Consultation Paper

Climate and Diversity: The Way Forward

26 August 2021

Singapore Exchange

Responding to this Consultation Paper

Singapore Exchange Regulation Pte. Ltd. invites comments on this consultation paper.

Please send your responses through any of the following means:

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Responses should include a summary of the major points, a statement of interest and reasoned explanations. Please identify the specific policy or rule proposal on which a comment is made. Please also 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.

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Comments are requested by **27 September 2021**.

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I Introduction

1 Background

1.1 While the world continues to battle the COVID-19 pandemic and businesses cope with its effects, two other issues need to be considered by businesses to ensure that they contribute to, and benefit from, recovery efforts: climate change and board diversity.

1.2 SGX recognises that securities exchanges can enhance transparency and accountability on sustainability issues, facilitate the integration by market participants of sustainability issues into the pricing and allocation of capital and thereby contribute towards long-term resilient and sustainable investment. To that end, in 2011, SGX released a policy statement and a voluntary sustainability reporting guide to encourage issuers to report on their sustainability performance. The policy statement set out, for the first time, SGX's regulatory position that sustainability reporting is an important aspect of holistic disclosure by its issuers.

1.3 In 2016, in view of the international advancements in sustainability reporting and the many benefits that sustainability reporting brings to both investors and issuers, SGX introduced requirements to elevate sustainability reporting for issuers from a voluntary to a mandatory basis, with description of the prescribed contents on a 'comply or explain' basis. This follows from extensive engagement with issuers and investors to understand their needs and expectations.

1.4 The requirement for issuers to issue a sustainability report for each financial year is set out in the SGX-ST Listing Rules (Mainboard) ("**Mainboard Rules**") and the SGX-ST Listing Rules (Catalist) ("**Catalist Rules**", and together with the Mainboard Rules, "**Listing Rules**") ("**SR Regime**").[1] The Listing Rules provide that the sustainability report must describe the issuer's sustainability practices with reference to five primary components, namely:

(a) material environmental, social and governance ("**ESG**") factors;

(b) policies, practices and performance;

(c) targets;

(d) sustainability reporting framework; and

(e) a statement from the board of directors ("**Board**").[2]

The SR Regime also comprises a sustainability reporting guide which provides guidance to issuers on reporting matters ("**Sustainability Reporting Guide**").[3]

1.5 On board diversity, the Corporate Governance Council ("**CGC**") in 2018 acknowledged its growing importance and association with improved corporate performance; a diverse Board guards against groupthink and fosters more robust discussions, which in turn facilitate better decision-making. The CGC therefore recommended enhancements to the Code of Corporate Governance ("**CG Code**") to encourage greater transparency and accountability on board diversity matters.[4]

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[1] Rule 711A of the Listing Rules.
[2] Rule 711B of the Listing Rules.
[3] Practice Note 7.6 of the Mainboard Rules and Practice Note 7F of the Catalist Rules.
[4] Corporate Governance Council, "Consultation Paper on Recommendations of the Corporate Governance Council" (16 January 2018).

2 State of Sustainability Reporting in Singapore

2.1 Following the introduction of the SR Regime, SGX commissioned the National University of Singapore's Centre for Governance and Sustainability (previously known as Centre for Governance, Institutions and Organisations) ("**CGS**") to review the sustainability reporting performance of issuers. An inaugural review was conducted in 2019,[5] and another in 2021 ("**SR Review 2021**").[6] The SR Review 2021 noted that issuers' sustainability disclosures had developed in depth and breadth from the inaugural review in 2019.

2.2 Almost all issuers published their sustainability reports in a timely manner. The level of completeness of reporting against the five primary components has also improved across-the-board, with an increase in average overall score from 60.6 points in 2019 to 71.7 points in 2021. Notably, smaller issuers, especially those listed on the Catalist, made marked improvements. All issuers also disclosed material ESG factors, and almost all disclosed their reporting scope, stakeholders and targets.

2.3 The results presented in the SR Review 2021 is an encouraging reflection of the maturation of sustainability reporting in Singapore. Nonetheless, there remain areas for improvement, especially given the present environment where COVID-19 and climate change have brought the importance of sustainable business practices to the fore. Sustainability disclosures are critical for transparency and accountability, and are increasingly demanded by investors and other stakeholders.

3 Overview of ESG Developments

3.1 The momentum for sustainability reporting has been rapidly building up as approaches to sustainable investment have developed significantly in recent years. The growth in momentum is, in part, attributable to growing evidence that there is a positive correlation between financial performance and sustainability performance.[7] Specifically, in the Singapore market, there is empirical results to suggest that sustainability reporting is positively related to a firm's market value.[8]

3.2 Investors and financial market participants are correspondingly backing up this conviction with their asset allocation plans:

(a) at the start of 2020, global sustainable investment reached US$35.3 trillion in five major markets – Europe, United States, Canada, Australasia and Japan, representing a marked increase of 15% in the past two years and a 55% increase in the past four years;[9]

(b) in Asia, inbound ESG-related financing attracted US$22.4 billion of investments in 2020;[10] and

(c) there has been a wider shift of the finance sector towards net zero portfolios by 2050, and capital providers have indicated that they will require climate-related disclosures to

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[5] SGX and CGS, "Sustainability Reporting – Progress and Challenges" (2019).

[6] SGX and CGS, "Sustainability Reporting Review 2021" (2021).

[7] For example, Tensie Whelan, Ulrich Atz, Tracy Van Holt and Casey Clark, "ESG and Financial Performance: Uncovering the Relationship by Aggregating Evidence from 1,000 Plus Studies Published between 2015-2010" (2021), Fidelity International, "Putting Sustainability to the Test: ESG Outperformance Amid Volatility" (2020) and Mozaffar Khan, George Serafeim and Aaron Yoon, "Corporate Sustainability: First Evidence on Materiality" (March 2015).

[8] Lawrence Loh, Thomas Thomas and Yu Wang, "Sustainability Reporting and Firm Value: Evidence from Singapore-listed Companies" (2017).

[9] Global Sustainable Investment Alliance, "Global Sustainable Investment Review 2020" (2021).

[10] The Business Times, "ESG Magnates Pour Money into China and its Asian Peers" (23 February 2021).

consider investing in, lending to and insuring companies.[11]

It is evident that this trend in sustainable investing is expected to continue – global investors have indicated that they plan to double their ESG assets under management over the next five years.[12] Bloomberg has reported that global ESG assets are on track to exceed US$53 trillion by 2025, representing more than one-third of the US$140.5 trillion in projected total assets under management.[13]

3.3 The Sustainable Finance Taskforce, established by the International Organisation of Securities Commissions ("**IOSCO**"), has observed that investors seek complete, consistent and comparable sustainability-related reporting to inform their investment and risk analysis, and want to understand the linkage between a company's sustainability risks and opportunities with its business, strategy and financials.[14]

3.4 On the financing front, there, too, has been a shift in approach, with a global shift towards sustainable finance. Financial institutions are increasingly integrating ESG considerations in their core investment, lending and underwriting decisions. Investors have also stepped up to ensure that the world's largest corporate greenhouse gas ("**GHG**") emitters take necessary action on climate change through alliances, such as the Climate Action 100+. The findings of a Singapore study of financial institutions (including banks, asset managers and insurers) conducted by SGX, KPMG and CGS in 2021 ("**FI Survey**")[15] also illustrate this trend – 86% of respondents consider ESG data in making investment decisions, while 93% actively examine ESG risks in their investment decision making. Notably, all of the financial institutions interviewed for the FI Survey recognised that it is important for their organisations to fully integrate sustainability into their investment strategy by 2030, which demonstrates the critical role they play in moving the sustainability agenda through their allocation of capital. These findings follow the issuance by the Monetary Authority of Singapore ("**MAS**") of guidelines to all financial institutions to enhance their resilience to environmental risks.[16]

3.5 Recognising the trends and empirical evidence, MAS declared that "*The Future of Capital is Green*" and has identified a roadmap for Singapore to play a purposeful role in this effort.[17] Among other measures, MAS will continue to support corporates in Singapore and Asia to issue sustainability bonds, and green and sustainability-linked loans; this follows a grant scheme introduced by MAS to help corporates defray the issuance cost. MAS has also committed to placing US$2 billion with asset managers with a strong green focus, who will designate Singapore as their sustainability hub in Asia Pacific and launch new ESG thematic funds for the Asia Pacific region.

3.6 A green taxonomy for Singapore-based financial institutions that covers transition activities to allow for a progressive shift towards greater sustainability while supporting inclusive economic and social development is also in the pipeline.[18] The taxonomy is being developed by the Green Finance Industry Taskforce ("**GFIT**"), an industry-led task force convened by MAS – this follows taxonomy developed by the European Union ("**EU**") for sustainable activities. ASEAN regulators are also in the

[11] For example, Climate Action 100+, Glasgow Financial Alliance for Net Zero, Net Zero Asset Managers Initiative, Net Zero Banking Alliance and Net Zero Insurance Alliance.

[12] Blackrock, "Sustainability goes Mainstream: 2020 Global Sustainable Investing Survey" (2021).

[13] Bloomberg Intelligence, "ESG Assets may Hit $53 Trillion by 2025, A Third of Global AUM" (23 February 2021).

[14] IOSCO, "Report of Sustainability-related Issuer Disclosures" (June 2021).

[15] SGX, KPMG and CGS, "Perspectives of Financial Institutions on Sustainability Disclosures" (2021).

[16] MAS, "Guidelines on Environmental Risk Management for Asset Managers" (2020), MAS, "Guidelines on Environmental Risk Management for Banks" (2020) and MAS, "Guidelines on Environmental Risk Management for Insurers" (2020).

[17] Ravi Menon, Managing Director, MAS at Investment Management Association of Singapore-Bloomberg Investment Conference, "The Future of Capital is Green" (9 March 2021).

[18] GFIT, "Identifying a Green Taxonomy and Relevant Standards for Singapore and ASEAN" (2021).

midst of developing a sustainable finance taxonomy for ASEAN, and other jurisdictions are similarly looking at developing taxonomies.

3.7 MAS' roadmap dovetails with the launch of the Singapore Government's Green Plan 2030, which outlines Singapore's commitment to the United Nations 2030 Sustainable Development Agenda, the Paris Agreement and its long-term net zero emissions goal. Singapore's move is in line with global shifts in numerous jurisdictions to net zero targets.

3.8 SGX has also previously articulated that the COVID-19 pandemic has accentuated the importance of reporting on sustainability, particularly on the social aspect of ESG.[19] For example, it is important to ensure the health and safety of employees, anticipate customer needs and support the wider community.

4 Overview of Board Diversity Developments

4.1 Global demand for disclosure on board diversity has been growing. Diversity is multi-dimensional in nature, encompassing various aspects, including skills, knowledge, experience, gender and age. Certain aspects of diversity are widely tracked by investors and other stakeholders globally. For example, specific indices, such as the Bloomberg Gender-Equality Index, compiles a set of metrics to determine companies' progress towards equal representation of gender throughout the levels of the organisation.

4.2 The Council for Board Diversity ("**CBD**") has highlighted key global shifts supporting the need for greater diversity: [20]

(a) investors are also increasingly vocal and active on social issues, such as those relating to diversity and inclusion, and companies need to respond. In particular, institutional investors have publicly announced that they would enhance their influence over companies on gender diversity, and in some cases, selectively vote against nominations where there are few or no women on the board;[21] and

(b) COVID-19-induced uncertainty will continue to affect companies for some time to come. Companies will need to demonstrate capabilities in the board and leadership that will enable continued success during such times of heightened uncertainty. Having board diversity provides the broad-based judgement of risks and opportunities that is needed.[22]

5 Details of Proposals

5.1 Amidst these trends and developments, SGX considers it timely to conduct a review of the SR Regime to help issuers better address immediate and increasing interest in sustainability, particularly around disclosure of climate-related information, assurance of their sustainability reports and training for directors. Proposals are also made to require disclosures on board diversity. In formulating some of the proposals in this Consultation Paper, SGX conducted focus groups with

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[19] SGX, "Regulator's Column – What SGX RegCo Expects of Sustainability Reporting during COVID-19 Times" (6 July 2020).
[20] The CBD was established in 2019 by the Ministry of Social and Family Development to promote a sustained increase in the number of women on boards of listed companies, statutory boards and non-profit organisations.
[21] For example, Blackrock, "Pursuing Long-term Value for our Clients: A Look into the 2020-2021 Proxy Voting Year" (2021), AXA Investment Managers, "AXA IM to Expand its Gender Diversity Voting Policy for Both Developed and Emerging Market Economies" (8 July 2020), State Street Global Advisors, "State Street Global Advisors Marks Third Anniversary and Progress of Fearless Girl Campaign, Reports 681 Companies Added Female Board Members" (5 March 2020) and Nikkei Asia, "Global Investors Press Harder for Women on Asian Boards" (24 July 2019).
[22] Loh Boon Chye and Mildred Tan, "Women in Leadership, Women on Boards – It's Time for a Change" (8 March 2021).

representative groupings.

5.2 In this Consultation Paper, SGX discusses the proposed amendments to the Listing Rules to enhance the SR Regime and disclosures on board diversity. The proposed amendments to the Mainboard Rules and the Catalist Rules are set out in Appendix 1 and Appendix 2, respectively.

II Proposed Amendments to Listing Rules

1 Mandatory Climate-related Disclosures

1.1 With the effects of climate change becoming increasingly pronounced, the call globally for efforts to combat climate change has grown exponentially and with a new urgency. The Intergovernmental Panel on Climate Change has recently issued a stark reality check – the effects of climate change are widespread, rapid and intensifying, and unless there are immediate, rapid and large-scale reductions in GHG emissions, limiting warming to close to 1.5°C or even 2°C will be beyond reach.[23]

1.2 Investors are increasingly demanding further and better information on the impacts of climate change. A global group of 570 investors, responsible for US$54 trillion in assets under management has signed-up to the Climate Action 100+ and are requesting, among others, companies to provide enhanced corporate disclosure, in line with the recommendations made by the Task Force on Climate-related Financial Disclosures ("**TCFD**", and the recommendations, "**TCFD Recommendations**").[24] The TCFD Recommendations are organised across four pillars: (a) governance; (b) strategy; (c) risk management; and (d) metrics and targets:

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Source: TCFD

The TCFD has recently issued a consultation on proposed guidance on climate-related metrics,

[23] Intergovernmental Panel on Climate Change, "Climate Change Widespread, Rapid and Intensifying" (9 August 2021).
[24] Please refer to https://www.fsb-tcfd.org/ for more information on the TCFD Recommendations.

targets and transition plans ("**TCFD Consultation**").[25]

1.3 It is against this backdrop that the G7 Finance Ministers and Central Bank Governors emphasised the need to green the global financial system, so that financial decisions take climate considerations into account. To meet the global accord on environmental objectives, significant structural changes, including private sector financing and government policy alignment, are needed. They support moving towards mandatory climate-related financial disclosures based on the TCFD framework to provide consistent and decision-useful information for market participants.[26]

1.4 SGX has long recognised the importance of incorporating climate considerations into financial and business decisions. We were one of the first organisations to endorse the TCFD Recommendations when it was launched. In 2017, we also directed our issuers' attention to the disruptive force of climate change, which will lead investors to demand more climate-related disclosures and governments to adopt new regulations. We called on issuers to use the TCFD Recommendations.[27]

1.5 The SR Review 2021 has revealed that issuers are cognisant of the impact of climate change on their businesses, with almost half discussing climate change as an ESG factor in their sustainability reports. One-third of issuers identified climate change as a material topic. However, the SR Review 2021 also highlighted that few issuers (approximately 2%) use climate-focused frameworks to guide their disclosures, such as the TCFD Recommendations.

1.6 MAS has echoed the need to urgently enhance the quality and consistency of climate-related disclosures. It already expects all banks, asset managers and insurers to make climate-related financial disclosures by June 2022, in accordance with well-regarded international reporting frameworks, such as the TCFD Recommendations. It has been announced that MAS and SGX will set out roadmaps for mandatory climate-related financial disclosures by financial institutions and issuers respectively.[28]

1.7 The urgency of the issue demands that we move apace. The time is now ripe for SGX to incorporate the TCFD Recommendations as part of the Listing Rules. Doing so will better-equip issuers to meet the increasing demand for climate-related disclosure from investors and financial institutions, as well as help to future-proof their businesses and build business resilience by anticipating potential climate-related issues.

1.8 SGX therefore proposes to move towards mandatory climate-related disclosures, consistent with the TCFD Recommendations ("**climate reporting**").

1.9 SGX proposes that issuers initially provide climate-related disclosures consistent with the TCFD Recommendations on a 'comply or explain' basis. After an appropriate transition period, some sectors of issuers for which reporting would be most impactful should be required to provide climate-related disclosures on a mandatory basis. Thereafter, more sectors of issuers should sequentially be required to do so.

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[25] TCFD, "Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans" (June 2021).

[26] G7 Finance Ministers and Central Bank Governors Communiqué, "Policy Paper" (5 June 2021).

[27] SGX, "Regulator's Column – Climate Change and Sustainability Disclosure: Why We Must Start" (12 December 2017).

[28] Ravi Menon, Managing Director, MAS at Launch of Inaugural MAS Sustainability Report, "Being the Change We Want to See: A Sustainable Future" (9 June 2021).

1.10 Should the proposed amendments be adopted, it is expected that the roadmap towards mandatory climate-related disclosures would be as set out in the following table:

For Financial Year Commencing	Baseline Reporting Practice	Calendar Year in which Report Published
1 January 2022	For all issuers: Climate reporting on a ‘comply or explain’ basis.	2023
1 January 2023	For some sectors of issuers: Climate reporting on a mandatory basis. For other issuers: Climate reporting on a ‘comply or explain’ basis.	2024
1 January 2024	For more sectors of issuers: Climate reporting on a mandatory basis. For other issuers: Climate reporting on a ‘comply or explain’ basis.	2025

SGX also proposes to incorporate the roadmap, identifying the specified sectors of issuers, in the Sustainability Reporting Guide.

1.11 SGX notes that our proposals dovetail with developments globally around the adoption of the TCFD Recommendations when reporting on climate-related disclosures:

(a) Australia: The Corporate Governance Council of the Australian Securities Exchange (“**ASX CGC**”) has encouraged, through its Corporate Governance Principles and Recommendations, its issuers to consider whether they have material exposure to climate change risk by reference to the TCFD Recommendations, and if they do, to make the disclosures recommended by the TCFD.[29]

(b) Hong Kong: The Stock Exchange of Hong Kong (“**HKEx**”) specifically requires its issuers to provide disclosures of the significant climate-related issues which have impacted and may impact them on a ‘comply or explain’ basis for financial years commencing on or after 1 July 2020.[30] In April 2021, HKEx also stated that it encourages its issuers to adopt the TCFD Recommendations when disclosing climate-related information.[31] Most recently, in July 2021, Hong Kong’s Green and Sustainable Finance Cross-Agency Steering Group announced that it will seek to make progress towards mandating climate-related disclosures aligned with the TCFD Recommendations by 2025 across relevant sectors.[32]

(c) New Zealand: New Zealand’s Government announced, in April 2021, the introduction of legislation that would make climate-related disclosures aligned with the TCFD

[29] Recommendation 7.4 of the ASX CGC Corporate Governance Principles and Recommendations.
[30] Appendix 27 (Environmental, Social and Governance Reporting Guide) of the HKEx Listing Rules.
[31] HKEx, “Consultation Paper – Review of Corporate Governance Code and Related Listing Rules” (April 2021).
[32] Green and Sustainable Finance Cross-Agency Steering Group, “Cross-Agency Steering Group Announces Next Steps to Advance Hong Kong’s Green and Sustainable Finance Strategy” (15 July 2021).

Recommendations mandatory for, among others, all issuers listed on the New Zealand Exchange for financial years commencing in 2022.[33]

(d) United Kingdom: In November 2020, the United Kingdom Government published a roadmap charting a path towards mandatory TCFD-aligned disclosure obligations across the economy by 2025, with most measures expected to be introduced by 2023.[34]

The Financial Conduct Authority ("**FCA**") subsequently introduced requirements in December 2020 which required issuers with a premium listing on the London Stock Exchange ("**LSE**") to include a compliance statement in their annual reports for financial years commencing in 2021 on whether they have made disclosures consistent with the TCFD Recommendations. Issuers that have not done so will be required to provide an explanation and the steps they propose to take in order to be able to make those disclosures in the future.[35]

In June 2021, the FCA announced that it is consulting on proposals to extend the application of the climate-related disclosure requirements presently applicable to issuers with a premium listing, to issuers with a standard listing on the LSE.[36]

(e) United States: In March 2021, the Securities and Exchange Commission ("**SEC**") announced that it will enhance its focus on climate-related disclosure in public company filings. The SEC has sought the public's input on climate-related disclosures, including the types of climate-related information that can be quantified and measured, and whether public companies should report on specified TCFD metrics. [37]

1.12 SGX further notes that internationally, there is strong momentum and traction for the programme of work by the International Financial Reporting Standards ("**IFRS**") Foundation ("**IFRS Foundation**") to develop investor-oriented global baseline sustainability reporting standards with an enterprise value lens. This work builds on the TCFD Recommendations and existing content of leading sustainability reporting organisations – this is discussed further in paragraph 2 of this Part II. As such, SGX's proposed roadmap for mandating climate reporting can also be seen as a first step to better prepare issuers for reporting against a possible international climate standard in the future.

Question 1: Roadmap towards Mandatory Climate-related Disclosures

Do you agree with the proposed roadmap towards mandatory climate-related disclosures, consistent with the TCFD Recommendations? You may also provide suggestions on the roadmap.

1.13 In terms of the prioritisation of the sectors of issuers for mandatory climate reporting, it is suggested that this be based on their industry classification to facilitate comparability between issuers in the same industry. Sectors with the highest climate-related risks should be prioritised in mandatory climate reporting, as this would be most impactful.

1.14 The TCFD has identified the financial industries as well as certain non-financial industries most affected by climate change and the transition to a lower-carbon economy.[38] The non-financial industries are: (a) agriculture, food and forest products; (b) energy; (c) materials and buildings; and

[33] New Zealand Parliament, "Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill" (2021).
[34] HM Treasury, "A Roadmap Towards Mandatory Climate-related Disclosures" (November 2020).
[35] Listing Rule 9.8.6 of the FCA Listing Rules.
[36] FCA, "Consultation Paper – Enhancing Climate-related Disclosures by Standard Listed Companies" (22 June 2021).
[37] Allison Herren Lee, Acting Chair, SEC, "Public Input Welcomed on Climate Change Disclosures" (15 March 2021).
[38] TCFD, "Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures" (June 2017).

(d) transportation. Given that SGX is proposing, in this Consultation Paper, that issuers provide climate-related disclosures consistent with the TCFD Recommendations, SGX notes that there may be benefits in consistency by drawing upon the industries identified by the TCFD. TCFD has also published sector-specific guidance on implementing the TCFD Recommendations.[39]

1.15 The TCFD non-financial priority industries overlap substantially with the economic activities identified by the GFIT (based on the International Standard Industrial Classification) which account for more than 90% of the GHG emissions and 40% of the economic activities in ASEAN.[40] These activities fall within the following sectors: (a) agriculture and forestry/land use; (b) energy (including upstream); (c) construction/real estate; (d) transportation and fuel; and (e) industrial.

1.16 SGX notes that the FCA has adopted a 'size-based' approach for issuers to make climate-related disclosures, in that the FCA presently only requires issuers with a premium listing on the LSE to make disclosures consistent with the TCFD Recommendations on a 'comply or explain' basis.[41] SGX is therefore also seeking views on alternatives for prioritisation of issuers for mandatory climate-related disclosures, such as a 'size-based' approach which may be pegged to the issuer's listing board (i.e. Mainboard or Catalist), market capitalisation or other thresholds.

1.17 SGX will give issuers, particularly those prioritised for mandatory climate reporting, sufficient lead time to prepare.

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 GFIT).

(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).

1.18 SGX notes that the TCFD Recommendations are, to an extent, already encapsulated within the SR Regime. In light of the proposal to require issuers to provide climate-related disclosures consistent with the TCFD Recommendations, SGX also proposes the following key amendments and enhancements to incorporate the TCFD Recommendations in the SR Regime:

(a) SGX proposes that, in identifying the material ESG factors, issuers should take into consideration the relevance or impact of these factors to financial planning, in addition to the business, strategy, business model and key stakeholders;

(b) to sharpen the focus on sustainability issues that arise from the issuer's business and the Board's strategic response, SGX proposes to enhance the Board statement to specifically provide that the Board has, among others, considered sustainability issues in the issuer's business and strategy;

(c) SGX considers it appropriate for the issuer's sustainability report to also describe management's responsibility to ensure that ESG factors are monitored on an ongoing basis and properly managed. Accordingly, SGX proposes that, in addition to a statement by the Board, the sustainability report should also describe the roles of the Board and the

[39] TCFD, "Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures" (June 2017).
[40] GFIT, "Identifying a Green Taxonomy and Relevant Standards for Singapore and ASEAN" (28 January 2021).
[41] Listing Rule 9.8.6 of the FCA Listing Rules.

management in the governance of sustainability issues; and

(d) SGX proposes to include new sections on 'climate-related disclosures' and 'policies, practices and performance' in the Sustainability Reporting Guide, which encompass the following key areas:

(i) issuers should disclose their Scope 1 and Scope 2 GHG emissions, with Scope 3 GHG emissions to also be disclosed, if appropriate.[42] 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;

(ii) issuers should conduct climate-related scenario analysis to describe how resilient their strategies are to climate-related risks and opportunities. In particular, issuers should take into consideration a transition to a lower-carbon economy consistent with a 2°C or lower scenario, and where relevant, scenarios consistent with increased physical climate-related risks.

For issuers embarking on scenario analysis for the first time, it is suggested that can ask themselves three key questions on the profitability of the business in each of these scenarios: (A) countries are successful in achieving the goals of the Paris Agreement and there is an orderly transition to a low-carbon economy; (b) there is an abrupt and disorderly transition as countries belatedly catch up on climate goals; and (C) there is a failure to transition;[43,44]

(iii) issuers should devise policies and processes to adequately and effectively manage the risks associated with the identified material ESG factors, and describe key features of mitigation; and

(iv) issuers should integrate ESG risk management structures into existing enterprise risk management structures or apply existing enterprise risk management structures to ESG risk management structures.

1.19 As with sustainability reporting, SGX recognises that climate reporting is a journey for many issuers. Some of the TCFD Recommendations can be easily incorporated into the existing frameworks that issuers use for material ESG factors, while others may require further implementation. It is expected that issuers would progressively adopt these practices. A phased approach over a three-year period is also suggested in the Sustainability Reporting Guide for issuers to consider.

1.20 We will seek to incorporate finalised changes to the TCFD Recommendations following the TCFD Consultation when we implement amendments proposed in this Consultation Paper.

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[42] In the TCFD Consultation, TCFD has provided that disclosure on Scope 3 GHG emissions is particularly important for organisations for which Scope 3 GHG emissions account for 40% or more of the total emissions of the organisation, or for which Scope 3 GHG emissions have been deemed a significant risk in their value chain.

[43] Sustainable Stock Exchanges, "Model Guidance on Climate Disclosure" (2021).

[44] Issuers may also wish to consider the scenarios presented in guidance issued by the Network for Greening the Financial System.

Question 3: Amendments to Incorporate TCFD Recommendations

Do you agree with the proposed amendments to incorporate the TCFD Recommendations in the SR Regime?

2 Sustainability Reporting Frameworks and ESG Indicators

2.1 The SR Regime allows issuers to choose a globally-recognised sustainability reporting framework to guide their disclosures, and does not prescribe specific ESG indicators. The Global Reporting Initiative ("**GRI**") is currently the most used reporting framework by SGX-listed issuers.[45]

2.2 IOSCO has found that investor demand for sustainability-related information is currently not being properly met by companies' sustainability-related disclosures. Gaps and shortcomings include incomplete, inconsistent and incomparable sustainability-related disclosures by companies, and companies selectively reporting against multiple different standards and frameworks.[46] Financial institutions have also expressed difficulties in benchmarking ESG disclosures in part due to the various voluntary reporting frameworks used, which have caused a barrier to the consistency and comparability of ESG data disclosures. They call on regulators to provide guidance on more harmonised disclosures across companies.[47]

2.3 We note that since the introduction of the SR Regime in 2016, the landscape for reporting framework continues to evolve rapidly. As set out in paragraph 1 of this Part II, SGX proposes that for climate-related disclosures, issuers must always report such disclosures consistent with the TCFD Recommendations.

2.4 For sustainability reporting frameworks more broadly, in July 2020, GRI and the Sustainability Accounting Standards Board ("**SASB**") announced a collaborative workplan to streamline the application of both reporting standards.[48] Following this, GRI and SASB have jointly published a practical guide for companies that want to communicate with their various stakeholders using both the GRI standards and SASB standards.[49]

2.5 The International Business Council, through the World Economic Forum ("**WEF**"), has also published a core and expanded set of common metrics and disclosures in September 2020 that companies can use to align their mainstream reporting on performance against ESG indicators.[50]

2.6 In December 2020, the Carbon Disclosure Project ("**CDP**"), the Climate Disclosure Standards Board ("**CDSB**"), GRI, the International Integrated Reporting Council ("**IIRC**") and SASB, five of the most widely used international sustainability reporting frameworks, published a prototype climate-related financial disclosure standard that illustrated how their respective frameworks and the TCFD Recommendations can be used together ("**Alliance Prototype**").[51] In June 2021, IIRC and SASB officially merged to form the Value Reporting Foundation ("**VRF**").[52]

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[45] SGX and CGS, "Sustainability Reporting Review 2021" (2021).
[46] IOSCO, "Report of Sustainability-related Issuer Disclosures" (June 2021).
[47] SGX, KPMG and CGS, "Perspectives of Financial Institutions on Sustainability Disclosures" (2021).
[48] GRI and SASB, "Promoting Clarity and Compatibility in the Sustainability Landscape" (13 July 2020).
[49] GRI and SASB, "A Practical Guide to Sustainability Reporting Using GRI and SASB Standards" (8 April 2021).
[50] WEF, "Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation" (September 2020).
[51] CDP, CDSB, GRI, IIRC and SASB, "Reporting on Enterprise Value: Illustrated with a Prototype Climate-related Financial Disclosure Standard" (December 2020).
[52] VRF, "IIRC and SASB form the Value Reporting Foundation, providing Comprehensive Suite of Tools to Assess, Manage and Communicate value" (9 June 2021).

2.7 More recently, after an extensive consultation, the IFRS Foundation commenced work towards establishing an International Sustainability Standards Board ("**ISSB**") by November 2021 to set global baseline sustainability reporting standards, building on existing work, including the TCFD Recommendations and other sustainability reporting organisations.[53] An IFRS working group, comprising CDSB, TCFD, VRF and WEF, is now developing a prototype climate reporting framework, leveraging the Alliance Prototype, which could be used by the ISSB once established as a 'running start'. The IFRS Foundation is working towards a final climate standard being published by the anticipated ISSB in June 2022, while it concurrently conducts an agenda consultation on expansion of standards beyond climate.[54]

2.8 IOSCO has welcomed this development and is engaging closely with the IFRS Foundation on its sustainability project.[55] IOSCO has stated that it envisages that ISSB's upcoming standards would provide the global baseline, which would be complemented by other 'building blocks' that may be jurisdiction-specific and may focus on wider sustainability impacts or other disclosures that extend beyond the ISSB's enterprise value creation orientation. IOSCO recognises that individual jurisdictions have different domestic arrangements for adopting, applying or otherwise availing of international standards. It will also be important for any international standards to be applied in a flexible and scalable way that recognises the different needs, profiles and resources of different jurisdictions and issuer communities.[56]

2.9 The G7 and G20 Finance Ministers and Central Bank Governors have also respectively welcomed the IFRS Foundation's work programme to develop global baseline sustainability reporting standards under robust governance and oversight, which jurisdictions can further supplement.[57]

2.10 Aside from the TCFD Recommendations, we understand that there are mixed views in the market on whether SGX should prescribe that issuers adopt a specific sustainability reporting framework. Given that this is a developing area, we do not consider it appropriate at current juncture to prescribe specific sustainability reporting frameworks or ESG indicators that all issuers should adopt. Issuers should continue to determine the most material ESG factors and appropriate reporting frameworks, taking into account the views of their stakeholders.

2.11 Nonetheless, there is a need for some basic level of convergence on data definition to alleviate the difficulties faced by financial institutions, investors and other financial market participants. SGX has reviewed over 330 sustainability reports published by issuers over the past three years, accumulated 12,000 data points and distilled a core set of 27 metrics commonly reported by issuers. These metrics are quantitative in nature, relevant to most sectors and are rooted in the reality of the current reporting landscape. Each metric is mapped against globally-accepted reporting frameworks, such as GRI, SASB, the TCFD Recommendations and the WEF's recommended set of metrics and disclosures. Buyside users have endorsed the relevance of the core set of 27 metrics. Having a core set of core ESG metrics beyond those set out in the TCFD Recommendations can serve as a good starting point for issuers in their reporting of material ESG factors. To promote greater adoption, SGX is concurrently consulting on the list of core metrics.[58] All issuers are encouraged to report against this list of metrics.

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[53] IFRS Foundation, "Feedback Statement on the Consultation Paper on Sustainability Reporting" (April 2021).
[54] IOSCO, "Report of Sustainability-related Issuer Disclosures" (June 2021).
[55] IOSCO, "IOSCO Sees an Urgent Need for Globally Consistent, Comparable, and Reliable Sustainability Disclosure Standards and Announces its Priorities and Vision for a Sustainability Standards Board under the IFRS Foundation" (24 February 2021).
[56] IOSCO, "Report of Sustainability-related Issuer Disclosures" (June 2021).
[57] G7 Finance Ministers and Central Bank Governors, "Communiqué" (5 June 2021) and G20 Finance Ministers and Central Bank Governors, "Communiqué" (9-10 July 2021).
[58] The Consultation Paper titled "Starting with a Common Set of Core ESG Metrics" is available at https://www.sgx.com/regulation/public-consultations.

2.12 We watch with interest the IFRS Foundation's programme of work to develop globally comparable baseline sustainability reporting requirements for all businesses. Should that gain market acceptance, SGX will consider amending the Listing Rules to adopt these standards.

> **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 ESG indicators against which issuers should report?

3 Guideline on Materiality

3.1 There is an overarching obligation to disclose material information under the Listing Rules.[59] The threshold for materiality is twofold. First, information must be disclosed if it is necessary to avoid the establishment of a false market in the issuer's securities; a false market may exist if information is not made available that would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, or buy or sell the securities (this may be referred to as 'trade-sensitive' information). Second, information must also be disclosed if it would be likely to materially affect the price or value of the issuer's securities (this may be referred to as 'materially price-sensitive' information).[60]

3.2 SGX recognises that issuers may initially be unfamiliar with how to apply the materiality test to sustainability information. Therefore, as guidance for issuers, the Sustainability Reporting Guide provides a working guideline on materiality ("**Working Guideline**"): sustainability reporting relates to the most important ESG risks and opportunities that will act as barriers or enablers to achieving business goals in the short, medium and long term; the omission or misstatement of these risks or opportunities could influence the decisions of investors.[61]

3.3 Other jurisdictions have also provided guidance on materiality. In the EU, for example, the Non-Financial Reporting Directive introduced a 'double materiality' requirement for companies to report both on how sustainability issues affect their performance, position and development (the 'outside-in' perspective) and on their impact on people and the environment (the 'inside-out' perspective). In the proposed Corporate Sustainability Reporting Directive, this is further clarified to be information "necessary to understand [an] undertaking's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the undertaking's development, performance and position".[62] Bursa Malaysia considers sustainability matters as material if they either reflect the issuer's significant economic, environmental and social impacts, or substantively influence the assessments and decisions of stakeholders.[63]

3.4 The ASX CGC provides that an entity has material exposure to environmental or social risks if there is a real possibility that the risk in question could materially impact the entity's ability to create or preserve value for security holders over the short, medium or longer term.[64] HKEx defines materiality as the threshold at which ESG issues determined by the board are sufficiently important

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[59] Rule 703 of the Listing Rules.

[60] Practice Note 7.1 of the Mainboard Rules and Practice Note 7A of the Catalist Rules.

[61] Practice Note 7.6 of the Mainboard Rules and Practice Note 7F of the Catalist Rules.

[62] European Commission, "Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards Corporate Sustainability Reporting" (21 April 2021).

[63] Practice Note 9 of the Bursa Malaysia Main Market Listing Requirements.

[64] Recommendation 7.4 of the ASX CGC Corporate Governance Principles and Recommendations.

to investors and other stakeholders that they should be reported.[65]

3.5 Reporting frameworks, such as GRI, SASB and TCFD have also provided guidance on materiality:

(a) GRI encourages organisations to identify material topics by considering two dimensions of the principle – the significance of the organisation's economic, environmental and social impacts, and their substantive influence on the assessments and decisions of stakeholders;

(b) SASB applies a financial materiality lens, focusing on sustainability matters that are reasonably likely to impact the financial condition or operating performance of a company and therefore are most important to investors; and

(c) TCFD recommends that organisations determine materiality for climate-related issues consistent with how they determine the materiality of other information including in financial filings, and cautions against prematurely concluding that climate-related issues are not material based on perceptions of the longer-term nature of some of these risks.

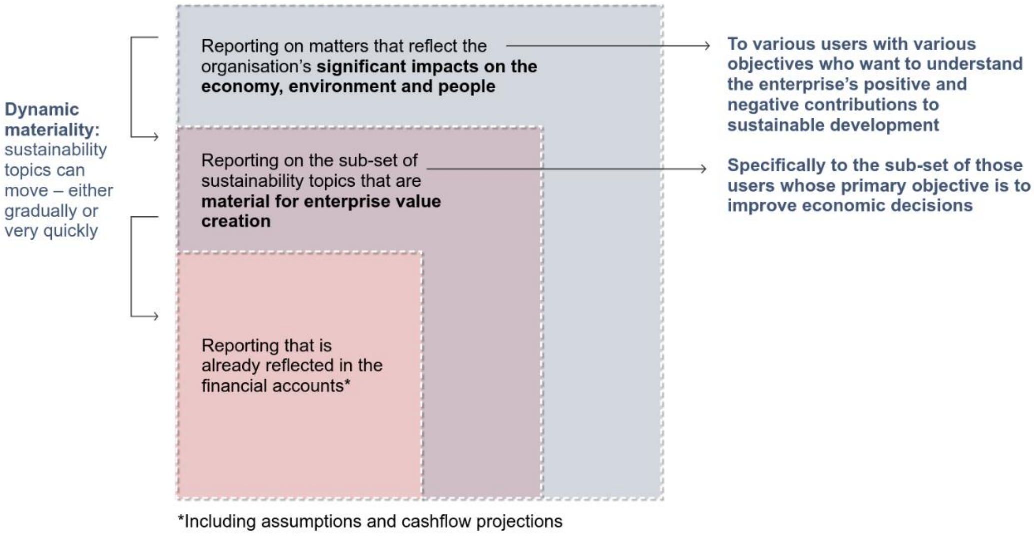
3.6 The objectives of securities regulation are to promote fair, orderly and transparent markets, to facilitate efficient markets for the allocation of capital and transfer of risks, and to reduce systemic risk.[66] The Listing Rules contribute to these objectives by requiring corporate announcements to be made readily available to investors in a comprehensible manner and on a timely basis, in order that relevant information may be reflected in the price discovery process.[67]

3.7 While the object of securities regulation is investors, investors do not just demand financial information. As highlighted in paragraph 3 of Part I of this Consultation Paper, sustainability risks and opportunities have been recognised to impact investments and investors are now demanding such information.

3.8 Across a longer time horizon, it is believed that the issuer's ESG impacts on society and the environment would affect the issuer. Negative externalities generated by a corporate in its business or operations will be met with market, regulatory and reputational pressures. As a paradigmatic example, environmental laws sanction companies that emit pollutants; consumers increasingly show their displeasure with bad business behaviours by boycotting companies. These potential risks will have an effect on the issuer. As stated in the Sustainability Reporting Guide, what is material in sustainability reporting would generally also be considered material in financial terms, if not in the immediate period, then over time.

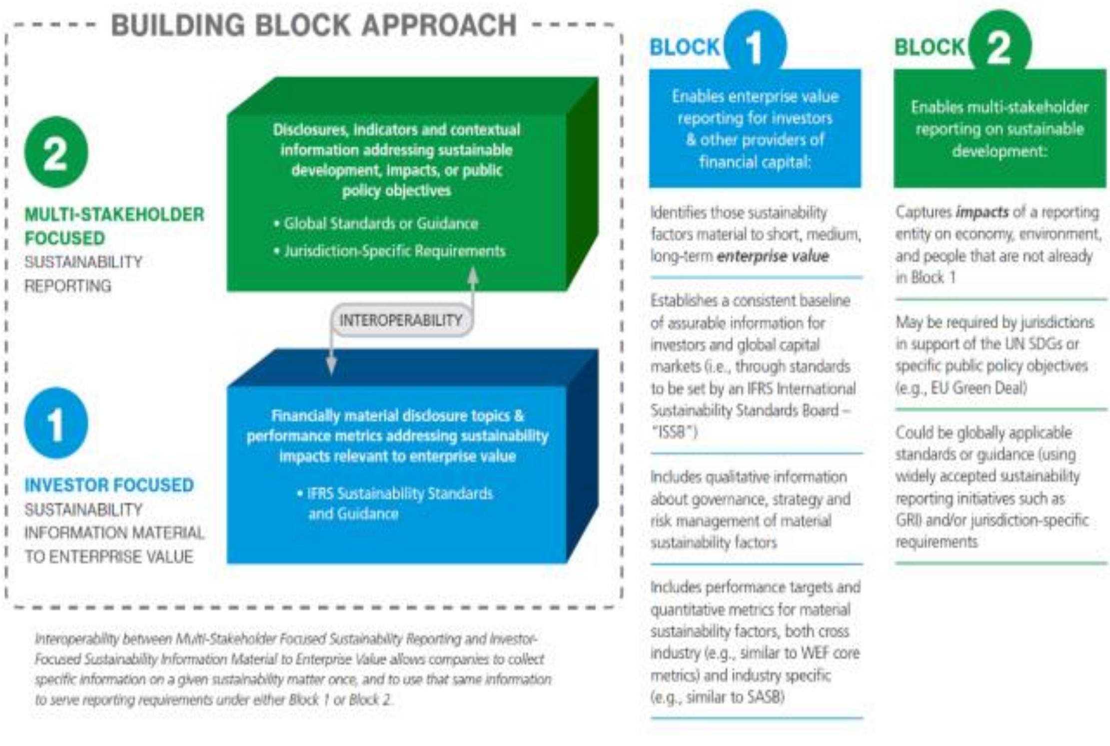
[65] Appendix 27 (Environmental, Social and Governance Reporting Guide) of the HKEx Listing Rules.
[66] Section 5 of the Securities and Futures Act (Chapter 289 of Singapore).
[67] MAS, "Guidelines on the Regulation of Markets" (1 July 2005).

3.9 The IOSCO also recognises significant overlap in reporting under the two lenses (as seen in the 'nested' boxes below),[68] and that the dynamic nature of materiality means that the relationship between these two lenses will continue to evolve. The trend going forward will be toward closer convergence of informational needs under the different materiality lenses:[69]



Source: Statement of Intent by CDP, CDSB, GRI, IIRC and SASB to Work Together Towards Comprehensive Corporate Reporting

3.10 A 'building blocks' approach could provide a consistent and comparable baseline of sustainability-related information that could be material to investors' decisions because of the impact on enterprise value creation, while also providing flexibility for coordination on reporting requirements that capture other sustainability interests and objectives and serve wider stakeholders:[70]



Source: International Federation of Accountants

3.11 We are thus of the view that it is a practical matter to retain the Working Guideline on materiality, which focuses on the business and investors' decisions. As we have previously stated,[71] the Working Guideline serves as a common baseline for all issuers. Issuers may choose to adopt an additional standard of materiality if they consider that it serves their stakeholders' needs.

Question 5: Guideline on Materiality
Do you agree that the Working Guideline on materiality should be retained?

4 Assurance

4.1 Assurance of sustainability reports is presently voluntary under the SR Regime. Assurance strengthens the credibility of information disclosed in the sustainability reports and correspondingly, increases confidence by users of the sustainability report. It is expected that issuers who are mature sustainability reporters after several years of reporting should progress to assurance. SGX has also highlighted in the Sustainability Reporting Guide that external assurance by independent professional bodies would add credibility to the information disclosed, and analysis undertaken, in issuers' sustainability reports.

4.2 The EU has proposed to adopt a progressive approach to enhance the level of independent assurance required for sustainability information.[72] It proposes to initially require a limited assurance of sustainability reporting,[73] given the absence of commonly agreed standards for sustainability reporting assurance, which creates the risk of different understandings and expectations of what a reasonable assurance engagement should involve.[74] This approach would also allow for the development of the assurance market for sustainability information, and of reporters' reporting practices.

4.3 The assurance engagement should cover the compliance of the sustainability report with specified reporting standards, the process carried out by the company to identify the information reported pursuant to these standards and the specified ESG indicators. This assurance may be performed by the statutory auditor or an independent assurance services provider. The results of assurance are to be presented in the audit report, which should include a description of the scope of assurance, the assurance standards used and the auditor's opinion on sustainability reporting. The audit committee is tasked with monitoring the sustainability reporting process and the assurance of the sustainability reporting.

4.4 New Zealand's Government has also introduced legislation to require climate-reporting entities (which includes all issuers listed on the New Zealand Exchange) to obtain assurance on the

[68] CDP, CDSB, GRI, IIRC and SASB, "Statement of Intent to Work Together Towards Comprehensive Corporate Reporting" (September 2020).
[69] IOSCO, "Report of Sustainability-related Issuer Disclosures" (June 2021).
[70] IOSCO, "Report of Sustainability-related Issuer Disclosures" (June 2021).
[71] SGX, "Responses to Comments on Consultation Paper – Sustainability Reporting: Comply or Explain" (20 June 2016).
[72] European Commission, "Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards Corporate Sustainability Reporting" (21 April 2021).
[73] A limited assurance engagement is usually provided in a negative form of expression by stating that no matter has been identified by the auditor to conclude that the subject matter is materially misstated. The auditor performs fewer tests than in a reasonable assurance engagement.
[74] A reasonable assurance engagement entails extensive procedures, including consideration of internal controls of the reporting undertaking and substantive testing. The conclusion of this type of engagement is usually provided in a positive form of expression and states an opinion on the measurement of the subject matter against previously defined criteria.

disclosure of their GHG emissions.[75] While not an express listing requirement, Bursa Malaysia's sustainability reporting guide provides guidance on the types of sustainability disclosures that may be assured, including data and its associated collection process, narratives, management processes and disclosures developed in accordance with sustainability reporting frameworks. Organisations should consider the scope of the assurance assignment, the standard to which it is being performed, the competence of the assurance team and the method of presentation.[76]

4.5 There is also no express requirement to seek independent assurance in HKEx. Where independent assurance is obtained, HKEx recommends that the issuer describe the level, scope and processes adopted for the assurance in the sustainability report.[77]

4.6 Notwithstanding the benefits of assurance, SGX notes, through the SR Review 2021, that the adoption rate of assurance remains low – 18.4% of issuers conducted internal assurance while a mere 2.8% of issuers sought external assurance.

4.7 We consider that the growing investors' demand for consistent, comparable and reliable information must ultimately be met by external assurance of sustainability reports. IOSCO similarly considers audit and assurance as a further critical step for the capital markets.[78] Investors expect financial statements to be subject to audit requirements and such expectations will soon be made of sustainability information, which may have potential impacts on an issuer's financial position and performance, as well as its strategy and business model. However, we note that a prerequisite for robust external assurance is common reporting and assurance standards for sustainability information. This is a fast-developing area.

4.8 It is significant that the SR Regime places ultimate responsibility for the issuer's sustainability reporting on the Board.[79] In addition, Boards must also comment on the adequacy and effectiveness of the issuer's internal controls (including financial, operational, compliance and information technology controls) and risk management systems.[80] These systems would also cover material ESG risks and opportunities and the sustainability report. In order to fulfil these responsibilities, Boards would need sufficient comfort in the internal processes of sustainability reporting.

4.9 The Institute of Internal Auditors ("**IIA**") recognises a role for internal audit to play in sustainability reporting. Internal audit can add value in an advisory capacity by helping to identify and establish a functional ESG control environment; it can also offer critical assurance support by providing an independent and objective view of the effectiveness of ESG risk assessments, responses and control. In terms of assurance over ESG reporting, the IIA suggests that the internal audit function can: (a) provide assurance on whether data (quantitative or qualitative) being reported is accurate, relevant, complete and timely; (b) review ESG reporting for consistency with formal financial filings; (c) conduct materiality or risk assessments on ESG reporting; and (d) incorporate ESG into audit plans. Internal audit can thus provide reliable assurance to directors on the effectiveness of ESG risk management, including ESG reporting.[81]

4.10 The existing internal assurance frameworks should already cover ESG governance, risk assessments and controls. To buttress the governance structures on sustainability reporting and to enhance the reliability of sustainability reports, SGX proposes to require issuers to subject their sustainability reports to internal assurance, with assurance provided by their internal auditors. The sustainability

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[75] New Zealand Parliament, "Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill" (2021).
[76] Bursa Malaysia Sustainability Reporting Guide.
[77] Appendix 27 (Environmental, Social and Governance Reporting Guide) of the HKEx Listing Rules.
[78] IOSCO, "Report of Sustainability-related Issuer Disclosures" (June 2021).
[79] Practice Note 7.6 of the Mainboard Rules and Practice Note 7F of the Catalist Rules.
[80] Rule 1207(10) of the Mainboard Rules and Rule 1204(10) of the Catalist Rules.
[81] IIA, "Internal Audit's Role in ESG Reporting" (May 2021).

reporting process should be incorporated into the internal audit plan, which should cover key aspects of sustainability reporting. Assurance may take place over a few audit cycles. The expectations of the Board, management and other stakeholders for assurance should be considered as part of the prioritisation. The scope should minimally include assurance on whether data being reported is accurate and complete. We seek views on this approach for internal assurance.

4.11 Alternatively, issuers may also choose to have their reports externally assured through their auditors or an independent assurance services provider. The scope of assurance may cover different aspects of the sustainability report, including data and its associated data collection process, narratives, compliance with the specified sustainability reporting framework, process to identify sustainability information reported and compliance with the Listing Rules. SGX seeks views on whether there are particular aspects of sustainability reports that should be covered by external assurance.

4.12 SGX encourages issuers to ensure that the assurance is performed in accordance with recognised assurance standards. For example, an internal assurance may be conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, while an external assurance may use the International Standard on Assurance Engagements (ISAE) 3000, the Singapore Standards on Assurance Engagement (SSAE) 3000, the AA 1000 Assurance Standards, the ISO or the GRI.

4.13 SGX seeks views on whether issuers should be required to disclose in the sustainability report that internal assurance or external assurance has been conducted, and the content of such disclosures.

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?

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

(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.

5 Training for Directors

5.1 The preamble to the CG Code states that sustainability, together with accountability and transparency, is a tenet of good governance. The Board is collectively responsible for the long-term success of the issuer,[82] and its role includes setting strategic objectives which should include an appropriate focus on sustainability.[83]

5.2 As with the issuer's annual report and corporate announcements, the Board has ultimate responsibility for the issuer's sustainability reporting. This also means that directors must have a good grasp of sustainability in order to execute this duty. In fact, there is a legal view that Singapore corporate directors are required to consider climate change risks as part of their duties to act in the best interests of the company, and failure to do so can result in legal action for their companies and

[82] Principle 1 of the CG Code.
[83] Practice Guidance 1 of the CG Code.

themselves personally.[84]

5.3 The Listing Rules require a director that has no prior experience as a director of an issuer listed on the SGX-ST ("**First-time Director**") to undergo prescribed training on the roles and responsibilities of such a director.[85] Currently, the training does not include a specific component on sustainability.[86] SGX is seeking views as to whether a component on sustainability should be included in the training. If so, SGX also seeks views on the topics to be covered.

5.4 In view of the range of enhancements to the SR Regime proposed in this Consultation Paper, and to ensure all directors have common knowledge of their roles and responsibilities, SGX additionally proposes that all directors (regardless of whether they are a First-time Director) must undergo a prescribed one-time training on sustainability. Issuers should provide a confirmation that all of their directors have attended the mandatory prescribed training on sustainability in the first sustainability report following the amendments to the Listing Rules.

Question 7: Training for Directors

(a) Do you agree that the mandatory training for 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.

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

6 Reporting Timeframe

6.1 Issuers are required to issue their sustainability reports on an annual basis.[87] The SR Regime provides issuers with the option of either embedding the sustainability report within its annual report, which must be issued within four months of the end of the financial year, or issuing a full standalone sustainability report within five months of the end of the financial year (with a summary included in the annual report).[88]

6.2 The five-month period is intended to give issuers more time to prepare their sustainability reports. However, SGX recognises that the issuance of sustainability reports at the same time as the annual reports may enhance its 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. Shareholders would also have ample time to consider the issuers' sustainability reports and raise clarifications, if required, from the Board and management at annual general meetings. SGX also notes that the TCFD has recommended that climate-related financial disclosures should follow mainstream reports (i.e. annual reports), such that the disclosures will similarly be subject to appropriate internal governance processes.[89]

6.3 SGX is therefore seeking views as to whether issuers should be required to issue their sustainability reports in accordance with the timeline for annual reports (i.e. four months of the end of issuers' financial year), instead of the existing five months. We understand that some issuers with

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[84] Eco-Business, "Company Directors in Singapore Urged to take Climate Change Seriously or Risk Personal Liability" (15 April 2021).
[85] Rule 210(5)(a) of the Mainboard Rules and Rule 406(3)(a) of the Catalist Rules.
[86] Practice Note 2.3 of the Mainboard Rules and Practice Note 4D of the Catalist Rules.
[87] Rule 711A of the Listing Rules.
[88] Practice Note 7.6 of the Mainboard Rules and Practice Note 7F of the Catalist Rules.
[89] TCFD, "Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures" (June 2017).

operations spanning multiple jurisdictions and who may wish to obtain external assurance may find it challenging to meet a more compressed timeline. Accordingly, SGX is also seeking feedback on whether issuers who conduct external assurance may 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).

Question 8: Reporting Timeframe

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

(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)?

7 Board Diversity

7.1 The contribution of a diverse board to corporate value creation is well recognised. Diversity is a principle of the CG Code that issuers adhere to on a 'comply or explain' basis under the Listing Rules.[90] The CG Code emphasises that "diversity of thought and background" enables the Board to make decisions in the issuer's best interest.[91] Characteristics, like age and personal background, complement the well-recognised ones like gender, skills and professional experience.

7.2 The CG Code requires issuers to disclose in the annual report, on a 'comply or explain' basis, the board diversity policy and progress made towards implementing the policy, including objectives.[92]

7.3 In addition, the CG Code recommends, on a voluntary basis, that the board diversity policy should include qualitative and measurable quantitative objectives (where appropriate),[93] and encourages disclosure on how the Board, with its collection of skills, experience and diversity, meets the needs of the issuer.[94]

7.4 Other markets have also introduced requirements calling for greater disclosure:

(a) Australia: The ASX CGC's Corporate Governance Principles and Recommendations require issuers to disclose their board diversity policy, measurable objectives for achieving gender diversity in the composition of their boards and the progress towards achieving those objectives.[95]

(b) Hong Kong: HKEx published a public consultation in April 2021 and plans to introduce mandatory requirements for its issuers to (i) disclose numerical targets and timelines set for achieving gender diversity at board level and across workforce (including senior management); and (ii) require the board to review the implementation and effectiveness of its board diversity policy annually.[96]

(c) Malaysia: The Malaysian Code on Corporate Governance 2021 requires issuers listed on

[90] Rule 710 of the Listing Rules.
[91] Principle 2 of the CG Code.
[92] Provision 2.4 of the CG Code.
[93] Practice Guidance 2 of the CG Code.
[94] Practice Guidance 4 of the CG Code.
[95] Recommendation 1.5 of the ASX CGC Corporate Governance Principles and Recommendations.
[96] HKEx, "Consultation Paper: Review of Corporate Governance Code and Related Listing Rules" (April 2021).

Bursa Malaysia to disclose their policy on gender diversity, pointing out that generic policies are unlikely to be effective in improving gender diversity unless they are supported by concrete action, numerical targets and a mechanism to track performance against these targets. It requires boards to comprise at least 30% women directors, and guides that boards should disclose the action taken to achieve this target and the associated timeline (with three years or less deemed as a reasonable timeframe).[97] Bursa Malaysia also requires, in its listing rules, the disclosure of the issuer's policy on board composition, having regard to the mix of skills, independence and diversity (including gender diversity) to meet the needs of the issuer.[98]

(d) United Kingdom: The United Kingdom Corporate Governance Code states that appointments to the board should promote diversity of gender, social and ethnic backgrounds, and cognitive and personal strengths. It also requires the disclosure in the annual report of the policy on diversity and inclusion, its objectives and linkage to company strategy, how it has been implemented and progress on achieving the objectives.[99]

FCA is also consulting on proposals to require issuers listed on LSE to disclose, in their annual reports, whether they meet specific board diversity targets on a 'comply or explain' basis; the targets proposed include that at least 40% of the board should consist of women, and at least one of the senior board position should be a woman.[100]

7.5 Recent uncertainties arising from the COVID-19 pandemic, waves of fundamental change and unprecedented shifts in supply and demand have fuelled a demand for information on how the directors, as a group, chart corporate strategy and create and preserve enterprise value.

7.6 The need for more substantial information about the Board echoes similar responsibilities in sustainability reporting. Investors are not satisfied with just financial information which results after the issuer has interacted with the environment, climate change, social factors (people issues) and governance.

7.7 In view of these considerations, SGX views it important for issuers to pay increased attention to composition of their Boards. We believe that requiring issuers to provide clear disclosures on board diversity and measurable targets is in keeping with the attention and action that should be paid to this matter.

7.8 SGX is therefore proposing to revise the Listing Rules to require issuers to have in place a board diversity policy. In addition, SGX proposes that an issuer disclose in its annual report:

(a) the board diversity policy, targets for achieving the stipulated diversity, accompanying plans, and timeline for achieving the targets; and

(b) 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. The description should be specific to the issuer's Board composition and take into account its current plan and future strategy.

SGX notes that the proposals would elevate the provisions contained in Provision 2.4 (applicable on a 'comply or explain' basis) and Practice Guidance 2 and 4 (applicable on a voluntary basis) of

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[97] Practices 5.9 and 5.10 and Guidance G5.9 and G5.10 of the Malaysian Code on Corporate Governance 2021.
[98] Rule 15.08A of the Bursa Malaysia Main Market Listing Requirements.
[99] Principle J and Provision 23 of the United Kingdom Corporate Governance Code 2018.
[100] FCA, "Consultation Paper – Diversity and Inclusion on Company Boards and Executive Committees" (28 July 2021).

the CG Code to mandatory compliance.

7.9 As highlighted in paragraph 4 of Part I of this Consultation Paper, SGX notes that gender diversity is a visible form of diversity widely tracked by investors and other stakeholders globally. The CBD has set targets for issuers to achieve 25% of women on Board by 2025 and 30% by end 2030, with the largest 100 companies to lead the way.[101] The CBD has noted that, as at 31 December 2020, participation of women on the Boards of the largest 100 companies climbed to 17.6%, from 16.2% in the previous year, and that of all issuers improved from 11.8% in 2019 to 12.7% in 2020.[102] There can be more efforts to build upon the significant progress. At the same time, SGX acknowledges that there are many aspects of diversity beyond gender including diversity in skills, knowledge, experience and age. SGX therefore seeks market participants' views on whether gender should be made a mandatory component in the board diversity policy.

7.10 If gender should be made a mandatory component in the board diversity policy, disclosure on the proportion of women in senior level of management (for example, C-suite) may also be important as this forms the pipeline of future directors and signals issuers' attention to the issue of women in leadership. Accordingly, SGX seeks views on the disclosure of such information as part of a core set of common metrics (see paragraph 2.11 of this Part II).

Question 9: Board Diversity

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

(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?

(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?

(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?

(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?

8 Implementation

8.1 To summarise, the changes proposed in this Consultation Paper relate to climate-related disclosures, internal assurance, directors' training, timeframe for reporting and disclosures on board diversity.

8.2 It is proposed that issuers be required to adopt these enhancements for their sustainability reports and annual reports for financial years commencing on or after 1 January 2022.

[101] CBD, "CBD Reports Progress on Board Appointments of Women across Leading Listed Companies, Statutory Boards and IPCs in 1H 2019" (12 September 2019).
[102] CBD, "Progress Seen in Women's Participation on Boards of People, Private and Public Sector Organisations" (12 April 2021).

8.3 In adopting the enhancements proposed, SGX recognises that issuers and market participants would need to devote resources to build up the necessary skillset. SGX will look to facilitate the necessary trainings and guidance.

Question 10: Implementation Do you agree with the implementation timeline? If not, please elaborate and propose alternatives.

Appendix 1 Proposed Amendments to Mainboard Rules

Legend: Deletions are struck-through and insertions are underlined.

Part III Equity Securities — Periodic Reports

Annual Report

710A

(1) An issuer must maintain a board diversity policy.

(2) An issuer must describe in its annual report its board diversity policy, including the following:

- (a) the issuer's targets to achieve diversity on its board;
- (b) the issuer's accompanying plans and timelines for achieving the targets; and
- (c) a description of how the combination of skills, talents, experience and diversity of its directors serves the needs and plans of the issuer.

Sustainability Report

711A

An issuer must issue a sustainability report for its financial year, no later than ~~5~~4 months after the end of the financial year.

711B

(1) The sustainability report must describe the sustainability practices with reference to the following primary components:

- (a) material environmental, social and governance factors;
- (aa) climate-related disclosures consistent with the recommendations of the Task Force on Climate-related Financial Disclosures;
- (b) policies, practices and performance;
- (c) targets;
- (d) sustainability reporting framework; and
- (e) Board statement and associated governance structure for sustainability practices.

(2) If the issuer excludes any primary component, it must disclose such exclusion and describe what it does instead, with reasons for doing so. Specified issuers identified in Practice Note 7.6 may not exclude the primary component in Rule 711B(1)(aa).[103]

(3) The issuer's sustainability reporting must be subject to assurance on the accuracy and completeness of the sustainability report.

[103] SGX will set out, in Practice Note 7.6, the roadmap, identifying the specified sectors of issuers.

Directors and Management

720

(7) An issuer must have all directors undergo training on sustainability matters as prescribed by the Exchange.

Practice Note 7.6 Sustainability Reporting Guide

1. Introduction

1.1 Listing Rule 711A requires every ~~listed~~ issuer to prepare an annual sustainability report, which must describe the issuer's sustainability practices with reference to the primary components set out in Listing Rule 711B on a 'comply or explain' basis. This Practice Note contains the Sustainability Reporting Guide (the "**Guide**"), which provides guidance on the expected structure and contents and the preparation of the sustainability report.

1.2 Sustainability reporting disclosure does not detract from the issuer's obligation to disclose any information that is necessary to avoid the establishment of a false market in the issuer's securities or would be likely to materially affect the price or value of its securities pursuant to Listing Rule 703.

1.3 A glossary of the common terms used in the Guide is set out in paragraph 7 of this Guide.

2. Policy Statement on Sustainability Reporting

2.1 Issuers make regular financial reports to their investors that are used for assessment of the likelihood of repayment (in the case of debt securities) and the returns on investment (in the case of equity securities). Increasingly, investors are demanding that issuers ~~fulfil these obligations in a responsible and sustainable manner~~also disclose sustainability information.

2.2 Reflecting these expectations, financial reports increasingly need to be supplemented by descriptive and quantitative information on how business is conducted and the sustainability of the current business into the future.

2.3 SGX believes that the addition of sustainability reporting to financial reporting provides a more comprehensive picture of the issuer: statements of financial position and comprehensive income provide a snapshot of the present and an account of the past year, while sustainability reports of environmental, social and governance (“**ESG**”) factors ~~("**ESG factors**")~~ show the risks and opportunities within sight, managed for future returns. Taken together, the combined financial and sustainability reports enable a better assessment of the issuer's financial prospects and quality of management.

2.4 To achieve the additional transparency which encourages efficiency and innovation, SGX-ST requires each ~~listed~~ issuer to publish an annual sustainability report, describing the primary components on a 'comply or explain' basis, in accordance with the Listing Rules. This Guide provides guidance to the issuer on compliance with the requirements under the Listing Rules.

3. Principles

Board responsibility

3.1 The Code states as its preamble that sustainability, together with accountability and transparency, is a tenet of good governance. It provides that the Board is collectively responsible for the long-term success of the issuer, and the Board's role includes setting strategic objectives which should include appropriate focus on sustainability. The Board has ultimate responsibility for the issuer's sustainability reporting. Consistent with its role, the Board should determine the ESG factors identified as material to the business and see to it that they are monitored and managed. Management has responsibility to ensure that the ESG factors are monitored on an ongoing basis and properly managed. The Board's close interaction with management will enable the Board to satisfy itself on the way sustainability governance is structured and functioning through the various levels of management. ~~The Board has ultimate responsibility for the issuer's sustainability reporting.~~ If any question is raised regarding the issuer's sustainability reporting, the Board and management should make sure it is addressed.

'Comply or explain'

3.2 Each issuer is required to prepare an annual sustainability report. The sustainability report should include the primary components as set out in Listing Rule 711B and paragraph 4.1 of this Guide, on a 'comply or explain' basis. Where the issuer cannot report on any primary component, the issuer must state so and explain what it does instead and the reasons for doing so.

Report risks as well as opportunities

3.3 In identifying material ESG factors, the issuer should consider both risks and opportunities. In addition, it is conceptually sound, and validated by experience, that risks well-managed represent strengths which can be applied to fulfill opportunities. The risks and opportunities within sight have direct bearing on strategies and operations and should be reported for clearer understanding of the issuer's performance, prospects and management quality. To facilitate understanding, issuers should give the whole explanation in a concise manner.

Balanced reporting

3.4 In reporting on sustainability, care should be taken to give an accurate and balanced view. There may be a tendency to give more prominence to what is favourable and understate what is negative. Both situations require comprehensive explanations. In reporting performance, factors beyond the issuer's control are as relevant to exceeding the target as to a performance shortfall. In the event of underperformance, the issuer's response is also important and should be included to bring about confidence in its longer term sustainability objectives.

~~**Performance measurement system**~~

~~3.5~~ ~~An effective policy and operational response to sustainability risks and opportunities requires performance measurement and its linkage to performance incentives. Having a good performance measurement system allows the issuer to benchmark performance against stated objectives and facilitates comparison over time and across entities. Clearly linking sustainability risks and opportunities with strategy, other organisational risks, operational indicators, performance measures and performance incentives not only enhances understanding but provides an engine for improvement, innovation and accountability.~~

Global standards and comparability

~~3.6~~3.5 The issuer needs to give priority to using globally-recognised frameworks and disclosure practices to guide its reporting. The recommendations of the Task Force on Climate-related Financial Disclosures ("**TCFD**") have gained widespread acceptance in international markets as a common framework to disclose climate-related financial information. The increasingly borderless markets for funds as well as for goods and services mean that corporate reporting standards tend to gravitate toward global best practice. Added to this is the international character of SGX-ST both in terms of ~~listed~~ issuers as well as investors. The individual issuer should take care that its disclosure efforts not be considered inadequate by stakeholders. Where the issuer is applying a portion of a particular framework, the issuer should provide a general description of the extent of the issuer's application of the framework.

Stakeholder engagement

~~3.7~~3.6 The issuer's responsibility on disclosure, including annual reports and sustainability reports, is first and foremost to current and potential shareholders, i.e. the investing public. Interaction of the issuer with its other stakeholders is also of interest to investors for its relevance to sustainability across the value chain of the issuer. The views of stakeholders also contribute to inform the issuer's identification of material ESG factors. On a continuing basis, regular and sustained engagement with stakeholders provides the issuer with an up-to-date picture of its sustainability within both its business and physical environments. The material outcomes of such engagement should be included in the sustainability report.

~~**Independent assurance**~~

~~3.8 Independent assurance increases stakeholder confidence in the accuracy and completeness of the sustainability information disclosed. An issuer whose sustainability reporting has already matured after several annual exercises would want to undertake external assurance by independent professional bodies to add credibility to the information disclosed and analysis undertaken. An issuer new to sustainability reporting may wish to start with internal assurance before progressing to external assurance for its benefits. The issuer should also consider whether it would be worthwhile to undertake independent external assurance on selected important aspects of its report even in its initial years, expanding coverage in succeeding years.~~

4. Contents of Sustainability Reporting

Primary components

4.1 The sustainability report should comprise the following primary components:

(~~i~~a) Material ESG factors. The sustainability report should identify the material ESG factors, and describe both the reasons for and the process of selection, taking into ~~considering~~consideration their relevance or impact to the business, strategy, financial planning, business model and key stakeholders.

(b) Climate-related disclosures. The sustainability report should contain disclosures related to climate risks and opportunities, consistent with the TCFD recommendations.

(~~ii~~c) Policies, practices and performance. The sustainability report should set out the issuer's policies, practices and performance in relation to the material ESG factors identified, providing descriptive and quantitative information on each of the identified material ESG factors for the reporting period. Performance should be described in the context of previously disclosed targets.

(~~iii~~d) Targets. The sustainability report should set out the issuer's targets for the forthcoming year in relation to each material ESG factor identified. Targets should be considered for defined short, medium and long term horizons, and if not consistent with those used for strategic planning and financial reporting, the reasons for the inconsistency should be disclosed.

(~~iv~~e) Sustainability reporting framework. The issuer should select a sustainability reporting framework (or frameworks) to guide its reporting and disclosure. For climate-related disclosures, the issuer should report based on the TCFD recommendations. The sustainability reporting framework(s) selected should be appropriate for and suited to its industry and business model. The issuer should state the name of the framework(s), explain its reasons for choosing the framework(s) and provide a general description of the extent of the issuer's application of the framework(s).

(~~v~~f) Board statement. The sustainability report should contain a statement of the Board ~~on the Board having~~that it has considered sustainability issues ~~as part of its strategic formulation~~in the business and strategy, determined the material ESG factors and overseen the management and monitoring of the material ESG factors. In addition, the sustainability report should describe the roles of the Board and the management in the governance of sustainability issues.

Identification of material ESG factors

4.2 The issuer should review its business in the context of the value chain and determine what ESG factors in relation to its interaction with its physical environment and social community and its governance, are material for the continuity of its business. The issuer is expected to report the criteria and process by which it has made its selection with reference to how these factors contribute to the creation of value for the issuer.

4.3 In broad terms, environmental factors would include materials, energy, biodiversity, water, greenhouse gas ("**GHG**") emissions, effluents and waste as well as environmental complaint mechanisms. Social factors would include health and safety, employment practices and labour rights such as collective bargaining, ~~as well as~~ product responsibility, anti-corruption, ~~and~~ supplier assessments and impact of direct and supply chain activities on local communities. The framework chosen is likely to have additional factors that the issuer would report on.

4.4 Corruption is a factor on which many investors require reassurance, whether inducement is being offered to employees or by employees to others. Where corruption has been addressed in the Corporate Governance report, the issuer may refer to that report. If corruption is not assessed to be a material ESG factor by the issuer, where stakeholders express sufficient interest in the information, the issuer is advised to state its policy and safeguards on its website.

4.5 Gender, skill and experience have been highlighted as diversity indicators material to business sustainability. Diversity greatly enhances the issuer's capacity for breadth of input and perspectives into decision making, risk alertness and responsiveness to change. The issuer should be aware of this trend and assess whether diversity is a material social factor in its business. It should engage stakeholders in assessing the necessity of reporting on this matter. In satisfying investors and other stakeholders, diversity should be examined through broad levels of staff and also importantly, in the Board. Where ~~diversity has been addressed in~~ other sections of the annual report sufficiently address stakeholders' interest in diversity, the issuer may refer to those sections. ~~If diversity is not assessed to be a material ESG factor by the issuer, where stakeholders express sufficient interest in the information, the issuer is advised to state its policy and actions on its website.~~

4.6 The issuer should consider not just its internal circle of operations but also widen that circle to include persons and processes in the value chain that contribute to the issuer's product or service. Parts of the business outsourced to third parties (for example, freight and logistics), as well as downstream processes (for example, product defect response), constitute an integral part of the issuer's business and need to be included in the sustainability report.

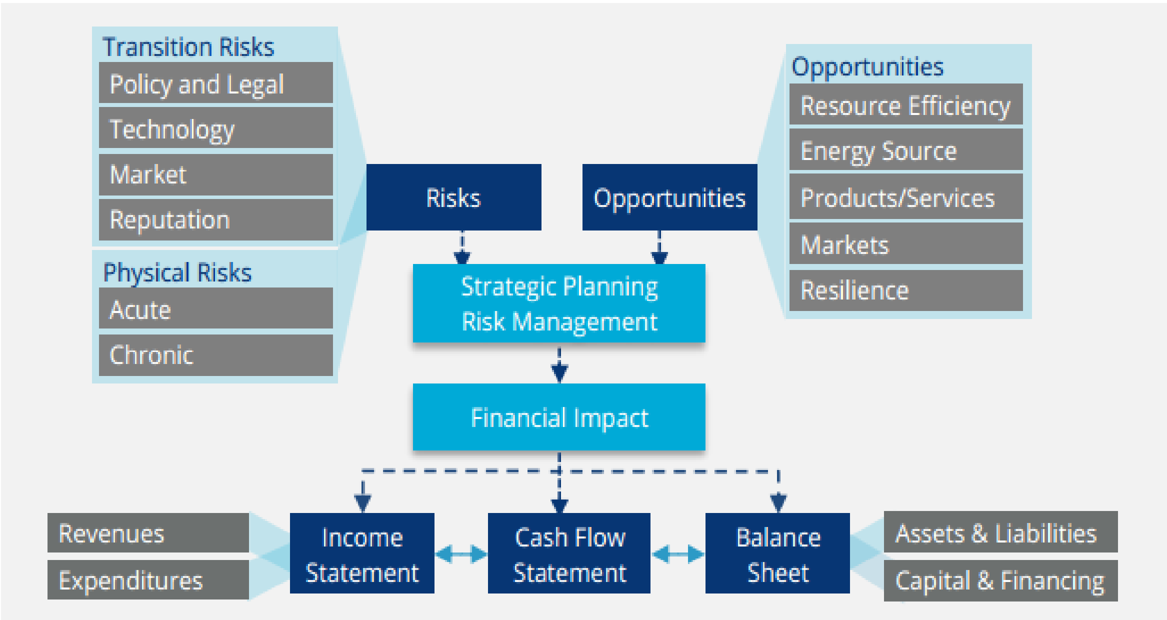
Climate-related disclosures

4.7 Climate change threatens to disrupt businesses in a precipitous and potentially devastating manner, with consequential detrimental effects on their stakeholders and providers of capital. Conversely, it also opens up new markets for solutions that respond to the threat. Investors need to properly understand the climate-related risks and opportunities of their portfolio in order to price or value their investments.

4.8 Securities markets promote the ready availability of decision-useful information so that it may be reflected in the price discovery process. In doing so, exchanges facilitate the allocation of capital to its most efficient use and the transfer of risks to those most willing to bear them.

4.9 The issuer should provide climate-related disclosures, consistent with the TCFD recommendations. Climate-related risks and opportunities are likely to impact the issuer's future financial position and performance, as reflected in its income statement, cash flow statement and balance sheet. TCFD sets out recommendations to help organisations disclose climate-related financial information that would be useful to investors, lenders and insurance underwriters. More broadly, this information may also be of interest to other stakeholders.

Figure 1: Climate-related risks, opportunities, and financial impact



Source: TCFD

4.10 The TCFD developed 11 recommended disclosures across four pillars: governance, strategy, risk management and metrics and targets.

Figure 2: TCFD recommendations and supporting recommended disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Source: TCFD

4.11 The TCFD recommendations are consistent with the requirements in the Listing Rules and this Guide. A mapping table is set out below:

TCFD Recommendations	**Listing Rules and Guide**	
Governance		
Describe the board's oversight of climate-related risks and opportunities.	The sustainability report should contain a statement of the Board that it has considered sustainability issues in the business and strategy, determined the material ESG factors and overseen the management and monitoring of the material ESG factors.	Rule 711B(1)(e) and paragraph 4.1(f) of this Guide
Describe management's role in assessing and managing climate-related risks and opportunities.	The sustainability report should describe the roles of the management in the governance of sustainability issues.	Rule 711B(1)(e) and paragraph 4.1(f) of this Guide

Strategy		
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	The sustainability report should contain the material ESG factors, which are the most important ESG risks and opportunities that will act as barriers or enablers to achieving business goals in the short, medium and long term.	Rule 711B(1)(a) and paragraph 4.17 of this Guide
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	The sustainability report should describe both the reasons for and the process of selection of the material ESG factors, taking into consideration their relevance or impact to the business, strategy, financial planning, business model and key stakeholders.	Paragraph 4.1(a) of this Guide
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	The sustainability report should describe how resilient the issuer's strategies are to climate-related risks and opportunities, taking into consideration a transition to a lower-carbon economy consistent with a 2°C or lower scenario and, where relevant, scenarios consistent with increased physical climate-related risks.	Paragraph 4.14 of this Guide
Risk Management		
Describe the organisation's processes for identifying and assessing climate-related risks.	The issuer is expected to report the criteria and process by which it has made its selection with reference to how the material ESG factors contribute to the creation of value for the issuer.	Paragraph 4.2 of this Guide
Describe the organisation's processes for managing climate-related risks.	The issuer should devise policies and processes to adequately and effectively manage the risks associated with the identified material ESG factors, and describe key features of mitigation.	Paragraph 4.25 of this Guide

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	The issuer should use risk ranking and prioritisation to distil the material ESG factors. This process is similar to the widely-practised Enterprise Risk Management ("**ERM**") process. The issuer should expand the breadth of the assessment to integrate ESG risk management structures into existing ERM structures or apply existing ERM structures to ESG risk management structures.	Paragraph 4.20 of this Guide
Metrics and Targets		
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	A description of the ESG practices and performance across historical and the current reporting periods allows investors and the issuer itself to track its progress. These metrics also form the baseline from which the issuer chooses to set its targets, as informed by its strategic plan and financial reporting.	Paragraph 4.26 of this Guide
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks.	The sustainability report should provide climate-related disclosures, consistent with the TCFD recommendations. TCFD recommends disclosure of the issuer's Scope 1 and Scope 2, and if appropriate, Scope 3 GHG emissions. 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.	Rule 711B(1)(aa) and paragraph 4.13 of this Guide
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	The sustainability report should set out the issuer's targets for the forthcoming year in relation to each material ESG factor identified. Targets should be considered for defined short, medium and long term horizons, and if not consistent with those used for strategic planning and financial reporting, the reasons for the inconsistency	Rules 711B(1)(c) and 711B(1)(d) and paragraphs 4.1(c) and 4.1(d) of this Guide

	<u>should be disclosed.</u> <u>The sustainability report should set out the issuer's performance in relation to the material ESG factors identified, providing descriptive and quantitative information on each of the identified material ESG factors for the reporting period. Performance should be described in the context of previously disclosed targets.</u>	

<u>4.12</u> <u>TCFD has issued both general and sector-specific guidance on implementing the TCFD recommendations. The sector-specific guidance highlights important considerations for the financial sector and non-financial sectors potentially most affected by climate change, and provides a fuller picture of potential climate-related financial impact in those sectors. The Sustainable Stock Exchanges initiative has also developed a checklist in its model guidance ("**SSE Model Guidance**") on the implementation of the TCFD recommendations. The issuer is encouraged to refer to the TCFD's supplemental guidance to guide its disclosure consistent with the TCFD recommendations, and use the checklist in the SSE Model Guidance to determine whether the information recommended for disclosure by the TCFD are contained in its sustainability report.</u>

<u>4.13</u> <u>TCFD recommends disclosure of the issuer's Scope 1 and Scope 2, and if appropriate, Scope 3 GHG emissions. 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. For industries with high energy consumption, it may also be important to provide emission intensity per unit of economic output (for example, unit of production or revenue).</u>

<u>4.14</u> <u>TCFD also recommends conducting scenario analysis to identify and effectively assess the potential implications of a range of plausible future conditions due to the uncertainty of climate-related changes. Conducting scenario analysis is not an exercise in forecasts, predictions or sensitivity analyses, but rather in evaluating resilience to different possible future scenarios. To reduce the risks and impacts of climate change, almost all countries have agreed to take action in limiting global warming to well below 2°C above pre-industrial levels, while pursuing efforts to arrest the increase to 1.5°C above pre-industrial levels. The issuer should describe how resilient its strategies are to climate-related risks and opportunities, taking into consideration a transition to a lower-carbon economy consistent with a 2°C or lower scenario and, where relevant, scenarios consistent with increased physical climate-related risks.</u>

<u>4.15</u> <u>An issuer new to scenario analysis can consider starting with qualitative scenario narratives to explore the potential range of implications. As they gain more experience, it can consider using quantitative information to describe the potential outcomes, and to enhance the rigour of that analysis.</u>

<u>4.16</u> <u>The SSE Model Guidance sets out a simplified three stage process to the conduct of scenario analysis. First, the issuer should identify appropriate scenarios that align with its underlying assumptions and the key risks and opportunities of its sector or industry, and clearly explain the scenarios used. Second, the issuer may set boundaries of their scenario analysis with sufficient disclosure of the reasons for exclusion and inclusion. A smaller issuer may feel that an analysis of the direct operations sufficiently covers the climate-related risks and opportunities within each scenario, while a larger issuer and those in the financial sector should expand their analysis beyond their direct operations to include indirect GHG emissions (i.e. Scope 3 GHG emissions). Third, an</u>

issuer should evaluate its physical and transitional risks within the scenarios chosen. Mapping the severity and likelihood of the risks enables the issuer to develop a strategic plan for future scenarios.

Materiality

~~4.7~~4.17 As guidance, sustainability reporting relates to the most important ~~environmental, social and governance~~ESG risks and opportunities that will act as barriers or enablers to achieving business goals in the short, medium and long term. The omission or misstatement of these risks or opportunities could influence the decisions of investors.

~~4.8~~4.18 Generally, what is material in sustainability reporting would also be considered material in financial terms, if not in the immediate period, then over time.

~~4.9~~4.19 In assessing materiality of the ESG factors on which it reports, the issuer should first satisfy itself of the relevance of selected factors to its business strategy and outcomes. This has the benefit of focusing both executives and employees on uniform key risks and opportunities that deliver (or impede) desired outcomes.

~~4.10~~4.20 The issuer should use risk ranking and prioritisation to distil the material ESG factors. This process is similar to the widely-practised Enterprise Risk Management ("**ERM**") process. The issuer should expand the breadth of the assessment to ~~account for material ESG factors~~integrate ESG risk management structures into existing ERM structures or apply existing ERM structures to ESG risk management structures.

~~4.11~~4.21 The Board should determine the material ESG factors and the issuer's response to the attendant risks and opportunities. Discussion with stakeholders contributes to an accurate appreciation of what is important in the business on an ongoing basis.

Possible process and tools

~~4.12~~4.22 A possible process for assessing ESG factors with material relevance to the business and business model are set out in the following paragraphs.

~~4.13~~4.23 In assessing materiality of the ESG factors on which it reports, the issuer may consider:

(~~i~~a) Value drivers

(~~ii~~b) Stakeholder engagement

(~~iii~~c) Risk management

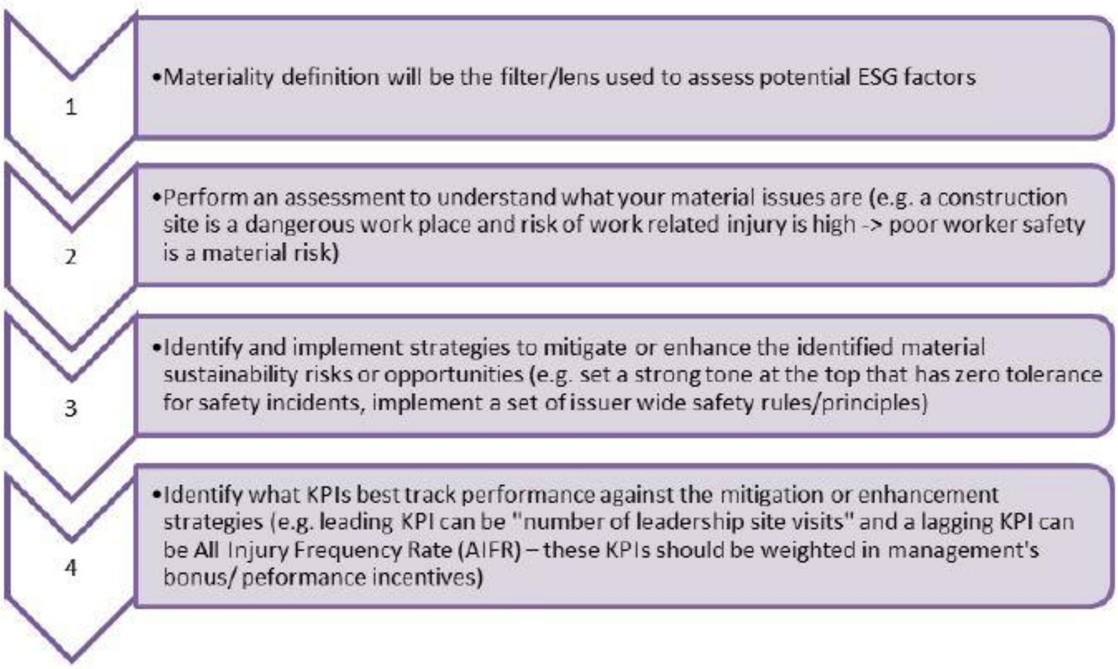
(~~iv~~d) External factors, for example sector, geography, economics, market, social, environment

(~~v~~e) Internal factors, for example business model, business cycle, strategy

(~~vi~~f) Qualitative perspectives, for example operational, strategic, reputational and regulatory

(~~vii~~g) Timeframe of these considerations

~~**Figure 1: Order of considerations and determination of the material ESG factors**~~ *[To be deleted]*



~~4.14~~4.24 The issuer may use the following Materiality Determination Process tools ~~(templates) and step-by-step guidance~~ (Identify — Rate — Prioritise — Validate). These tools are guidance and not mandatory. The issuer should disclose the outcomes of this process but can use its discretion as to whether it would like to disclose any part of the tools in their sustainability report.

(~~i~~a) STEP 1: IDENTIFY. The issuer ~~can use this template to~~should identify the most pressing (material) factors (impact/opportunities) for the issuer (or for each subsidiary in the group). It will also help formulate management's approach and response, and identify where data collection needs to be strengthened.

~~**Template 1: Issue identifications template**~~

~~**XX Issuer**~~		~~**Issue 1**~~	~~**Issue 2 etc.**~~
~~**INDUSTRY**~~	~~Construction~~		
~~**COUNTRY OF OPERATION**~~	~~Singapore, Malaysia, China, Indonesia~~		
~~**NO. OF EMPLOYEES**~~	~~XXX (this is only permanent employees which make up approx. 40% of workforce)~~		
~~**MATURITY**~~	~~Fairly good. Has a 2014 Sustainability Report.~~		
~~**WHAT**~~	~~What is the issue? (What should the issuer be reporting)~~	~~Worker safety~~	~~Diversity~~

~~WHY~~	~~Why is it material?~~	~~Construction sites, working at heights. Labour intensive. Exposure risk is high.~~	~~Xxx~~
~~RESPOND~~	~~How is/should the issuer strategically respond to address the issue?~~	~~Operational decisions made by Safety Forum. Issuer has 5 cardinal rules for safety and management's performance bonus linked to leading safety targets.~~	~~Xxx~~
~~MEASURE~~	~~How is the issuer measuring performance in this area?~~	~~All Injury Frequency Rate (AIFR)~~ ~~Fatalities~~ ~~Number of leadership site visits~~	~~Xxx~~
~~AVAILABILITY~~	~~How easy will it be to collect?~~	~~Yes- reported for regulatory compliance~~	~~Xxx~~
~~TARGET~~	~~What are/should the targets be? (benchmark)~~	~~All Injury Frequency Rate (AIFR) target at 9~~ ~~Number of leadership site visits: 6~~	~~Xxx~~
~~STAKEHOLDERS~~	~~Which stakeholder group is impacted or impacts the business~~	~~Employees, Regulator, Shareholder~~	~~Xxx~~
~~VALUE CHAIN~~	~~Is the impact inside or outside the organisation~~	~~Inside~~	~~Xxx~~

~~Source: KPMG~~

(~~ii~~b) STEP 2: RATE. Once the issues of the issuer and its subsidiaries have been explored ~~using Template 1~~, the issuer will need to cluster similar issues e.g. safety and health issues can be clustered together. If the issuer is a holding company, a rating process can be done to assess what issues are pervasive/most common across the group. ~~The issuer can use Template 2 as a guide.~~

~~Template 2: Clustering and rating of issues~~

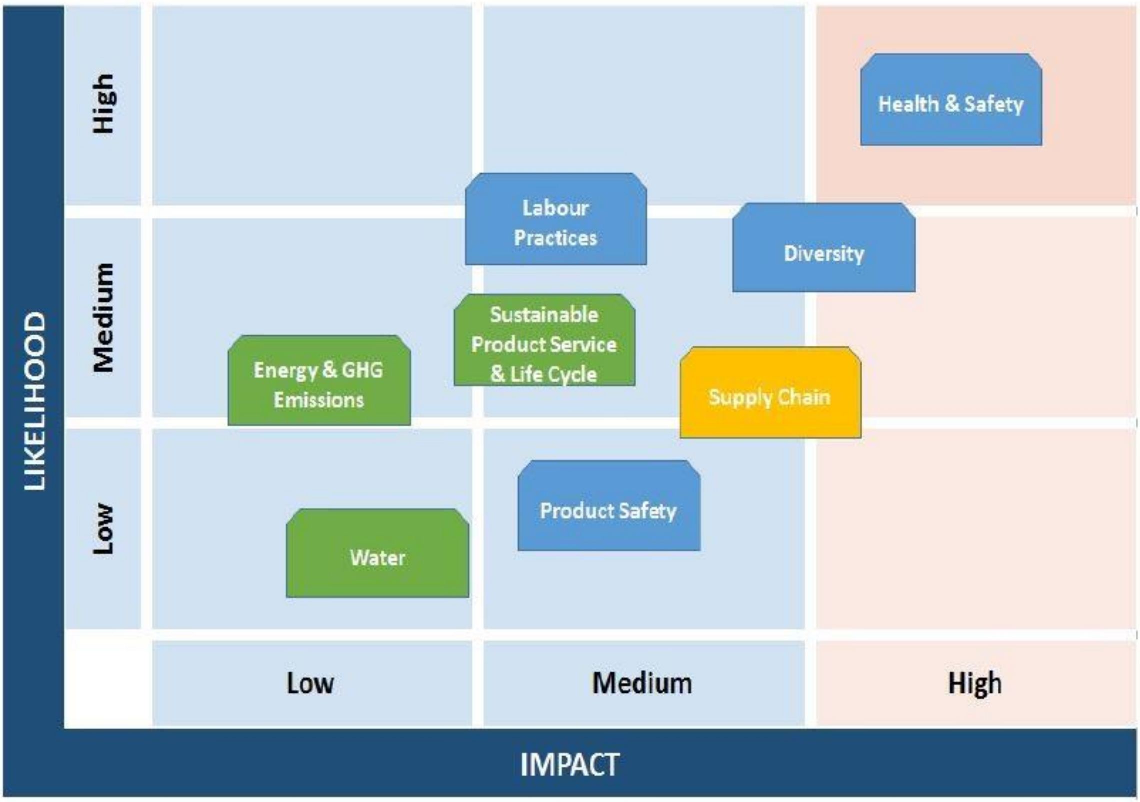
~~Potential issue clustering and rating~~							
	~~Safety and Health~~	**~~Diversity~~**	**~~Labour Practices~~**	**~~Supply Chain~~**	**~~Climate Change~~**	**~~Water~~**	**~~Etc~~**
~~Construction~~							
~~Subsidiary 1~~	~~✓~~	~~✓~~	~~✓~~	~~✓~~	~~✓~~		

~~Subsidiary 2~~	~~✓~~	~~✓~~	~~✓~~	~~✓~~	~~✓~~	~~✓~~	~~✓~~
~~Subsidiary 3~~	~~✓~~	~~✓~~	~~✓~~				~~✓~~
~~Xxx~~	~~✓~~		~~✓~~	~~✓~~		~~✓~~	
~~Xxx~~	~~✓~~	~~✓~~		~~✓~~	~~✓~~		
~~Chemical~~							
~~Xxx~~	~~✓~~	~~✓~~	~~✓~~		~~✓~~	~~✓~~	~~✓~~
~~Xxx~~	~~✓~~	~~✓~~	~~✓~~		~~✓~~	~~✓~~	~~✓~~

~~Source: KPMG~~

(~~iii~~c) STEP 3: PRIORITISE. Once the issues of the issuer and its subsidiaries have been clustered and rated~~ using Template 2~~, the issuer will need to prioritise them using a matrix~~. The following matrix plots the potential issues~~ based on likelihood and impact.

~~Template 3: Material factors matrix~~ ***[To be deleted]***



~~Source: KPMG~~

(~~iv~~d) STEP 4: VALIDATE. Once the issuer has prioritised its factors, they need to be internally validated and signed off by leadership.~~ The factors in the top right are the "critical factors" (if the issuer gets these factors wrong — business is at risk; conversely, if the issuer gets these factors right – business will benefit).~~

Policies, practices and performance

4.25 The issuer should devise policies and processes to adequately and effectively manage the risks associated with the identified material ESG factors, and describe key features of mitigation.

4.26 A description of the ESG practices and performance across historical and the current reporting periods allows investors and the issuer itself to track its progress. These metrics also form the baseline from which the issuer chooses to set its targets, as informed by its strategic plan and financial reporting.

4.27 An effective policy and operational response to sustainability risks and opportunities requires performance measurement and its linkage to performance incentives. Having a good performance measurement system allows the issuer to benchmark performance against stated objectives and facilitates comparison over time and across entities. Clearly linking sustainability risks and opportunities with strategy, other organisational risks, operational indicators, performance measures and performance incentives not only enhances understanding but provides an engine for improvement, innovation and accountability.

4.28 A clear description of the issuer's substantive response to ESG risks and opportunities, with a focus on its policies, practices and performance against targets, will bolster investors' confidence in the Board and management.

Sustainability reporting framework

~~4.15~~4.29 The issuer should select a sustainability reporting framework which is appropriate for and suited to its industry and business model, and explain its choice. In doing so, the issuer should place importance on using a globally-recognised framework for its wider acceptance in an increasingly global marketplace. The issuer can be more easily understood and compared with its peers in Singapore as well as in other jurisdictions across the world. The issuer should exercise considerable caution if it chooses to deviate from generally-accepted frameworks.

~~4.16~~4.30 Among the well-known and globally-recognised sustainability reporting frameworks, the Global Reporting Initiative ("**GRI**") Sustainability Reporting Guidelines set out generic sustainability factors and general principles and indicators that an issuer can use to report sustainability policies, practices, performance and targets. The International Integrated Reporting Council's ("**IIRC**") Framework (<IR>) also sets out a general framework for reporting. An issuer using <IR> should consider ESG factors when determining their material factors for inclusion in the integrated report. The issuer may also consider referring to the Sustainability Accounting Standards Board's ("**SASB**") standards which adopt an industry-specific approach to material ESG factors. IIRC and SASB have merged to form the Value Reporting Foundation. More than one sustainability reporting framework may be chosen as relevant to the issuer's business.

~~4.17~~4.31 ~~The issuer may consider provisions of the Climate Disclosure Standards Board or the Carbon Disclosure Project to be particularly relevant for industries sensitive to environmental matters, such as mining, minerals and agriculture, while standards of the Roundtable on Sustainable Palm Oil may be the choice of an issuer in that industry.~~For climate-related disclosures, the issuer should provide such disclosures consistent with the TCFD recommendations. ~~More than one sustainability reporting framework may be chosen as relevant to the issuer's business.~~Some issuers have used the Science Based Targets initiative to guide their GHG emissions reduction targets.

~~4.18~~4.32 The issuer is expected to follow the chosen framework(s) from year to year and build up its knowledge and understanding of how to report effectively. In turn, it can expect to be building up investors' and stakeholders' understanding, leading to increased confidence. In the absence of regulatory changes, only major changes in business strategy and/or model are likely to require change in sustainability reporting framework. This does not preclude examination of framework relevance from time to time.

Time horizons used in the sustainability report

~~4.19~~4.33 In making its sustainability report, the issuer should consider whether it would be useful to report matters for their relevance in the short, medium and long term. Accordingly, sustainability policies, practices, performance and targets would be considered along the same time horizons. The time horizons should be internally consistent with those used for strategic planning and financial reporting (e.g. useful life of assets, impairment testing etc.). Where they are not consistent, the reasons for the inconsistency should be disclosed. Typically, the short-term is considered less than one year for banking and financial instruments. ~~Beyond a year~~For the medium term, the issuer may wish to take reference from their typical planning horizon, investment cycle or plant renewal or other considerations relevant to its business. The long-term should be a useful time horizon over which expectations can be formed and efforts planned.

Stakeholder engagement

~~4.20~~4.34 Stakeholder engagement is integral to any business and would be conducted regularly. The issuer should consider ESG factors in their engagement with stakeholders, not just with investors, but also customers, staff, suppliers, regulators, local communities and others in the value chain. The issuer should monitor carefully its communication with stakeholders so as to avoid any information asymmetry as it may lead to unfair trading in the securities market.

Group and investment holding company reporting

~~4.21~~4.35 Where holding companies and operating subsidiaries are both listed ~~issuers having~~and have to undertake sustainability reporting, the operating entities can report on the ESG factors within their scope of operations. If the ESG factors are also material to the holding company, the holding company may make reference in its sustainability report to the sustainability reports of the operating subsidiaries. If the holding company has material investee companies which are not subsidiaries, its sustainability report should include the selection and management of these investee companies.

5. Assurance

5.1 Assurance increases stakeholder confidence in the accuracy and reliability of the sustainability information disclosed.

5.2 Assurance may be provided by the internal auditors (an 'internal assurance'), or the auditors or an independent assurance services provider (an 'external assurance').

5.3 Internal assurance builds on the issuer's existing governance structure, buttressed by a management that maintains adequate and effective internal controls and risk management systems. Existing internal assurance frameworks should cover ESG governance, risk assessments and controls. In addition, the sustainability reporting process should be incorporated into the internal audit plan, which should cover key aspects of sustainability reporting. Assurance may take place over a few audit cycles. The expectations of the Board, management and other stakeholders for assurance should be considered as part of the prioritisation. The scope should minimally include assurance on whether data being reported is accurate and complete.

5.4 External assurance involves the engagement of a third party. The scope of the assurance may cover different aspects of the sustainability disclosures, for example:

(a) data and its associated data collection process;

(b) narratives;

(c) compliance with the specified sustainability reporting framework;

(d) process to identify sustainability information reported; and

(e) compliance with the Listing Rules.

5.5 Assurance should be performed in accordance with recognised assurance standards. For example, an internal assurance may be conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, while an external assurance may use the International Standard on Assurance Engagements (ISAE) 3000, the Singapore Standards on Assurance Engagement (SSAE) 3000, the AA 1000 Assurance Standards, the ISO or the GRI.

5.6 Assurance over sustainability disclosures should be aligned with the issuer's existing internal assurance or external assurance frameworks for other management information, such as financial information or production data.

5.7 An issuer whose sustainability reporting has already matured after several annual exercises would want to undertake external assurance by independent professional bodies to add credibility to the information disclosed and analysis undertaken. An issuer new to sustainability reporting may wish to start with internal assurance before progressing to external assurance for its benefits. The issuer is encouraged to consider independent external assurance on selected important aspects of its report even in its initial years, expanding coverage in succeeding years.

~~5~~6. Form and Frequency of Sustainability Reporting

~~5.1~~6.1 The issuer should report on sustainability at least once a year. The issuer's sustainability disclosure may be done in its annual report. The inclusion of sustainability risks and opportunities with the businesses' other risks and strategy in the same document presents advantages to the user. Sustainability reports contained within annual reports would observe annual report deadlines. Alternatively, if more appropriate for the circumstances of the issuer, the issuer may include a summary in its annual report and issue a full standalone sustainability report within ~~5~~4 months of the end of the financial year.

~~5.2~~6.2 In either case, the issuer should make available its sustainability reports on SGXNet and on its company website. After a few years of sustainability reporting, the issuer may wish to maintain static information, such as, policies and historical sustainability information, on its website while presenting the current year's changes as well as performance in the annual sustainability report.

~~5.3~~6.3 To provide sufficient time for preparation, an issuer in its first year of reporting may report within 12 months of the end of its financial year.

~~6~~7. Phased Approach

~~6.1 Sustainability reporting takes effect for any financial year ending on or after 31 December 2017. Issuers who do sustainability reporting say that employees gain clarity and focus around common company priorities. Smaller issuers like larger ones, already manage their sustainability issues as part of risk management and good business practice. They need only take the next step to articulate what they do in sustainability terms. The sooner they commence sustainability reporting, the sooner they can benefit from doing so. Early adoption is encouraged.~~

~~6.2 While all issuers will begin sustainability reporting for any financial year ending on or after 31 December 2017, they may differ in the speed at which they progress in quality and depth.~~

~~6.3~~7.1 For the first year of sustainability reporting, the issuer should have at least the assessment of material ESG factors, policies and/or practices to address the factors; but if their reporting is lacking in qualitative or quantitative descriptions, they need only state progressive targets for reaching maturity of reporting and do their best to meet them in subsequent years. Compliance with the TCFD recommendations may also take place progressively.

~~6.4~~7.2 An example of a phased implementation approach is illustrated in the table below:

Illustration of Possible Phased Approach

Primary Components	**Adoption**		
	Year 1	**Year 2**	**Year 3**
Material ESG ~~Factors~~factors ~~(identified through process in paragraph 4.14 of this Guide, defined as, for example, high impact and high likelihood)~~	Addressed most critical factors	Reviewed factor assessment and added factors which have become material and removed existing factors which are no longer material	Reviewed factor assessment and added factors which have become material and removed existing factors which are no longer material
	Material ESG factors would be dependent on current business strategy, market conditions, stakeholder concerns etc., therefore the number of material ESG factors may vary year-on-year.		
Climate-related disclosures consistent with the TCFD recommendations	Described the governance structures, including Board oversight and management's role Identified the climate-related risks and opportunities Described the processes for identifying and managing climate-related risks Impacts in qualitative terms Scope 1 and Scope 2 GHG emissions	Metrics used for assessment Impacts in more quantitative terms Scope 3 GHG emissions Targets in qualitative terms Conducted qualitative scenario analysis	Scenario analysis with more quantitative outcomes Targets in quantitative terms
Policies, practices and performance	Minimal description of how issuer manages material factors	Description includes specific policies, practices per material factor More quantitative metrics and qualitative	Description includes specific policies, practices per material factor Qualitative and quantitative

	No previous targets for comparison of performance One metric per factor Plans for improved reporting in future	description per factor Comparison against previously disclosed qualitative commitments and targets with explanation of overachievement and shortfall	description per factor Comparison against previously disclosed targets and commitments with explanation of overachievement and shortfall
Targets	Qualitative commitments if no quantitative targets	Short and long term qualitative targets and some quantitative targets	Short and long term qualitative and quantitative targets Include peer/sector benchmarks Targets linked to management performance incentives
Sustainability ~~Reporting~~reporting ~~Framework~~framework	GRI TCFD	GRI TCFD	GRI TCFD
Board ~~Statement~~statement and associated governance structure for sustainability practices	Complied	Complied	Complied

~~6.5~~ ~~For an issuer listed on or after 1 January 2017, sustainability reporting will be required from its first full financial year of listing.~~

~~7~~8. Glossary

ESG factors	Environmental, social and governance factors that affects the issuer's performance and prospects. Also referred to as sustainability issues, or sustainability risks and opportunities. Does not mean philanthropy or other charitable activities.
Sustainability reporting	The publication of information on material ESG factors in a comprehensive and strategic manner.
Materiality	In relation to ESG factors, the most important ~~environmental, social and governance~~ESG risks and opportunities that will act as barriers or enablers to achieving business goals in short, medium and long term. The omission or misstatement of these risks or opportunities could influence the decisions of investors.

Appendix 2 Proposed Amendments to Catalist Rules

Legend: Deletions are struck-through and insertions are underlined.

Part III Equity Securities — Periodic Reports

Annual Report

710A

(1) An issuer must maintain a board diversity policy.

(2) An issuer must describe in its annual report its board diversity policy, including the following:

- (a) the issuer's targets to achieve diversity on its board;
- (b) the issuer's accompanying plans and timelines for achieving the targets; and
- (c) a description of how the combination of skills, talents, experience and diversity of its directors serves the needs and plans of the issuer.

Sustainability Report

711A

An issuer must issue a sustainability report for its financial year, no later than ~~5~~4 months after the end of the financial year.

711B

(1) The sustainability report must describe the sustainability practices with reference to the following primary components:

- (a) material environmental, social and governance factors;
- (aa) climate-related disclosures consistent with the recommendations of the Task Force on Climate-related Financial Disclosures;
- (b) policies, practices and performance;
- (c) targets;
- (d) sustainability reporting framework; and
- (e) Board statement and associated governance structure for sustainability practices.

(2) If the issuer excludes any primary component, it must disclose such exclusion and describe what it does instead, with reasons for doing so. Specified issuers identified in Practice Note 7F may not exclude the primary component in Rule 711B(1)(aa).[104]

(3) The issuer's sustainability reporting must be subject to assurance on the accuracy and completeness of the sustainability report.

[104] SGX will set out, in Practice Note 7F, the roadmap, identifying the specified sectors of issuers.

Directors and Management

720

(6) An issuer must have all directors undergo training on sustainability matters as prescribed by the Exchange.

Practice Note 7F Sustainability Reporting Guide

1. Introduction

1.1 Listing Rule 711A requires every ~~listed~~ issuer to prepare an annual sustainability report, which must describe the issuer's sustainability practices with reference to the primary components set out in Listing Rule 711B on a 'comply or explain' basis. This Practice Note contains the Sustainability Reporting Guide (the "**Guide**"), which provides guidance on the expected structure and contents and the preparation of the sustainability report.

1.2 Sustainability reporting disclosure does not detract from the issuer's obligation to disclose any information that is necessary to avoid the establishment of a false market in the issuer's securities or would be likely to materially affect the price or value of its securities pursuant to Listing Rule 703.

1.3 A glossary of the common terms used in the Guide is set out in paragraph 7 of this Guide.

2. Policy Statement on Sustainability Reporting

2.1 Issuers make regular financial reports to their investors that are used for assessment of the likelihood of repayment (in the case of debt securities) and the returns on investment (in the case of equity securities). Increasingly, investors are demanding that issuers ~~fulfil these obligations in a responsible and sustainable manner~~also disclose sustainability information.

2.2 Reflecting these expectations, financial reports increasingly need to be supplemented by descriptive and quantitative information on how business is conducted and the sustainability of the current business into the future.

2.3 SGX believes that the addition of sustainability reporting to financial reporting provides a more comprehensive picture of the issuer: statements of financial position and comprehensive income provide a snapshot of the present and an account of the past year, while sustainability reports of environmental, social and governance (“**ESG**”) factors ~~("**ESG factors**")~~ show the risks and opportunities within sight, managed for future returns. Taken together, the combined financial and sustainability reports enable a better assessment of the issuer's financial prospects and quality of management.

2.4 To achieve the additional transparency which encourages efficiency and innovation, SGX-ST requires each ~~listed~~ issuer to publish an annual sustainability report, describing the primary components on a 'comply or explain' basis, in accordance with the Listing Rules. This Guide provides guidance to the issuer on compliance with the requirements under the Listing Rules.

3. Principles

Board responsibility

3.1 The Code states as its preamble that sustainability, together with accountability and transparency, is a tenet of good governance. It provides that the Board is collectively responsible for the long-term success of the issuer, and the Board's role includes setting strategic objectives which should include appropriate focus on sustainability. The Board has ultimate responsibility for the issuer's sustainability reporting. Consistent with its role, the Board should determine the ESG factors identified as material to the business and see to it that they are monitored and managed. Management has responsibility to ensure that the ESG factors are monitored on an ongoing basis and properly managed. The Board's close interaction with management will enable the Board to satisfy itself on the way sustainability governance is structured and functioning through the various levels of management. ~~The Board has ultimate responsibility for the issuer's sustainability reporting.~~ If any question is raised regarding the issuer's sustainability reporting, the Board and management should make sure it is addressed.

'Comply or explain'

3.2 Each issuer is required to prepare an annual sustainability report. The sustainability report should include the primary components as set out in Listing Rule 711B and paragraph 4.1 of this Guide, on a 'comply or explain' basis. Where the issuer cannot report on any primary component, the issuer must state so and explain what it does instead and the reasons for doing so.

Report risks as well as opportunities

3.3 In identifying material ESG factors, the issuer should consider both risks and opportunities. In addition, it is conceptually sound, and validated by experience, that risks well-managed represent strengths which can be applied to fulfill opportunities. The risks and opportunities within sight have direct bearing on strategies and operations and should be reported for clearer understanding of the issuer's performance, prospects and management quality. To facilitate understanding, issuers should give the whole explanation in a concise manner.

Balanced reporting

3.4 In reporting on sustainability, care should be taken to give an accurate and balanced view. There may be a tendency to give more prominence to what is favourable and understate what is negative. Both situations require comprehensive explanations. In reporting performance, factors beyond the issuer's control are as relevant to exceeding the target as to a performance shortfall. In the event of underperformance, the issuer's response is also important and should be included to bring about confidence in its longer term sustainability objectives.

~~**Performance measurement system**~~

~~3.5~~ ~~An effective policy and operational response to sustainability risks and opportunities requires performance measurement and its linkage to performance incentives. Having a good performance measurement system allows the issuer to benchmark performance against stated objectives and facilitates comparison over time and across entities. Clearly linking sustainability risks and opportunities with strategy, other organisational risks, operational indicators, performance measures and performance incentives not only enhances understanding but provides an engine for improvement, innovation and accountability.~~

Global standards and comparability

~~3.6~~3.5 The issuer needs to give priority to using globally-recognised frameworks and disclosure practices to guide its reporting. The recommendations of the Task Force on Climate-related Financial Disclosures ("**TCFD**") have gained widespread acceptance in international markets as a common framework to disclose climate-related financial information. The increasingly borderless markets for funds as well as for goods and services mean that corporate reporting standards tend to gravitate toward global best practice. Added to this is the international character of SGX-ST both in terms of ~~listed~~ issuers as well as investors. The individual issuer should take care that its disclosure efforts not be considered inadequate by stakeholders. Where the issuer is applying a portion of a particular framework, the issuer should provide a general description of the extent of the issuer's application of the framework.

Stakeholder engagement

~~3.7~~3.6 The issuer's responsibility on disclosure, including annual reports and sustainability reports, is first and foremost to current and potential shareholders, i.e. the investing public. Interaction of the issuer with its other stakeholders is also of interest to investors for its relevance to sustainability across the value chain of the issuer. The views of stakeholders also contribute to inform the issuer's identification of material ESG factors. On a continuing basis, regular and sustained engagement with stakeholders provides the issuer with an up-to-date picture of its sustainability within both its business and physical environments. The material outcomes of such engagement should be included in the sustainability report.

~~**Independent assurance**~~

~~3.8~~ ~~Independent assurance increases stakeholder confidence in the accuracy and completeness of the sustainability information disclosed. An issuer whose sustainability reporting has already matured after several annual exercises would want to undertake external assurance by independent professional bodies to add credibility to the information disclosed and analysis undertaken. An issuer new to sustainability reporting may wish to start with internal assurance before progressing to external assurance for its benefits. The issuer should also consider whether it would be worthwhile to undertake independent external assurance on selected important aspects of its report even in its initial years, expanding coverage in succeeding years.~~

4. Contents of Sustainability Reporting

Primary components

4.1 The sustainability report should comprise the following primary components:

(~~i~~a) Material ESG factors. The sustainability report should identify the material ESG factors, and describe both the reasons for and the process of selection, taking into ~~considering~~consideration their relevance or impact to the business, strategy, financial planning, business model and key stakeholders.

(b) Climate-related disclosures. The sustainability report should contain disclosures related to climate risks and opportunities, consistent with the TCFD recommendations.

(~~ii~~c) Policies, practices and performance. The sustainability report should set out the issuer's policies, practices and performance in relation to the material ESG factors identified, providing descriptive and quantitative information on each of the identified material ESG factors for the reporting period. Performance should be described in the context of previously disclosed targets.

(~~iii~~d) Targets. The sustainability report should set out the issuer's targets for the forthcoming year in relation to each material ESG factor identified. Targets should be considered for defined short, medium and long term horizons, and if not consistent with those used for strategic planning and financial reporting, the reasons for the inconsistency should be disclosed.

(~~iv~~e) Sustainability reporting framework. The issuer should select a sustainability reporting framework (or frameworks) to guide its reporting and disclosure. For climate-related disclosures, the issuer should report based on the TCFD recommendations. The sustainability reporting framework(s) selected should be appropriate for and suited to its industry and business model. The issuer should state the name of the framework(s), explain its reasons for choosing the framework(s) and provide a general description of the extent of the issuer's application of the framework(s).

(~~v~~f) Board statement. The sustainability report should contain a statement of the Board ~~on the Board having~~that it has considered sustainability issues ~~as part of its strategic formulation~~in the business and strategy, determined the material ESG factors and overseen the management and monitoring of the material ESG factors. In addition, the sustainability report should describe the roles of the Board and the management in the governance of sustainability issues.

Identification of material ESG factors

4.2 The issuer should review its business in the context of the value chain and determine what ESG factors in relation to its interaction with its physical environment and social community and its governance, are material for the continuity of its business. The issuer is expected to report the criteria and process by which it has made its selection with reference to how these factors contribute to the creation of value for the issuer.

4.3 In broad terms, environmental factors would include materials, energy, biodiversity, water, greenhouse gas ("**GHG**") emissions, effluents and waste as well as environmental complaint mechanisms. Social factors would include health and safety, employment practices and labour rights such as collective bargaining, ~~as well as~~ product responsibility, anti-corruption, ~~and~~ supplier assessments and impact of direct and supply chain activities on local communities. The framework chosen is likely to have additional factors that the issuer would report on.

4.4 Corruption is a factor on which many investors require reassurance, whether inducement is being offered to employees or by employees to others. Where corruption has been addressed in the Corporate Governance report, the issuer may refer to that report. If corruption is not assessed to be a material ESG factor by the issuer, where stakeholders express sufficient interest in the information, the issuer is advised to state its policy and safeguards on its website.

4.5 Gender, skill and experience have been highlighted as diversity indicators material to business sustainability. Diversity greatly enhances the issuer's capacity for breadth of input and perspectives into decision making, risk alertness and responsiveness to change. The issuer should be aware of this trend and assess whether diversity is a material social factor in its business. It should engage stakeholders in assessing the necessity of reporting on this matter. In satisfying investors and other stakeholders, diversity should be examined through broad levels of staff and also importantly, in the Board. Where ~~diversity has been addressed in~~ other sections of the annual report sufficiently address stakeholders' interest in diversity, the issuer may refer to those sections. ~~If diversity is not assessed to be a material ESG factor by the issuer, where stakeholders express sufficient interest in the information, the issuer is advised to state its policy and actions on its website.~~

4.6 The issuer should consider not just its internal circle of operations but also widen that circle to include persons and processes in the value chain that contribute to the issuer's product or service. Parts of the business outsourced to third parties (for example, freight and logistics), as well as downstream processes (for example, product defect response), constitute an integral part of the issuer's business and need to be included in the sustainability report.

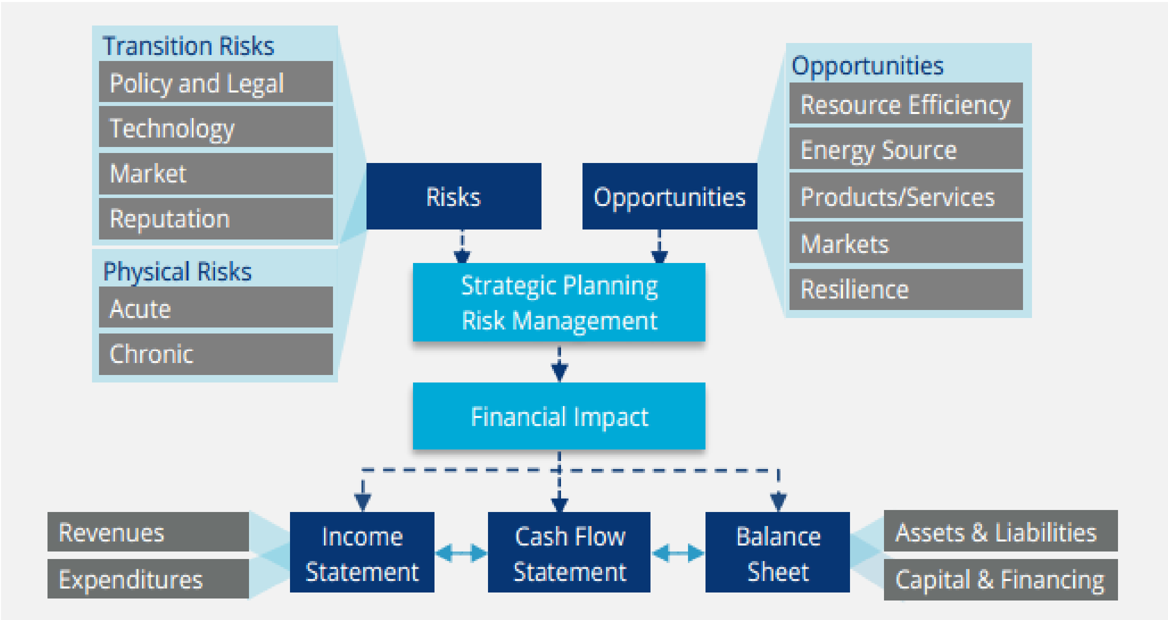
Climate-related disclosures

4.7 Climate change threatens to disrupt businesses in a precipitous and potentially devastating manner, with consequential detrimental effects on their stakeholders and providers of capital. Conversely, it also opens up new markets for solutions that respond to the threat. Investors need to properly understand the climate-related risks and opportunities of their portfolio in order to price or value their investments.

4.8 Securities markets promote the ready availability of decision-useful information so that it may be reflected in the price discovery process. In doing so, exchanges facilitate the allocation of capital to its most efficient use and the transfer of risks to those most willing to bear them.

4.9 The issuer should provide climate-related disclosures, consistent with the TCFD recommendations. Climate-related risks and opportunities are likely to impact the issuer's future financial position and performance, as reflected in its income statement, cash flow statement and balance sheet. TCFD sets out recommendations to help organisations disclose climate-related financial information that would be useful to investors, lenders and insurance underwriters. More broadly, this information may also be of interest to other stakeholders.

Figure 1: Climate-related risks, opportunities, and financial impact



Source: TCFD

4.10 The TCFD developed 11 recommended disclosures across four pillars: governance, strategy, risk management and metrics and targets.

Figure 2: TCFD recommendations and supporting recommended disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Source: TCFD

4.11 The TCFD recommendations are consistent with the requirements in the Listing Rules and this Guide. A mapping table is set out below:

TCFD Recommendations	**Listing Rules and Guide**	
Governance		
Describe the board's oversight of climate-related risks and opportunities.	The sustainability report should contain a statement of the Board that it has considered sustainability issues in the business and strategy, determined the material ESG factors and overseen the management and monitoring of the material ESG factors.	Rule 711B(1)(e) and paragraph 4.1(f) of this Guide
Describe management's role in assessing and managing climate-related risks and opportunities.	The sustainability report should describe the roles of the management in the governance of sustainability issues.	Rule 711B(1)(e) and paragraph 4.1(f) of this Guide

Strategy		
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	The sustainability report should contain the material ESG factors, which are the most important ESG risks and opportunities that will act as barriers or enablers to achieving business goals in the short, medium and long term.	Rule 711B(1)(a) and paragraph 4.17 of this Guide
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	The sustainability report should describe both the reasons for and the process of selection of the material ESG factors, taking into consideration their relevance or impact to the business, strategy, financial planning, business model and key stakeholders.	Paragraph 4.1(a) of this Guide
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	The sustainability report should describe how resilient the issuer's strategies are to climate-related risks and opportunities, taking into consideration a transition to a lower-carbon economy consistent with a 2°C or lower scenario and, where relevant, scenarios consistent with increased physical climate-related risks.	Paragraph 4.14 of this Guide
Risk Management		
Describe the organisation's processes for identifying and assessing climate-related risks.	The issuer is expected to report the criteria and process by which it has made its selection with reference to how the material ESG factors contribute to the creation of value for the issuer.	Paragraph 4.2 of this Guide
Describe the organisation's processes for managing climate-related risks.	The issuer should devise policies and processes to adequately and effectively manage the risks associated with the identified material ESG factors, and describe key features of mitigation.	Paragraph 4.25 of this Guide

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	The issuer should use risk ranking and prioritisation to distil the material ESG factors. This process is similar to the widely-practised Enterprise Risk Management ("**ERM**") process. The issuer should expand the breadth of the assessment to integrate ESG risk management structures into existing ERM structures or apply existing ERM structures to ESG risk management structures.	Paragraph 4.20 of this Guide
Metrics and Targets		
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	A description of the ESG practices and performance across historical and the current reporting periods allows investors and the issuer itself to track its progress. These metrics also form the baseline from which the issuer chooses to set its targets, as informed by its strategic plan and financial reporting.	Paragraph 4.26 of this Guide
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks.	The sustainability report should provide climate-related disclosures, consistent with the TCFD recommendations. TCFD recommends disclosure of the issuer's Scope 1 and Scope 2, and if appropriate, Scope 3 GHG emissions. 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.	Rule 711B(1)(aa) and paragraph 4.13 of this Guide
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	The sustainability report should set out the issuer's targets for the forthcoming year in relation to each material ESG factor identified. Targets should be considered for defined short, medium and long term horizons, and if not consistent with those used for strategic planning and financial reporting, the reasons for the inconsistency	Rules 711B(1)(c) and 711B(1)(d) and paragraphs 4.1(c) and 4.1(d) of this Guide

	should be disclosed. The sustainability report should set out the issuer's performance in relation to the material ESG factors identified, providing descriptive and quantitative information on each of the identified material ESG factors for the reporting period. Performance should be described in the context of previously disclosed targets.	

4.12 TCFD has issued both general and sector-specific guidance on implementing the TCFD recommendations. The sector-specific guidance highlights important considerations for the financial sector and non-financial sectors potentially most affected by climate change, and provides a fuller picture of potential climate-related financial impact in those sectors. The Sustainable Stock Exchanges initiative has also developed a checklist in its model guidance ("**SSE Model Guidance**") on the implementation of the TCFD recommendations. The issuer is encouraged to refer to the TCFD's supplemental guidance to guide its disclosure consistent with the TCFD recommendations, and use the checklist in the SSE Model Guidance to determine whether the information recommended for disclosure by the TCFD are contained in its sustainability report.

4.13 TCFD recommends disclosure of the issuer's Scope 1 and Scope 2, and if appropriate, Scope 3 GHG emissions. 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. For industries with high energy consumption, it may also be important to provide emission intensity per unit of economic output (for example, unit of production or revenue).

4.14 TCFD also recommends conducting scenario analysis to identify and effectively assess the potential implications of a range of plausible future conditions due to the uncertainty of climate-related changes. Conducting scenario analysis is not an exercise in forecasts, predictions or sensitivity analyses, but rather in evaluating resilience to different possible future scenarios. To reduce the risks and impacts of climate change, almost all countries have agreed to take action in limiting global warming to well below 2°C above pre-industrial levels, while pursuing efforts to arrest the increase to 1.5°C above pre-industrial levels. The issuer should describe how resilient its strategies are to climate-related risks and opportunities, taking into consideration a transition to a lower-carbon economy consistent with a 2°C or lower scenario and, where relevant, scenarios consistent with increased physical climate-related risks.

4.15 An issuer new to scenario analysis can consider starting with qualitative scenario narratives to explore the potential range of implications. As they gain more experience, it can consider using quantitative information to describe the potential outcomes, and to enhance the rigour of that analysis.

4.16 The SSE Model Guidance sets out a simplified three stage process to the conduct of scenario analysis. First, the issuer should identify appropriate scenarios that align with its underlying assumptions and the key risks and opportunities of its sector or industry, and clearly explain the scenarios used. Second, the issuer may set boundaries of their scenario analysis with sufficient disclosure of the reasons for exclusion and inclusion. A smaller issuer may feel that an analysis of the direct operations sufficiently covers the climate-related risks and opportunities within each scenario, while a larger issuer and those in the financial sector should expand their analysis beyond their direct operations to include indirect GHG emissions (i.e. Scope 3 GHG emissions). Third, an issuer should evaluate its physical and transitional risks within the scenarios chosen. Mapping the severity and likelihood of the risks enables the issuer to develop a strategic plan for future scenarios.

Materiality

~~4.7~~4.17 As guidance, sustainability reporting relates to the most important ~~environmental, social and governance~~ESG risks and opportunities that will act as barriers or enablers to achieving business goals in the short, medium and long term. The omission or misstatement of these risks or opportunities could influence the decisions of investors.

~~4.8~~4.18 Generally, what is material in sustainability reporting would also be considered material in financial terms, if not in the immediate period, then over time.

~~4.9~~4.19 In assessing materiality of the ESG factors on which it reports, the issuer should first satisfy itself of the relevance of selected factors to its business strategy and outcomes. This has the benefit of focusing both executives and employees on uniform key risks and opportunities that deliver (or impede) desired outcomes.

~~4.10~~4.20 The issuer should use risk ranking and prioritisation to distil the material ESG factors. This process is similar to the widely-practised Enterprise Risk Management ("**ERM**") process. The issuer should expand the breadth of the assessment to ~~account for material ESG factors~~integrate ESG risk management structures into existing ERM structures or apply existing ERM structures to ESG risk management structures.

~~4.11~~4.21 The Board should determine the material ESG factors and the issuer's response to the attendant risks and opportunities. Discussion with stakeholders contributes to an accurate appreciation of what is important in the business on an ongoing basis.

Possible process and tools

~~4.12~~4.22 A possible process for assessing ESG factors with material relevance to the business and business model are set out in the following paragraphs.

~~4.13~~4.23 In assessing materiality of the ESG factors on which it reports, the issuer may consider:

(~~i~~a) Value drivers

(~~ii~~b) Stakeholder engagement

(~~iii~~c) Risk management

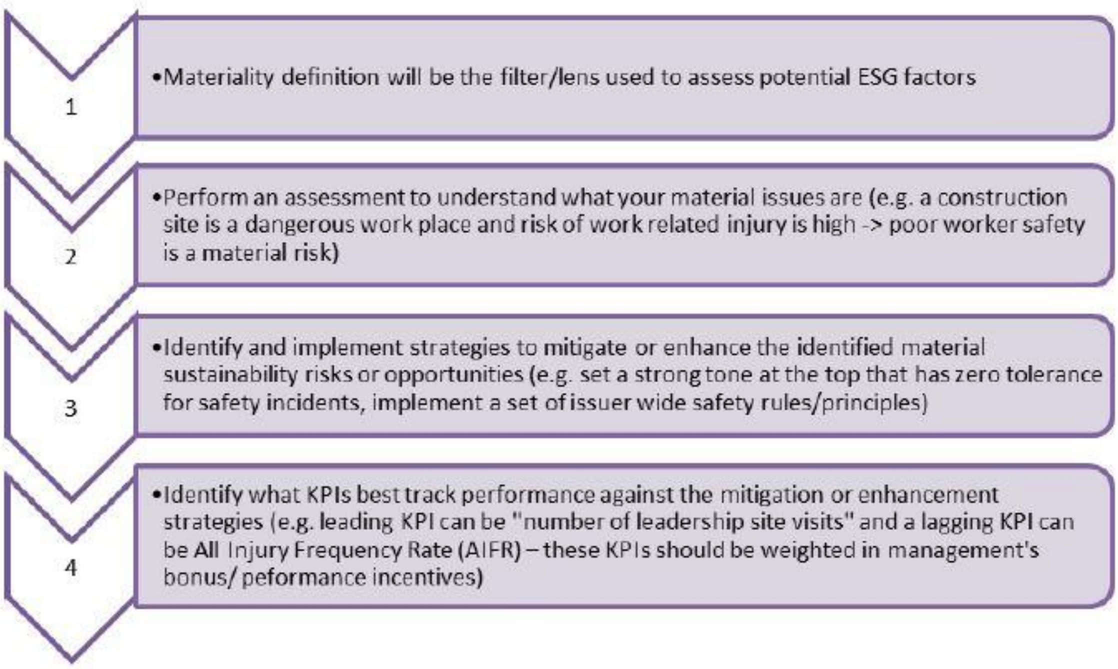
(~~iv~~d) External factors, for example sector, geography, economics, market, social, environment

(~~v~~e) Internal factors, for example business model, business cycle, strategy

(~~vi~~f) Qualitative perspectives, for example operational, strategic, reputational and regulatory

(~~vii~~g) Timeframe of these considerations

~~**Figure 1: Order of considerations and determination of the material ESG factors**~~ *[To be deleted]*



~~4.14~~4.24 The issuer may use the following Materiality Determination Process tools ~~(templates) and step-by-step guidance~~ (Identify — Rate — Prioritise — Validate). These tools are guidance and not mandatory. The issuer should disclose the outcomes of this process but can use its discretion as to whether it would like to disclose any part of the tools in their sustainability report.

(~~i~~a) STEP 1: IDENTIFY. The issuer ~~can use this template to~~should identify the most pressing (material) factors (impact/opportunities) for the issuer (or for each subsidiary in the group). It will also help formulate management's approach and response, and identify where data collection needs to be strengthened.

~~**Template 1: Issue identifications template**~~

~~**XX Issuer**~~		~~**Issue 1**~~	~~**Issue 2 etc.**~~
~~**INDUSTRY**~~	~~Construction~~		
~~**COUNTRY OF OPERATION**~~	~~Singapore, Malaysia, China, Indonesia~~		
~~**NO. OF EMPLOYEES**~~	~~XXX (this is only permanent employees which make up approx. 40% of workforce)~~		
~~**MATURITY**~~	~~Fairly good. Has a 2014 Sustainability Report.~~		
~~**WHAT**~~	~~What is the issue? (What should the issuer be reporting)~~	~~Worker safety~~	~~Diversity~~

~~**WHY**~~	~~Why is it material?~~	~~Construction sites, working at heights. Labour intensive. Exposure risk is high.~~	~~Xxx~~
~~**RESPOND**~~	~~How is/should the issuer strategically respond to address the issue?~~	~~Operational decisions made by Safety Forum. Issuer has 5 cardinal rules for safety and management's performance bonus linked to leading safety targets.~~	~~Xxx~~
~~**MEASURE**~~	~~How is the issuer measuring performance in this area?~~	~~All Injury Frequency Rate (AIFR)~~ ~~Fatalities~~ ~~Number of leadership site visits~~	~~Xxx~~
~~**AVAILABILITY**~~	~~How easy will it be to collect?~~	~~Yes- reported for regulatory compliance~~	~~Xxx~~
~~**TARGET**~~	~~What are/should the targets be? (benchmark)~~	~~All Injury Frequency Rate (AIFR) target at 9~~ ~~Number of leadership site visits: 6~~	~~Xxx~~
~~**STAKEHOLDERS**~~	~~Which stakeholder group is impacted or impacts the business~~	~~Employees, Regulator, Shareholder~~	~~Xxx~~
~~**VALUE CHAIN**~~	~~Is the impact inside or outside the organisation~~	~~Inside~~	~~Xxx~~

~~*Source: KPMG*~~

(~~ii~~b) STEP 2: RATE. Once the issues of the issuer and its subsidiaries have been explored ~~using Template 1~~, the issuer will need to cluster similar issues e.g. safety and health issues can be clustered together. If the issuer is a holding company, a rating process can be done to assess what issues are pervasive/most common across the group. ~~The issuer can use Template 2 as a guide.~~

~~**Template 2: Clustering and rating of issues**~~

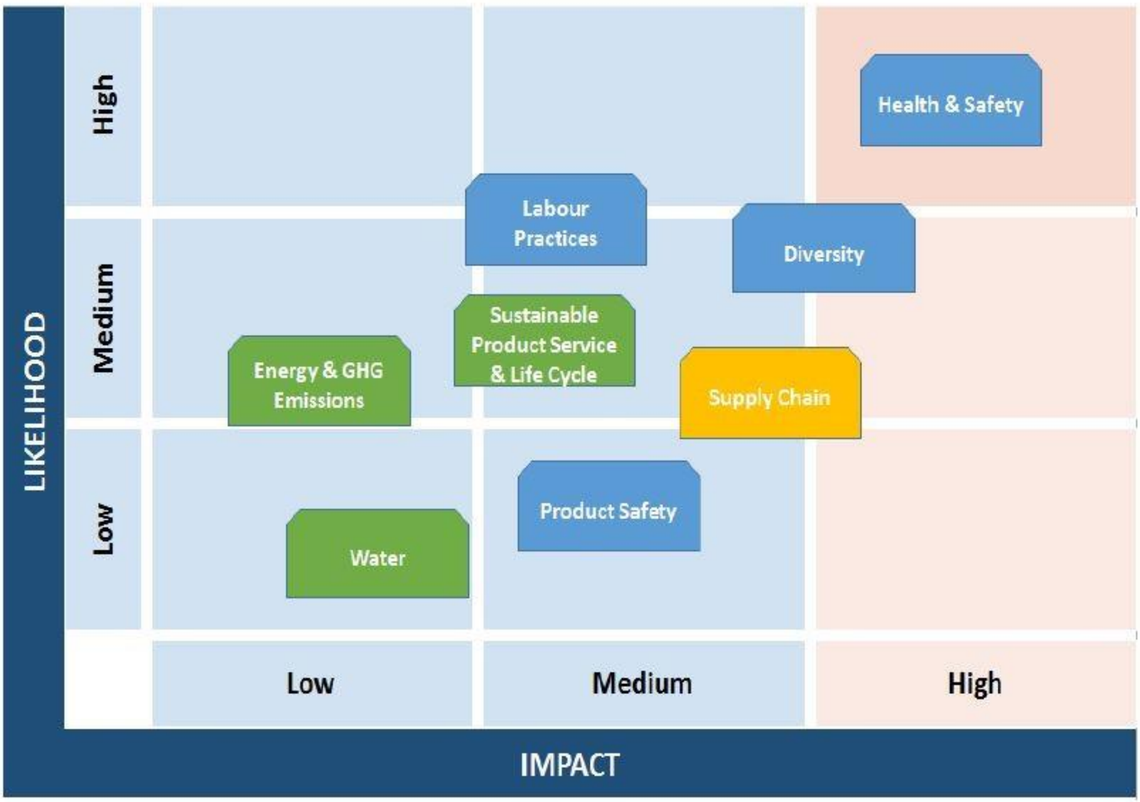
~~**Potential issue clustering and rating**~~							
	~~**Safety and Health**~~	~~**Diversity**~~	~~**Labour Practices**~~	~~**Supply Chain**~~	~~**Climate Change**~~	~~**Water**~~	~~**Etc**~~
~~**Construction**~~							
~~**Subsidiary 1**~~	~~✓~~	~~✓~~	~~✓~~	~~✓~~	~~✓~~		

~~Subsidiary 2~~	~~✓~~	~~✓~~	~~✓~~	~~✓~~	~~✓~~	~~✓~~	~~✓~~
~~Subsidiary 3~~	~~✓~~	~~✓~~	~~✓~~				~~✓~~
~~Xxx~~	~~✓~~		~~✓~~	~~✓~~		~~✓~~	
~~Xxx~~	~~✓~~	~~✓~~		~~✓~~	~~✓~~		
~~Chemical~~							
~~Xxx~~	~~✓~~	~~✓~~	~~✓~~		~~✓~~	~~✓~~	~~✓~~
~~Xxx~~	~~✓~~	~~✓~~	~~✓~~		~~✓~~	~~✓~~	~~✓~~

~~Source: KPMG~~

(~~iii~~c) STEP 3: PRIORITISE. Once the issues of the issuer and its subsidiaries have been clustered and rated~~ using Template 2~~, the issuer will need to prioritise them using a matrix~~. The following matrix plots the potential issues~~ based on likelihood and impact.

~~Template 3: Material factors matrix~~ ***[To be deleted]***



~~Source: KPMG~~

(~~iv~~d) STEP 4: VALIDATE. Once the issuer has prioritised its factors, they need to be internally validated and signed off by leadership.~~ The factors in the top right are the "critical factors" (if the issuer gets these factors wrong — business is at risk; conversely, if the issuer gets these factors right – business will benefit).~~

Policies, practices and performance

4.25 The issuer should devise policies and processes to adequately and effectively manage the risks associated with the identified material ESG factors, and describe key features of mitigation.

4.26 A description of the ESG practices and performance across historical and the current reporting periods allows investors and the issuer itself to track its progress. These metrics also form the baseline from which the issuer chooses to set its targets, as informed by its strategic plan and financial reporting.

4.27 An effective policy and operational response to sustainability risks and opportunities requires performance measurement and its linkage to performance incentives. Having a good performance measurement system allows the issuer to benchmark performance against stated objectives and facilitates comparison over time and across entities. Clearly linking sustainability risks and opportunities with strategy, other organisational risks, operational indicators, performance measures and performance incentives not only enhances understanding but provides an engine for improvement, innovation and accountability.

4.28 A clear description of the issuer's substantive response to ESG risks and opportunities, with a focus on its policies, practices and performance against targets, will bolster investors' confidence in the Board and management.

Sustainability reporting framework

~~4.15~~4.29 The issuer should select a sustainability reporting framework which is appropriate for and suited to its industry and business model, and explain its choice. In doing so, the issuer should place importance on using a globally-recognised framework for its wider acceptance in an increasingly global marketplace. The issuer can be more easily understood and compared with its peers in Singapore as well as in other jurisdictions across the world. The issuer should exercise considerable caution if it chooses to deviate from generally-accepted frameworks.

~~4.16~~4.30 Among the well-known and globally-recognised sustainability reporting frameworks, the Global Reporting Initiative ("**GRI**") Sustainability Reporting Guidelines set out generic sustainability factors and general principles and indicators that an issuer can use to report sustainability policies, practices, performance and targets. The International Integrated Reporting Council's ("**IIRC**") Framework (<IR>) also sets out a general framework for reporting. An issuer using <IR> should consider ESG factors when determining their material factors for inclusion in the integrated report. The issuer may also consider referring to the Sustainability Accounting Standards Board's ("**SASB**") standards which adopt an industry-specific approach to material ESG factors. IIRC and SASB have merged to form the Value Reporting Foundation. More than one sustainability reporting framework may be chosen as relevant to the issuer's business.

~~4.17~~4.31 ~~The issuer may consider provisions of the Climate Disclosure Standards Board or the Carbon Disclosure Project to be particularly relevant for industries sensitive to environmental matters, such as mining, minerals and agriculture, while standards of the Roundtable on Sustainable Palm Oil may be the choice of an issuer in that industry.~~For climate-related disclosures, the issuer should provide such disclosures consistent with the TCFD recommendations. ~~More than one sustainability reporting framework may be chosen as relevant to the issuer's business.~~Some issuers have used the Science Based Targets initiative to guide their GHG emissions reduction targets.

~~4.18~~4.32 The issuer is expected to follow the chosen framework(s) from year to year and build up its knowledge and understanding of how to report effectively. In turn, it can expect to be building up investors' and stakeholders' understanding, leading to increased confidence. In the absence of regulatory changes, only major changes in business strategy and/or model are likely to require change in sustainability reporting framework. This does not preclude examination of framework relevance from time to time.

Time horizons used in the sustainability report

~~4.19~~4.33 In making its sustainability report, the issuer should consider whether it would be useful to report matters for their relevance in the short, medium and long term. Accordingly, sustainability policies, practices, performance and targets would be considered along the same time horizons. The time horizons should be internally consistent with those used for strategic planning and financial reporting (e.g. useful life of assets, impairment testing etc.). Where they are not consistent, the reasons for the inconsistency should be disclosed. Typically, the short-term is considered less than one year for banking and financial instruments. ~~Beyond a year~~For the medium term, the issuer may wish to take reference from their typical planning horizon, investment cycle or plant renewal or other considerations relevant to its business. The long-term should be a useful time horizon over which expectations can be formed and efforts planned.

Stakeholder engagement

~~4.20~~4.34 Stakeholder engagement is integral to any business and would be conducted regularly. The issuer should consider ESG factors in their engagement with stakeholders, not just with investors, but also customers, staff, suppliers, regulators, local communities and others in the value chain. The issuer should monitor carefully its communication with stakeholders so as to avoid any information asymmetry as it may lead to unfair trading in the securities market.

Group and investment holding company reporting

~~4.21~~4.35 Where holding companies and operating subsidiaries are both listed ~~issuers having~~and have to undertake sustainability reporting, the operating entities can report on the ESG factors within their scope of operations. If the ESG factors are also material to the holding company, the holding company may make reference in its sustainability report to the sustainability reports of the operating subsidiaries. If the holding company has material investee companies which are not subsidiaries, its sustainability report should include the selection and management of these investee companies.

5. Assurance

5.1 Assurance increases stakeholder confidence in the accuracy and reliability of the sustainability information disclosed.

5.2 Assurance may be provided by the internal auditors (an ‘internal assurance’), or the auditors or an independent assurance services provider (an ‘external assurance’).

5.3 Internal assurance builds on the issuer’s existing governance structure, buttressed by a management that maintains adequate and effective internal controls and risk management systems. Existing internal assurance frameworks should cover ESG governance, risk assessments and controls. In addition, the sustainability reporting process should be incorporated into the internal audit plan, which should cover key aspects of sustainability reporting. Assurance may take place over a few audit cycles. The expectations of the Board, management and other stakeholders for assurance should be considered as part of the prioritisation. The scope should minimally include assurance on whether data being reported is accurate and complete.

5.4 External assurance involves the engagement of a third party. The scope of the assurance may cover different aspects of the sustainability disclosures, for example:

(a) data and its associated data collection process;

(b) narratives;

(c) compliance with the specified sustainability reporting framework;

(d) process to identify sustainability information reported; and

(e) compliance with the Listing Rules.

5.5 Assurance should be performed in accordance with recognised assurance standards. For example, an internal assurance may be conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, while an external assurance may use the International Standard on Assurance Engagements (ISAE) 3000, the Singapore Standards on Assurance Engagement (SSAE) 3000, the AA 1000 Assurance Standards, the ISO or the GRI.

5.6 Assurance over sustainability disclosures should be aligned with the issuer's existing internal assurance or external assurance frameworks for other management information, such as financial information or production data.

5.7 An issuer whose sustainability reporting has already matured after several annual exercises would want to undertake external assurance by independent professional bodies to add credibility to the information disclosed and analysis undertaken. An issuer new to sustainability reporting may wish to start with internal assurance before progressing to external assurance for its benefits. The issuer is encouraged to consider independent external assurance on selected important aspects of its report even in its initial years, expanding coverage in succeeding years.

~~5~~6. Form and Frequency of Sustainability Reporting

~~5.1~~6.1 The issuer should report on sustainability at least once a year. The issuer's sustainability disclosure may be done in its annual report. The inclusion of sustainability risks and opportunities with the businesses' other risks and strategy in the same document presents advantages to the user. Sustainability reports contained within annual reports would observe annual report deadlines. Alternatively, if more appropriate for the circumstances of the issuer, the issuer may include a summary in its annual report and issue a full standalone sustainability report within ~~5~~4 months of the end of the financial year.

~~5.2~~6.2 In either case, the issuer should make available its sustainability reports on SGXNet and on its company website. After a few years of sustainability reporting, the issuer may wish to maintain static information, such as, policies and historical sustainability information, on its website while presenting the current year's changes as well as performance in the annual sustainability report.

~~5.3~~6.3 To provide sufficient time for preparation, an issuer in its first year of reporting may report within 12 months of the end of its financial year.

~~6~~7. Phased Approach

~~6.1 Sustainability reporting takes effect for any financial year ending on or after 31 December 2017. Issuers who do sustainability reporting say that employees gain clarity and focus around common company priorities. Smaller issuers like larger ones, already manage their sustainability issues as part of risk management and good business practice. They need only take the next step to articulate what they do in sustainability terms. The sooner they commence sustainability reporting, the sooner they can benefit from doing so. Early adoption is encouraged.~~

~~6.2 While all issuers will begin sustainability reporting for any financial year ending on or after 31 December 2017, they may differ in the speed at which they progress in quality and depth.~~

~~6.3~~7.1 For the first year of sustainability reporting, the issuer should have at least the assessment of material ESG factors, policies and/or practices to address the factors; but if their reporting is lacking in qualitative or quantitative descriptions, they need only state progressive targets for reaching maturity of reporting and do their best to meet them in subsequent years. Compliance with the TCFD recommendations may also take place progressively.

~~6.4~~7.2 An example of a phased implementation approach is illustrated in the table below:

Illustration of Possible Phased Approach

Primary Components	**Adoption**		
	Year 1	**Year 2**	**Year 3**
Material ESG ~~Factors~~factors ~~(identified through process in paragraph 4.14 of this Guide, defined as, for example, high impact and high likelihood)~~	Addressed most critical factors	Reviewed factor assessment and added factors which have become material and removed existing factors which are no longer material	Reviewed factor assessment and added factors which have become material and removed existing factors which are no longer material
	Material ESG factors would be dependent on current business strategy, market conditions, stakeholder concerns etc., therefore the number of material ESG factors may vary year-on-year.		
Climate-related disclosures consistent with the TCFD recommendations	Described the governance structures, including Board oversight and management's role Identified the climate-related risks and opportunities Described the processes for identifying and managing climate-related risks Impacts in qualitative terms Scope 1 and Scope 2 GHG emissions	Metrics used for assessment Impacts in more quantitative terms Scope 3 GHG emissions Targets in qualitative terms Conducted qualitative scenario analysis	Scenario analysis with more quantitative outcomes Targets in quantitative terms
Policies, practices and performance	Minimal description of how issuer manages material factors	Description includes specific policies, practices per material factor More quantitative metrics and qualitative	Description includes specific policies, practices per material factor Qualitative and quantitative

	No previous targets for comparison of performance One metric per factor Plans for improved reporting in future	description per factor Comparison against previously disclosed qualitative commitments and targets with explanation of overachievement and shortfall	description per factor Comparison against previously disclosed targets and commitments with explanation of overachievement and shortfall
Targets	Qualitative commitments if no quantitative targets	Short and long term qualitative targets and some quantitative targets	Short and long term qualitative and quantitative targets Include peer/sector benchmarks Targets linked to management performance incentives
Sustainability ~~Reporting~~reporting ~~Framework~~framework	GRI TCFD	GRI TCFD	GRI TCFD
Board ~~Statement~~statement and associated governance structure for sustainability practices	Complied	Complied	Complied

~~6.5~~ ~~For an issuer listed on or after 1 January 2017, sustainability reporting will be required from its first full financial year of listing.~~

~~7~~8. Glossary

ESG factors	Environmental, social and governance factors that affects the issuer's performance and prospects. Also referred to as sustainability issues, or sustainability risks and opportunities. Does not mean philanthropy or other charitable activities.
Sustainability reporting	The publication of information on material ESG factors in a comprehensive and strategic manner.
Materiality	In relation to ESG factors, the most important ~~environmental, social and governance~~ESG risks and opportunities that will act as barriers or enablers to achieving business goals in short, medium and long term. The omission or misstatement of these risks or opportunities could influence the decisions of investors.

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