental track records.
- Positive Screening - By contrast to negative screening, an investor may proactively elect to invest in companies that align with their values: for instance, companies working to advance renewable energy.

- **Investing in Values-Aligned Capital Funds -** Rather than choose investments company by company, the investor may choose to invest in mutual funds, exchange-traded funds or bonds designed to work with companies that align with a specific social or environmental value set.

What are the benefits of impact investing?

Impact investing offers a variety of benefits—some quantifiable and tangible, others less so but still important. Here's a sample of the benefits of impact investing:

- Promote and encourage corporate practices that are important to you, such as fair labour practices or environmental stewardship.
- Use more of your resources—beyond what you donate to charity—to support issues that matter to you.
- Support approaches to addressing societal issues that are sustainable and not fully reliant on philanthropic funds.
- Make your money go further. You can recycle returns on impact investments for further social impact.

It's also important to note that investing for impact doesn't necessarily mean you have to compromise financial returns. Numerous studies have looked at the performance of impact investments and found that investing in sustainability has usually met, and sometimes exceeded, the performance of traditional investments.

Growing Interest and Variety

Big investment banks are also taking note. Goldman Sachs, for example, has jumped on the impact investing bandwagon. In 2014 it rolled out its GS Social Impact Fund, which deploys capital toward the physical, social, and economic revitalization of disadvantaged communities across the U.S. The fund's investment strategy is to addresses social challenges and to mobilize new sources of private capital into the social impact arena while also providing its investors with a financial gain.

In addition, Goldman Sachs has invested in communities across the United States, supporting a wide variety of development and revitalization projects such as investments in affordable housing construction, job creation, quality education, healthcare facilities, small businesses, and more.

The Rockefeller Foundation was one of the first foundations to experiment with social impact bonds in conjunction with the Global Impact Investing Network (GIIN), a non -profit organization dedicated to increasing the effectiveness of impact investing. The foundation also funded the development of metrics to measure the performance of these social enterprises and impact investing funds.

With the guidance of the Rockefeller Foundation, some of the biggest U.S. investment banks, including Goldman Sachs Group, Inc.JPMorgan Chase & Co, and Bank of America Corp, have created social impact bonds that have been applied to issues such as early childhood education, affordable housing, and prison rehabilitation programs.

With investor demand for impact investing products continuing to rise as the idea becomes more mainstream, several financial institutions, such as Morgan Stanley , Merrill, and UBS Group, have also been developing impact-investing platforms that their wealth advisors can tap when clients request impact investment funds geared toward a certain cause

More and more opportunities will continue to open up for investors seeking to align their own financial futures with their desire to make a difference in the world. For now, though, most scalable impact investing options are still geared to wealthier investors.

Conclusion

Impact investing is a strategy by which capital is leveraged in ways that are designed to achieve positive social or environmental change while also generating a financial return for the investor. The availability of impact investing has challenged the traditional view that social and environmental issues should only be addressed by philanthropic donations , while market investments

should exclusively focus on generating financial returns. By providing capital to address the world's pressing challenges, impact investments can achieve both charitable and financial goals.

As concerns about scarcity and inequality become increasingly urgent, many investors are eager to generate both business and social returns—to "do well by doing good." One avenue is impact investing: directing capital to ventures that are expected to yield social and environmental benefits as well as profits. But there's a problem: Although the business world has several universally accepted tools, such as the internal rate of return, for estimating a potential investment's financial yields, no analogue exists for evaluating hoped-for social and environmental rewards in dollar terms. Forecasting gains is too often a matter of guesswork.

The desire to meld investments and social responsibility is growing at a fast pace among the rich and not-so-rich. And the groundwork has been laid for the creation of numerous products to meet the demand of a new generation of socially conscious investors. As long as such investments produce competitive returns—both financial and social—their popularity will only grow.

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- https://www.fidelitycharitable.org/guidance/philanthropy/impact-investing.

Fostering Integrity : Combating Greenwashing in ESG Reporting in India

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Executive Summary

This article examines the rising concern of greenwashing within the context of Environmental, Social, and Governance (ESG) reporting in India. As corporate accountability towards sustainability becomes increasingly vital, greenwashing-where companies misrepresent their environmental initiatives-poses a significant threat to stakeholder trust and the integrity of genuine sustainability efforts. The paper identifies three primary mechanisms to combat greenwashing: the Business Responsibility and Sustainability Reporting (BRSR) framework, strengthening corporate governance, and the role of independent third-party audits.

The BRSR framework, introduced by the Securities and Exchange Board of India (SEBI), mandates listed companies to disclose their ESG performance. While this initiative aims to enhance corporate accountability, its effectiveness hinges on rigorous enforcement and oversight to deter misleading claims. Practical examples from companies like Tata Steel and Mahindra & Mahindra illustrate how adherence to BRSR can foster transparency and stakeholder trust.

Strengthening corporate governance is crucial in preventing greenwashing. Companies such as Infosys and Wipro demonstrate effective governance structures that prioritize transparency, with dedicated sustainability officers overseeing ESG initiatives. These practices ensure clear accountability and commitment to genuine sustainability, reducing the likelihood of misleading disclosures.

The article further emphasizes the importance of independent third-party audits in verifying ESG claims. Companies like Hindustan Unilever Limited (HUL) and Tata Power showcase how engaging external auditors can enhance the reliability of sustainability reports and reinforce stakeholder confidence.

In conclusion, the paper stresses the need for a multi-faceted approach involving regulatory frameworks, robust governance, and independent verification to effectively combat greenwashing in India. By fostering a culture of transparency and accountability, companies can build trust with stakeholders and contribute positively to sustainable development, ensuring that their ESG reporting reflects genuine commitments rather than superficial compliance.

Abstract

Environmental, Social, and Governance (ESG) reporting has gained significant momentum in India, driven by regulatory mandates and growing stakeholder awareness. However, greenwashing-where companies misrepresent their sustainability efforts-threatens the credibility of ESG practices. This paper examines greenwashing within Indian corporate ESG reporting, its impact on stakeholders, and discusses regulatory frameworks, governance mechanisms, and third-party audits as solutions. Through recent case studies, regulatory developments, and a conceptual framework, the study emphasizes fostering integrity and accountability to promote genuine sustainability in India.

Keywords : Greenwashing , ESG Reporting , Sustainability

JEL Code : M14 , G34 , Q56 , K22 , L21

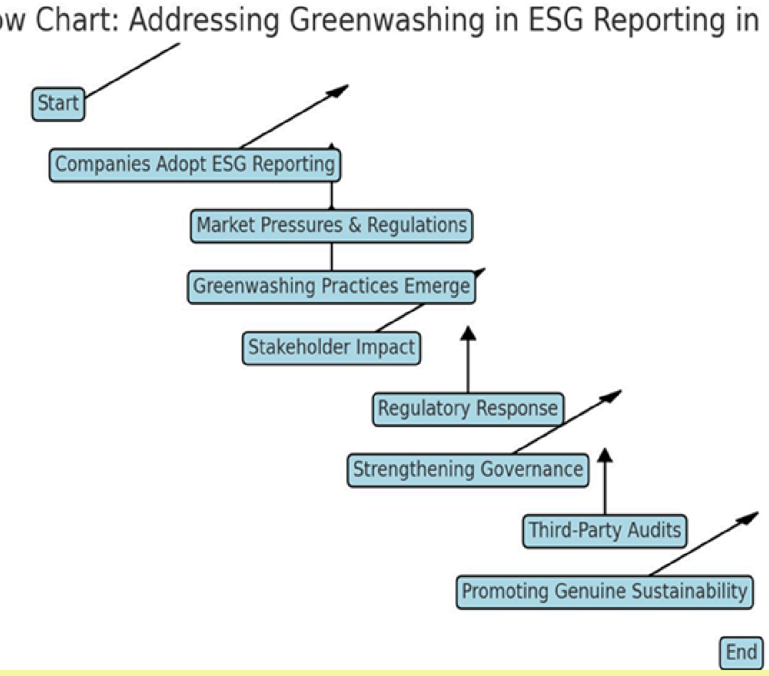
Introduction

The rise of Environmental, Social & Governance (ESG) reporting reflects a paradigm shift in how corporations operate , prioritizing sustainability and ethical practices. In India, this trend has gained significant momentum, driven by heightened awareness among investors, consumers, and regulators regarding corporate responsibility and sustainable development. However, alongside this positive movement lies the dark shadow of greenwashing-the practice of companies misleading stakeholders about their environmental initiatives, often exaggerating their sustainability efforts to enhance their reputation or attract investment.

Greenwashing not only undermines the credibility of genuine sustainability initiatives but also poses significant risks to various stakeholders. Investors may make decisions based on inflated claims, consumers may feel deceived by misleading product information, and communities may face adverse environmental impacts due to corporate negligence disguised as sustainable practices. This paper aims to explore the rise of greenwashing within India's ESG reporting landscape, examine its impact on stakeholders, and discuss the mechanisms available to combat this practice.

The increasing adoption of ESG reporting by Indian companies raises critical questions about the integrity of these reports. Are corporations genuinely committed to sustainability, or are they merely engaging in greenwashing? As the regulatory framework evolves and stakeholders demand greater transparency, it becomes imperative to address these concerns and foster a corporate culture that prioritizes genuine sustainability over superficial compliance.

Flow Chart: Addressing Greenwashing in ESG Reporting in India



Research Objectives

1. This paper seeks to explore the rise of greenwashing in India’s ESG reporting landscape, its impact on stakeholders, and the mechanisms that can be employed to combat this practice.
2. It examines the evolving regulatory framework, governance structures, and the role of third-party audits as tools to ensure the integrity of ESG disclosures.
3. This research emphasizes the importance of fostering transparency, accountability, and ethical corporate behaviour to promote genuine sustainability in India.

Literature Review

The Concept of Greenwashing

Greenwashing is defined as the act of misleading consumers regarding the environmental practices of a company or the environmental benefits of a product or service (Delmas & Burbano, 2011). It is often characterized by marketing efforts that exaggerate the sustainability of products while failing to substantiate such claims with verifiable evidence. This practice has gained notoriety in recent years, particularly as consumers become more conscious of environmental issues and demand greater corporate responsibility.

In the Indian context, greenwashing has emerged as a significant concern amidst the growing trend of ESG reporting. As companies scramble to align with global sustainability standards, some have resorted to greenwashing to present a favorable image without making substantial changes to their operations (Lyon & Montgomery, 2015). The consequences of such practices are profound, leading to erosion of trust among consumers and investors, which can ultimately affect a company's financial performance and long-term sustainability.

The Rise of ESG Reporting in India

India has witnessed a surge in ESG reporting, driven by regulatory initiatives and market pressures. The Securities and Exchange Board of India (SEBI) has introduced the Business Responsibility and Sustainability Reporting (BRSR) framework , mandating listed companies to disclose their ESG performance . This regulation aims to enhance transparency and accountability in corporate practices and address the growing demand for responsible business conduct.

While the introduction of BRSR represents a significant step toward promoting sustainability, the challenge lies in ensuring that companies adhere to the spirit of these regulations. Many firms may engage in superficial compliance, highlighting positive aspects while downplaying or omitting negative practices. This gap creates an environment conducive to greenwashing, where companies misrepresent their ESG performance to attract investment and enhance their reputations (García-de-Frutos et al., 2022).

Findings and Discussion (Case Studies)

1. Tata Power

Tata Power is one of India's largest integrated power companies, focusing on renewable energy sources. Despite its commitment to sustainability, the company faced criticism in 2022 for overstating its renewable energy capacity in its reports. An independent audit revealed discrepancies between the actual operational capacity and the figures reported. This incident highlighted the potential for greenwashing even within companies with a long-standing reputation for sustainability (Mukherjee, 2022). Following this criticism, Tata Power committed to enhancing its transparency and accountability in ESG reporting, reflecting the need for continuous improvement in corporate practices.

2. Adani Green Energy Limited (AGEL)

AGEL, a leading player in renewable energy, has made substantial investments in solar and wind energy. However, the company faced scrutiny in early 2023 when a report from a U.S.-based short-seller raised questions about the authenticity of its ESG disclosures. Allegations of greenwashing surfaced regarding the sustainability of its supply chain and land acquisition practices. The report suggested that AGEL's claims did not align with independent assessments, leading to a decline in investor confidence (Singh, 2023). In response to these allegations, AGEL announced plans to undergo third-party audits to validate its ESG claims, demonstrating a willingness to address transparency concerns.

3. Wipro Limited

Wipro, a major player in the IT sector, has actively promoted its sustainability initiatives. The company achieved 100% carbon neutrality across its global operations and regularly audits its sustainability reports through third parties. Wipro's genuine commitment to sustainability has earned it recognition in various sustainability rankings, highlighting the importance of transparency and independent verification in enhancing corporate credibility (Wipro Sustainability Report, 2023). This example underscores that genuine sustainability efforts can lead to positive outcomes for companies, fostering trust among stakeholders.

4. Infosys

Infosys has set ambitious goals for carbon reduction and practices transparency in its sustainability reporting. The company is committed to using renewable energy sources and has implemented extensive energy-efficient practices across its campuses. Infosys's dedication to sustainability has earned it a place in the Dow Jones Sustainability Index, reflecting its alignment with global best practices. The company's transparent approach demonstrates that authentic ESG initiatives can enhance reputation and stakeholder trust.

5. Hindustan Unilever Limited (HUL)

HUL, one of India's largest consumer goods companies, has made significant strides in promoting sustainability. However, it has faced scrutiny over its marketing practices, with allegations of exaggerating the environmental benefits of its products. Critics argue that some claims do not align with independent assessments of their lifecycle impacts (Gupta, 2023). In response to this scrutiny, HUL has been actively working to improve its sustainability metrics and engage with stakeholders to ensure the integrity of its claims. This case highlights the importance of addressing greenwashing concerns even among established leaders in sustainability.

Impact of Greenwashing on Stakeholders

Greenwashing has far-reaching implications for various stakeholder groups, including investors, consumers, communities, and regulators.

1. **Impact on Investors :** Investors rely on accurate and transparent ESG disclosures to make informed decisions. Greenwashing can lead to misallocation of xcapital, where funds are directed toward companies that do not genuinely prioritize sustainability. As highlighted in the cases of AGEL and Tata Power, misleading claims can erode investor confidence and negatively impact stock performance.
2. **Impact on Consumers :** Consumers increasingly prefer products and services from companies that demonstrate genuine commitment to sustainability. Greenwashing can lead to consumer distrust, as individuals feel deceived by exaggerated marketing claims. The backlash against companies engaging in greenwashing can result in reputational damage and loss of market share.
3. **Impact on Communities :** Greenwashing can have detrimental effects on communities, particularly in cases where companies fail to mitigate environmental impacts. Misleading claims can lead to inadequate responses to community concerns, exacerbating issues related to pollution, resource depletion, and social equity.
4. **Impact on Regulators :** Regulators face challenges in enforcing compliance with ESG reporting standards. Greenwashing undermines the effectiveness of regulations, as companies may evade scrutiny through misleading disclosures. Strengthening regulatory frameworks and enhancing monitoring mechanisms are essential to combat greenwashing effectively.

Regulatory and Governance Framework

The regulatory framework governing ESG reporting in India has evolved significantly in recent years, with initiatives like the BRSR aimed at promoting transparency and accountability. However, the challenge remains in ensuring that companies adhere to the spirit of these regulations rather than engaging in superficial compliance.

1. Business Responsibility and Sustainability Reporting (BRSR) : The BRSR framework,introduced by SEBI, mandates listed companies to disclose their ESG performance. While this represents a positive step towards enhancing corporate accountability, the effectiveness of this framework depends on rigorous enforcement and oversight. Companies must be held accountable for their claims, with penalties for misleading disclosures acting as deterrents against greenwashing.

2. Strengthening Corporate Governance : Effective corporate governance is crucial in combating greenwashing. Companies must establish robust governance structures that prioritize transparency and accountability. This includes appointing independent sustainability officers and ensuring clear lines of responsibility for ESG reporting. As observed in the cases of Wipro and Infosys, strong governance frameworks enhance corporate commitment to genuine sustainability.

3. The Role of Third-Party Audits : Independent third-party audits play a critical role in verifying the accuracy of ESG disclosures. By making such audits mandatory for significant players, the corporate sector can demonstrate its commitment to transparency and integrity. This approach not only enhances the reliability of ESG reports but also provides stakeholders with the confidence needed to make informed decisions.

Government of India Initiatives to Combat Greenwashing and Enhance ESG Reporting

The Government of India has recognized the importance of sustainability and corporate responsibility in the context of global climate change and environmental degradation. To this end, several initiatives have been launched to promote transparency in Environmental, Social, and Governance (ESG) reporting, enhance corporate accountability, and combat the rising trend of greenwashing. These initiatives reflect a commitment to fostering a sustainable business environment that aligns with national and global sustainability goals.

1. Business Responsibility and Sustainability Reporting (BRSR)

The Business Responsibility and Sustainability Reporting (BRSR) framework, introduced by the Securities and Exchange Board of India (SEBI) in 2021, marks a significant step towards mandating transparency in corporate sustainability disclosures. This framework requires listed companies to provide detailed reports on their ESG performance, covering aspects such as environmental impact, social responsibility, and governance practices.

- **Objective :** The primary aim of the BRSR is to enhance corporate accountability by ensuring that companies disclose relevant information regarding their sustainability initiatives. By doing so, the framework seeks to empower stakeholders, including investors and consumers, to make informed decisions based on credible data.
- **Impact :** Early reports indicate that approximately 85% of listed companies have complied with the BRSR requirements, signaling a positive shift towards greater transparency in ESG reporting. However, the depth of disclosure remains varied, highlighting the need for continued vigilance and enforcement to mitigate instances of greenwashing (SEBI, 2022).

2. National Action Plan on Climate Change (NAPCC)

Launched in 2008, the National Action Plan on Climate Change (NAPCC) outlines India's strategy to address climate change through a series of eight national missions. These missions focus on various sectors, including renewable energy, sustainable agriculture, and water conservation, with an overarching goal of promoting sustainable development.

- **Missions Overview :** Each mission under the NAPCC, such as the National Solar Mission and the National Mission on Sustainable Agriculture, aims to create frameworks that encourage corporate participation in sustainability efforts.
- **Significance :** By aligning corporate practices with national climate goals, the NAPCC fosters a culture of sustainability that can help combat greenwashing by promoting genuine environmental stewardship among companies.

3. Corporate Social Responsibility (CSR) Legislation

The Companies Act, 2013 mandates that companies meeting specific criteria allocate at least 2% of their average net profits towards Corporate Social Responsibility (CSR) activities.

- **Focus Areas :** The CSR activities can encompass a wide range of initiatives, including environmental conservation, education, health, and community development. This legislative framework encourages companies to invest in sustainable practices and contribute positively to societal well-being.
- **Impact on Greenwashing :** By requiring companies to engage in meaningful CSR activities, the legislation aims to reduce the tendency for superficial sustainability claims, thereby addressing the risks associated with greenwashing.

4. Perform, Achieve and Trade (PAT) Scheme

The Perform, Achieve and Trade (PAT) scheme is a market-based mechanism aimed at enhancing energy efficiency in industries. Launched under the National Mission on Enhanced Energy Efficiency, the PAT scheme incentivizes industries to achieve specific energy efficiency targets.

- **Mechanism :** Industries that exceed their energy efficiency targets can trade their excess savings as tradable certificates. This approach not only promotes energy conservation but also encourages companies to adopt sustainable practices.
- **Impact :** The PAT scheme serves as a financial incentive for companies to genuinely invest in energy efficiency measures, thus reducing the likelihood of greenwashing through credible energy performance disclosures.

5. Green Rating System

The government promotes a Green Rating System to assess and encourage the environmental performance of companies.

- **Objective :** The rating system aims to provide consumers with reliable information regarding a company’s environmental practices, enabling them to make informed purchasing decisions.
- **Benefits :** Companies with higher green ratings are incentivized to maintain and improve their environmental standards, reducing the risk of misleading sustainability claims and fostering a culture of accountability.

5. Green Rating System

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- **Benefits :** Companies with higher green ratings are incentivized to maintain and improve their environmental standards, reducing the risk of misleading sustainability claims and fostering a culture of accountability.

6. National Clean Energy Fund (NCEF)

Established to support research and innovation in clean energy technologies, the National Clean Energy Fund (NCEF) provides financial assistance for projects focused on renewable energy.

- **Purpose :** The NCEF aims to promote corporate investments in clean energy, facilitating a shift towards sustainable energy solutions and reducing dependency on fossil fuels.
- **Impact on Corporate Behavior :** By supporting innovative projects, the NCEF encourages companies to adopt genuine sustainability measures, thus addressing the prevalence of greenwashing in the energy sector.

7. Awareness and Capacity Building Programs

The Government of India, along with various organizations, conducts workshops and training programs aimed at enhancing corporate understanding of sustainability practices and compliance with ESG reporting standards.

- **Objective :** These programs focus on building capacity among corporate leaders and employees, promoting awareness of the importance of credible ESG reporting and genuine sustainability efforts.
- **Long-term Benefits :** By educating businesses on the implications of greenwashing, these initiatives seek to foster a culture of integrity and accountability in corporate sustainability practices.

Conclusion

The prevalence of greenwashing in India's ESG reporting landscape underscores the urgent need for robust mechanisms to foster integrity and transparency. The practical examples of companies like Tata Power, AGEL, Wipro, Infosys, and HUL illustrate the challenges and opportunities in promoting genuine sustainability. As stakeholders increasingly demand authenticity in corporate ESG claims, companies that prioritize transparency, accountability, and ethical practices will likely benefit from enhanced reputation and trust.

Addressing greenwashing requires a multi-faceted approach, combining regulatory initiatives, effective corporate governance, and independent verification of ESG disclosures. By fostering a corporate culture that values genuine sustainability over superficial compliance, India can move towards a more sustainable and responsible business environment.

The road ahead demands collective action from corporations, regulators, and stakeholders to ensure that ESG reporting reflects the true commitment to sustainability. Only then can India's corporate sector realize its potential as a driver of sustainable development and contribute positively to global environmental goals.

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OTHER READINGS

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Securities and Exchange Board of India

CIRCULAR

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December 28, 2023

To,
All Recognized Stock Exchanges
All Recognized Depositories
All Merchant Bankers and Brokers registered with SEBI
All Social Enterprises
All Social Impact Fund registered with SEBI
All Social Impact Assessment Firms/ Institute of Chartered Accounts of India

Sir / Madam,

Sub: Framework on Social Stock Exchange ("SSE")

1. SEBI vide its circular SEBI/HO/CFD/PoD-1/P/CIR/2022/120 dated September 19, 2022 notified the detailed framework on Social Stock Exchange.

2. Pursuant to the feedback received through public consultation the Board approved amendments to the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("ICDR Regulations") and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations"). SEBI vide Notification dated December 21, 2023 has notified amendments to ICDR Regulations and LODR Regulations. The Board also approved the following modifications/ additions to the aforesaid Circular : -

a. In Paragraph 1, sub-paragraph A, titled "Minimum requirement to be met by a Not for Profit Organization (NPO) for registration with SSE in terms of Regulation 292F of the ICDR Regulations", the following requirement under the Board Parameter in the table given below shall read as under:

Broad Parameter	Indicator	Details
Exemption under Income-tax Act, 1961:	Registration Certificate under section 12A/ 12AA/ 12AB/ 10(23C)/ 10(46) under Income-tax Act, 1961	a. Registration Certificate under section 12A/ 12AA/ 12AB/ 10(23C)/ 10(46) to be valid for at least the next 12 months. b. Details regarding pending notices or scrutiny cases from all regulatory and statutory authority shall be disclosed at the time of making the application for the registration

		c. Fines or penalties if imposed shall be disclosed as paid or appealed within 7 days. The Stock Exchanges shall have the right to refuse registration of those applicants, if the notices/ scrutiny cases are grave and debilitating enough to endanger the registration of the NPO under the Income-tax Act, 1961 or other relevant laws.
Deduction under Income-tax Act, 1961	Valid 80G registration under Income Tax Act, 1961 for entities registered under section 12A/ 12AA/ 12AB of the Income-tax Act, 1961	Entity to ensure disclosure whether tax deduction is available or not to investors.

b. In Paragraph 1, in sub-paragraph B, -

i. The reference of **"Regulation 292K(1)"** in the title of sub-paragraph B is substituted by "**Regulation 292K**".

ii. Sub-paragraph B(2)(j) shall be substituted with the following :

"j. Social Impact
Details of past social impact as per the existing practice of NPOs. The past social impact should highlight trends in key metrics/ parameters relevant to the NPO (as may be determined by the Exchanges) for which it seeks to raise funds on SSE, number of beneficiary, cost per beneficiary and administrative overheads."

c. In Paragraph 1, after sub-paragraph A and before sub-paragraph B, the following new sub-paragraphs AA, AB and AC shall be inserted -

"AA. Procedure for public issuance of Zero Coupon Zero Principal Instruments by a not for profit organization

(1) The not for profit organization shall file the draft fund raising document with the Social Stock Exchange where it is registered along with the fees as specified by the Social Stock Exchange and an application seeking in-principle approval for listing of its Zero Coupon Zero Principal Instruments on the Social Stock Exchange:

Provided that Social Stock Exchange shall specify the details to be incorporated in the fund raising document:

(2) The draft fund raising document shall be made available on the website of Social Stock Exchange and the Not for Profit Organization for a period of at least 21 days for public comments.

(3) The Social Stock Exchange shall provide its observation on the draft fund raising document to the not for profit organization within a time period of 30 days from the filing of the draft fund raising document or receipt of clarification, if any, sought by the Social Stock Exchange from not for profit organization whichever is later.

(4) The not for profit organization shall incorporate the observations of the Social Stock Exchange in draft fund raising document and file the final fund raising document to Social Stock Exchange prior to opening the issue.

AB. Contents of the fund raising document.

(1) The draft fund raising document and the final fund raising document shall contain all material disclosures which are true and adequate to enable the applicants to take an informed decision.

(2) Without prejudice to the generality of clause (1) above, the draft fund raising document and the final fund raising document shall contain disclosures as may be specified by the Board from time to time:
Provided that the Social Stock Exchange may mandate additional disclosures in respect of the draft fund raising document and the final fund raising documents.

AC. Other conditions relating to issuance of Zero Coupon Zero Principal Instruments

(1) Zero Coupon Zero Principal Instruments shall be issued in dematerialized form only.

(2) The Zero Coupon Zero Principal Instruments shall not be transferable from the original subscriber/ holder till the expiry of the tenure of the said instrument.

(3) The minimum issue size shall be rupees fifty lakhs.

(4) The minimum application size shall be rupees ten thousand.

(5) The minimum subscription required to be achieved shall be 75% of the funds proposed to be raised through issuance of Zero Coupon Zero Principal Instruments.

(6) In case of any under subscription, the not for profit organization shall, in the fund raising document, provide details on the following:

a) manner of raising balance capital in case of such under subscription between 75% and 100%;

b) possible impact on achieving the social objective(s) in case such under subscription is not arranged

Provided that the funds shall be refunded in case the subscription is less than 75% of the issue size

(7) The Social Stock Exchange shall maintain the details of the allotment pursuant to issuance of Zero Coupon Zero Principal Instruments by a not for profit organization.

(8) The Social Stock Exchange shall specify the additional norms in respect of issue procedure including on agreements with depositories, banks, etc., ASBA related matters, duration for public issuance, allocation methodology and any other ancillary matter related to issue procedure."

3. This Circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors and to promote the development of, and to regulate the securities market and shall come into effect immediately.

4. A copy of this circular is available on SEBI website at www.sebi.gov.in under the categories "Legal Framework → Circulars".

Yours faithfully,

Yogita Jadhav
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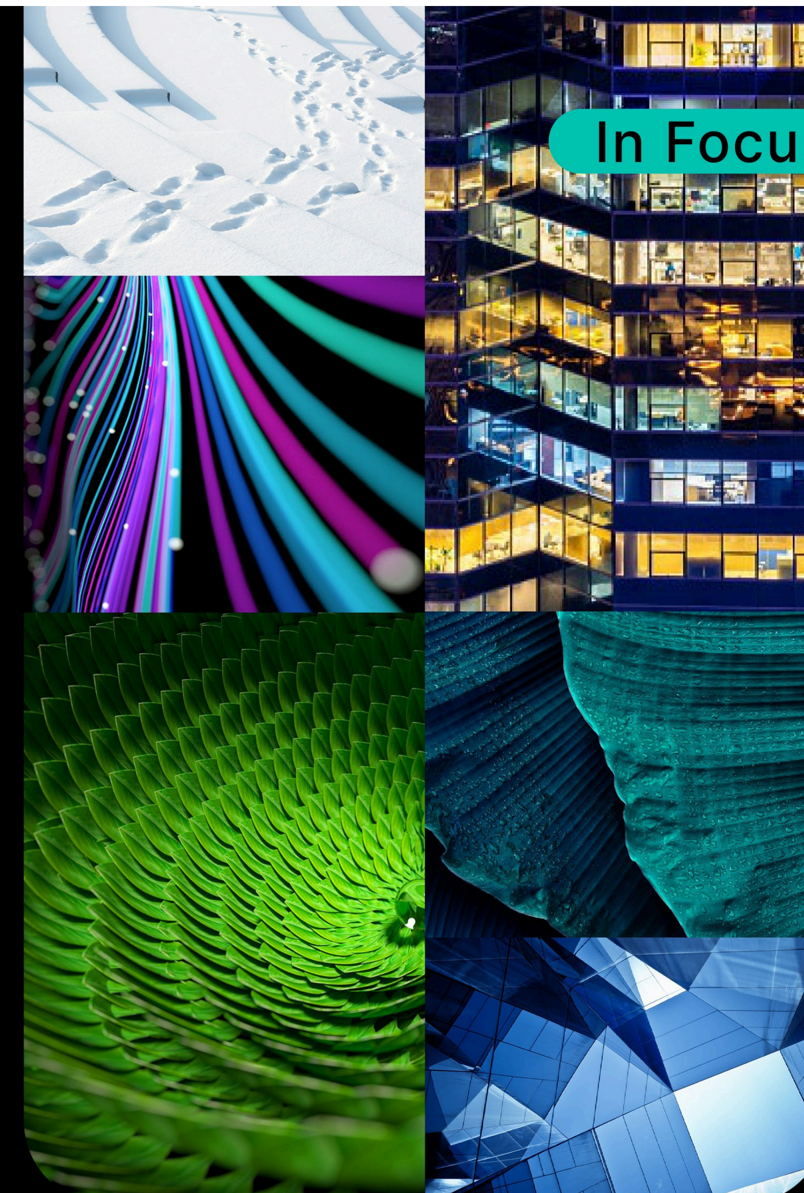

SUSTAINABILITY AND CLIMATE Trends to Watch

2025

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Research Insights
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Introducing MSCI's Sustainability and Climate Trends to Watch 2025

In a world that feels ever more uncertain, investors everywhere are looking for information that can give them an edge. Study after study shows that sustainability data can help identify more competitive, more profitable, less risky companies with higher long-term returns and a lower cost of capital.

The latter half of this decade will bring profound shifts, driven by geopolitics, disruptive technology breakthroughs and environmental challenges. Investors will need to contend with the sweeping effects of the **energy transition** on users and suppliers of energy, the escalating impact of **climate-related events** and new risks associated with the widespread **adoption of AI** across every sector of the economy.

Such unprecedented change brings unprecedented opportunity. The **energy system transformation** presents one of the most significant investment prospects of our time, with strong returns anticipated by many investors in low-carbon energy, green transportation and energy-storage solutions, especially in private markets.

Bolstered by strong fundamentals and new sources of demand, 2025 could be a pivotal year for **voluntary carbon markets**, offering critical funding for decarbonization in developing countries. Meanwhile, **climate-change-adaptation finance**, once the domain of governments, is also yielding investable opportunities for the private sector.

Beyond those themes, investors can systematically identify companies that are better-managed, more resilient and adaptable to change. Research by MSCI shows that firms managing **material social risks** — e.g., workforce issues, supply chains, product safety and community impact — consistently outperformed their peers.

Finally, growing momentum for **shareholder rights** — namely through a groundswell of support for majority voting — could offer public-market investors a greater ability to influence corporate behavior and drive sustainable value creation.

If you're a long-time reader of our "Trends to Watch," you might be wondering why **regulation** isn't front and center this year. Since 2019, we've consistently written about the rising tide of regulation, but this year, we made a conscious decision not to feature it. That's not because regulation is diminishing — in fact, it is ramping up globally — but because an intense focus on compliance and disclosure runs the risk of overshadowing the critical investment opportunities and challenges we're here to address.

We'll continue to monitor sustainability and climate regulations and do everything we can to make them more understandable for you. But ultimately, our mission remains focused on tackling the pressing, real-world investment challenges that drive your long-term success.

Laura Nishikawa
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Acknowledgements

The Trends to Watch editorial team: Liz Houston, Bentley Kaplan, SK Kim, Jonathan Ponder

2

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Contents

This is an **interactive page**

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Private Party? On the Hunt for Energy-Transition Solutions

Global investors are increasingly realizing that their net-zero portfolio targets may be slipping out of reach without accelerated progress in the real economy. To keep pace, many are shifting their focus to the energy transition — aiming not only to mitigate the risks of this shift but to capitalize on emerging investment opportunities in renewable energy and clean technology. But to seize these opportunities, investors first need a clear sense of where to direct their efforts.

Despite renewed commitments at recent global climate conferences to triple renewable-energy capacity and double energy efficiency, there is much uncertainty as to how, where and how quickly that might happen. And while publicly traded companies focusing on clean tech, green buildings and renewable energy saw a surge in valuations in 2020 and 2021, they have struggled to maintain that momentum.[1] But the situation in private markets looks very different — and a whole lot brighter.

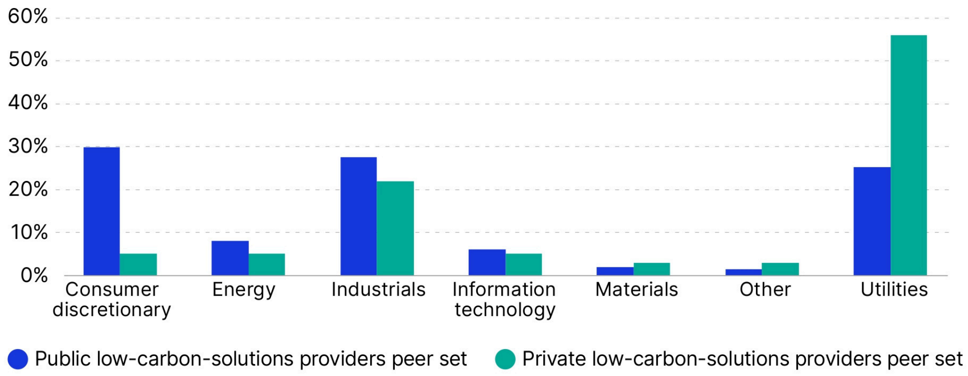
Finding exposure to low-carbon solutions in public and private markets

Low-carbon solutions encompass a range of technologies. But the core of what will drive the energy transition lies in three main categories: green(er) transportation, low-carbon power generation and energy storage. We identified companies with exposure to these themes in both public[2] and private[3] markets and saw notable distinctions in where these markets had the most exposure.

In public markets, roughly 30% of the market value of the solutions peer set was in the consumer-discretionary sector, predominantly automobile manufacturers, which included electric vehicles (EVs).[4] In private markets, over half the value of the solutions peer set was concentrated in utilities, with a strong emphasis on renewable electricity. Industrials had an important share in both markets — 27% in public and 22% in private — which included companies making power-generating equipment, charging stations and batteries.

Exhibit 1: Sector exposure to select l low-carbon-transition opportunities across public and private markets

Exposure: Public - market cap | Private - NAV



Data as of October 2024. The private net asset value (NAV) percentages reflect data as of June 30, 2024, and only focus on active investment holdings, consisting of 2,529 unique active investment holdings made by 1,193 unique private-capital funds in 1,779 unique portfolio companies that may have some connection with renewable energy, green mobility or energy storage as stated in endnote 3. The total underlying NAV is about USD 189 billion from the MSCI Private Capital data universe. The peer set of low-carbon-solutions providers in public markets included 569 constituents of the MSCI ACWI Investable Market Index (IMI) as of June 30, 2024, with five percent or greater estimated revenues from categories in the MSCI Sustainable Impact Metrics methodology associated with three themes: renewable and low-carbon power, green mobility and energy storage. Source: MSCI ESG Research, MSCI Private Capital

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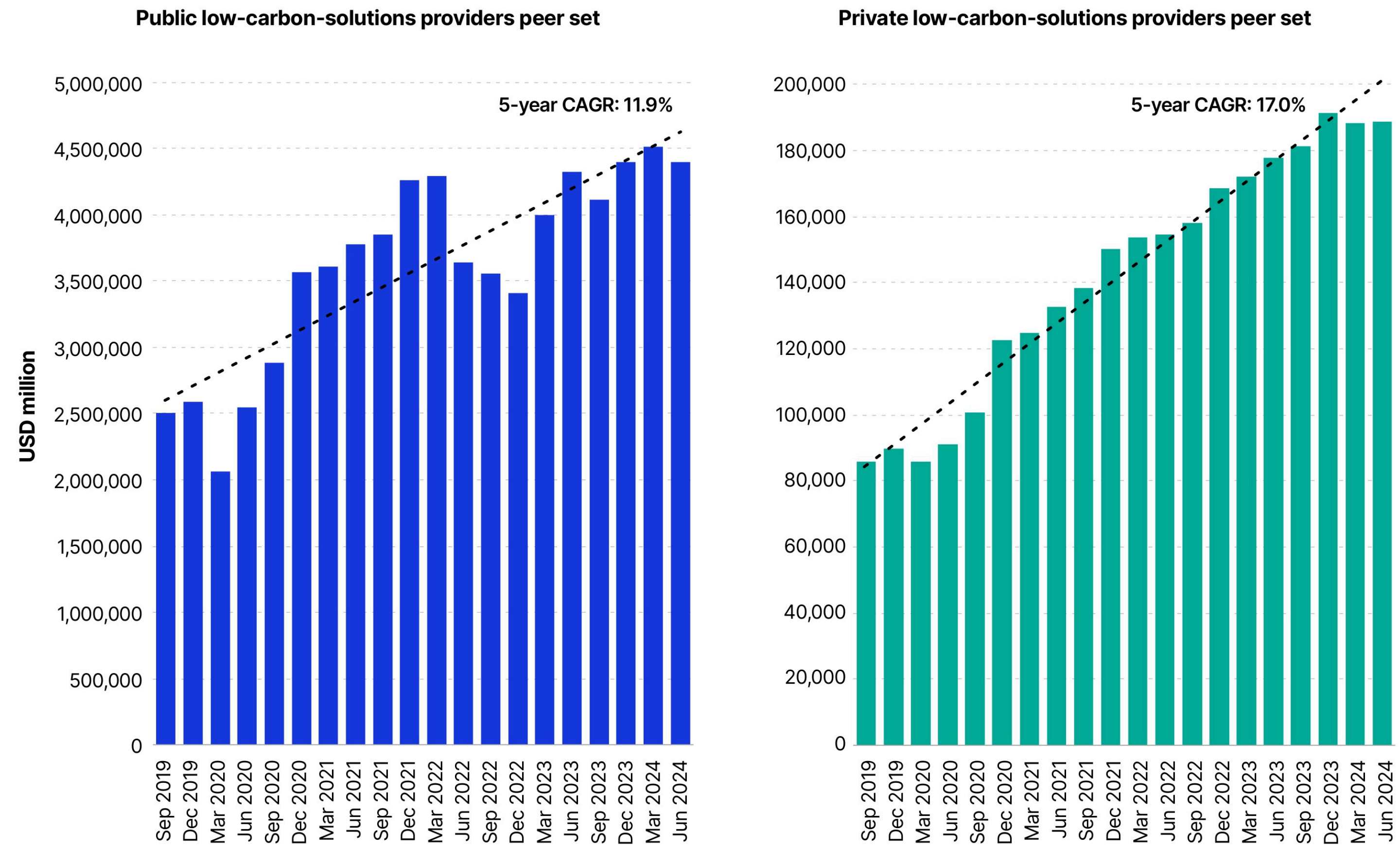
Higher value in public markets, but faster growth in privates

Unsurprisingly, the value of the public low-carbon-solutions peer set (market cap of USD 4.4 trillion) was much larger — nearly 23x — than the private solutions set (net asset value of USD 189 billion), as of June 2024. But the value of the private solutions set has been on a relative tear: The five-year compound annual growth rate was 17.0% through June 2024, while for the public set it was a more modest 11.9%.

Exhibit 2: Market value of public- and private-solutions peer sets



Data as of October 2024. The peer set of low-carbon-solutions providers in public markets included constituents of the MSCI ACWI IMI as of Oct. 10, 2024, with 5% or greater estimated revenues from categories within the MSCI Sustainable Impact Metrics methodology associated with three themes: renewable and low-carbon power, green mobility and energy storage as stated in endnote 2. The peer set of low-carbon-solutions assets in private markets includes companies within the MSCI Private Capital data universe as of June 30, 2024, that may have some connection with renewable energy, green mobility or energy storage as stated in endnote 3. Source: MSCI ESG Research, MSCI Private Capital

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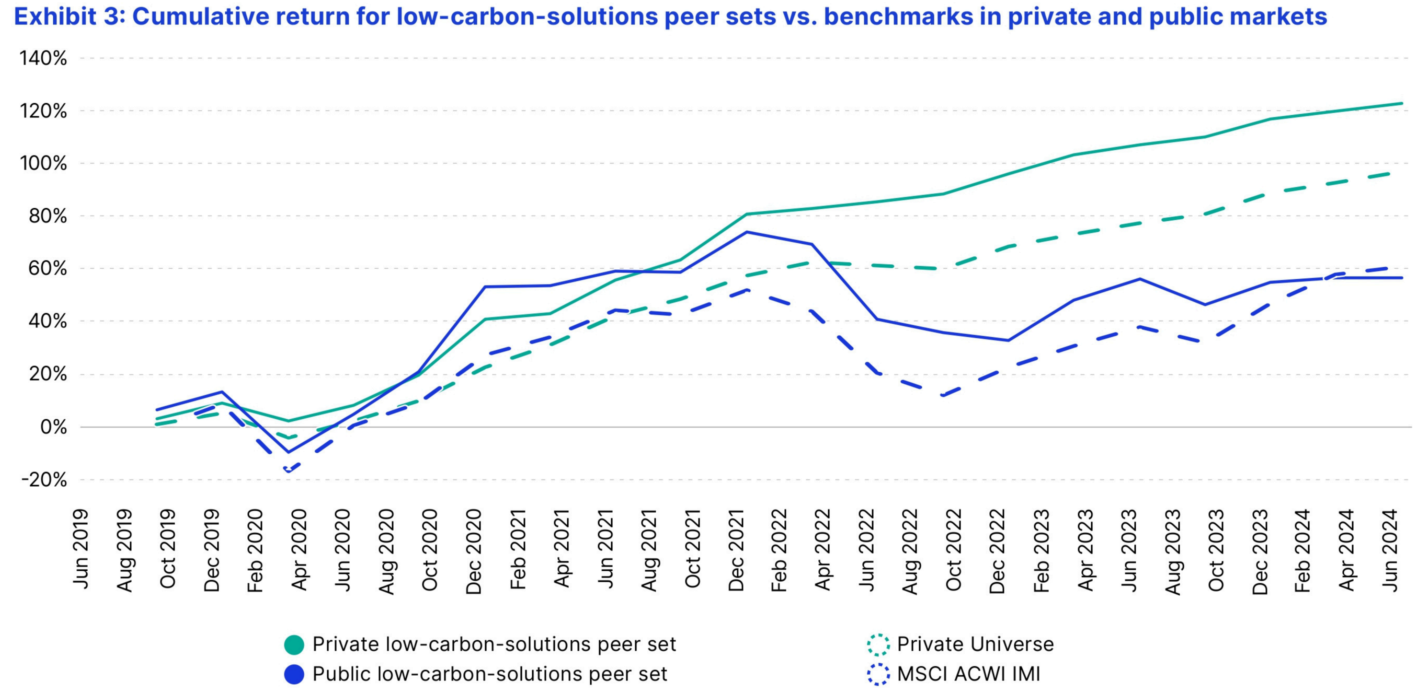
Outperformance in private low-carbon-solutions investments

The growth in private valuation translated to returns: The five-year cumulative returns from the private solutions peer set reached 123% by June 30, 2024 — outpacing the returns of the asset-class-reweighted private-capital universe (97%), the public solutions peer set (57%) and the MSCI ACWI IMI (61%).[5]

One word of caution: Investors may benefit from a careful review of the details when comparing returns across private and public assets, as the dynamics can differ. For example, the quarterly returns in the private markets were based on exited and active investment holdings, making them subject to factors such as lack of liquidity, irregular cash flows, subjective valuations and smoothing. In the private active investment holdings, valuation smoothing understates volatility, especially for shorter time horizons, while public-equity valuations are not subject to smoothing.

Still, in a segment of the market long known for its opacity, investors have more information than they may have thought to identify, size and evaluate opportunities across asset classes and markets. We see this information getting a closer look in 2025 as climate change intensifies and investors zero in on the search for solutions.

Exhibit 3: Cumulative return for low-carbon-solutions peer sets vs. benchmarks in private and public markets



Data as of October 2024. The peer set of low-carbon-solutions providers in public markets included constituents of the MSCI ACWI IMI as of Oct. 10, 2024, with 5% or greater estimated revenues from categories within the MSCI Sustainable Impact Metrics methodology associated with three themes: renewable and low-carbon power, green mobility and energy storage as stated in endnote 2. Low-carbon-solutions assets in the public market are identified based on the criteria listed in endnote 2. Cumulative returns and market-cap time series for the public low-carbon-solutions peer set were produced by MSCI Barra Portfolio Manager. The peer set of low-carbon-solutions providers in private markets includes investment holdings that may have some connection with renewable energy, green mobility or energy storage, as stated in endnote 3. Data from the MSCI Private Capital data universe as of June 30, 2024. Source: MSCI ESG Research, MSCI Private Capital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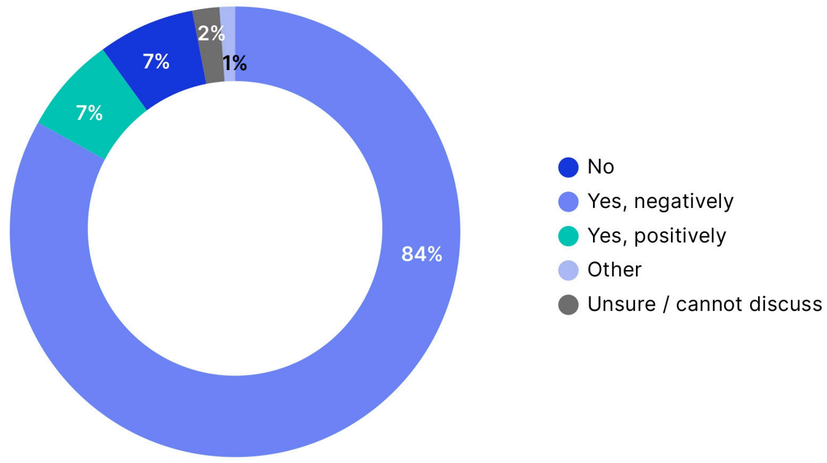
Facing the Reality of a Changing Climate

The summer of 2024 was the hottest on record globally.[6] From heatwaves in India to floods in Europe and hurricanes in North America, the impact of a changing climate has been felt nearly everywhere. Although increasing physical risk has been a long-term trend, we now see a strong consensus among financial-market participants that extreme-weather events will cause significant damage to the macroeconomy. Against this backdrop, 2025 may signal a shift in how investors approach the risks and opportunities associated with climate adaptation.

Strong consensus on the economic impact of extreme weather

Almost all of the 350 surveyed financial-market participants agreed that changes in our physical environment due to global temperature rise would have a significant economic impact, according to the MSCI Sustainability Institute Climate Risk Survey.[7] The survey asked participants across investments, banking, wealth management and insurance their views on climate risk, markets and the economy. Opinions on the outlook for emissions and temperature rise differed. One clear area of agreement, however, was on the potential for extreme weather to negatively impact the economy. As we go into 2025, this may be one of the few things that financial markets agree on.

Exhibit 4: Thinking about the next 10 years, would damage to infrastructure from extreme-weather events impact the regional economy?



Data as of October 2024. The 350 participants were professionals including asset owners, asset managers, banks and insurers and reflected regional differences, sectoral expectations and institutional priorities. Source: MSCI Sustainability Institute Climate Risk Survey 2024

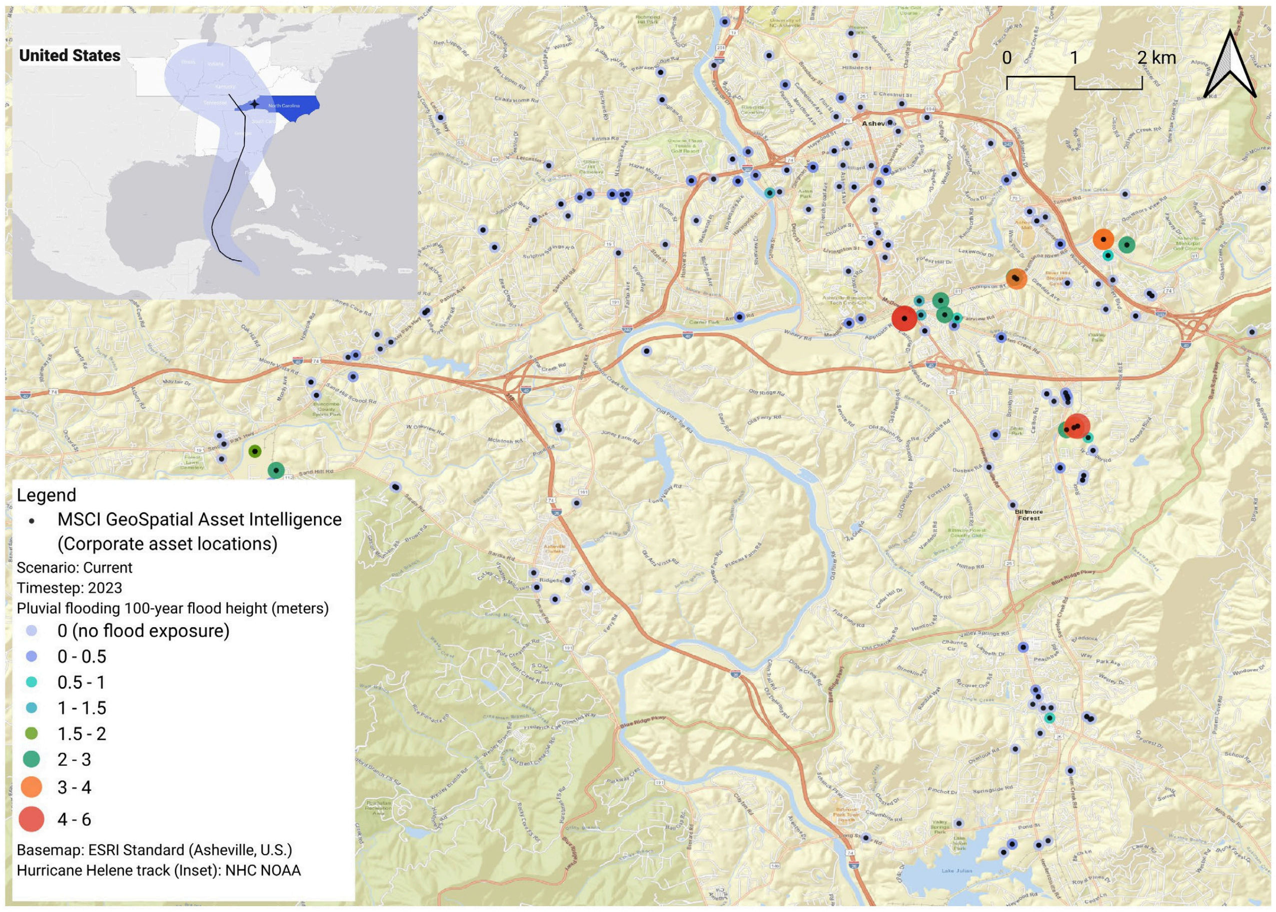
Managing physical risk: Not just a long-term concern

How worried should a diversified investor be about future physical risks from a changing climate? The answer may in part depend on the liquidity of the asset class in question, and their ability (or not) to divest. But 2024 has shown that extreme weather is already a risk that needs to be understood. And exposure to hazards can vary dramatically over very short distances.

For example, in late September 2024, Hurricane Helene moved through the city of Asheville, North Carolina, bringing record rainfall and flood levels with devastating impact.[8] The broader area has low exposure to the risk of pluvial flooding, but looking only at the regional level misses some key information about specific assets.[9] We identified 259 assets in Asheville. While all of these assets currently face above-average exposure (at least at the 57th percentile) to extreme levels of precipitation, 83 assets also face higher exposure to pluvial flooding (at least at the 67th percentile), with 11 of these at the 100th percentile, potentially increasing their specific susceptibility to flood-related damage.[10] This kind of information can help identify which locations are potentially most vulnerable to extreme weather. For investors, when combined with an analysis of which assets are "high value" for a business's operations, it can help identify the highest sources of downside risk, and not just for those with long investment horizons.

As climate change increases the frequency and severity of extreme-weather events in highly insured regions like Europe and the U.S., corporates and homeowners may face rising insurance premiums or, in the worst-case scenario, find their properties uninsurable. This issue could also extend beyond the insurance industry and specific regions, and potentially affect the financing of properties and the entire real-estate market, which could create economy-wide negative impacts.[11]

Exhibit 5: Current flood heights for 100-year pluvial flood event in Asheville, North Carolina



Data as of October 2024. Analysis covers MSCI GeoSpatial Asset Intelligence locations in Asheville, North Carolina. Flood heights for a 100-year pluvial flood event in 2023 are shown. Source: MSCI ESG Research

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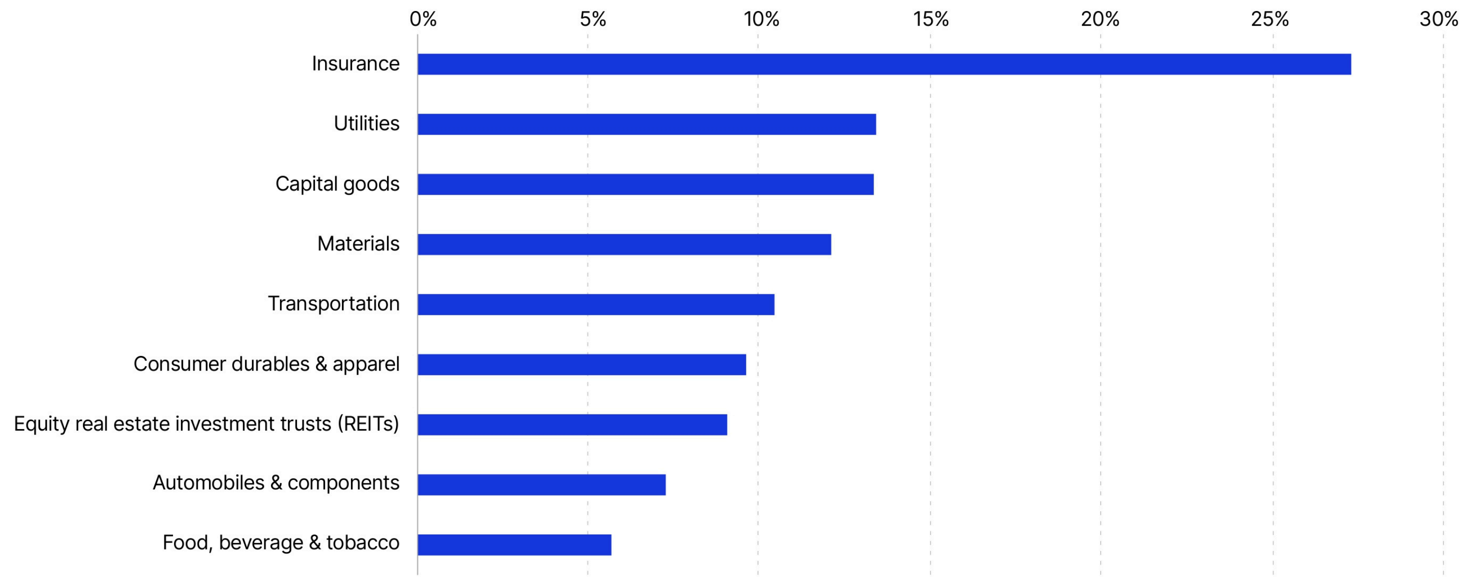
Capitalizing on adaptation spend

We have seen examples of companies investing in resilience to extreme-weather events, using funding from the green-bond market. For example, around 2016, when utilities began issuing green bonds, their proceeds largely financed renewables and energy efficiency. By 2023, 18% of utilities' green-bond proceeds financed adaptation. For an example outside of utilities, **Central Nippon Expressway Company Ltd.** raised funds to protect its motorways from increasingly frequent and severe typhoons.[12] These examples are fairly limited in number and scale but may hint at more to come.

Not all adaptation spend comes in the form of big infrastructure projects. Solutions come in a wide variety of products and services, such as air cooling, water harvesting, drone transport for search and rescue or temporary flood barriers. For investors aiming to capitalize on the need for spending on adaptation, companies in public-equity markets offering adaptation and resilience solutions may be a good place to start.

Examples of solutions companies (and the solutions they provide) include **Watts Water Technologies Inc.** (drain-water management and rainwater harvesting), **Modine Manufacturing Co.** (cooling systems and refrigeration) and **MicroVision Inc.** (lidar technology for precision agriculture). The MSCI Sustainability Institute worked alongside the Global Adaptation and Resilience Investment (GARI) Working Group to identify a universe of over 800 public companies offering climate resilience and adaptation solutions.[13] The aim was to identify companies with a "significant business offering of a technology, product, service and/or practice that enables others to prepare, prevent, respond to and recover from climate shocks and stresses."

Exhibit 6: Percentage of companies in each industry group offering adaptation solutions



Data as of October 2024. Analysis shows the percentage of companies in each industry group that were identified as offering climate resilience and adaptation solutions, according to the methodology developed by the MSCI Sustainability Institute and GARI. Sub-industries with fewer than five solutions providers were excluded. Analysis covers constituents of the MSCI ACWI Investable Markets Index (IMI). Source: MSCI ESG Research

Based on the share of solutions companies per industry group, investors in insurance, utilities, capital goods, materials and transportation companies are most likely to see adaptation spend influence performance.[14] Valuations do not currently appear to be factoring in any potential increase in revenue growth due to adaptation spend — companies that offered solutions were not trading at a premium to their sub-industry peers, as of October 2024.[15]

An uncomfortable reality

It's an uncomfortable reality that adaptation needs to be considered alongside transition. The lessons of the past year have shown that precise location data can help investors understand today's risks much more clearly. As extreme-weather events become more frequent, the ability to manage risks effectively will become ever more important. And as a changing climate drives a need to adapt and build resilience, solutions companies may offer an opportunity for investors in equity markets.

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Special thanks to:
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Feeling Social? The Changing Shape of Sustainability Risk in Global Equity Markets

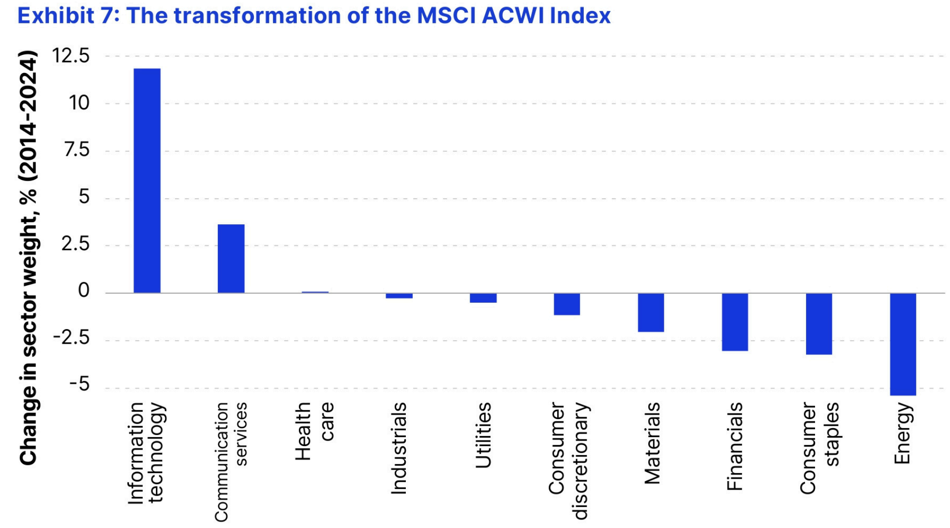
The heavyweight sectors dominating global equity markets today are not the big hitters of just a decade ago.[16] The rise of the tech giants and their supporting players has pushed other sectors to the side and shrunk their weight in market-cap indexes. And the aggregate sustainability-risk landscape for investors in the broader equity market has changed markedly as a result — a fact best not overlooked given long-running evidence of how much these risks can affect financial results.

Among other shifts, social risks carried far more weight in 2024 than they did 10 years ago. A surprise, perhaps — isn't everything about climate change now? The risks that are top of mind might not always be the ones that are top of portfolio. We're talking about a significant tilt toward information technology (IT), where matters of human capital and privacy and data security loom large. Heading into 2025, will this trend continue, or will the shifting landscape in global equity markets upend the balance again?

The changing face of global equity markets

Since 2014, the IT and communication-services sectors have grown significantly, both in the number of companies and their market capitalization.[17] In doing so, they have shouldered aside higher-polluting sectors like energy, industrials, materials and utilities, along with consumer discretionary, consumer staples and financials. By mid-2024, IT was by far the biggest sector in the MSCI ACWI Index, accounting for twice as much of the index's weight as it had a decade prior.

Exhibit 7: The transformation of the MSCI ACWI Index



Data from January 2014 to September 2024. The chart shows the change in sector weights of the MSCI ACWI Index. Real-estate companies are included within financials, reflecting historical classification. Source: MSCI

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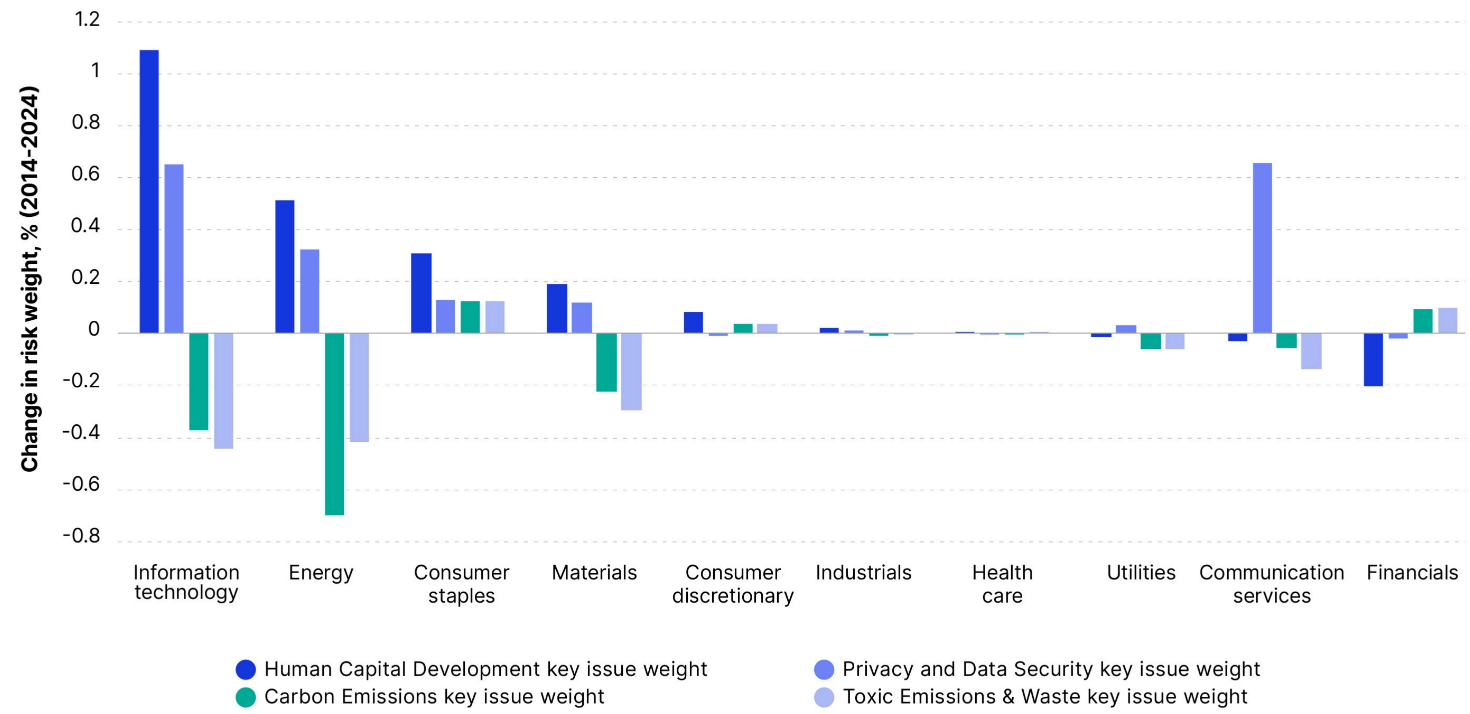
An altered sustainability-risk landscape

The sustainability issues that could have the biggest financial impact on electric utilities or gold miners, for example, are very different from the ones that software or media companies need to worry about. Viewed through this lens, it makes sense that such a seismic shift in sector representation would also mean a change in the relative importance of social issues such as privacy and human-capital concerns compared to environmental issues such as toxic emissions or even climate risks.

Exhibit 8: Market-induced change in sustainability risks



Data from January 2014 to September 2024. The chart shows the change in sustainability risks for the MSCI ACWI Index by sector. The environmental and social risks shown are those with the most change in relevance due to changing sector weights. Source: MSCI ESG Research

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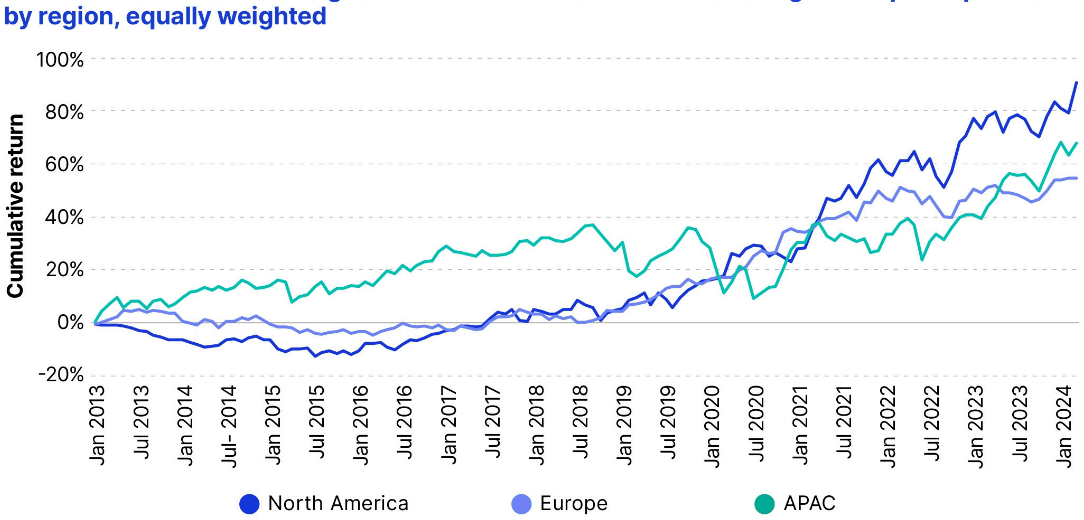
The quiet rise of social risks

The idea of social risks might sound a bit fuzzy, but we've already established that these include things like whether companies that depend on having the best talent can get it and keep it, and whether those whose businesses rely on personal data can keep that data safe and keep their use of it on the right side of the (changing) law. It also includes things like managing labor in the supply chain, where disruptions could keep the latest phone from reaching your pocket, and product safety, which can determine whether food companies can avoid recalls and airlines can keep their planes flying.

Indeed, over the past 11 years, we have seen that companies' ability (or not) to manage social risks has been a leading indicator for how they performed financially compared to their peers.

Exhibit 9: Performance of highest- vs. lowest-rated MSCI ESG Rating social-pillar quintiles by region, equally weighted



Data from Dec. 31, 2012, to March 29, 2024. Quintiles are created every month based on a social score. We first regressed scores on market capitalization to eliminate any size bias. We then obtained the regression residuals and standardized them by region (North America, Europe and Asia-Pacific sub-indexes of the MSCI ACWI Index) and sector. Finally, we formed quintiles within each region and sector, based on these standardized z-scores. The chart shows the cumulative difference between the top and bottom quintiles' performance. Not an indication of causality. Past performance — whether actual, backtested or simulated — is no indication or guarantee of future performance. Source: MSCI ESG Research

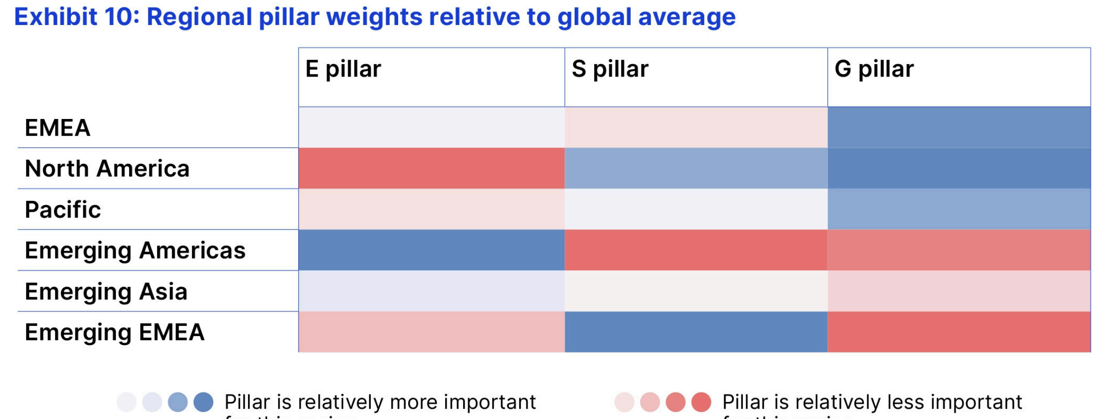
What's over the next hill?

We have observed a clear trend in changing sector representation across global equities and the rising prevalence of social risks. But what is true for global equities is not necessarily true — or at least not to the same extent — for fixed-income or private markets, or for the real economy as a whole. Climate change is still the challenge of our lifetimes, and the distinct underlying makeup of different markets shapes their own aggregate risk-and-opportunity landscapes.

Similarly, while the global trend for equities has been unequivocal, it doesn't look exactly the same across all regions. Developed and emerging markets, Americas, EMEA and APAC — each has its own particular mix of sectors and companies driving the relative importance of different sustainability issues. Investors setting asset-allocation targets need to understand, then, that not only can a switch between asset classes change the exposure to sustainability risks, but so can geographic exposure.

We can't predict where we'll be, globally or regionally, in another 10 years. But what we know is that it would be unwise to assume your risk profile across the markets today looks similar to yesterday's or that it will remain stable tomorrow.

Exhibit 10: Regional pillar weights relative to global average



Data as of June 2024. Analysis covers constituents of the MSCI ACWI Index categorized by region. Please see MSCI Market Classification for more details. Source: MSCI

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Attention, GenAI Models: The Data Buffet is Closing

Corporate spending plans for AI are as bullish as ever, with the number of companies investing heavily expected to double in 2025.[18] Investors and regulators, however, may be less bullish. As we move beyond the initial hype phase, the pressure for companies to deliver a return on their investment is growing, as are demands for transparency and responsibility. And one of the biggest potential obstacles to success might also be one of the least expected — data.

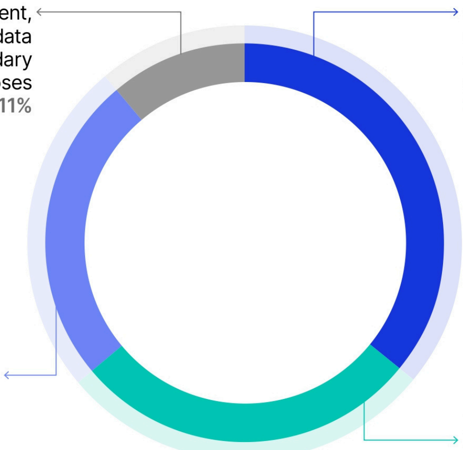
We're generating the stuff at a rate of hundreds of millions of terabytes every day, after all. That sounds like an "all-you-can-eat buffet" for AI models. But the reality is increasingly more constrained. As the free-for-all comes to an end, it will start to become apparent who has been building on a sound foundation and who has been taking short cuts.

Garbage in, garbage out: Cautionary tales from health care

AI has shown massive promise for the health-care sector.[19] It is already transforming everything from improving the efficiency of clinical workflows to drug discovery. Relying on AI can improve the reach of advanced diagnostic tools. Since 2020, the market for AI or machine-learning (ML) devices has been rapidly expanding, with companies like **Siemens Healthineers AG** leading the pack.[20] But all that growth and promise hinge on access to the right kinds of training data in sufficient quantities.

Training a model on limited, poor-quality or biased data can mean your product doesn't work as hoped. Take **IBM Watson Health**, for example. After investing billions of dollars in a program to revolutionize cancer treatment through AI, IBM was forced to abandon the project entirely.[21] Among other problems, the system had been trained on a limited dataset, which introduced bias and hindered its applicability to broader patient populations.[22]

Exhibit 11: Health-care companies' consent policies on use of personal data for secondary purposes



Data as of Oct. 1, 2024. Analysis covers health-care constituents of the MSCI ACWI Investable Market Index (IMI) assessed on the key issue of Privacy and Data Security (n=168). Source: MSCI ESG Research

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Access to bigger datasets can help with the training challenge, but legal risks loom if they don't come with proper consent. **Google's Project Nightingale** raised concerns when it was revealed that the company had gained access to millions of **Ascension Health's** records without the patients' prior knowledge, prompting an investigation by the U.S. Department of Health and Human Services.[23] Privacy regulations require companies to obtain consent from patients to use their data for anything other than their treatments, but not all companies are upfront about what their consent policies are.

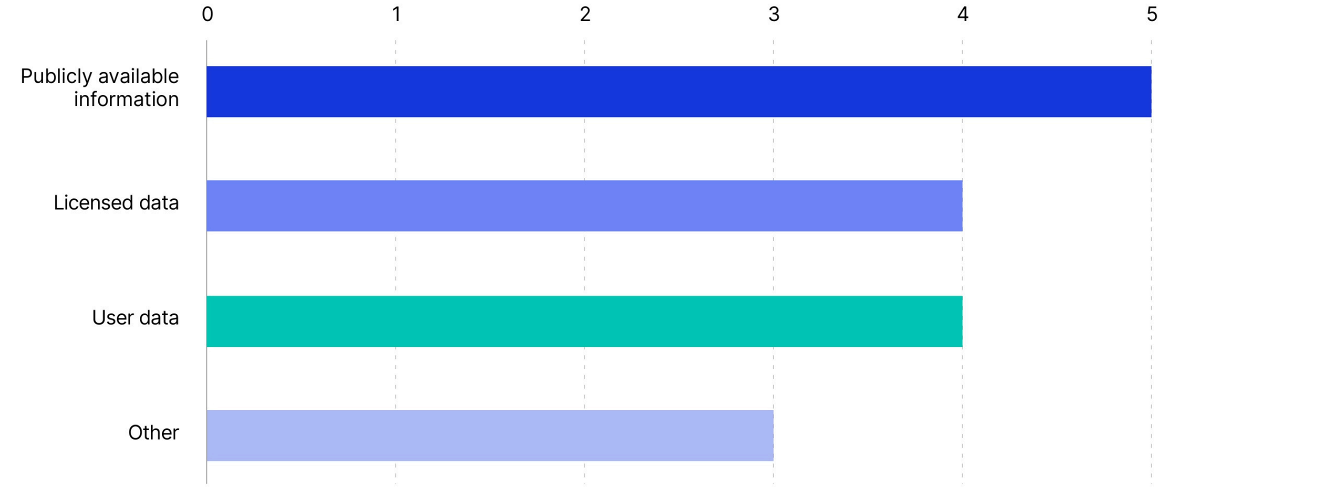
For more than a quarter of the companies we looked at, it was simply a mystery whether they had any policy at all (Exhibit 11).

Matters of consent: Cutting off the data supply

Further regulatory constraints on legal access to data are a very real possibility as the coming year sees incoming AI-specific legislation in major markets, on top of existing privacy laws. The EU AI Act starts to take effect in 2025, and California — home, of course, to the Silicon Valley giants — will require companies to start disclosing information about the datasets used to develop AI systems or services.[24]

When we looked at seven leading developers of AI models, as of October 2024 only five had given an indication of the data used to train their models.[25] All five were using some combination of publicly available information, licensed data and user data. This may sound reasonable, but just because information is "public" doesn't automatically mean it can be used for commercial purposes without breaching privacy or copyright rules. **Microsoft Corp.** moved to assuage concerns of corporate clients that use their AI tools, by committing to pay for any adverse judgements if they are sued for copyright infringement.[26]

Exhibit 12: Number of major developers (out of seven) that disclose using each data source



Data as of October 2024. Source: MSCI ESG Research, company disclosures

Publicly available information — potentially everything ever published online — may also come with reliability issues and historic biases that can impact the quality of results. But perhaps even more significantly, the amount of that data that is available for AI models to use is shrinking. Between 2023 and 2024, as website owners took steps to block web crawlers from accessing their content, there was a 25% reduction in the availability of high-quality data, according to a study from the Data Provenance Initiative.[27]

The outlook for AI regulation is still evolving, and that adds an element of risk for both companies and investors. We don't know how this will look in the future, but we do know some of the potential negative impacts on consumers and end users that regulators may focus on. Privacy, copyright and discrimination or bias are frequent concerns. Getting ahead of these questions could make the difference between AI-driven success and a hype-driven spending spree with limited tangible benefits.

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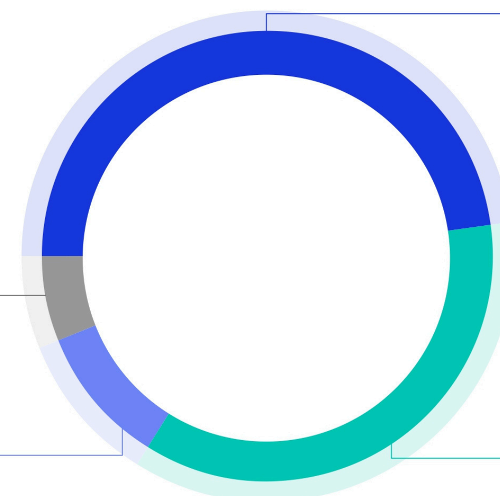
Missing the data on use of data: Understanding corporate policy

Use of AI has spread far beyond the early adopters. Our analysis shows that all the biggest consumer-facing companies globally are already integrating it into products or operations.[28] But it can be difficult for investors to understand the approach of these companies toward the responsible or ethical use of AI. As of October 2024, almost half did not disclose a policy on its responsible use. Of the companies we looked at, only one (**Adobe Inc.**) explicitly committed to respect copyright laws and not use "publicly available online data." It should be noted that Adobe is able to make this commitment as it has access to a library of licensed content, with contributors compensated for its use.[29] Elsewhere, the lack of clarity from companies may frustrate investors who are trying to judge the size of the opportunity or the risks posed by changing regulations or data accessibility.

Is transparency on the menu in 2025?

The first wave of investments in generative AI was built on high hopes and expectations. For the next wave to flow, companies may need to show their investors that their data foundations (quality and access) are solid.

Exhibit 13: Company adoption of policies on responsible use of AI across consumer-facing sectors



Data as of Oct. 12, 2024. Analysis covers the 50 largest companies by market cap in those sectors where the MSCI Impact Materiality Assessment (client access only) identified the potential for material-information-related impacts on consumers and end users. These companies fell into the following sectors: communication services, consumer discretionary, consumer staples, financials, health care and information technology. Source: MSCI ESG Research, company disclosures

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Special thanks to:
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Majority Voting for US Directors: The Silver Ballot?

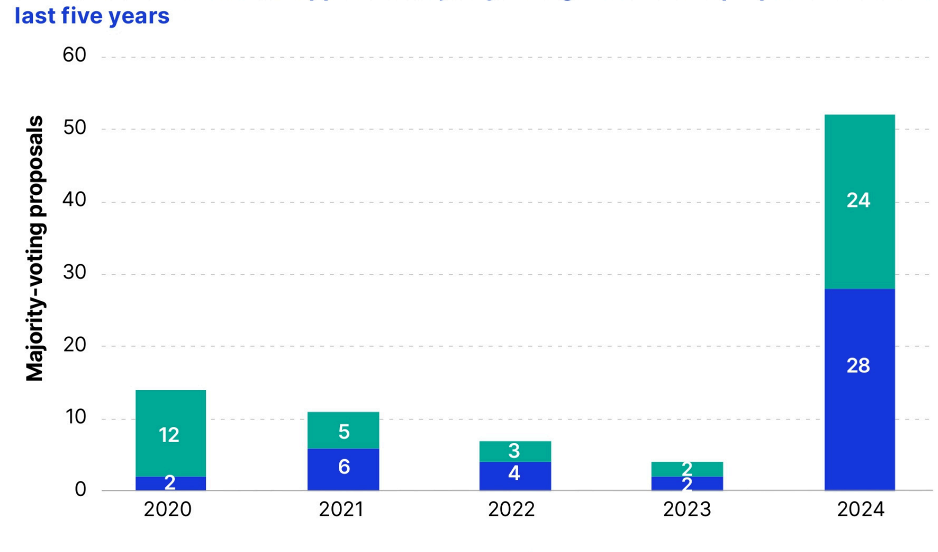
Something unexpected happened in the 2024 proxy season. Shareholders flexed their muscles, making a big play to expand their own rights through a virtual landslide of proposals seeking binding majority voting for directors. Shareholders in U.S. companies seem to have decided they'd had enough and it was time to move their investees' governance practices closer to what they see in other markets. We won't know until next year whether this groundswell of support continues. But with many of these proposals getting majority support and fresh evidence of the connection between better governance and equity-market outperformance, it may turn out that the 2024 season was only the beginning.

A majority in favor of majority voting

The 2024 surge in shareholder-rights proposals featured a 13x increase year over year in those requesting binding majority voting, i.e., requiring directors to immediately resign if they fail to receive a majority (> 50%) of votes cast at uncontested elections.[30] This policy is legally mandated in some markets and is generally considered best practice, but in the U.S., directors who don't get majority support are not required to leave — rather, the board gets the final say.[31] And the board often says "stay" — this year only one out of every five directors actually resigned after they were rejected by shareholders at companies within the MSCI USA Investable Market Index (IMI).

Shareholders appear to be getting fed up with this — we saw wide support for binding majority-voting proposals across diverse investor classes, with votes in favor reaching as high as 98.8%.[32] While shareholder proposals in the U.S. are technically nonbinding — meaning there is no legal requirement for companies to implement them — this sends a strong message to boards that their shareholders want change.

Exhibit 14: Submitted vs. approved majority voting shareholder proposals over the last five years



Data as of Oct. 15, 2024. Analysis based on all shareholder proposals to implement binding majority voting in director elections submitted to companies within the MSCI USA IMI between 2020 and 2024. Source: MSCI ESG Research

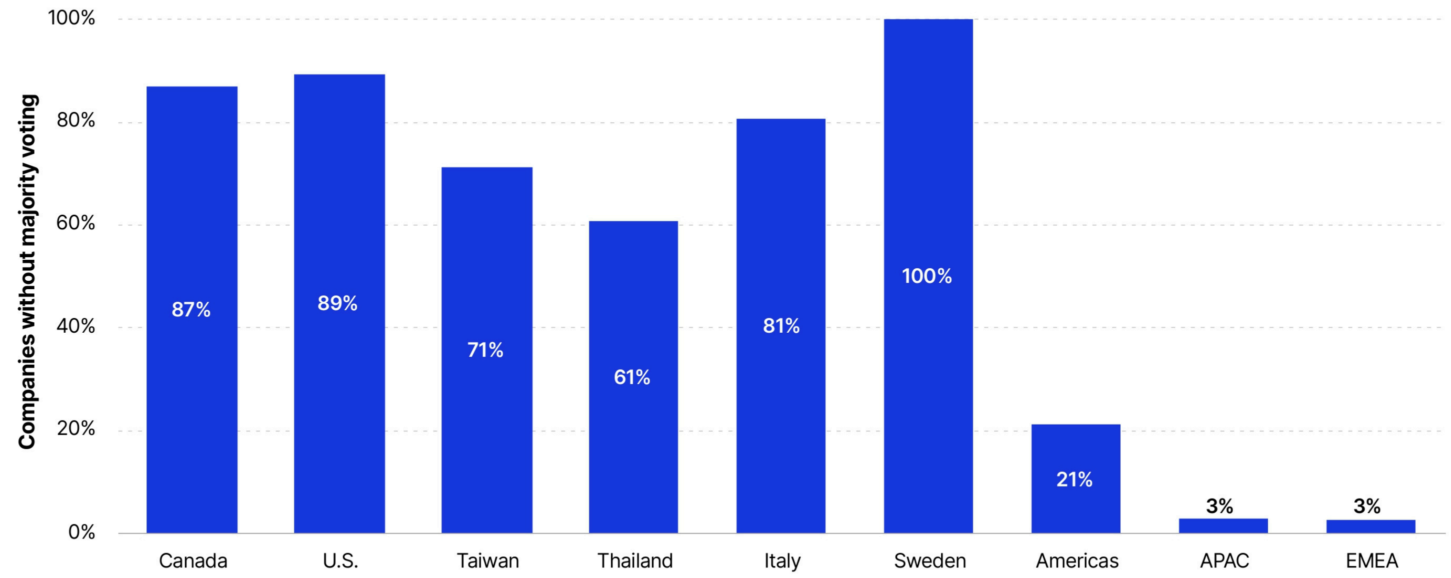
Of the 206 governance-related proposals shareholders submitted at companies in the MSCI USA IMI in 2024, a quarter (52) called for implementing binding majority voting in director elections, more than any other single category. This was dramatically higher than in 2023 (when there were four) and exceeded the number for the previous four years combined (36). Significantly, these proposals received elevated support in 2024 when compared to previous years, with an average of 54.3% votes in favor vs. 44.1% over the prior five years.

Keeping up with the global neighbors

This change in volume and relative success of majority-voting proposals seems to be a phenomenon of its own. There was not a corresponding uptick in the number of shareholder proposals generally. The 2024 U.S. proxy season to date saw 569 of them in total, which is actually down from 2023, when 605 proposals went to a vote. The filers of majority-voting proposals were diverse as well, including large pension funds and serial shareholder-rights advocates. So, what has changed to get investors seemingly so fired up about shareholder rights?

Neither the proposals themselves nor the voting data really answer this question. One possibility is that asset managers are an increasingly global bunch, tuned into practices in other markets where they appreciate what they see. More than ever before, shareholders are aware of the governance nuances across different regions. The U.S., for example, is one of only a handful of markets where binding majority voting in director elections is not the norm.

Exhibit 15: Companies lacking majority voting concentrated in a handful of markets



Data as of Oct. 15, 2024. Analysis based on 2,615 companies within the MSCI ACWI Index, using the Majority Voting key metric, which flags companies that do not have a binding majority-voting policy or bylaw. Percentages for the Americas, APAC and EMEA regions do not include Canada, U.S., Taiwan, Thailand, Italy and Sweden. The six highlighted markets were the only ones in our coverage with more than 25% of companies flagged for the Majority Voting key metric. Source: MSCI ESG Research

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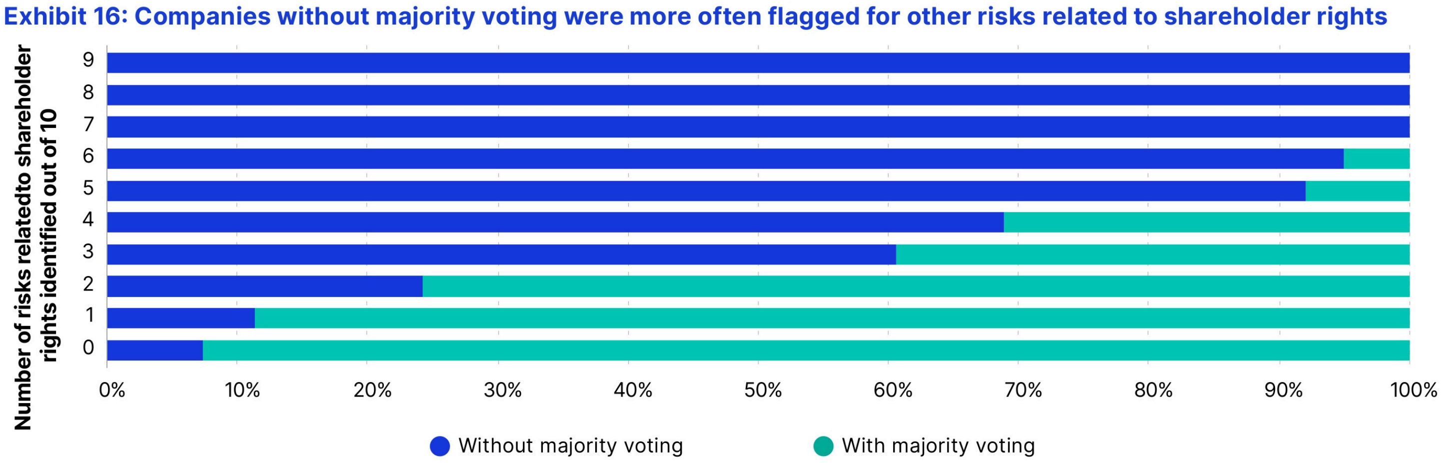
It's not just about voting

Strong shareholder rights and protections seem to be self-reinforcing and tend to come as a package. Globally, companies with binding majority voting in director elections tend to have other governance best practices too. This is evident in our model for assessing corporate governance, where we can see that companies without binding majority voting were far more likely to also lack other shareholder-rights protections, including those related to director elections.

This is correlation and not necessarily causation. But there's no question that shareholder rights are a fundamental component of good corporate governance. And good governance has been historically associated with financial outperformance, especially in developed markets. U.S. governance leaders consistently outperformed laggards between 2018-2023, with top-scoring companies delivering a cumulative return 26.3% higher than their worst-scoring peers. Well-governed companies bounced back more strongly in the months following the global COVID-19 pandemic and maintained their gains in the years that followed.

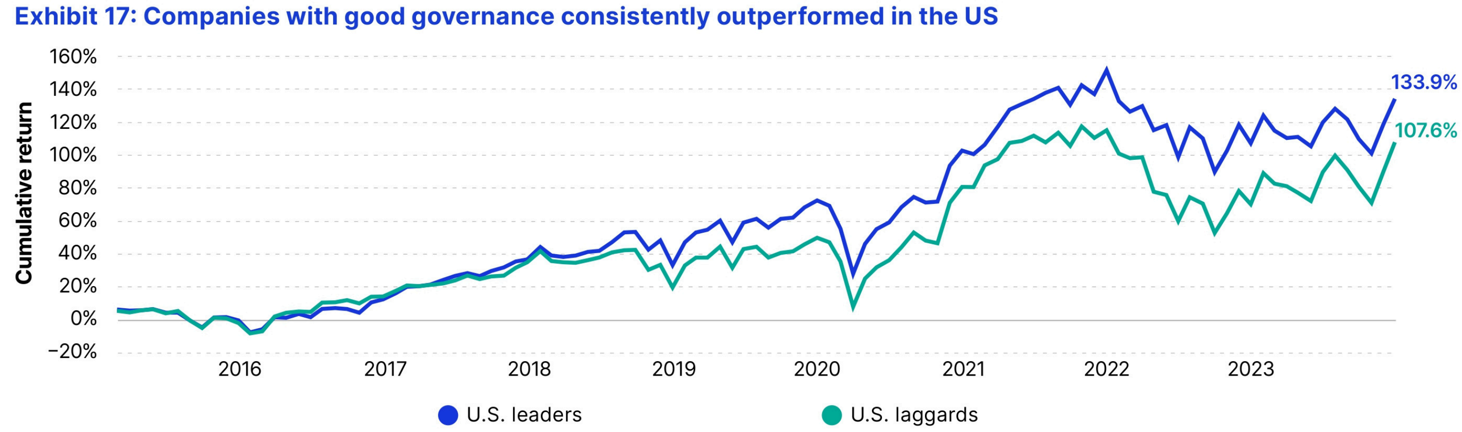
Clearly, there is a big push among investors in U.S. companies to improve shareholder rights as a key component of a firm's overall governance practices. Governance best practices have been associated with improved returns in recent years, so investors in U.S. companies may have a strong incentive to continue pushing for shareholder rights and governance enhancements in 2025.

Exhibit 16: Companies without majority voting were more often flagged for other risks related to shareholder rights



Data as of Oct. 15, 2024. Analysis based on 2,615 companies within the MSCI ACWI Index, includes all key metrics in the Shareholder Rights (5) and Director Elections (5) categories under the Ownership & Control key issue, other than the Majority Voting key metric. Source: MSCI ESG Research

Exhibit 17: Companies with good governance consistently outperformed in the US



Data from January 2015 to December 2023. Quintiles are created every month based on governance pillar score. We first regressed scores on market capitalization to eliminate any size bias. The chart shows the cumulative difference between the top and bottom quintiles' performance. Not an indication of causality. Past performance not indicative of future results. Source: MSCI ESG Research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Special thanks to:
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Will 2025 Be a Turning Point for Carbon Markets?

It's fair to say that the last few years have been a period of consolidation and self-examination for the global voluntary carbon credit market. The previous strong growth in the number of transactions and prices has given way to a new phase in which the quality of certain credits has come under scrutiny, and volumes and pricing have largely gone sideways. But this could all be on the cusp of change.

The underlying fundamentals for carbon markets have stayed robust — particularly with the ever-rising number of companies making voluntary Science Based Targets Initiative (SBTi) energy-transition and climate commitments. The realization of the need to shift to a lower-carbon economy the last couple of years is bringing about a gradual improvement in the quality of the market.

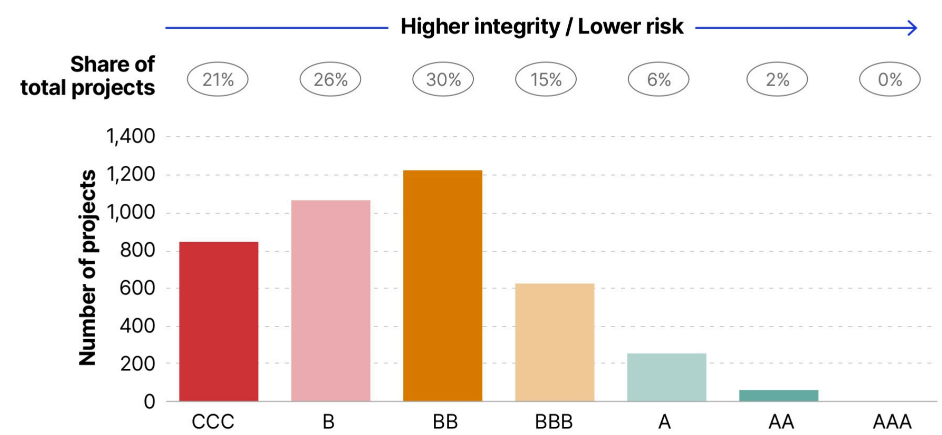
New sources of demand are also emerging, such as via the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) scheme and potentially via "compliance" (i.e., official) carbon markets allowing the use of credits.[33] COP29 also saw significant progress toward establishing the long-awaited Paris Agreement Crediting Mechanism (PACM), through which carbon credits can be formally transferred between countries and companies under Article 6 of the Paris Agreement. The year 2025 may, therefore, be a turning point for the market.

Quality over quantity

Recent analysis by MSCI Carbon Markets of more than 4,000 registered voluntary carbon projects showed that 47% of credits "retired" (i.e., used and claimed) up until July 2024 have come from projects with an MSCI Carbon Project Rating of B or lower, compared to only 8% of projects rated between A and AA, with no projects qualifying for our highest rating of AAA.[34]

Despite no AAA ratings, the trend is toward an improvement in carbon-project integrity. Over the last two years (Q2 2022 to Q2 2024), the proportion of retired credits with the lowest ratings, CCC, fell from 29% to 15%, while the use of A or AA credits doubled, from 6% to 12%. This is despite the fact that the highest-integrity carbon credits have been hard to identify and have been in relatively limited supply.

Exhibit 18: Number of registered projects by MSCI Carbon Project Rating



Data as of September 2024. Source: MSCI Carbon Markets

For the next frontier, new projects being developed now also appear to be, on average, of higher integrity. This is especially the case for projects, both engineered and nature-based, that remove carbon dioxide from the atmosphere. The standard-setting bodies for carbon markets have also zoomed in on quality. In June 2024, the Integrity Council for the Voluntary Carbon Market (ICVCM) announced the first set of carbon-crediting methodologies (and hence projects) that qualify for its Core Carbon Principles (CCPs).[35]

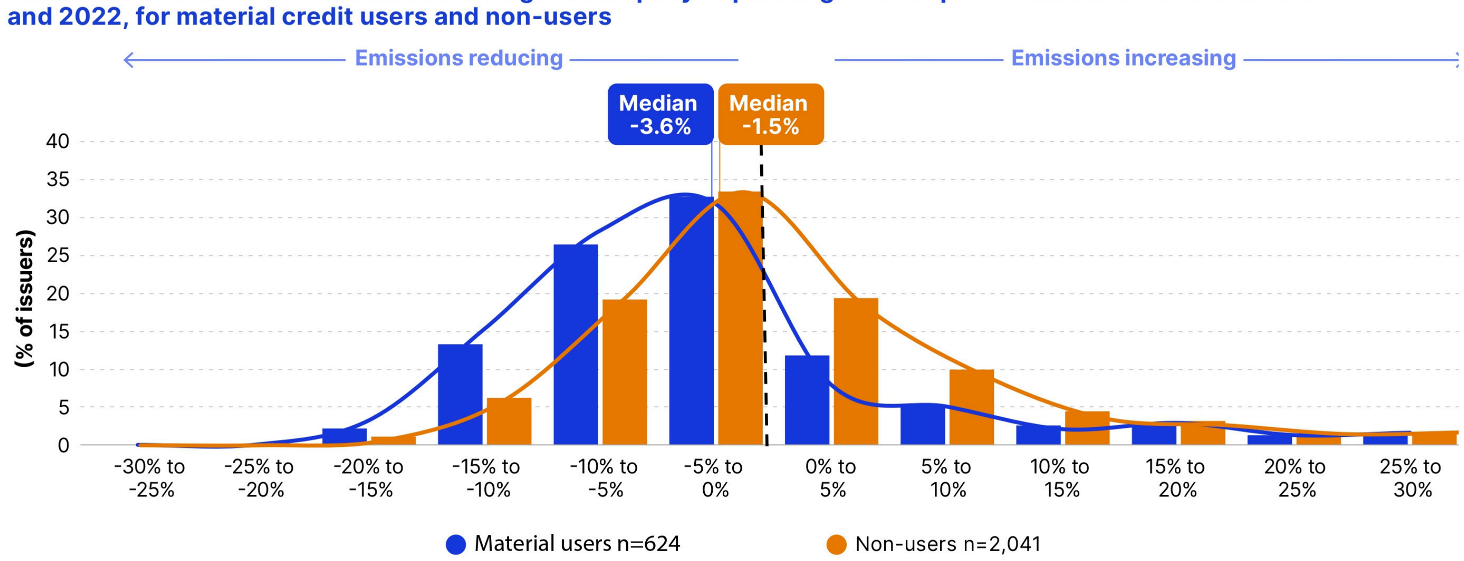
Material users of carbon credits performed better on a range of climate metrics

One of the key criticisms that have arguably held back the voluntary carbon market in recent years has been the allegation that companies that were choosing to buy, and retire, credits might be doing so instead of cutting their own carbon emissions. We found, however, that of 8,844 firms in the MSCI ACWI Investable Market Index (IMI), those that used carbon credits during 2017 to 2022 performed better on a range of climate-performance metrics than those that had not used them.

Firms that were using carbon credits were more transparent than nonusers in disclosing their Scope 1, 2 and 3 emissions — and more likely to have set credible emissions-reduction targets. Material users of carbon credits were also more likely than nonusers to have reduced their underlying Scope 1 and 2 emissions at a median rate of 3.6% per year between 2017 and 2022, compared to 1.5% per year among nonusers.[36]

This analysis doesn't show how companies using carbon credits would have performed in terms of changes in emissions if they had not used them, but it does show that carbon credits tend to be used as part of a company's climate strategy, not as an alternative.

Exhibit 19: Distribution of annualized change in company-reported gross Scope 1+2 emissions between 2017 and 2022, for material credit users and non-users



Analysis as of July 1, 2024 for period 2017-2022. Only includes firms within the MSCI ACWI IMI that reported their Scope 1 and 2 emissions for every year between 2017-2022. Material users are defined as those that have used more than 1,000 tCO2e of credits during 2017-2022. Excludes outliers — see "Corporate Emissions Performance and the Use of Carbon Credits," for detailed methodology. Source: MSCI Carbon Markets, MSCI ESG Research

New sources of demand on the rise

National and regional carbon markets have been cautious about allowing the use of carbon credits for compliance purposes, especially since 2012, when international carbon credits were no longer allowed to be used in the European Union Emissions Trading Scheme (ETS). This is partly due to uncertainty over the equivalence of the credits compared to actual units of emissions, but also because of a desire to keep the emissions reductions within the region of the compliance scheme. However, with specific eligibility requirements, some countries have been supportive of the use of carbon credits and others are now following suit. Domestic carbon credits have been part of the Australian emissions tax and trading scheme for over 10 years, and South Africa has allowed up to 10% of the country's carbon tax to be offset by carbon credits since 2019. Elsewhere, Colombia has allowed the use of credits to offset 50% of the domestic carbon tax since 2022, and in January 2024 Singapore permitted carbon credits to be used for up to 5% of taxable emissions.[37]

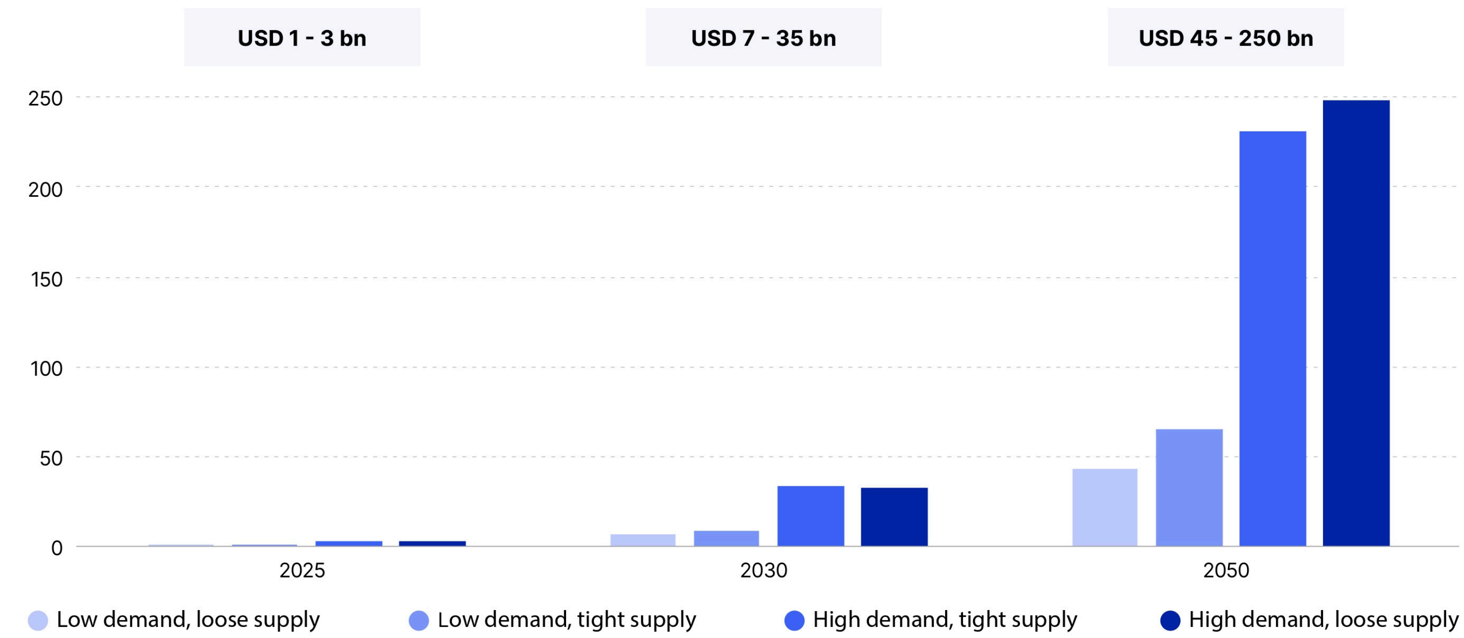
Meanwhile, the U.K. is consulting on whether to allow some types of carbon credits to be used in its own ETS. The largest compliance market of all, the European Union ETS, has signaled that it may allow the use of some credits from projects that remove CO2 from the atmosphere.[38]

Perhaps most relevant for carbon credits in the next few years is CORSIA. Launched by the International Civil Aviation Organization (ICAO) in 2016, this mechanism requires the use of carbon credits or sustainable aviation fuels to offset any growth in international aviation emissions above their baseline level, currently set at 85% of 2019 emissions.

CORSIA is being implemented in phases, with 126 countries participating in Phase 1 between 2024 and 2026.[39] Analysis by MSCI Carbon Markets estimates that up to 140 million tonnes of carbon credits could be required in this first phase.

In addition, for the first time in three years, significant progress was made at COP29 in establishing carbon trading under Article 6 of the Paris Agreement. For the UN-backed carbon market (established under Article 6.4, now known as PACM), the high-level standards for carbon-project methodologies, and other rules for addressing environmental and social impacts, were agreed. As a result, more detailed rules and methodologies can now be developed during 2025, potentially enabling the first credits under the PACM to come to market in late 2025. These will likely follow similar standards to other voluntary credits, but may appeal to certain companies or investors that wish to explicitly show that their climate strategies support the Paris Agreement, as well as countries themselves. In another boost to the market, further clarifications and rules were also agreed for direct country-to-country credit transfers (governed by Article 6.2).

Exhibit 20: Projected credit retired market size (USD billions, 2024 prices) by scenario



Source: MSCI Carbon Markets, MSCI ESG Research

Voluntary carbon markets at a turning point?

Identifying a turning point only becomes clear in retrospect. But there are enough indicators to suggest that 2025 might be the year in which the global carbon credit market reestablishes its positive momentum. If it does, the impact could be significant.

Our analysis suggests that the total value of the carbon credit market could grow from around USD 1.5 billion in 2024 to between USD 7 and 35 billion in 2030 and USD 45 and 250 billion in 2050, should companies and governments stick to their climate commitments.

Endnotes

1 The relatively low threshold, 5%, to include companies that provide low-carbon revenues may have contributed — these companies are positioned for growth from these business lines, but they are less exposed than "pure play" solutions providers, for example, that earn more than 50% of their revenues from these types of products or services.

2 For the sector comparison, the peer set of low-carbon-solutions providers in public markets included 553 constituents of the MSCI ACWI Investable Market Index (IMI) as of Oct. 10, 2024, with 5% or greater estimated revenues from categories within the MSCI Sustainable Impact Metrics methodology associated with three themes: renewable and low-carbon power, green mobility and energy storage. We set the threshold at 5% in part to ensure comparability with the private-markets approach, which differed (see endnote 3). The average solutions revenue among the peer set was 29% and the median was 16%. 276 companies were affiliated with renewable power or equipment, 253 with green mobility and 54 with energy storage, with 28 firms having exposure to more than one solutions theme.

3 The private-market peer set was based on a keyword search from descriptions of portfolio companies in the MSCI private-capital universe dataset across three transition themes: renewable energy, green mobility and energy storage. While this peer set may not encompass all companies in the three transition themes, this sample may provide insights around sector composition and returns. For a more detailed breakdown of private-market transition opportunities by region, sector and asset class, see: Abdulla Zaid, "Watt Opportunity? Plugging Private Markets into the Energy-Transition Circuit," MSCI ESG Research, Oct. 16, 2024.

4 Sectors refer to the Global Industry Classification Standard (GICS®) sectors. GICS is the global industry classification standard jointly developed by MSCI and S&P Global Market Intelligence.

5 The cash flows in the private-capital universe were reweighted to reflect the asset-class weighting of the low-carbon-solutions providers.

6 "Copernicus: Summer 2024 – Hottest on record globally and for Europe," Copernicus, Sept. 6, 2024.

7 "What the Market Thinks: A Climate Risk Survey," MSCI Sustainability Institute, October 2024.

8 "Devastating Rainfall from Hurricane Helene," Nasa Earth Observatory, accessed Oct. 17, 2024.

9 Pluvial flooding refers to inland floods that are often associated with high-intensity, short-duration (<1 day) precipitation events. This type of flood occurs when the ground cannot absorb rainwater quickly enough (resulting in a flash flood) or when the capacity of urban drainage systems is exceeded due to excessive water flows (surface water floods).

10 Hazard percentiles indicate a location's hazard exposure relative to the constituents of the MSCI ACWI Index (considered the global benchmark). A higher hazard percentile indicates greater exposure. Hazard percentiles at the regional level are calculated based on synthetic locations (independent of MSCI GeoSpatial Asset Intelligence locations) within the geographical boundary of a given region.

11 Felicia Khoo and Jeffery Yong, "Too hot to insure – avoiding the insurability tipping point," Bank for International Settlements, Financial Stability Institute, FSI Insights on policy implementation No 54, November 2023.

12 "Final Terms," Central Nippon Expressway Company Ltd., Feb. 24, 2022.

13 "The Unavoidable Opportunity: Investing in the Growing Market for Climate Resilience Solutions," GARI Working Group, March 2024.

14 Sectors refer to the Global Industry Classification Standard (GICS®) sectors. GICS is the global industry classification standard jointly developed by MSCI and S&P Global Market Intelligence.

15 Our analysis compared the estimated current-year price-to-earnings multiple for companies in each sub-industry that were identified as offering climate resilience and adaptation solutions to the average for each sub-industry. As of Oct. 17, 2024, covers constituents of the MSCI ACWI IMI. Estimated current-year price-to-earnings multiple based on consensus (Source: Refinitiv).

16 In this analysis we used the MSCI ACWI Index as a proxy for global equity markets. This index captures large- and mid-cap representation across 23 developed-market and 24 developing-market countries and had 2,687 constituents, as of Sept. 30, 2024. The index covers approximately 85% of the global investable equity opportunity set.

17 Sectors refer to the Global Industry Classification Standard (GICS®) sectors. GICS is the global industry classification standard jointly developed by MSCI and S&P Global Market Intelligence.

18 "New EY research finds AI investment is surging, with senior leaders seeing more positive ROI as hype continues to become reality," EY, July 15, 2024.

19 Sectors refer to Global Industry Classification Standard (GICS®) sectors. GICS is the global industry classification standard jointly developed by MSCI and S&P Global Market Intelligence.

20 In 2023, the U.S. Food and Drug Administration (FDA) approved 221 applications, up from 155 in 2022. Siemens Healthineers had the highest number of AI/ML-enabled medical device approvals among such medical devices legally marketed in the U.S. (64 between 2014 and 2024), as of May 13, 2024.

21 "2022 Annual Report," IBM, Feb. 28, 2023.

22 Casey Ross and Ike Swetlitz, "IBM Pitched Its Watson Supercomputer as a Revolution in Cancer Care. It's Nowhere Close." STAT, Sept. 5, 2017.

23 Rob Copeland and Sarah E. Needleman, "Google's 'Project Nightingale' Triggers Federal Inquiry," *Wall Street Journal*, Nov. 12, 2019.

24 "EU AI Act: first regulation on artificial intelligence," European Parliament, June 18, 2024. "AB-2013 Generative artificial intelligence: training data transparency," California Legislative Information, Sept. 30, 2024.

25 Amazon.com Inc., Anthropic PBC, Alphabet Inc., Inflection AI Inc., Meta Platforms Inc., Microsoft Corp. and OpenAI. We focused on this group of companies as they have been identified as leaders by the U.S. government. "FACT SHEET: Biden-Harris Administration Secures Voluntary Commitments from Leading Artificial Intelligence Companies to Manage the Risks Posed by AI," White House, July 21, 2023.

26 "Microsoft announces new Copilot Copyright Commitment for customers," Microsoft, Sept. 7, 2023.

27 Shayne Longpre, Robert Mahari, Ariel Lee et al., "Consent in Crisis: The Rapid Decline of the AI Data Commons," Data Provenance Initiative, July 2024.

28 Analysis based on disclosures from the 50 largest companies (in total) by market cap across the following sectors: communication services, consumer discretionary, consumer staples, financials, health care and information technology.

29 "Our approach to generative AI with Adobe Firefly," Adobe.com, accessed Oct. 15, 2024.

30 Based on 52 majority-voting shareholder proposals submitted in 2024 and four submitted in 2023 to constituents of the MSCI USA IMI, as of Oct. 15, 2024. Source: MSCI ESG Research.

31 "ICGN Global Governance Principles," International Corporate Governance Network, 2021.

32 The 98.8% figure was recorded at ConocoPhillips: "Form 8-K: Submission of Matters to a Vote of Security Holders." ConocoPhillips, May 16, 2024.

33 CORSIA is the Carbon Offsetting and Reduction Scheme for International Aviation developed by the International Civil Aviation Organization (ICAO).

34 Each project is rated on a seven-grade letter-based scale, from AAA to CCC, where AAA represents the highest Carbon Project Rating. For AAA-rated credits, there is a very high likelihood that these projects will deliver and support both at least 1 tonne of CO2 equivalent of emissions impact per credit and a range of positive social and/or environmental outcomes while upholding legal and ethical standards.

35 "Integrity Council announces first high-integrity CCP-labelled carbon credits, as assessments continue." ICVCM, June 6, 2024.

36 Material users defined as those using more than 1,000 tonnes of credits between 2017 and 2022.

37 Source: MSCI Carbon Markets policy analysis

38 "Directive (EU) 2023/959 of the European Parliament and of the Council of 10 May 2023 amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union and Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading system," European Union, May 10, 2023.

39 "CORSIA Homepage," ICAO, accessed Nov. 1, 2024.

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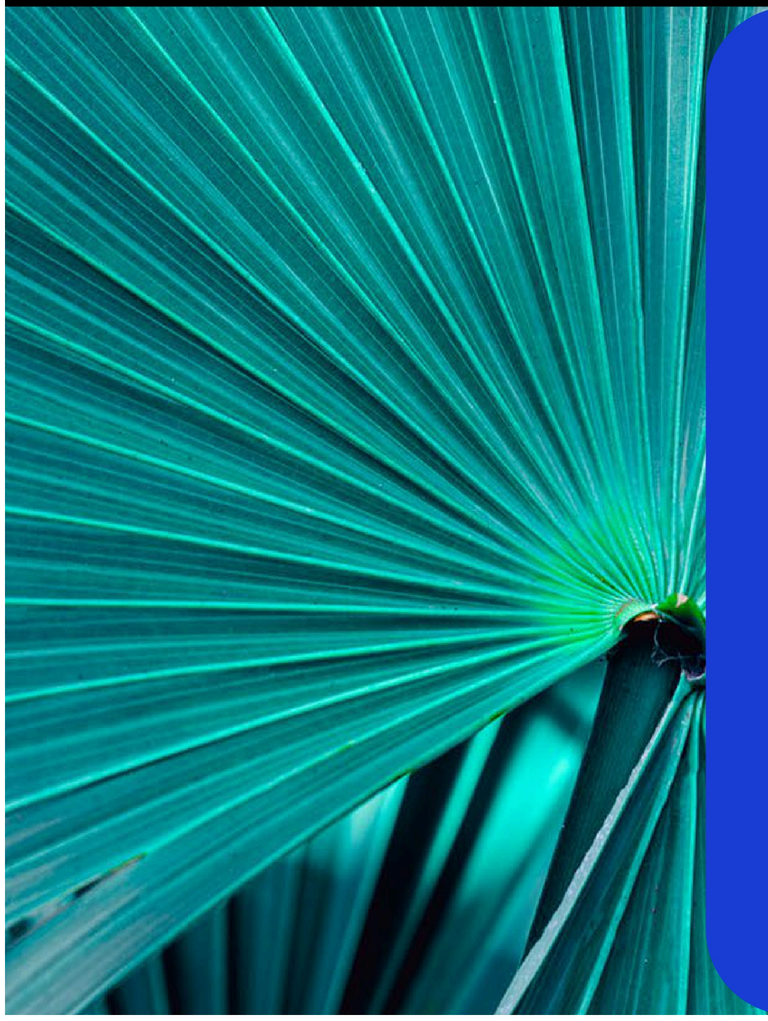

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23

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24

ICMAI Social Auditors Organisation

(A Section 8 Company promoted by The Institute of Cost Accountants of India)

PROCEDURE FOR REGISTRATION OF A MEMBER WITH ICMAI SAO

Eligibility Criteria for Social Auditor

A. An Individual if he

- holds the required qualification and experience;
- have attended a course at the National Institute of Securities Markets (NISM) and received a certificate of completion after successfully passing the course examination; and
- is registered with a Self-Regulatory Organisation (SRO) [e.g., ICMAI Social Auditors Organization]

B. A Firm/Institution that has partners/employees who meet with the criteria for being a social auditor and has a track record of minimum three years for conducting social impact assessment.

Eligibility Qualification & Experience for Social Auditor

- Post-graduates from universities recognized by the University Grants Commission (UGC) with a minimum of 3 years of experience in the development sector, or
- Graduates from universities recognized by the UGC with a minimum of 6 years of experience in the development sector, or
- Cost and management Accountant, Chartered Accountant, or Company Secretary holding valid Certificate of Practice.

No individual shall be eligible to be registered as a Social Auditor if he:-

- is a minor;
- is not a person resident in India;
- does not have the qualification and experience specified in SEBI notification;
- has been convicted by any competent court for an offence punishable with imprisonment for a term exceeding six months or for an offence involving moral turpitude, and a period of five years has not elapsed from the date of expiry of the sentence.

Provided that if a person has been convicted of any offence and sentenced in respect there of to imprisonment for a period of seven years or more, he shall not be eligible to be registered;

- he is an undischarged insolvent, or has applied to be adjudicated as an insolvent;
- he has been declared to be of unsound mind; or
- he is not a fit and proper person.

Explanation: For determining whether an individual is fit and proper ICMAI SAO may take account of any consideration as it deems fit, including but not limited to the following criteria-

- integrity, reputation and character,
- absence of convictions and restraint orders, and
- competence,

Procedure for Enrolment as a member

Entry of Application : Entry for application received for registration of social auditor is to be made in a register maintained by ICMAI SAO followed by stamping of application mentioning date of reception it.

Acknowledgement of Application : Every application received is to be acknowledged to the applicant within 7 working days of its receipt via mail.

One Time Enrolment fee : Rs. 3,000/- Plus GST @18%

Membership fees : Rs. 5,000 plus GST @18% for three years

Internal Verification of application along with fee and supporting documents as mentioned in enrolment Form.

- Registered form – duly completed
- Passport-size photo

- **Copy of proof of residence**
- **Self – attested copy of Aadhar card, PAN card and Passport (if available).**
- **Copies of documents in support of educational qualifications, professional Qualification, Experience, and Social Auditors examination**
- **Copy of proof of payment of Admission/Enrolment Fee and Annual Fee**
- **Copy of Self Declaration, the format of the same is annexed with the Enrolment form (Annexure – 1).**

Verifying Qualification and Experience

Copies of documents demonstrating qualification, employment and practice as –

- **Cost and Management Accountant enrolled with the Institute of Cost Accountants of India.**
- **Company Secretary enrolled with the Institute of Company Secretaries of India,**
- **Chartered Accountant enrolled with the Institute of Chartered Accountants of India and/or empaneled with the Comptroller & Auditor General of India.**
- **Graduate / Post-Graduate from universities recognized by the University Grants Commission (UGC).**
- **Requisite experience of minimum of 3/6 years in the development sector**
- **Copies of certificate of employment from the employer(s), specifying the period of such employment.**

Before registering a person as its Member ICMAI SAO is required to verify the following:

- **Whether the applicant holds requisite qualifications & experience as indicated above.**
- **Whether the applicant holds valid Certificate of Practice if he is a Cost and management Accountant, Chartered Accountant, or Company Secretary.**
- **Whether the applicant have attended a course at the National Institute of Securities Markets (NISM) and received a certificate of completion after successfully passing the course examination.**
- **Whether the individual/firm/institution holds requisite social sector experience in providing assurance of non-financial information. (e.g., nutrition, education, health, water & sanitation, energy conservation, environment and climate change, etc.)**
- **Whether the firm/institution has required number of partners/employees meeting the criteria for being social auditor and has a track record of minimum three years for conducting social impact assessment.**
- **Whether any disciplinary proceedings are pending, or any disciplinary action has been taken at any time in the preceding three years against the professional member or firm/institution by the ICMAI, ICAI, ICSI, any SRO or any other regulator.**
- **Whether ICMAI, ICAI, ICSI, any SRO or any other regulator has initiated any criminal proceeding against the professional member or firm/institution and is pending for disposal?**
- **Whether the professional member/ person had an unblemished service with the last employer if he was in employment? The applicant must submit a conduct certificate from his last employer.**

External Verification

The applicants' particulars are sent to verifying authority (ICMAI / ICAI/ICSI) to verify the following:

- **Confirmation on verification of Membership Number provided by the Member**
- **Date of enrolment as member**
- **Number of years as member, whether he is continued to be member since his enrolment**
- **Information on whether the Member has ever been found Guilty of Misconduct. If his Membership was removed.**
- **COP Date**
- **COP Number**
- **Firm No.**
- **Firm Name**

- **Years of Experience in Practice**
- **Whether the member is in full-time practice or part-time practice?**
- **Whether the Member has been in Practice continuously? If not, please mention the block of period during which the Member was in practice and the block of period for which Practice was discontinued**

(e) After examination of the application, ICMAI SAO shall give an opportunity to the applicant to remove the deficiencies, if any, in the application.
(f) ICMAI SAO may require an applicant to submit additional documents, information, or clarification that it deems fit, within reasonable time.
(g) ICMAI SAO may reject an application if the applicant does not satisfy the criteria for registration or does not remove the deficiencies or submit additional documents or information to its satisfaction, for reasons recorded in writing.
(h) The rejection of the application shall be communicated to the applicant stating the reasons for such rejection, within thirty days of the receipt of the application, excluding the time given for removing the deficiencies or presenting additional documents or clarification by the ICMAI SAO, as the case may be.
(i) The acceptance of the application shall be communicated to the applicant, along with the registration number.

Issuance of Certificate of Enrolment/Registration

Upon successful registration, Applicant is issued certificate of registration within 7 working days from the date of registration with ICMAI SAO (through courier and via mail)

Details regarding Social Auditors Examination conducted by NISM

ICMAI Social Auditors Organisation

(A Section 8 Company promoted by The Institute of Cost Accountants of India)

Social Auditors Certification Examination

The examination aims to create a pool of social auditors who would assess the impact of social interventions of various social enterprises who raise funds through the Social Stock Exchange platform.

Examination Objectives

On successful completion of the examination the candidate should:

- **Know the basics of social auditing, Code of conduct of Social Auditors.**
- **Understand the general concepts related to social stock exchange, social audit and social impact assessment.**
- **Know the Social Impact Reporting disclosures and regulations.**

Assessment Structure

The examination consists of 85 multiple-choice and 3 case-based/caselet questions (each case having 5 questions) totaling to 100 marks. The assessment structure is as follows:

Multiple Choice Questions[85 questions of 1 mark each]	**85*1 = 85**
Case-based Questions[3 cases (each cases with 5 questions of 1 mark each]	**3*5*1 = 15**

The examination should be completed in 2 hours. The passing score for the examination is 60. There shall be negative marking of 25 percent of the marks assigned to a question.

Test Details

Name of Module: NISM Series XXIII: Social Auditors Certification Examination
~ 85 multiple-choice and 3 case-based/caselet questions (each case having 5 questions) totaling to 100 marks.
*** Negative marking – 25% of the marks assigned to the question.**
+ Payment Gateway Charges extra.
 # Passing Certificate will be issued only to those candidates who have furnished/ updated their Income Tax Permanent Account Number (PAN) in their registration details.

Frequently Asked Questions (Social Auditors)

1. Who can take NISM-Series-XXIII: Social Auditors Certification Examination?

The following persons can take NISM-Series-XXIII: Social Auditors Certification Examination:

- Individuals registered as social auditors
- Employees of Social audit firm
- Students pursuing social work and interested in gaining more knowledge in Social Audit

2. How can I register for NISM-Series-XXIII: Social Auditors Certification Examination?

Candidates can register at https://certifications.nism.ac.in/nismaol/

After successful registration, candidates may select a test centre, date and time slot of their choice on the Test Administrator website. Candidates are required to follow further instructions available on the Test Administrator websites.

3. What is the fee structure?

The fees for "NISM-Series-VIII: Social Auditors Certification Examination" is Rupees One Thousand Five Hundred only (Rs. 1500/-) plus applicable GST.

4. What is the assessment structure?

The examination will be of 100 marks, will have 100 questions, and should be completed in 2 hours. There will be negative marking of 25% of the marks assigned to a question. The passing score for the examination is 60%.

5. Is there a study material available for preparing for this examination?

You will receive a soft copy of the workbook/study material after enrolment for the examination. For non-receipt of a soft copy of the workbook/study material, you may contact NISM at: certification@nism.ac.in

6. Do I have to pay for the study material?

You will receive a soft copy of the workbook/study material free of cost after enrolment for the examination. Candidate can buy printed workbooks from Taxmann Publications Private Ltd.

Visit https://www.taxmann.com/bookstore to place your orders for NISM workbooks.

If you prefer to order by phone, please call your nearest store directly to place your order. Click here to get the details of your nearest store.

7. I have passed NISM Social Auditors Certification Examination, when will I receive the certificate?

Only the candidates who have produced their Income Tax Permanent Account Number (PAN) during registration would receive the NISM Certificate within two weeks of appearing for the examination.

Candidates who produced other identification proofs would not receive the NISM certificate. They would receive only the temporary mark sheet at the end of the examination.

8. I have not provided my PAN information at the time of taking the certification examination. How do I obtain the certificate?

Candidates who have not provided their PAN information during registration may upload the same from their candidate dashboard from NISM's portal. After receiving and verifying PAN details, the candidate will receive the certificate from the Test Administrator they have registered with. No additional payments are necessary for obtaining the certificate.

9. I have passed NISM Social Auditors Certification Examination and also provided PAN details, however I have not received a certificate. Whom should I contact?

For non-receipt of certificate contact: certification@nism.ac.in

10. What is the validity period of the certificate?

The certificate will be valid for 3 years from the date of the examination.

11. Can I request for re-evaluation of NISM Certification Examinations?

NISM Policy on Re-evaluation of performance of candidates appearing for Certification Examination and resolution of doubts about the questions forming part of such examination, if any.

"No re-evaluation of the performance of candidates appearing for Certification Examination conducted by NISM (Mandatory & Non-Mandatory examination) is permitted since the assessment of answers, with respect to Certification Examinations questions which are in the nature of the selection of only one correct answer from multiple choices offered, is carried out in an objective manner by in-built system architecture created for Certification Examination without any scope for human intervention and subjectivity element. Also, considering the examination structure, no disclosure of the questions and/or answers is permitted as it will violate the confidentiality of the question bank, which is the essence of the examination.

In view of the above, no communication regarding re-evaluation, etc. will be entertained/serviced by NISM." Subject to the above request/s received from a candidate for resolution of doubts about a question forming part of such examination will be considered as per the following policy.

(1) Candidate's request/s will be considered only when he/she specifically mentions particular question or two which he/she thinks contain errors. Claims/ to recheck more than two questions shall normally be not permitted unless substantive material is provided by the candidate as to why he/she considers errors in such questions. In no case, claim/s to recheck all the questions appeared in his/her question paper shall be entertained.

(2) No request/s to disclose/discuss question/s and/or their answers shall be entertained as disclosure of the question/s will violate the essence of the question bank viz. breach the confidentiality/secrecy of the Question bank.

(3) Only those request/s made on-the-spot (before leaving the test center) will be considered for verification.

(4) When a valid request is received from a candidate at the Test Centre, it shall be forwarded by the respective TA to NISM. NISM's team will look into claim relating to the contested question/s to verify whether there is a mistake in the question or answer. If it is prima facie found that the question or answer contains a mistake, no score will be computed and consequently no score card will be issued then at the Test Centre.

(5) Such matter will then be escalated with the question / answer to the Committee with the details of the nature of error, the correct version of the question or contested correct answer and system recognized correct answer. The Committee, after due diligence and proper scrutiny, will arrive at a conclusion whether the claim made by a candidate in relation to a question or answer is right. Such conclusion will be recorded in writing and put up for formal approval to the authority of NISM.

(6) Score computation, kept in abeyance as per point 4, shall be carried based on the approval as per point – 5. Such score card will then be issued to the candidate by TA/NISM.

(7) Even though NISM endeavours best efforts and has put in place a robust mechanism to review its question bank intermittently, attributable to continuous changes taking place emanating from dynamics of the market, encompassing products and features, and its regulatory framework, there is a possibility of inadvertently escaping some updation and/or escaping indirect impact on some question/answer. Therefore, to take care of such eventuality, the above process of entertaining request from the candidate in relation to the question/answer is put in place.

(8) The above policy and process will be subject to review from time to time and shall be binding and final in relation to any claim and/or matter when disposed off with the approval of the authority of NISM.

GUIDELINES FOR ARTICLES

The articles sent for publication in the journal "The Social Auditor" should conform to the following parameters,
which are crucial in selection of the article for publication:

- **The article should be original, i.e. Not Published/ broadcasted/hosted elsewhere including any website.**
- **A declaration in this regard should be submitted to ICMAI-SAO in writing at the time of submission of article.**
- **The article should be topical and should discuss a matter of current interest to the professionals/readers.**
- **It should preferably expose the readers to new knowledge area and discuss a new or innovative idea that the**
- **professionals/readers should be aware of.**
- **The length of the article should not exceed 2500-3000 words.**
- **The article should also have an executive summary of around 100 words.**
- **The article should contain headings, which should be clear, short, catchy and interesting.**
- **The authors must provide the list of references, if any at the end of article.**
- **A brief profile of the author, e-mail ID, postal address and contact numbers and declaration regarding the originality of the article as mentioned above should be enclosed along with the article.**
- **In case the article is found not suitable for publication, the same shall be communicated to the members, by e-mail.**

Disclaimer:

The information contained in this document is intended for informational purposes only and does not constitute legal opinion, advice or any advertisement. This document is not intended to address the circumstances of any particular individual or corporate body. Readers should not act on the information provided herein without appropriate professional advice after a thorough examination of the facts and circumstances of a particular situation. There can be no assurance that the judicial/quasi-judicial authorities may not take a position contrary to the views mentioned herein.

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