

Corporate Commercial | Sustainability

Requirements on Climate-Related Disclosures and Board Diversity Policy Proposed for SGX-Listed Companies

Executive Summary

Against the background of accentuated demand by various stakeholders for climate-related information and disclosure on board diversity, the Singapore Exchange Regulation ("**SGX RegCo**") proposes requiring issuers listed on the SGX-ST Mainboard) and Catalist (collectively, "**issuers**") to:

- Include climate-related disclosures in their sustainability reports consistent with recommendations of the Task Force on Climate-Related Financial Disclosures ("**TCFD Recommendations**") under a "phased approach"; and
- Put in place a board diversity policy and describe the policy in their annual reports.

These proposals are detailed in SGX RegCo's consultation paper on "*Climate and Diversity: The Way Forward*" ("**Climate & Diversity Consultation Paper**", available [here](#)). Other salient proposals in the consultation paper include requirements for assurance of sustainability reports, reporting timeframe for issuing sustainability reports, and trainings for directors on sustainability.

At present, SGX RegCo proposes that it will not prescribe any specific sustainability reporting frameworks and Environmental, Social and Governance ("**ESG**") indicators for issuers. Instead, SGX RegCo proposes, in a separate consultation paper on "*Starting with a Common Set of Core ESG Metrics*" (available [here](#)), a common set of core ESG metrics as a starting point for issuers in their reporting of material ESG factors as well as an ESG data portal for structured access to ESG data.

The consultations for both consultation papers are open until **27 September 2021**.

This Update highlights significant aspects of these key proposals and their potential impact on issuers to consider.

Corporate Commercial | Sustainability

Climate-related Disclosures

Sustainability reporting regime ("SR Regime")

In 2016, the SR Regime introduced by SGX requires issuers to issue a sustainability report each financial year on a "comply or explain" basis. The sustainability report must describe the issuers' sustainability practices with reference to five primary components, namely: (1) material ESG factors; (2) policies, practices and performance; (3) targets; (4) sustainability reporting framework; and (5) a statement from the board of directors ("**Board**"). Where the issuer is unable to report on any primary component, the issuer must state so and explain what it does instead and the reasons for doing so.

Climate-related disclosures

Since the launch of the TCFD Recommendations in 2017, SGX RegCo has encouraged issuers to follow the TCFD Recommendations, a climate-focused framework, to guide their climate-related disclosures in their sustainability report. The TCFD Recommendations are organised across four pillars:

- i. Governance – disclosure on the organisation's governance around climate-related risks and opportunities.
- ii. Strategy – disclosure on the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning where such information is material.
- iii. Risk management – disclosure on how the organisation identifies, assesses, and manages climate-related risks.
- iv. Metrics and targets – disclosure on the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

To better prepare issuers for making sustainability reporting against a possible international climate standard in the future and in recognition that there is an urgent need to enhance the quality and consistency of climate-related disclosures, SGX RegCo proposes moving towards mandatory climate-related disclosures progressively and to incorporate the TCFD Recommendations as part of the Listing Rules of the SGX-ST Mainboard and Catalist (collectively, "**Listing Rules**"). SGX RegCo seeks feedback on the proposed roadmap towards mandatory climate-related disclosures as follows:

- For financial year ("**FY**") commencing in 2022, all issuers to adopt climate reporting on a "comply or explain" basis;
- From FY commencing in 2023, climate reporting will be mandatory for some sectors of issuers while "comply or explain" will remain the approach for the others; and
- From FY commencing in 2024, more sectors of issuers will adopt mandatory climate reporting with the rest doing so on a "comply or explain" basis.

Corporate Commercial | Sustainability

SGX RegCo also proposes that the prioritisation of sectors be based on industry classification, with sectors with the highest climate-related risks to be prioritised so as to achieve greatest impact. For instance, based on TCFD's classification (which significantly overlaps with the economic activities identified by the Green Finance Industry Taskforce (GFIT), a taskforce convened by the Monetary Authority of Singapore to help accelerate the development of green finance), these non-financial industries are agriculture, food and forest products; energy; materials and buildings; and transportation. SGX RegCo seeks feedback on this method of prioritisation and, if not, on alternatives.

SGX ReCo has noted that the TCFD Recommendations are, to an extent, already captured within the SR Regime. In light of the proposal to require issuers to provide climate-related disclosures consistent with the TCFD Recommendations, SGX RegCo proposes the following key revisions to the SR Regime:

- In identifying material ESG factors, issuers should consider the relevance or impact of these factors to financial planning, apart from the business, strategy, business model and key stakeholders;
- To sharpen the focus on sustainability issues that arise from the issuer's business and the Board's strategic response, the Board statement should be enhanced to specifically provide that the Board has, among others, considered sustainability issues in the issuer's business and strategy;
- The Sustainability Report should, in addition to the Board statement, describe the roles of the Board and the management in the governance of sustainability issues; and
- New sections on "climate-related disclosures" and "policies, practices and performance" to be included in the Sustainability Reporting Guide concerning the disclosure of greenhouse gas (GHG) emissions; conducting climate-related scenario analysis, policies and processes to manage and mitigate risks of identified material ESG factors; and integrating ESG risk management structures into existing enterprise risk management structures.

It bears noting that the TCFD is presently consulting on proposed guidance on climate-related metrics, targets, and transition plans ("**TCFD Consultation**"). SGX RegCO will also incorporate finalised changes to the TCFD Recommendations following the TCFD Consultation.

Noting that time is required for progressive adoption of the changes, SGX RegCo proposes a phased approach over a three-year period in the Sustainability Reporting Guide for issuers to consider.

Common Set of Core ESG Metrics

Under the SR Regime, issuers may choose a globally recognised sustainability reporting framework to guide their disclosures, and there is no prescribed specific ESG indicators. At present, aside from the

Client Update: Singapore

2021 SEPTEMBER

Corporate Commercial | Sustainability

TCFD Recommendations for climate-related disclosures, SGX RegCo states that it would not prescribe any specific sustainability reporting frameworks and ESG indicators for issuers.

That said, in view of "a need for some basic level of convergence on data definition", SGX RegCo proposes having a common set of core ESG metrics for issuers and sets out a proposed list of 27 metrics, each with a description, defined standardised units and is mapped against globally-accepted sustainability reporting frameworks – the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the TCFD Recommendations, and the World Economic Forum's (WEF) recommended set of metrics and disclosures.

While the metrics are not mandatory, SGX RegCo encourages all issuers to consider using this list of metrics as a baseline. Also, issuers should still conduct a materiality assessment to ensure the relevance of reported metrics.

ESG Data Portal

Additionally, to align use of ESG-related data and information, SGX RegCo proposes an ESG data portal so that investors can access ESG data in a structured format and issuers are guided in providing ESG disclosures, mapped to a global reporting framework.

This ESG data portal is expected to include issuer-focused features such as: (a) direct data input templates for streamlined reporting; (b) bulk upload of data in commonly used digital formats (e.g. CVS, XBRL, XML); (c) Application Programming Interface access to issuers' existing internal reporting tools; (d) data mapping and guidance across established reporting frameworks to minimise duplicate reporting efforts; and (e) sustainability report generation.

SGX RegCo also suggests a move towards digital sustainability reporting, including submitting ESG data in widely used digital formats via the data portal.

Other Proposals

- **Retaining Working Guideline on Materiality.** Under the Listing Rules, issuers are obliged to disclose material information. The threshold for materiality is twofold: (a) information necessary to avoid establishment of a false market in the issuer's securities; and (b) information that is likely to materially affect the price or value of the issuer's securities. On applying the materiality test to sustainability information, the Sustainability Reporting Guide provides a working guideline on materiality ("**Working Guideline**") to guide issuers. Considering stakeholders' demand for information concerning sustainability risks and opportunities, SGX RegCo recommends retaining the Working Guideline as a common baseline for all issuers. If issuers determine that there are other standards of materiality that serve stakeholders' needs, they may choose to adopt them.

Corporate Commercial | Sustainability

- **Sustainability Reports to be Subject to Assurance.** Under the SR Regime, assurance of sustainability reports is voluntary. Considering that assurance enhances credibility of disclosures and boosts investors' confidence, as well as SGX RegCo's expectations of issuers which are mature sustainability reporters to progress to assurance, it is proposed that issuers be required to subject their sustainability reports to internal assurance provided by their internal auditors. Further, as "growing investors' demand for consistent, comparable and reliable information must ultimately be met by external assurance of sustainability reports", SGX RegCo seeks feedback on whether any aspects of the sustainability report should be subject to external assurance, and whether issuers should be required to disclose in the sustainability report that internal assurance or external assurance has been conducted.
- **Training for Directors.** Currently, the requirement for a director without prior experience as a director of an issuer ("**First-time Director**") to undergo mandatory training does not include a specific component on sustainability. Recognising the benefits of being trained in sustainability, SGX RegCo seeks comments on: (a) whether the mandatory training for a First-time Director should include a specific component on sustainability and if so, what topics; (b) whether all directors (whether or not they are First-time Directors) should undergo a prescribed one-time training on sustainability.
- **Reporting Timeframe for Sustainability Report.** Under existing reporting timelines, issuers must issue their sustainability reports on an annual basis – issuers may either embed the sustainability report within its annual report (which must be issued within four months of the end of the FY) or issue a full standalone sustainability report within five months of the end of the FY (with a summary included in the annual report). It is noted that issuing the sustainability report together with the annual report enhances usability and relevance, particularly where the ESG factors have been identified by the issuer to be financially material, as it allows the sustainability reports to be read in conjunction with issuers' financial information contained in their annual reports. As such, SGX RegCo seeks comments on whether the sustainability report should be issued together with the annual report. For issuers that conduct external assurance, it is suggested that these issuers be permitted to follow the existing reporting timeline (namely, the option of issuing a full standalone sustainability report within five months of the end of the FY (with a summary included in the annual report)).

Board Diversity Policy

Issuers are currently required under the Listing Rules to disclose on a "comply or explain" basis in their annual reports the Board diversity policy and progress made towards implementing the policy, including objectives. The Code of Corporate Governance 2018 also recommends, on a voluntary basis, that the Board diversity policy should include qualitative and measure quantitative objectives (if applicable), and encourages issuers to disclose how the Board's diversity meets the needs of the issuers.

Client Update: Singapore

2021 SEPTEMBER

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The uncertainties brought about by the COVID-19 pandemic has driven demand for information on "how the directors, as a group, chart corporate strategy and create and preserve enterprise value", prompting issuers to pay more attention to the composition of the Boards. In view thereof, SGX RegCo proposes revising the Listing Rules to require issuers to have in place a Board diversity policy. SGX RegCo further proposes that an issuer must disclose in its annual report:

- The Board diversity policy, targets for achieving the stipulated diversity, accompanying plans, and timeline for achieving the targets; and
- A tailored description that takes into account the issuer's current plan and future strategy of how the combination of skills, talents, experience, and diversity of directors in the Board serves the needs and plans of the issuer.

These changes, if adopted, are significant in the sense that it would elevate the current provisions under the CG Code of disclosing a Board diversity policy (on a "comply or explain" basis) and the recommendation of disclosing how the Board diversity meets the needs of the issuer (on a voluntary basis) to mandatory compliance.

Among other things, SGX RegCo seeks comments on whether gender should be an aspect of diversity to be included within issuers' Board diversity policy, as well as whether other aspects should be described in the diversity policy.

Proposed Implementation Period

Regarding the enhancements concerning climate-related disclosures, internal assurance, directors' training, timeframe for reporting, and disclosures on Board diversity, it is proposed that issuers adopt these enhancements for their sustainability reports and annual reports for financial years commencing on or after 1 January 2022.

Potential Impact for Businesses

It is clear that issuers cannot ignore the demand for climate-related information and Board diversity from stakeholders. Apart from falling foul of the requirements (should the amendments come into force), these companies also "risk being marginalised in terms of allocation of capital access to financial facilities". Further, issuers must note that they can no longer rely on broad, general statements on climate-related information and diversity, but must show specific plan and targets.

As such, issuers must review closely the proposals in the consultation papers and provide feedback given the significant and definite impact on time and resources, among other things, on their businesses, disclosures and reporting. More importantly, how workable are these changes, and how can they be complied with? We are happy to guide you through these requirements. If you have any queries on the above development or would like to submit any feedback to the consultation paper, please feel free to contact our team members below who will be happy to assist.

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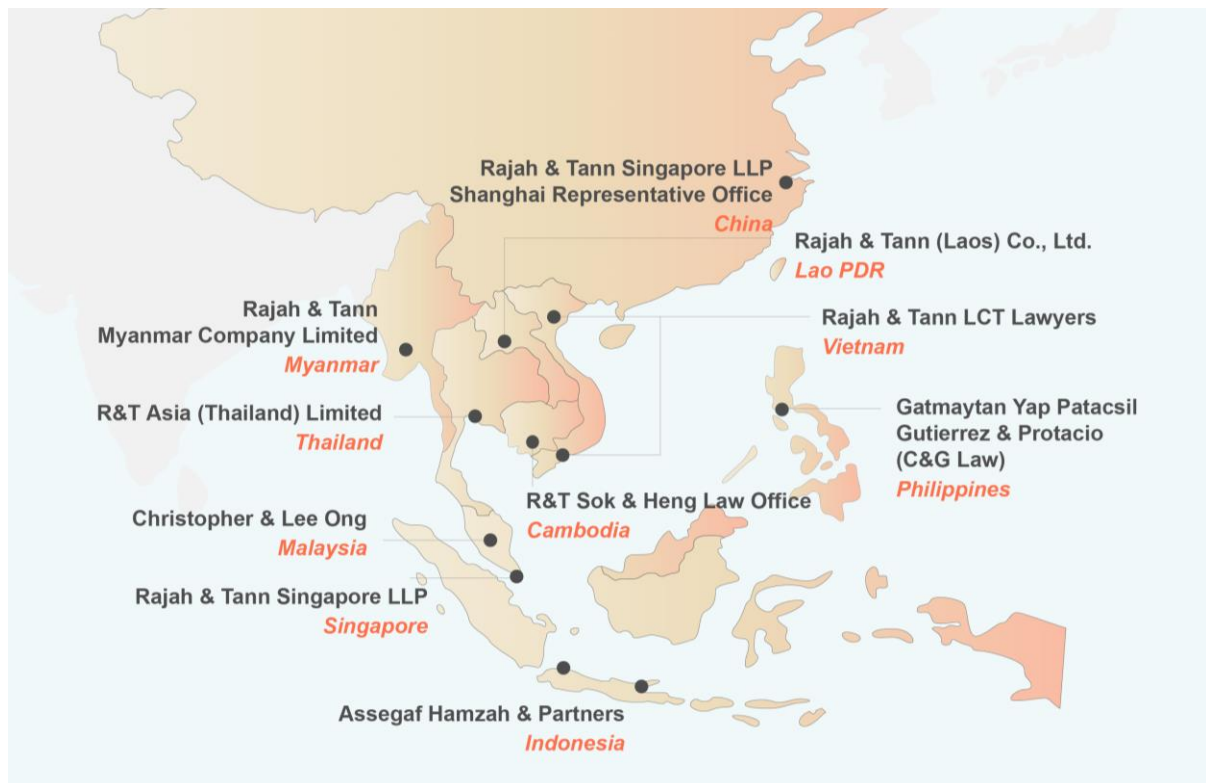
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