

Feedback on Sustainability Reporting Advisory Committee's (SRAC) Recommendations to Advance Climate Reporting in Singapore

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Responses to Questions

Recommendation C1 –

(a) Mandate climate reporting on:

(i) Listed Issuers from FY2025; and

(ii) NLCos limited by shares with annual revenue of at least \$1 billion from FY2027,

(b) Conduct a review in 2027 with a view to require climate reporting by NLCos limited by shares with annual revenue of at least \$100 million to less than \$1 billion, a few years later, by around FY2030, subject to the exemptions in Recommendation C2.

Question C1.1 – Do you agree with the above recommendation? Please state the reasons for your response.

Yes, we agree with the recommendation. We support the proposal to make climate-related disclosures mandatory – it is our long-standing view that what gets disclosed gets measured.

For listed companies, they need to provide climate data to align with regulations or international industry standards (i.e., the finalised ISSB based on TCFD recommendations). Issuers are expected to provide investors with relevant, comparable and quality information.

¹ CFA Institute is providing comments in line with our mission of promoting fair and transparent capital markets and safeguarding investors' interests. An integral part of our efforts is to ensure that corporate financial disclosures – and the related assurance – intended for investors and other stakeholders are of high quality. We are a global organisation operating through local offices like CFA Society Singapore. Our advocacy position and standard of reporting are informed by charterholders in that geography, so as to capture local context.

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For non-listed companies, this could help them prepare for the transition to a low-carbon economy. NLCos might also be looking at IPOs. If non-listed companies have a PE investor, they would need to provide GPs with climate data.

Additional comment - IFRS makes reference to asset management firms to decarbonise and make climate disclosures. Should targets be set for these firms? What metric(s) should we deploy?

Question C1.2 – Aside from international developments, industry capacity and the implementation experience of NLCos in Recommendation C1(a)(ii), what other factors should be considered in deciding the implementation timeline for NLCos in Recommendation C1(b)? Please state the reasons for your response.

No comment.

Question C1.3 – Based on your response to Question C1.2, what is the appropriate timeframe to require mandatory reporting for NLCos in Recommendation C1(b)? Please state the reasons for your response.

From the NLCos perspective, climate reporting is still in a nascent stage. Issues of greenwashing, low-quality disclosures and enforcement are a challenge. Nevertheless, investors do not want to forego timely and relevant information in favour of waiting for perfectly reliable information. While reliability is important, it is not to a degree that it deters the provision of relevant information in a timely manner.

Hence, we prefer an earlier time frame of perhaps in FY2027 for NLCos limited by shares with annual revenue of at least \$1 billion. A tier-based reporting framework is also recommended for NLCos limited by shares with annual revenue of at least \$100 million to less than \$1 billion.

We also urge SRAC and relevant authorities to examine possible mechanisms, including a comprehensive regulatory framework, for ensuring accountability and enforcement.

Separately, scope 3 GHG emissions is potentially the most challenging to report. There is a need to look into this in detail, and assess the need to re-adjust timelines for different sectors and companies. IFRS2 also imposes the same on banks, insurance companies and asset management companies on “financed emissions.” If the underlying companies are not ready to report on scope 3 GHG emissions, it will hamper the ability of financial institutions to follow through on what is required by IFRS2.

Question C1.4 – Do you agree with the recommendation not to use the benchmark criteria in paragraph C12? Please state the reasons for your response.

We are in general agreement with not using the industry classification, GHG emissions, or number of employees as per the reasons stated in the consultation paper.

Annual revenue is an acceptable common denominator to be used as a proxy for emissions despite certain limitations.

Recommendation C2 – NLCos will be exempted from mandatory reporting if:

(a) its immediate, intermediate or ultimate parent (local or foreign), determined according to the prescribed accounting standards in Singapore, is minimally preparing climate or sustainability reports in accordance with prescribed CRD in Singapore or deemed equivalent; and

(b) its activities are included in that parent’s report, which is available for public use.

Question C2.1 – Do you agree with the above recommendation? Please state the reasons for your response.

We agree with the recommendation. If the climate data is available at the parent company level, the same should be available to the public.

Question C2.2 – If a subsidiary of a foreign parent is exempted from mandatory reporting as per Recommendation C2, should the subsidiary still be required to prescribed report CRD-disclosures relating to its GHG emissions to the appointed regulator? Please state the reasons for your response.

The exemption criteria is unclear. The following are two questions and a comment:

- “If a large Singapore-based subsidiary’s related disclosure were to be amalgamated into its global HQ’s report, and is shown on aggregate basis, say for “Asia”, does this then qualify for exemption?”
- “Do financial institutions consolidate the global emissions of MNCs even though their relationship may only be at the Singapore level?”
- The practice requiring local companies to disclose requirements and targets should be encouraged even though there may be exemption in certain circumstances.

Recommendation C3 – The revenue threshold for NLCo should be measured using company-level financials,

- unless the NLCo is a parent (according to the prescribed accounting standards in Singapore),
- in which case, revenue should be measured based on group-level financials.

Question C3 – Do you agree with the above recommendation? Please state the reasons for your response.

We agree with the recommendation.

Recommendation C4 – The revenue threshold for NLCo should be assessed based on the financials for two FYs immediately preceding the current FY,

- unless the company (i) has not reached its third FY after incorporation, or (ii) is in the first or second FY when the proposed reporting obligations commence,
- in which case revenue should be assessed based on the current FY.

Question C4 – Do you agree with the above recommendation? Please state the reasons for your response.

We agree with the recommendation.

Recommendation D1 – Climate reporting should be prepared using the prescribed (baseline) CRD, which mirror the requirements in the ISSB Standards, to the extent practicable.

Question D1 – Do you agree with the above recommendation? Please state the reasons for your response.

The ISSB standards should be regarded as global reporting standards. It will help comparability with other jurisdictions.

The history of CFA Institute and the CFA Program is rooted in the provision of information for investment decision-making. Specifically, interoperability is one of the foundational principles, given that investing is global, and comparability is the lifeblood of investment analysis.

We have supported the creation of the ISSB for the same reasons, and we agree that the ISSB baseline should be incorporated to the extent practicable, given geographical nuances and proportionality challenges.

Recommendation D2 – In respect of (temporary) transition reliefs in the ISSB Standards, we propose to:

- (a) apply at least the same duration to all companies subject to mandatory reporting;
- (b) extend two-year relief on Scope 3 GHG emissions for NLCos subject to mandatory reporting; and
- (c) review the application of ISSB Standards for disclosure of sustainability-related risks and opportunities beyond CRD for all companies subject to mandatory reporting a few years later.

Question D2 – Do you agree with the above recommendation? Please state the reasons for your response.

We welcome a phased compliance with Scope 3 GHG emissions reporting given the difficulties of measuring and obtaining data for Scope 3 GHG emissions. However, for certain organisations disclosure of Scope 3 GHG emissions is required as per IFRS Sustainability Disclosure Standards, June 2023 (IFRS S2), Climate-related Disclosures pg 37 paragraph B58 and B59.

We also urge SRAC to adopt a relatively market-focused approach with standard-setter thinking and technical methodology. This allows flexibility for issuers in more challenging areas during interim periods, keeping in mind that other markets in the region are working on a similar timeline.

In addition, we acknowledge the importance of regular review as stated in part D2(c), to ensure disclosure does not run at the risk of being boilerplate. It requires vigorous enforcement and assessment mechanism from SRAC to ensure the discussion is meaningful.

Periodic review is important as SRAC is taking a snapshot of these standards at this moment in time – there is no mechanism for updating the requirements, relative to the scrutiny and interpretation that will inevitably arise alongside a wider adoption of the underlying standards (i.e., ISSB) in the Singapore capital market.

Separately, we are of the view that there should be wider effort to estimate cost of reporting not just for listed issuers and qualified NLCos but for reporting on Scope 3 GHG emissions. This may heavily penalise smaller companies inadvertently. Perhaps there should be some form of mitigating help that needs to be put in place.

Recommendation D3 – Allow disclosures in compliance with other standards and frameworks to be included in the same report if both conditions are met:

(a) the standards and frameworks applied are prominently disclosed; and

(b) the additional disclosure does not contradict or obscure the information required by the prescribed CRD.

Question D3 – Do you agree with the above recommendation? Please state the reasons for your response.

For comparability purposes, we should encourage companies to use the ISSB standards. Investors would be looking at the new global standards as company data is the backbone of climate reporting in the pursuit of decarbonisation and Net Zero goals. Companies in the Singapore capital markets will have to meet this eventually

At the same time, there could be “required local country standards” to take into account. In other words, companies should “localise” ISSB in certain areas to incorporate Singapore-relevant and Singapore-specific nuances if they do not contradict the global baseline.

Recommendation E1 – External Limited Assurance should be obtained on

Scope 1 and Scope 2 GHG emissions two years after mandatory reporting, i.e.

- Listed companies from FY2027; and
- NLCos with annual revenue of at least \$1 billion from FY2029.

Question E1.1 – Do you agree with the above recommendation? Please state the reasons for your response.

We recommend external limited assurance for mandatory reporting to be implemented without delay.

As a step forward or as an interim measure, we suggest SRAC leverage the existing financial reporting system and regulatory framework to require companies to include in their audited financial statements material climate-related risks and opportunities, as well as their financial impacts in their ESG reports.

Question E1.2 – In your view, what would be an appropriate timeframe to progress toward Reasonable Assurance covering:

(a) Scope 1 and Scope 2 GHG emissions

(b) Scope 1, Scope 2 and Scope 3 GHG emissions; and

(c) the entire CRD?

Please explain your rationale supported by data and analysis where available.

On E1.2(a): From FY2027 as Scope 1 GHG and Scope 2 GHG are now readily available and reported by most listed companies.

On E1.2(b): Scope 3 GHG is a still a challenge (and therefore companies would need a longer time frame). Limited assurance, with appropriate safe harbours, of Scope 3 GHG should be acceptable. While assurance serves as gatekeeper, there is cost and effort involved. Without adequate competition among assurance providers, companies will struggle. We urge the regulatory authorities to help promote the ecosystem.

Specifically, we would be supportive of an industry-based and size-based transition approach. Such an approach would likely garner support from investors, as it would entail the largest and most significant Scope 3 GHG emitters implementing disclosures and getting audited first, while others are allowed a grace period of two years.

On E1.2(c): While our investor members have told us they desire assurance over the entire CRD, we recognise challenges on data availability and human capital. For instance, ESG information is different in that it is not typically based on accounting information but rather on climate science, human capital, and other areas of expertise, and such information can be more forward-looking than auditors are traditionally comfortable assuring. As a result, we suggest 5-7 years upon mandatory reporting for the entire CRD to be assured.

In the meantime, issuers should engage with experts in the preparation of climate disclosures if the management sees a lack of relevant capability. Such that, on the basis of the expert work, auditors should wear the hat of a gatekeeper, evaluate the appropriateness and reasonableness of the methodology and assumptions underlying the climate disclosures in accordance with ISA 500 – Audit Evidence or ISA 620 - Using the Work of an Auditor’s Expert². This helps with assurance and control over the quality of climate disclosures, particularly regarding material impacts of climate-related risks and opportunities.

² ISA 500 and ISA 620 deal with the auditor’s use of the work of a person or entity possessing expertise in a field other than accounting or auditing, employed or engaged by the management or auditor to assist the auditor to obtain sufficient appropriate audit evidence

Recommendation E2 – External assurance should be provided by a registered climate auditor, which can be either an ACRA-registered audit firm or a SAC-accredited TIC firm.

Question E2.1 – Do you agree with the above recommendation? Please state the reasons for your response.

We agree with the recommendation.

Question E2.2 – Please provide suggestions, if any, on what can be done to enhance the availability of registered climate auditors to support the increased demand for external assurance.

We should build more capacity (training and licensing) for relevant staff of climate auditors or TIC firms to meet the increase in demand for external assurance.

Recommendation E3 – Assurance is to be conducted using either:

(a) A Singapore standard equivalent to ISSA 5000; or

(b) SS ISO 14064-3.

Question E3.1 – Do you agree with the above recommendation? Please state the reasons for your response.

We agree with the recommendation.

Our organisation attempts to safeguard market integrity and investor protection. In this vein, we have spent decades advocating for the creation and implementation of assurance standards that are useful to investors.

As a general rule, we believe these standards should be issued by independent organisations that are adequate in their funding; have a fair board composition that takes into account the interests of all stakeholders; focus on investors (users) as the primary audience for such information; and have a transparent and fair agenda setting and due process, including public meetings, consultations, as well as active engagement with users and investors of the information in the standard-setting process.

Question E3.2 – What are some key differences between both standards that should be bridged to enhance consistency in audit procedures?

No comment.

Recommendation E4 – To be registered as climate auditors, SAC-accredited TIC firms are required to meet similar requirements as ACRA-registered audit firms, except for quality management where they can obtain equivalent accreditation under ISO/IEC 17029 Conformity assessment – General principles and requirements for validation and verification bodies.

Question E4.1 – Do you agree with the above recommendation? Please state the reasons for your response.

We agree with the recommendation.

Question E4.2 – In your views, is ISO/IEC 17029 equivalent to SSQM 1? If not, what are the gap(s) to be bridged?

No comment.

Recommendation E5 – To register as a qualified signing individual, one must be able to demonstrate practical experience and meet the CPE requirements such as completing a minimum of 40 hours of accredited courses in the past 12 months.

Question E5.1 – Do you agree with the above recommendation? Please state the reasons for your response.

To ensure accountability and ultimately reliability of disclosure, we would prefer a licensing (with exams) to qualify as a signing individual on top of CPE and practical experience.

The standards for both financial audit and climate audit should be held in equal footing. Similar to the requirements necessary for financial auditors, qualification with chartered license is a priority. CPE and practical experience alone are not sufficient.

Question E5.2 – In your view, should objective measures including hours be stipulated under the practical experience? If so, how many hours would be appropriate?

No comment.

Recommendation E6 – Allow for one-off transition of professionals with applicable or adjacent competencies to be signing individuals, namely:

(a) Individuals equivalent to partner level currently providing sustainability assurance services under Carbon Pricing Act 2018; and

(b) ACRA-registered public accountants that have passed the recognised bridging courses.

Question E6 – Do you agree with the above recommendation? Please state the reasons for your response.

We agree with the recommendation.

Recommendation F1 – The existing reporting and filing timelines for FS in the CA should be applied to CRD, together with the mechanism to apply for extension of time.

Question F1 – Do you agree with the above recommendation? Please state the reasons for your response.

We agree with the recommendation. It makes sense for the two to align for investors to make well-informed decisions.

Recommendation F2 – CRD should be filed in a digital structured format to facilitate the consumption of data.

Question F2 – Do you agree with the above recommendation? Please state the reasons for your response.

We agree with the recommendation.

Recommendation F3 – Listed Issuers can include CRD (a) in a separate report; or (b) as part of the annual report. If CRD is included in a separate report, both reports must be published at the same time.

Question F3 – Do you agree with the above recommendation? Please state the reasons for your response.

Location and timing of disclosure do matter - ideally both reports should be published at the same time.

Recommendation G1 – The existing legal requirements related to financial reporting should be imposed on climate reporting, except for internal controls that should be encouraged.

Question G1.1 – Do you agree with the above recommendation? Please state the reasons for your response.

We do not agree with the recommendation.

However, relying solely on market forces may not be sufficient to incentivise issuers to diligently disclose climate-related risks and opportunities. To be decision-useful, the compliance element of the proposal will require persistent enforcement from SRAC and relevant authorities while there is meaningful protection and safe harbours from legal liability for disclosures provided in good faith.

On a separate note, in the mid to long run, to take reference from Work Safety and Health (WSH) practices, it would be ideal to factor in accountability on sustainability reporting (as opposed to just focusing on in filing the report on time).

Question G1.2 – In terms of sanctions, should climate reporting be placed on equal footing with financial reporting at this juncture? Please explain your rationale.

Climate science is complex and it might not be possible to obtain accurate numbers compared to figures for financial reporting.

Recommendation G2 – Companies not subject to mandatory reporting can voluntarily file their climate reporting if they have prepared it in accordance with the prescribed CRD. The applicable legal requirements will apply upon filing.

Question G2 – Do you agree with the above recommendation? Please state the reasons for your response.

We agree with the recommendation. It serves as positive reinforcement for companies to disclose early. Relevance always takes precedence over perfect reliability.

Recommendation G3 – Provide the mechanism for directors to voluntarily revise defective CRD, with the same safeguard as for financial reporting.

Question G3 – Do you agree with the above recommendation? Please state the reasons for your response.

We agree with the recommendation. We have to balance investors' immediate needs for relevance over reliability, with directors' duty to develop systems and controls to gather information, as well as ensuring that appropriate safe harbours protect their ability to provide relevant information. This self-correcting process can also be more timesaving. This makes the work of issuers and other stakeholders easier so that the allocation of capital and investment decision-making process can happen with the least amount of friction and regulatory arbitrage.