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Enhanced Disclosures on Climate-Related Information & Board Diversity Policy for SGX-Listed Companies

Executive Summary

The Singapore Exchange Limited ("**SGX**") will introduce the following changes to nudge more issuers listed on the SGX-ST Mainboard and Catalist (collectively, "**issuers**") towards the direction of integrating environment, social and governance ("**ESG**") factors into their corporate governance practices and business strategy:

- Mandatory climate-related disclosures in issuers' sustainability reports consistent with recommendations of the Task Force on Climate-Related Financial Disclosures ("**TCFD Recommendations**") under a "phased approach";
- Enhanced requirements on the reporting timeframe for and assurance on issuers' sustainability reports;
- Mandatory training on sustainability for all directors; and
- Requirement to put in place a Board diversity policy and describe the policy in issuers' annual reports.

In addition, SGX is rolling out the following ESG initiatives that would help issuers, as well as their stakeholders, review and assess the issuers' ESG achievements objectively:

- Starting with a list of 27 core ESG metrics ("**Core ESG Metrics**") as guidance to assist issuers in providing, and investors in accessing, an aligned set of ESG data; and
- Developing an ESG data portal to enhance alignment between issuers and investors over the use of ESG data, provide cost savings and guidance for issuers, and improve ESG data transparency and measurability, among other benefits.

The Singapore Exchange Regulation ("**SGX RegCo**") conducted two public consultation exercises on proposals for the above requirements from 26 August 2021 to 17 September 2021 and had received strong public and industry support for them, an encouraging reflection of the market's awareness of the importance of sustainable business practices. For more information, please click [here](#) and [here](#) for SGX's responses to feedback received pursuant to the earlier consultation papers on "[Climate and Diversity: The Way Forward](#)" and "[Starting with a Common Set of Core ESG Metrics](#)".

This Update highlights significant aspects of these new ESG initiatives.



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Mandatory Climate-Related Disclosures

Current Sustainability Reporting Regime

Since 2016, issuers have been required to issue a sustainability report each financial year ("FY"), no later than five months after the end of the FY. They must describe their sustainability practices on a "comply or explain" basis with reference to five primary components set out in the SGX-ST Mainboard Rules and Catalist Rules (collectively, "**Listing Rules**") and the Sustainability Reporting Guide ("**Guide**") in their sustainability reports. The five primary components consist of: (1) material ESG factors; (2) policies, practices and performance; (3) targets; (4) sustainability reporting framework; and (5) a statement from the board of directors of the issuers ("**Board**"). The Guide provides guidance on the expected structure and contents, as well as the preparation of the sustainability report.

Climate-related disclosures

With effect from 1 January 2022, issuers will be required to describe their sustainability practices on a "comply or explain" basis with reference to one more primary component, namely climate-related disclosures consistent with the TCFD recommendations.

The "Sustainability Reporting Review 2021", commissioned by SGX to review the sustainability reporting performance of issuers, shows that although almost half of the issuers discussed climate change as an ESG factor in their sustainability reports, few of them use climate-focused frameworks to guide their disclosures. Disclosures in accordance with a specified framework help enhance the quality and consistency of climate-related disclosures by issuers to meet the demands from investors and financial institutions, and to help build business resilience by anticipating potential climate-related issues.

With this objective in mind, SGX will require issuers to provide climate-related disclosures consistent with the TCFD Recommendations, a well-regarded international climate-related reporting framework. SGX will move towards mandatory climate-related disclosures progressively in accordance with the following roadmap which will be incorporated in the Guide.

- From the financial year ("FY") commencing 1 January 2022, all issuers to adopt climate reporting on a "comply or explain" basis.
- From the FY commencing 1 January 2023, climate reporting will be mandatory for issuers in the following three industries, namely:
 - Financial (comprising banking and investment services, collective investments and insurance sectors);
 - Agriculture, food and forest products (comprising applied resources, and food and beverages sectors); and
 - Energy (comprising energy – fossil fuels and utilities sectors).

Issuers in other industries will continue to adopt climate reporting on a "comply or explain" basis.

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- From the FY commencing 1 January 2024, climate reporting will be mandatory for issuers in the following five industries, namely:
 - Financial (comprising banking and investment services, collective investments, and insurance sectors);
 - Agriculture, food and forest products (comprising applied resources, and food and beverages sectors);
 - Energy (comprising energy – fossil fuels and utilities sectors);
 - Materials and buildings (comprising chemicals, mineral resources, industrial and commercial services, and real estate sectors); and
 - Transportation (comprising automobiles and auto parts, and transportation sectors).The other issuers will continue to adopt climate reporting on a "comply or explain" basis.

The industries which will be subject to mandatory climate reporting in the SGX roadmap are determined based on the industries identified by TCFD as most affected by climate change and the transition to a lower-carbon economy ("**TCFD-identified Industries**"). The TCFD-identified Industries are mapped to the Thomson Reuters sector classification set out in the SGX Stock Screener web to provide an easy reference to issuers for identifying whether they are classified under the TCFD-identified Industries.

TCFD Recommendations on climate-related disclosures

Pursuant to strong support for incorporating the TCFD Recommendations in the Sustainability Reporting Regime, the Guide will set out the TCFD recommended disclosures across the following four pillars:

- **Governance:** (a) Describe the Board's oversight of climate-related risks and opportunities; and (b) Describe the role of the issuers' management in assessing and managing climate-related risks and opportunities;
- **Strategy:** (a) Describe the climate-related risks and opportunities which issuers have identified over the short, medium and long term; (b) Describe the impact of climate-related risks and opportunities on issuers' businesses, strategy and financial planning; (c) Describe the resilience of issuers' strategy, taking into account different climate-related scenarios, including a 2°C or lower scenario;
- **Risk Management:** (a) Describe issuers' processes for identifying, assessing and managing climate-related risks and how these processes are integrated into their overall risk management; and
- **Metrics and Targets:** (a) Describe the metrics used by issuers to assess climate-related risks and opportunities in line with their strategy and risk management process; (b) Disclose Scope 1, Scope 2 and if appropriate, Scope 3 greenhouse gas ("**GHG**") emissions and the related risks;

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(c) Describe the targets used by issuers to manage climate-related risks and opportunities, and performance against targets.

SGX suggests that an issuer that is not subject to mandatory climate-related disclosures may progressively adopt certain practices of the TCFD Recommendations. For example, issuers may consider disclosing their Scope 1 and Scope 2 GHG emissions in the first year of climate reporting, and disclose their Scope 3 GHG emissions in the following year of climate reporting. An internationally accepted GHG accounting system, such as the GHG Protocol should be used to measure the GHG emissions. These disclosures should include the methodologies and emission factors used.

Reporting Timeframe for and Assurance on Sustainability Report

Scope of application of Sustainability Reporting Regime

SGX clarifies that the Sustainability Reporting Regime applies to issuers with a primary listing on the SGX-ST, and that their sustainability reports are expected to cover their material subsidiaries. An issuer that has just been listed must produce a sustainability report for its first full FY following listing.

Reporting timeframe for Sustainability Report

Issuers must issue their sustainability reports on an annual basis under the Listing Rules. Currently, they may issue standalone sustainability reports no later than five months after the end of the FY or issue the sustainability reports within four months of the end of the FY together with their annual reports.

With effect from 1 January 2022, all issuers will be required to issue their sustainability reports in accordance with the timeline for annual reports, namely no later than four months after the end of the FY, unless they are conducting external assurance on the sustainability report. Issuers conducting external assurance on their sustainability reports may release the sustainability reports within five months after the end of the FY. However, they must include a summary in their annual reports so that sustainability risks and opportunities are presented with other risks and strategy of the issuers' business in the annual reports.

Assurance on Sustainability Report

With effect from 1 January 2022, an issuer is required under the Listing Rules to subject its sustainability reporting process to internal review by the internal audit function. Currently, the assurance of sustainability reports is voluntary.

The internal review should be conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors. Issuers may incorporate the review of the sustainability reporting process into their internal audit plan for an audit cycle, which may span more than one year.

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At this stage, SGX RegCo will not require an issuer to conduct external assurance on its sustainability report. However, if an issuer has conducted external assurance on its sustainability report, the Guide provides that the issuer should disclose (a) that external assurance has been conducted; (b) the scope covered; (c) the identity of the external assurer; (d) the standards used; and (e) key findings. This aims to provide transparency to users of the sustainability report.

The Guide sets out SGX's further expectations on the internal review and external assurance (if conducted by an issuer) on an issuer's sustainability report.

Mandatory Training on Sustainability for Directors

SGX will require all directors of issuers to go through at least one-time training on sustainability to ensure that they receive a baseline and common understanding of sustainability matters. A director without prior experience as a director of an issuer ("**First-time Director**") is required under the Listing Rules to undergo mandatory training on topics that help them fulfil their roles and responsibilities of a director of an issuer. A specific component on ESG essentials will be included in the First-time Director's mandatory training conducted by the Singapore Institute of Directors ("**SID**").

Existing directors will also be required to undergo training on sustainability offered by SID or other training service providers prescribed by SGX.

Issuers will be required to provide a confirmation that their directors have attended the sustainability training in their first sustainability reports for FYs commencing on or after 1 January 2022. If the Nominating Committee of an issuer is of the view that a director is not required to attend the sustainability training as he/she has expertise in sustainability matters, the basis of the assessment must be disclosed.

Board Diversity Policy

Issuers are currently required to disclose on a "comply or explain" basis in their annual reports the Board diversity policy and progress made towards implementing the policy. The Code of Corporate Governance 2018 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.

The uncertainties brought about by the COVID-19 pandemic have 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 will require an issuer to maintain a Board diversity policy that addresses gender, skills, experience, and any other relevant aspects of diversity under the Listing Rules.

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With effect from 1 January 2022, the Listing Rules will also require an issuer to describe its Board diversity policy in its annual report in the following aspects:

- Its targets to achieve Board diversity;
- Its accompanying plans and timeline for achieving the targets;
- Its progress towards achieving the targets within the timeline; and
- A description of how the combination of skills, talents, experience, and diversity of directors in the Board serves the needs and plans of the issuer.

Core ESG Metrics

At present, aside from the TCFD Recommendations for climate-related disclosures, SGX states that it does not intend to prescribe any specific sustainability reporting frameworks and ESG indicators for issuers. The Guide provides that an issuer may choose a sustainability reporting framework that is appropriate for its industry and business model. In this regard, SGX encourages issuers to place importance on using a globally recognised framework, like, those developed by the Global Reporting Initiative ("**GRI**").

Notwithstanding not prescribing any specific sustainability reporting frameworks and ESG indicators for issuers, SGX will implement a common and standardised set of Core ESG Metrics that will allow for greater consistency and comparability of ESG data across companies and create better alignment between users and reporters of ESG information. The list of 27 Core ESG Metrics serves as a good baseline for ESG reporting, and is available on the SGX website at [SGX > Regulation > Sustainability Reporting](#). SGX highlights that the non-mandatory and non-exhaustive list of Core ESG Metrics is more quantitative in nature, relevant to most sectors, and is rooted in the reality of the current reporting landscape. The list will be reviewed periodically to incorporate developments in international reporting standards.

ESG Data Portal

Additionally, to align use of ESG-related data and information, SGX RegCo will be developing 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. With a structured set of ESG data, issuers will be able to generate their sustainability reports and streamline the current practice of responding to multiple questionnaires and ESG data intermediaries.

Apart from the above, this ESG data portal is expected to include features that will allow issuers to, among other things:

- input ESG metrics beyond the Core ESG Metrics;
- input material ESG factors;
- input commentaries and explanations for reported metrics;

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- input discussions on strategies, processes, Board statements and targets relating to ESG matters; and
- conduct trend analysis and peer benchmarking.

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