

## **RESPONSE TO CONSULTATION PAPER ON CLIMATE AND DIVERSITY: THE WAY FORWARD**

Singapore Exchange Regulation invites comments on this Consultation Paper. Please send your responses through any of the following means:

Email	listingrules@sgx.com
Mail	Singapore Exchange Regulation 11 North Buona Vista Drive #06-07, The Metropolis Tower 2 Singapore 138589 (Attention: Listing Policy & Product Admission)

Please include your full name and, where relevant, the organisation you are representing, as well as your email address or contact number so that we may contact you for clarification. Anonymous responses may be disregarded.

SGX may make public all or part of any written submission, and may disclose your identity. You may request confidential treatment for any part of the submission which is proprietary, confidential or commercially sensitive, by clearly marking such information. You may request not to be specifically identified.

Any policy or rule amendment may be subject to regulatory concurrence. For this purpose, you should note that notwithstanding any confidentiality request, we may share your response with the relevant regulator.

By sending a response, you are deemed to have consented to the collection, use and disclosure of personal data that is provided to us for the purpose of this Consultation Paper or other policy or rule proposals.

Please refer to the Consultation Paper for more details on the proposals.

**Respondent's Information**

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<b>Statement of Interest</b>	CPA Australia is a professional accounting organisation with a significant Singapore-based membership

**Disclosure of Identity**

Please check the box if you do not wish to be specifically identified as a respondent:

I/We do not wish to be specifically identified as a respondent.

## Consultation Questions

### **Question 1: Roadmap towards Mandatory Climate-related Disclosures**

Do you agree with the proposed roadmap towards mandatory climate-related disclosures, consistent with the recommendations made by the Task Force on Climate-related Financial Disclosures (“TCFD”, and the recommendations, “TCFD Recommendations”)? You may also provide suggestions on the roadmap.

Please select one option:

Yes

No

Please give reasons for your view:

All companies, not only energy producers and energy intensive industries, contribute to GHG emissions, either directly or indirectly, and they are responsible for addressing the impacts of climate change. Therefore, they should have obligations to disclose, govern, manage, and reduce their emissions footprint.

We believe the roadmap should make TCFD reporting mandatory for ALL issuers by 2030 when climate reporting is expected to be mature, with a highly standardised, commonly agreed format, and which would be an affordable exercise for all companies. Such a timeframe is consistent with the ambition cycle contained in the Paris Agreement, particularly as it affects developed economies.

Investors, regulators and other stakeholders cannot have a full picture of the present and future emissions until all listed companies report at a suitable level of detail.

The roadmap sets out at para. 1.10 (page 7 of the Consultation Paper) is admittedly ambitious. Nevertheless, it is broadly similar to the trend amongst leading jurisdictions. It is also noteworthy that the foreshadowed International Sustainability Standards Board (ISSB), of which the TCFD is member of the Technical Readiness Working Group, is expected to release climate-related measurement and disclosure standards for consultation early in 2022. Thus, the speed of framework and standards developments is rapid. A significant challenge will be the internal capacity, capabilities and readiness of reporters.

### **Question 2: Prioritisation of Industry Sectors**

(a) Do you agree that the prioritisation of issuers for mandatory climate-related disclosures should be based on their industry classification? If so, please suggest the industries (for example, those identified by the TCFD or the Green Finance Industry Taskforce).

Please select one option:

Yes

No

Please give reasons for your view:

While climate reporting is important, the urgency and the risk associated with climate change differs between industries. Some industries are clear greenhouse gas (GHG) emitters directly or indirectly and therefore have a clear need to inform investors of their current climate impact and how they are mitigating and /or planning to mitigate that impact.

All companies on the SGX that fall within the five sectors identified by GFIT—which considered the GHG emission situation in the region (i.e. ASEAN)—should be required to make mandatory climate-related disclosures as soon as practical.

We note that it is important to address the development of climate-related disclosures across both financial sectors and non-financial groups as part of optimising market and economy wide responses to climate-related risks.

As to the matters raised in para. 1.16 around size-based thresholds, developments over time in materiality assessments within a climate/ sustainability conceptual framework may alleviate some of this subjectivity.

We note also that many SGX companies are listed conglomerates with multiple subsidiaries operating in diverse industries and jurisdictions. It is paramount to ensure that common rules are established regardless of jurisdiction, as long as the parent is listed on the SGX. Key examples include: (1) the subjectivity of interpretation of Scope 1, 2 and 3 emissions and the method of accounting for emissions; and (2) a common target framework such as Science Based Targets.

(b) If you disagree with a prioritisation based on industry classification, please suggest alternatives (for example, based on size, which may be pegged to the issuer’s listing board (i.e. Mainboard or Catalist), market capitalisation or other thresholds).

Please select one option:

- Yes
- No

Please give reasons for your view:

### **Question 3: Amendments to Incorporate TCFD Recommendations**

Do you agree with the proposed amendments to incorporate the TCFD Recommendations in the sustainability reporting regime in the Listing Rules?

Please select one option:

- Yes
- No

Please give reasons for your view:

TCFD Recommendations help enhance the structure of Listing Rules to make them more prescriptive, by detailing some basic information that all issuers should disclose. We are supportive of the approach.

The accompanying capacity building amongst issuers is highly relevant in terms of developments within the TCFD itself. We note the TCFD's June 2021 [Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans](#) which points clearly to the maturing of this important element of corporate reporting, which is essential to market transparency and resilience.

It is critical to also understand that many SGX listed corporations have developed effective strategies with respect to sustainability reporting, elevating their reporting to a level of degree which is more 'form over substance'. It is important that the reporting regime be strengthened to emphasise the delivery of measurable outcomes rather than just disclosures.

#### **Question 4: Sustainability Reporting Frameworks and ESG Indicators**

Do you agree that SGX should not, at this current juncture, prescribe specific sustainability reporting frameworks and environmental, social and governance indicators against which issuers should report?

Please select one option:

- Yes  
 No

Please give reasons for your view:

While the overall landscape of sustainability reporting frameworks is still evolving, it is very clear that all major standard setters understand that there are inconsistencies among frameworks and standards which make it hard for issuers to fulfill external stakeholders' expectations.

While the SGX should not prescribe specific sustainability reporting standards, it should at least take a position to support the major standard setters mentioned in Section 3., i.e. CDSB, TCFD, VRF, GRI and IFRS. These organisations are working closely to form a set of globally applicable sustainability reporting frameworks, at least on the subject of climate reporting. Within these developments, due regard should be given to the value which stems from the application of a comprehensive and coherent conceptual framework which gives underpinning and integrity to the various standards and guidance that will be developed.

We note the IFRS Foundation's intent with respect to the establishment of the ISSB, to sit alongside the IASB. It will be critical for securities and corporate regulators to address the means by which IFRS Sustainability Standards (issued by the ISSB) are adopted, and where appropriate suitably adapted, to local needs and circumstances.

#### **Question 5: Guideline on Materiality**

Do you agree that the working guideline on materiality, as stated in the Sustainability Reporting Guide, should be retained?

Please select one option:

Yes

No

Please give reasons for your view:

This Guide is useful. It gives issuers an overview of sustainability reporting, highlights the importance of materiality considerations and describes how to consider and determine material ESG factors. We encourage the SR Guide to be updated to reflect the latest [materiality discussions](#) by other standard setters and associations.

The notion of 'nested' or 'dynamic' materiality outlined in para. 3.9 (page 15) is key to understanding the transformations which are taking place within corporate reporting and should be widely promoted amongst issuers and users. These perspectives are important in emphasising the continued centrality of financial reporting and how the totality of corporate reporting (including narrative, enterprise value, investor and multi-stakeholder sustainability) will move forward in a rational, coherent and efficient manner.

#### **Question 6: Assurance**

- (a) Do you agree that issuers should be required to subject their sustainability reports to internal assurance? If so, do you agree that the scope should minimally include assurance on whether data being reported is accurate and complete?

Please select one option:

Yes

No

Please give reasons for your view:

Whilst confidence in the accuracy and completeness of information reported in sustainability reports can be gained from internal systems and controls, we suggest that this should be reflected in management's attestations about those reports and/or controls. The assurance gained from internal sources which are not independent can be confused by users with assurance from external independent sources. Ultimately, sustainability reports should be assured by an independent external auditor, and not solely be reviewed (or assured) by parties that are internal to the organisation (e.g., internal auditors) who are not independent from the preparation of the report.

Accuracy and completeness are just two assertions which would ordinarily be addressed in an external assurance engagement, however we suggest that assurance should be required against suitable criteria which would comprise the framework and standards applied or at a minimum the reported basis of preparation rather than selected assertions.

- (b) Are there any aspects of the sustainability report that should be subject to external assurance?

Please select one option:

Yes

No

Please give reasons for your view:

Engagements by an external auditor requires the expertise of, and collaboration between, financial and accounting professionals and other independent ESG experts. For example, assuring environmental data may involve someone who has science-based knowledge, while human rights policy assurance may need someone with expertise and networks dealing with human rights. In this emerging area of assurance, i.e., assurance of sustainability reports, the skill, qualifications and independence of the persons carrying out the assurance is a critical matter.

Whilst the four elements of TCFD recommended climate-related disclosures, governance, strategy, risk management and metrics and targets can be assured in due course, a staged approach to external assurance would better enable capacity building and readiness within the entity. Assurance on the metrics and targets reported or selected metrics and targets initially would be advisable. We recommend starting with external assurance on metrics for which there are clear measurement criteria, such as greenhouse gas emissions, scope 1 and 2 and possibly scope 3. In this case criteria will need to be identified against which those emissions are to be assured so that there is comparability between entities.

The quantitative Environmental and Social metrics should also be subject to external assurance. In these regards we note the significant body of guidance and examples contained to the IAASB's [non-authoritative guidance](#) on applying ISAE 3000 (noted at para. 4.12 of the Consultation Paper) to Extended External Reporting (EER) assurance engagements.

We note that forward projecting information is inherent in aspects of the TCFD recommendations, such as strategy. However, such forward projecting information can nevertheless be assured to the extent that it is based on agreed scenarios or reasonable assumptions.

(c) Should issuers be required to disclose in the sustainability report that internal assurance or external assurance has been conducted? If so, please suggest the content of such disclosures.

Please select one option:

Yes

No

Please give reasons for your view:

Issuers should be required to disclose if external assurance has been obtained on their sustainability reports. We suggest that reporting on internal assurance may create an expectation gap and confuse users as to the level of confidence and trust that can be placed in the sustainability report. That internal assurance is part of the risk management, which is just one element of TCFD recommendations. It is an element which could be assured in due course. Details of the external assurance (e.g., which parts of the reports are being assured, the assurance provider etc.) and the level of assurance obtained – be it limited or reasonable assurance – accompanied by appropriate statements from the assurance provider as to the scope of engagement, procedures performed and basis for conclusion.

### Question 7: Training for Directors

- (a) Do you agree that the mandatory training for directors that have no prior experience as a director of an issuer listed on the SGX-ST (“**First-time Directors**”) should include a specific component on sustainability? If so, please provide your views on the specific topics relating to sustainability that should be covered?

Please select one option:

- Yes  
 No

Please give reasons for your view:

- (b) Do you agree that all directors (regardless of whether they are First-time Directors) must undergo a prescribed one-time training on sustainability?

Please select one option:

- Yes  
 No

Please give reasons for your view:

(For both 7a and 7b) We agree in mandatory training for not only first-time directors but all directors of listed entities. The body of sustainability subject matter is extensive, covering not just climate change but the overarching key role by companies in societies – creating jobs, adding value, sustaining communities and the environment. Stewardship of companies should be grounded in ethics and values related to the social, economic, environmental and governance roles played by companies.

We suggest that there should be two levels of training. A basic level of training should be required for all directors.

The course content should cover the following matters:

1. What is sustainable development and ESG?
2. What is the impact of climate change and other important topics of sustainability (e.g., biodiversity, human rights, equality)?
3. What are the impacts of companies on internal and external stakeholders?
4. What are the financial impacts resulting from the sustainability risks?
5. Why do investors and regulators care about sustainability and sustainability reporting of companies?
6. What is sustainability reporting and who should be responsible for it?

A second, intermediate level of training should be required for directors on an ESG/CSR committee or any other committee(s) that are given the primary oversight responsibility of this subject matter within the board. This group of directors should be required to be trained, in addition to content provided in the basic level of training, in the following:

1. The background of the EU taxonomy
2. Sustainability regulations in Singapore and other parts in ASEAN
3. The development of major sustainability reporting framework and standards
4. The major global ESG-oriented principles (e.g. UN Global Compact Principles, Business Ethics and OECD principles)
5. Directors on audit and risk committees should potentially be considered for more than basic levels of training.

#### **Question 8: Reporting Timeframe**

(a) Do you agree that the sustainability report should be issued together with the annual report?

Please select one option:

- Yes  
 No

Please give reasons for your view:

This provides the ability for investors to fully understand the company's performance and prospects, and moreover, is consistent with current trends towards the harmonisation and rationalisation of corporate reporting as identified in para. 3.10 of the Consultation Paper.

(b) Do you agree that issuers who conduct external assurance should be allowed to follow the existing reporting timeline (i.e. option of issuing a full standalone sustainability report within five months of the end of the financial year, with a summary included in the annual report)?

Please select one option:

- Yes  
 No

Please give reasons for your view:

As with Question 8(a) we fully agree with the recommendations in this consultation. The reasons were clearly given in the consultation paper, in Section 6 Reporting timeframe.

#### **Question 9: Board Diversity**

(a) Do you agree that issuers must set and disclose their board diversity policy in their annual reports?

Please select one option:

- Yes  
 No

Please give reasons for your view:

In-line with the explanation given in the consultation paper.

(b) Do you agree that gender should be an aspect of diversity encapsulated within issuers' board diversity policy? What other aspects, if any, must be mentioned?

Please select one option:

- Yes  
 No

Please give reasons for your view:

Gender diversity of the board is important but a firmwide approach to diversity and inclusion is just as critical. We recommend that the SGX have a "comply or explain" approach for issuers' disclosure around the board's responsibilities for ensuring diversity and inclusion for employees, customers and vendors. Issuers should also have their firmwide policies on diversity and inclusion disclosed on their websites and should summarise their approach and policies on diversity and inclusion in the sustainability reports.

(c) Do you agree that issuers' disclosure in their annual reports on their board diversity policy must contain targets for achieving the stipulated diversity, accompanying plans, and timeline for achieving the targets?

Please select one option:

- Yes  
 No

Please give reasons for your view:

We encourage companies to set time-bound targets for themselves. To maintain community confidence in such targets, issuers need to also disclose their performance against such targets.

(d) Apart from targets, accompanying plans and timeline for achieving the targets, what other component, if any, must be part of the issuers' disclosure on their board diversity policy?

Please select one option:

- Yes  
 No

Please give reasons for your view:

An issuer's approach and policies for its suppliers, with respect to diversity and inclusion, should also be part of the compulsory disclosure.

(e) Do you agree that issuers should be required to disclose in their annual reports as part of the board diversity policy, how the combination of skills, talents, experience and diversity of directors on the boards serve their needs and plans?

Please select one option:

- Yes  
 No

Please give reasons for your view:

This is very important as investors can find it difficult to have a good understanding of how issuers manage the composition of their boards and how each of their board members contribute to the value creation for shareholders and the wider group of stakeholders.

**Question 10: Implementation**

Do you agree with the implementation timeline? If not, please elaborate and propose alternatives.

Please select one option:

Yes

No

Please give reasons for your view:

The suggested implementation timeline is sufficient for issuers to prepare for (including building internal capability) and meet the requirements.