Centre for Governance, Institutions & Organisations
NUS Business School

Sustainability Reporting
Progress and Challenges

Singapore Exchange

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List of Abbreviations

BCA	Building and Construction Authority
CDP	Carbon Disclosure Project
CGIO	Centre for Governance, Institutions and Organisations
CSR	Corporate Social Responsibility
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
FY	Financial Year
GICS	Global Industry Classification Standard
GRI	Global Reporting Initiative
<IR> Framework	Integrated Reporting Framework
ISAE 3000	International Standard on Assurance Engagements 3000
KPI	Key Performance Indicator
MAS	Monetary Authority of Singapore
MICE	Meetings, Incentives, Conferences and Exhibitions
MPA	Maritime and Port Authority of Singapore
NUS	National University of Singapore
RSPO	Roundtable on Sustainable Palm Oil
SASB	Sustainability Accounting Standards Board
SBTi	Science Based Targets initiative
SDG	Sustainable Development Goals
SGBC	Singapore Green Building Council
SGX	Singapore Exchange
SGX RegCo	Singapore Exchange Regulation
STB	Singapore Tourism Board
TCFD	Task Force on Climate-related Financial Disclosures
UNGC	United Nations Global Compact

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Headquartered in AAA-rated Singapore, SGX has over 800 employees including offices in Beijing, Chicago, Hong Kong, London, Mumbai, New York, San Francisco, Shanghai and Tokyo. For more information, please visit www.sgx.com.

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More information about CGIO can be accessed at https://bschool.nus.edu.sg/cgio.

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Key Statistics

99.8%
Complied with the requirement to publish sustainability reports

80%
Submitted their sustainability report for the first time

1.0 score
Difference in the sustainability reports prepared by Mainboard and Catalist issuers

50 issuers
Undertook internal assurance on sustainability reports

495
Number of companies that submitted their sustainability reports

14 issuers
Undertook external assurance on sustainability reports

Executive Summary

The objective of the study is to review the sustainability reporting performance of Singapore-listed issuers after SGX mandated a new listing rule in 2016 which required listed issuers to issue an annual sustainability report. The current status of sustainability reporting practices was examined using the SGX-CGIO Sustainability Reporting Scorecard. The study found that sustainability disclosures from Singapore-listed issuers had developed in depth and breadth from previously, guided by regulatory requirements. The following are the highlights of the key findings from the review.

With the implementation of SGX's mandatory sustainability reporting requirements, the number of Singapore-listed issuers communicating their sustainability disclosures has greatly increased. 495 listed issuers have published their sustainability reports on SGXNet as at 31 December 2018, complying with the reporting deadline SGX stipulated. About 80% of the 495 listed issuers are first-time reporters. SGX's mandatory sustainability reporting requirements have contributed to 3.8-time increase in sustainability reports produced. Disclosure of sustainability performance, non-financial risk and opportunities became more prevalent in corporate disclosures.

Listed issuers were committed to disclosures on five primary components. Material environmental, social and governance (ESG) factors, as well as policies, practices and performance, were the two most disclosed components, with reporting rates above 95%. Among areas discussed under material ESG factors were occupational health and safety, code of ethics, energy, economic performance, training and education. In addition to a review of internal sustainability practices, some listed issuers attempted to extend their analysis to a broader scope across the value chain.

Listed issuers intensified efforts in observing reporting principles. 88% of listed issuers disclosed the process of stakeholder engagement and 78% analysed risks and opportunities as part of strategic planning. As expected, given that sustainability reporting has just been mandated, less than 3% of listed issuers sought external assurance for data verification.

Real estate, health care and communication services firms led in terms of reporting quality. Listed issuers from big market capitalisation group outperformed those from the smaller market capitalisation groups. There was no significant performance difference between Mainboard and Catalist listed issuers.

Implications. Listed issuers should incorporate ESG-related risks and opportunities into their corporate strategy and disclose relevant key performance data, and also analyse the impact of climate risks on business activities and gradually strengthen their climate change resilience. To enhance the sustainability reporting performance of Singapore-listed issuers, the study recommends that more sector-specific sustainability reporting training workshops should be organised. Also needed are further research studies on the impact of sustainability practices on business value.

1. Introduction

Amid growing concerns about risks such as market volatility, political complexity and climate change, calls for the private sector to conduct their businesses sustainably have been increasing. Investors and other stakeholders have at the same time been urging companies to be more transparent in communicating their sustainability efforts. Actual efforts to promote business sustainability and effective reporting of these can enhance risk resilience and increase stakeholder confidence in companies. Sustainability reporting has consequently evolved in recent years from being an account of traditional corporate social responsibility (CSR) efforts to more holistic reporting which encapsulates environmental, social and governance (ESG) themes.

SGX has been actively working with listed issuers, investors and other stakeholder groups in support of sustainability reporting. SGX issued the *Guide to Sustainability Reporting for Listed Companies* in 2011 to facilitate voluntary sustainability reporting practices among listed companies in Singapore.[1] In 2016, SGX mandated a new listing rule which required listed issuers to issue an annual sustainability report, which may be issued as a standalone report, or embedded in the annual report. That requirement took effect for financial year (FY) ending on or after 31 December 2017 although early adoption was encouraged. The listing rule was further elaborated by *Practice Note 7.6: Sustainability Reporting Guide* and *Practice Note 7F: Sustainability Reporting Guide* ("SGX Sustainability Reporting Guide") of the SGX-ST Listing Rules, which provided guidelines on component requirements and reporting principles.[2]

Sustainability reports should focus on five primary components as required by SGX-ST Listing Rule 711B, in adherence to certain reporting principles. The primary components are (1) material ESG factors, (2) policies, practices and performance, (3) targets, (4) sustainability reporting framework and (5) board statement.

The Monetary Authority of Singapore (MAS) revised the Code of Corporate Governance in 2018, where a new principle on managing stakeholder relationships was introduced.[3] Companies that produce sustainability reports are therefore demonstrating their commitment to greater stakeholder communication and engagement.

1. Singapore Exchange. (2011). Guide to Sustainability Reporting for Listed Companies. Retrieved from http://rulebook.sgx.com/net_file_store/new_rulebooks/s/g/SGX_Sustainability_Reporting_Guide_and_Policy_Statement_2011.pdf
2. Singapore Exchange. (2016). SGX-ST Listing Rules Practice Note 7.6 Sustainability Reporting Guide. Retrieved from http://rulebook.sgx.com/net_file_store/new_rulebooks/s/g/SGX_Mainboard_Practice_Note_7.6_July_20_2016.pdf
3. Monetary Authority of Singapore. (2018, August). Code of Corporate Governance. Retrieved from www.mas.gov.sg/-/media/MAS/Regulations-and-Financial-Stability/Regulatory-and-Supervisory-Framework/Corporate-Governance-of-Listed-Companies/Code-of-Corporate-Governance-6-Aug-2018.pdf

2. Methodology

2.1 Research Scope

The assessment scope of this review involves 627 SGX listed issuers, excluding newly listed companies, delisted companies, long suspended companies, secondary listings, cash companies and companies under judicial management. That scope is further restricted to the listed issuer's latest sustainability report published as at 31 December 2018, and announced on SGXNet.

2.2 Assessment Framework

The sustainability reporting performance of listed issuers is assessed by the listed issuers' adherence to requirements from SGX Sustainability Reporting Guide, which consists of six categories: (1) general scope, (2) material ESG factors, (3) policies practices and performance, (4) targets, (5) sustainability reporting framework and (6) board statement. The research team deployed the SGX-CGIO Sustainability Reporting Scorecard to quantify the performance level of sustainability reporting on these six components. A set of assessment rubrics was developed to measure the depth of sustainability disclosures with inputs from SGX as well as market professionals. Table 1 below displays the breakdown details.

SGX-CGIO Sustainability Reporting Scorecard	
Category	Weightage (100%)
General Scope	10%
Material ESG Factors	20%
Policies, Practices and Performance	20%
Targets	20%
Sustainability Reporting Framework	15%
Board Statement	15%

Table 1: SGX-CGIO Sustainability Reporting Scorecard

3. Sustainability Reporting Performance

3.1 Overview of Sustainability Reporting Practices in Singapore

495 listed issuers have released their sustainability reports on SGXNet as at 31 December 2018, which translates to a 99.8% compliance rate for all those required to report by that date. This deadline includes the 12-month grace period extended to inaugural reporting listed issuers. At the assessment cut-off date of 31 December 2018, some listed issuers with financial year ending after 31 December 2017 are still in the process of preparing their sustainability reports. About 80% of the issuers are reporting in their sustainability practices and performance for the first time. SGX's mandatory sustainability reporting requirements have contributed to a 3.8-time increase in the sustainability reports. The following discussion would centre around the 495 listed issuers that released their sustainability reports on SGXNet.

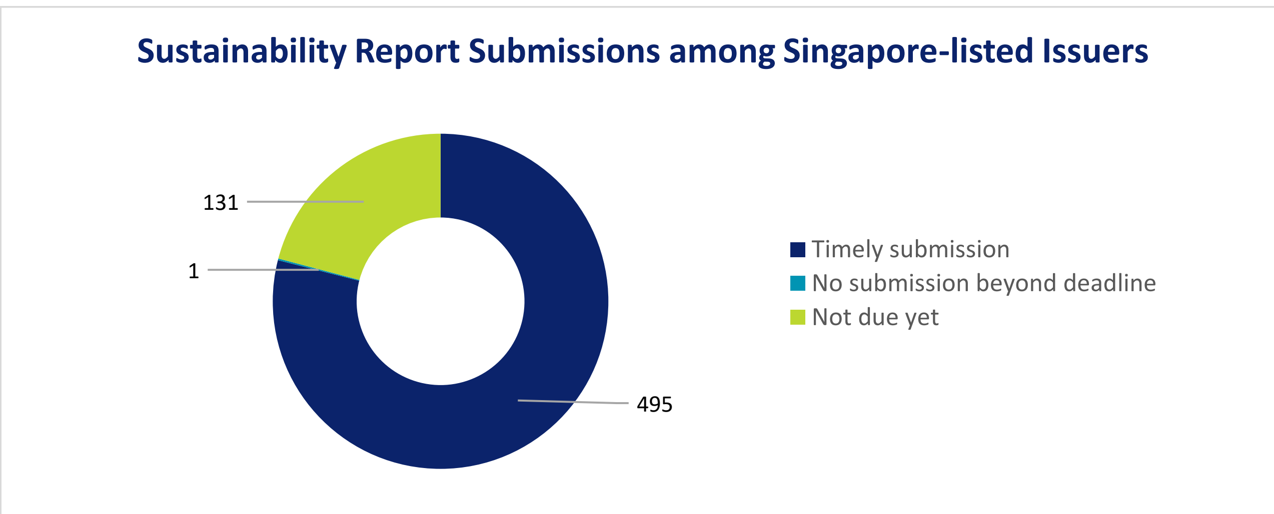

Figure 1: Sustainability Report Submissions among Singapore-listed Issuers

Listed issuers are able to disclose their sustainability information as either a standalone report or a section in the annual report. As shown in Figure 2 below, the majority of reporting listed issuers released a standalone sustainability report. New forms and standards of sustainability reporting are evolving, to provide stakeholders a comprehensive view on both financial and non-financial information. For example, seven listed issuers have embarked on an integrated reporting journey and discussed the value of financial capital and five types of non-financial capital,[4] guided by the International Integrated Reporting (<IR>) Framework. It is an important business attitude to recognise the value creation from non-financial capital and to communicate the performance information to stakeholders.

4. The International <IR> Framework categorises the concept of capitals into financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital. Source: https://integratedreporting.org/

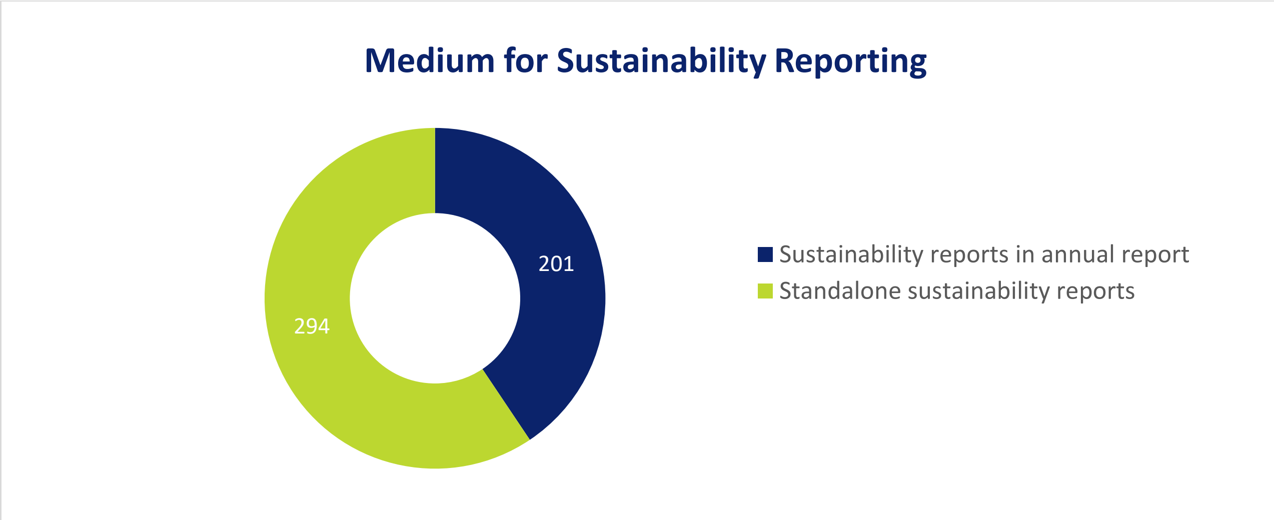

Figure 2: Medium for Sustainability Reporting

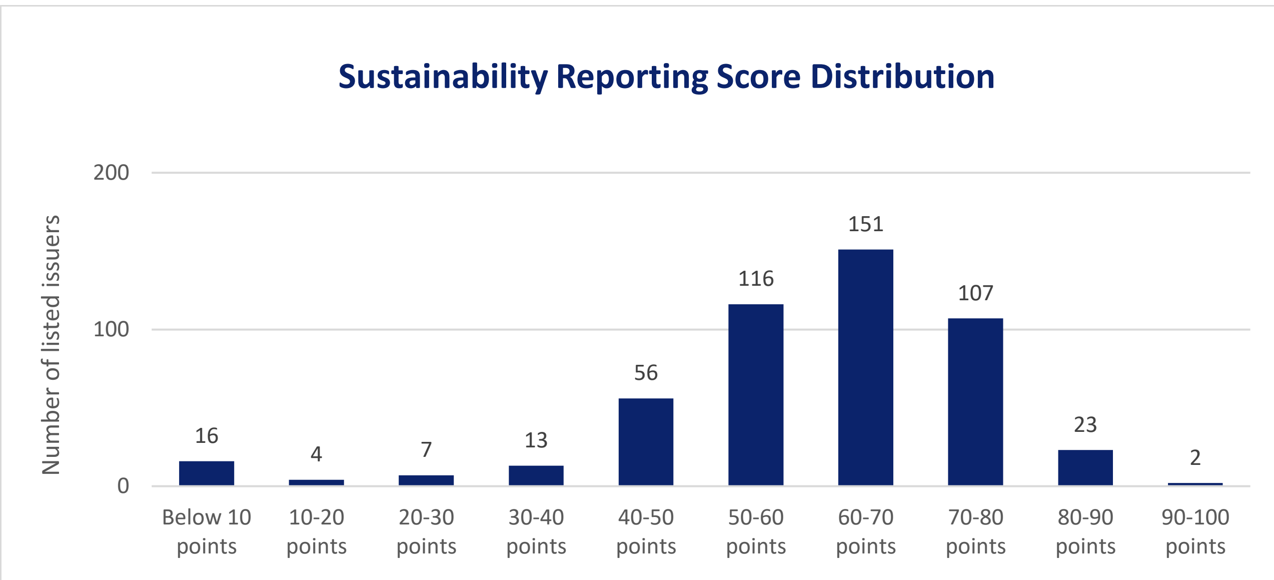

Figure 3: Sustainability Reporting Score Distribution

OF INTEREST

The overall average sustainability reporting score amongst 495 listed issuers was 60.6 out of 100 points, as reviewed under the SGX-CGIO Sustainability Reporting Scorecard. The score distribution followed an approximate normal distribution in Figure 3. More than 75% of listed issuers scored between 50 and 80 points. The variance of sustainability reporting performance scores showed that listed issuers were in different phases of the sustainability reporting journey. Top performers in this assessment are listed issuers which demonstrated effective sustainability governance regime, established ESG performance management process, or adopted robust reporting standards. Successful sustainability communication not only fulfilled the basic disclosure requirements of the five primary components adhering to the SGX Sustainability Reporting Guide, but also included sufficient details of process and practices in sustainability management. About 80% of reporting listed issuers were doing it for the first-time. As their business operations move towards sustainability-centric strategy, enhancement in sustainability information transparency is to be expected in the next reporting period. More examples of good disclosures would be showcased in Section 4.

NEEDS IMPROVEMENT

There is definitely some room for improvement in overall sustainability reporting performance among listed issuers, as sustainability reporting progresses in Singapore. A well-structured sustainability report usually contains a leadership statement, materiality assessment, stakeholder engagement, performance and targets. Reporting listed issuers at an early stage can improve their reporting quality by developing board leadership in sustainability strategy, facilitating dialogue on sustainability-related risks and opportunities across business functions.

3.2 Sustainability Reporting Scores by Market Capitalisation

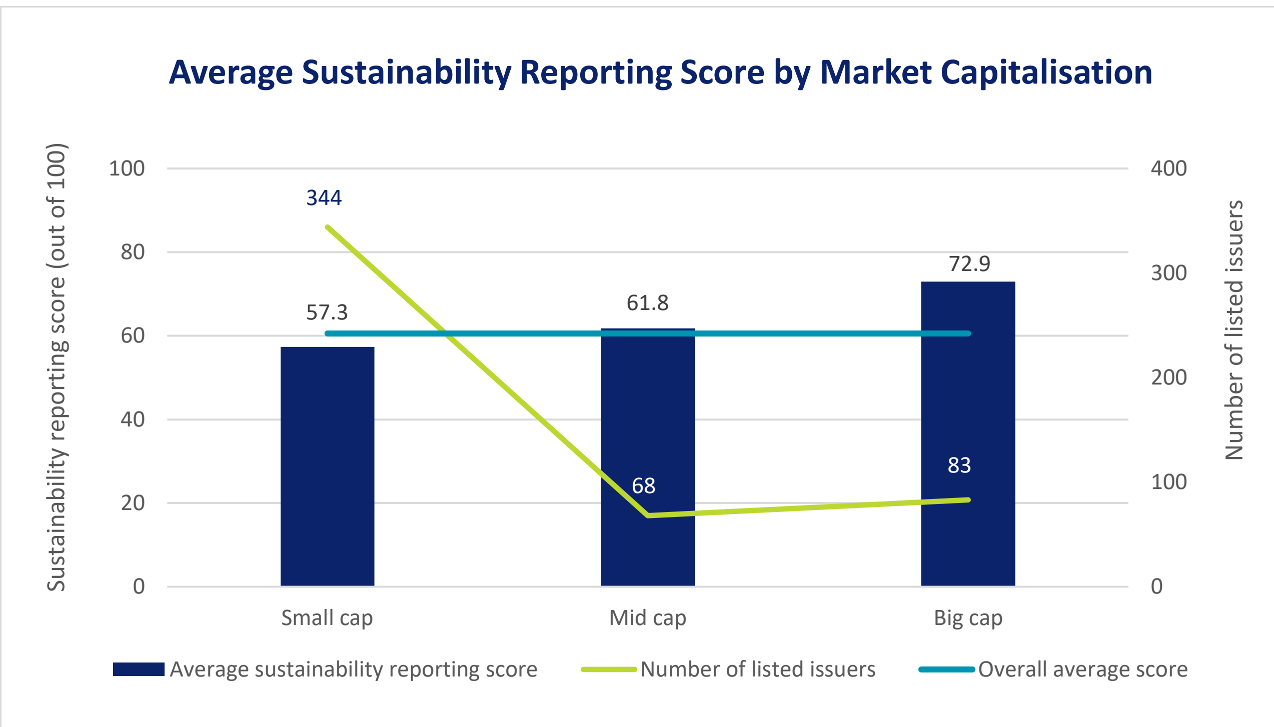

Figure 4: Average Sustainability Reporting Score by Market Capitalisation

Notes:

1. Market capitalisation data is based on the listed issuer's market capitalisation as at 31 December 2018.

2. 'Big cap' refers to market capitalisation above 1 billion SGD. 'Mid cap' refers to market capitalisation between 300 million and 1 billion SGD. 'Small cap' refers to market capitalisation below 300 million SGD.

OF INTEREST

Market capitalisation reflects the total market value of a listed company's outstanding shares. As shown in Figure 4, there was a positive correlation between market capitalisation and sustainability reporting scores. Listed issuers from 'big cap' group took top spot in average sustainability reporting score ranking, followed by 'mid cap' and lastly 'small cap'. The average scores of both 'big cap' and 'mid cap' exceeded the overall average score, which was used as a benchmark to identify the performance level of each market capitalisation group in sustainability reporting.

There are several possible explanations to explain the positive association between sustainability reporting and market capitalisation. As good sustainability reporting score is an indicator of responsible business activities, it could add value to market capitalisation. Having a sustainable operating business system, listed issuers are more capable to manage potential risks and build business resilience, ultimately to attract investors' interests.

NEEDS IMPROVEMENT

'Small cap' listed issuers make up about 70% of the assessed listed issuers and trailed other listed issuers in reporting. Given the long tail of 'small cap' listed issuers, any improvement on sustainability reporting by this group, underpinned by sustainable business practices, would have a substantive impact on the overall quality of reporting for the entire market and potentially a big impact on actual sustainable business practices among Singapore-listed issuers. On the reporting front, our assessment showed that 'small cap' listed issuers could expend greater effort towards stakeholder communication and ESG factors management or risk negative impact on their revenue and/or higher costs.

3.3 Sustainability Reporting Scores by Industry Sector

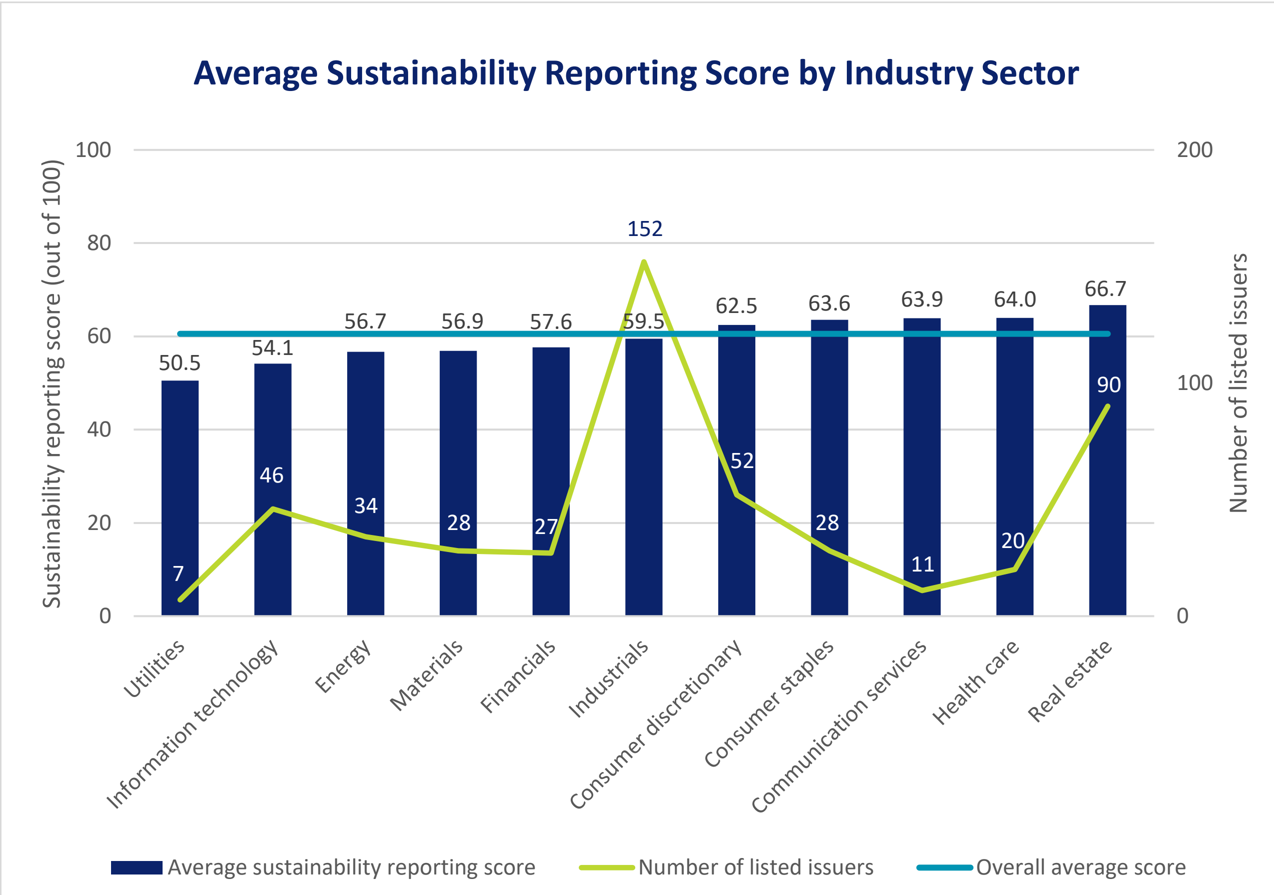

Figure 5: Average Sustainability Reporting Score by Industry Sector

Note: Sector classification is done with reference to Global Industry Classification Standard (GICS).

OF INTEREST

Benchmarked against the average sustainability reporting score, listed issuers from the real estate sector fared the best, followed by those in the health care, communication services, consumer staples and consumer discretionary sectors.

The positive outcome in respect of the real estate sector suggests that the various inputs and efforts by the government, the private sector and consumers in relation to supporting sustainable business practices within the sector have translated to quality reporting. The Singapore government's Building and Construction Authority (BCA) published the *Code for Environmental Sustainability of Buildings (3rd Edition)* in 2012, followed by a series of sustainable construction publications, which set out environmental sustainability standards and requirements in Singapore.[5] The non-profit private-sector organisation, Singapore Green Building Council (SGBC),[6] set benchmarks for green building products through its certification scheme. As the Green Building movement got underway, stakeholders such as homeowners and tenants developed a preference for living or working in green properties and showed a higher willingness to pay for such real estate.[7]

Just as what has happened in the real estate sector, other sectors have seen the development of sector-specific based guidelines and initiatives to help listed issuers identify material ESG factors and explore sustainable business opportunities. For instance, the Singapore Tourism Board (STB) released the *Sustainability Guidelines for the Singapore MICE*[8] *Industry* to better integrate eco-friendly practices into the MICE industry sector in Singapore.[9] The Maritime and Port Authority of Singapore (MPA) launched the first *Maritime Sustainability Reporting Guide* for maritime companies, partnering SGX, Global Compact Network Singapore, the Institute of Singapore Chartered Accountants, Ernst & Young LLP, KPMG and PwC Singapore.[10]

NEEDS IMPROVEMENT

The early success of the real estate sector in terms of sustainable business practices and quality reporting was driven by multi-stakeholder partnerships between civil society and the private and public sectors. It is entirely conceivable that other sectors adopting a similar approach could also reach that same level of achievement. In this review, some sectors such as energy, information technology and utilities scored lower than the overall average score despite having heavy environmental or societal footprint. In the longer run, changes in consumer preferences or policy changes may require these listed issuers make more information available in their sustainability reports which in turn could require them to increase their commitments to sustainability efforts.

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5. BCA. (2012, October). Code for Environmental Sustainability of Buildings (3rd Edition). Retrieved from www.bca.gov.sg/EnvSusLegislation/others/Env_Sus_Code2013.pdf
6. SGBC was launched on 28 October 2009 as the only non-profit organisation with a concerted private-public sector partnership to achieve a world-class and sustainable built-environment in Singapore. Source: www.sgbc.sg/about-us/about-sgbc
7. BCA, Frost & Sullivan. (2017). Perception towards Green Buildings in Singapore. Retrieved from www.bca.gov.sg/newsroom/others/Summary_Report_Survey_on_BCA_Green_Mark.pdf
8. Meetings, Incentives, Conferences and Exhibitions
9. STB. (2013, November). STB launches Sustainability Guidelines for business events industry. Retrieved from www.stb.gov.sg/content/stb/en/media-centre/media-releases/stb-launches-sustainbility-guidelines-for-business-events-industry.html
10. MPA. (2018, August). MPA Launches Singapore's First Maritime Sustainability Reporting Guide. Retrieved from www.mpa.gov.sg/web/portal/home/media-centre/news-releases/detail/d213cd9b-faa8-4d4a-bcf4-98603ac2bac1

3.4 Sustainability Reporting Scores by Listing Board

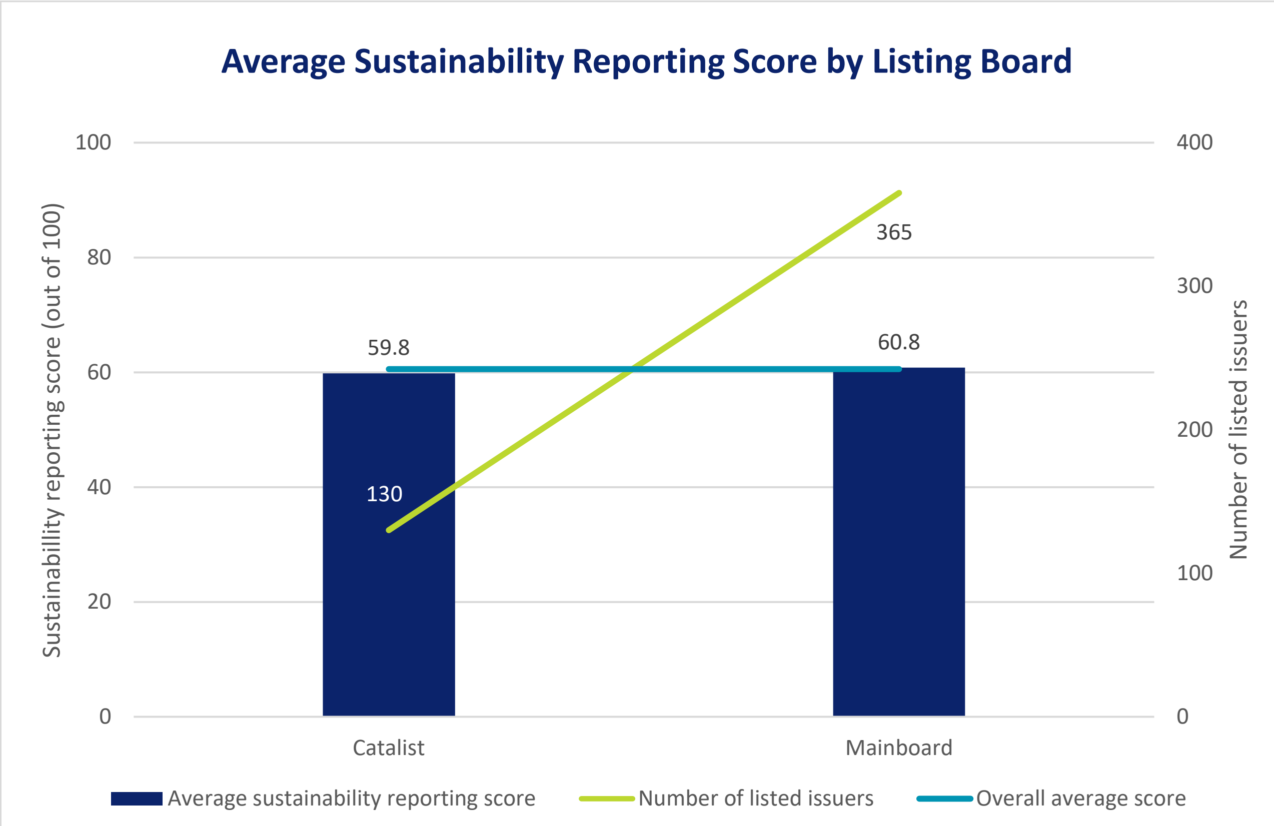

Figure 6: Average Sustainability Reporting Score by Listing Board

OF INTEREST

Listed issuers on both Mainboard and Catalist are required to comply with sustainability reporting requirements. As shown in Figure 6, no significant difference was found in the performance of Mainboard-listed issuers versus Catalist-listed issuers. Mainboard-listed issuers scored on average just 1.0 point higher than the average score of Catalist-listed issuers.

NEEDS IMPROVEMENT

From the assessment, Catalist-listed issuers' sustainability reporting performance is comparable to Mainboard-listed issuers. Listed issuers from both listing boards should continue to take a proactive role in achieving sustainable goals and enhancing sustainability performance in Singapore.

4. Component Disclosures in Sustainability Reports

Section 4 discusses the assessment results on the general scope of sustainability reports and the five primary components set out in the SGX-ST Listing Rule 711B.

4.1 General Scope

The reporting scope is an overview of the operations or areas which the listed issuer plans to cover in its disclosures of sustainability practices. It determines the process of sustainability performance data collection and goal-setting in the next steps of reporting. Having a clear and well-defined scope of report is a basic component of a sustainability report. Setting a boundary for sustainability reporting is also the essential process to fulfil the completeness principle in sustainability reporting.

Ideally, a listed issuer should issue a sustainability report that covers all entities included in the organisation's consolidated financial statements or equivalent documents. Proper explanations are expected if the listed issuer intends to limit the scope of the report to a selected area of its operations. First-time reporting listed issuers are encouraged to take a phase-in approach in terms of setting reporting scopes, from main business area to all business units, or from principal place of operations to global coverage.

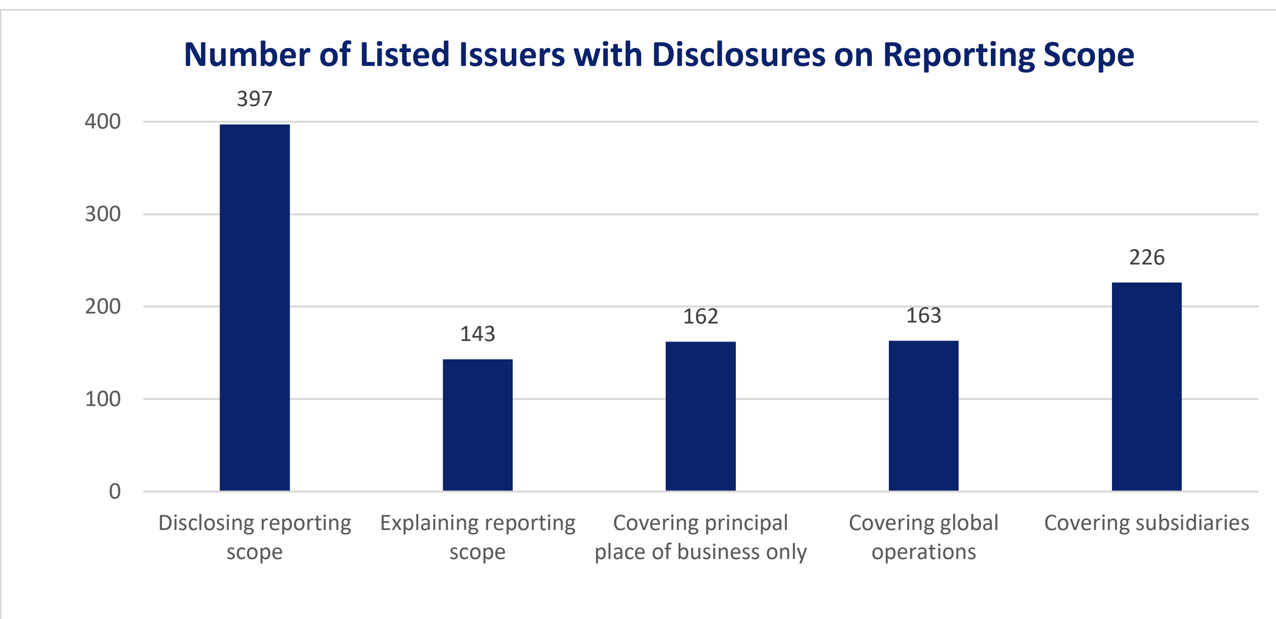

Figure 7: Number of Listed Issuers with Disclosures on Reporting Scope

STRENGTHS

The majority of Singapore-listed issuers defined the reporting scope in their sustainability reports. As seen above in Figure 7, 80% of listed issuers disclosed the scope. Typical examples of reporting scope were geographical information or business functions of their entities and operational sites. 57% of listed issuers included the performance data of their subsidiaries. 41% focused only on their principal place of business, while 41% highlighted the global coverage in reporting.

OF INTEREST

143 listed issuers provided an explanation of their reporting scopes, accounting for 36% of listed issuers disclosing the scope. The explanations were commonly related to a limited reporting scope, which focused on main place of business in current reporting period. For further elaboration, some listed issuers revealed their plans on expansion of scope in upcoming reports.

NEEDS IMPROVEMENT

Around 20% of listed issuers did not disclose any geographical information of the operations they covered in their sustainability reports. It is preferable that all listed issuers should follow either the guidelines in the SGX Sustainability Reporting Guide or an internationally recognised sustainability reporting framework when disclosing their reporting scope. They can gradually expand the breadth of coverage in future reports.

WHAT MAKES DISCLOSURES OUTSTANDING

A selection of tips for enhancing disclosures for general scope is set out below. This is not meant to be an exhaustive coverage of every good disclosure.

- A clear description of reporting scope that includes information on reporting period and reporting coverage information.
- Appropriate statements to explain the selection of reporting scope.
- Scope planning for sustainability reporting in future years.

4.2 Material ESG Factors

Material ESG factors refers to the key environmental, social and governance factors that 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 decision of investors. Listed issuers should disclose the material ESG factors that are relevant to them in their sustainability reports because those factors may have a substantial influence on listed issuers' future performance. The materiality assessment also concerns investors because the identification and monitoring of material topics affect long-term business returns.

Figure 8: Number of Listed Issuers with Disclosures on Material ESG Factors

STRENGTHS

Good materiality analysis would give listed issuers a strong starting point on performance tracking and target setting. As observed in Figure 8, among the 495 listed issuers, 95% identified their material ESG factors and 91% disclosed their selection process when choosing which ESG factors are material to them, with guidance from SGX's requirements and reporting framework. A materiality matrix that concurrently assessed the impact of sustainability topics on stakeholder groups and business operations was a typical tool used in materiality mapping. Among the 472 listed issuers that identified their material ESG factors, 71% consulted their internal stakeholders and 59% consulted their external stakeholders.

It could be observed that more listed issuers consulted their internal stakeholders than external stakeholders when determining their material ESG factors. This could be due to the relative ease in engaging internal stakeholders as compared to external stakeholders. The most frequently engaged internal stakeholder group was employees. Among 333 listed issuers that consulted their internal stakeholders, 307 engaged their employees. It was unsurprising that investors were the most actively engaged stakeholder group, from the standpoint of listed issuers. Besides, their interaction with customers, suppliers and regulators were relatively active. Some of the common communication channel for stakeholder engagement were employee workshops and survey, annual general meeting with shareholders, supplier site visits, and regular dialogues with government agencies.

OF INTEREST

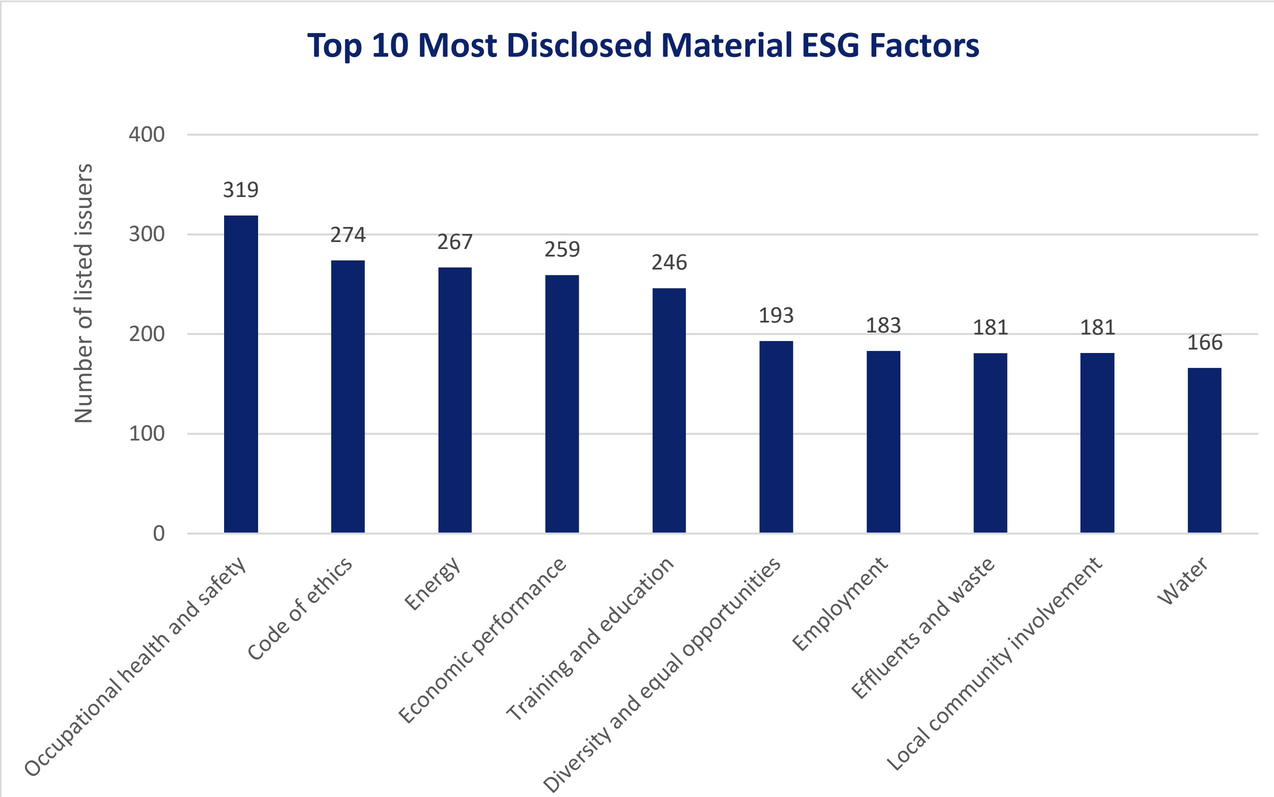

Figure 9: Top 10 Most Disclosed Material ESG Factors

Most of the material ESG factors were related to environmental and social prospects. The frequency of specific material ESG topics among listed issuers was analysed and charted above in Figure 9. Occupational health and safety issue was prioritised as material by 319 (64%) of all reporting listed issuers. This was followed by code of ethics, energy, economic performance, and training and education. Climate change was mentioned as material in a mere 32 sustainability reports despite its potentially huge impact on island states like Singapore and industries such as insurance, banking, agri-commodities. Listed issuers should prepare themselves for better climate adaption and economic resilience by considering climate change as their material topic, and to analyse the financial implications of climate change on their own business models. A heat chart that presents the dispersion of materiality topics across industry sectors is displayed in Figure 10.

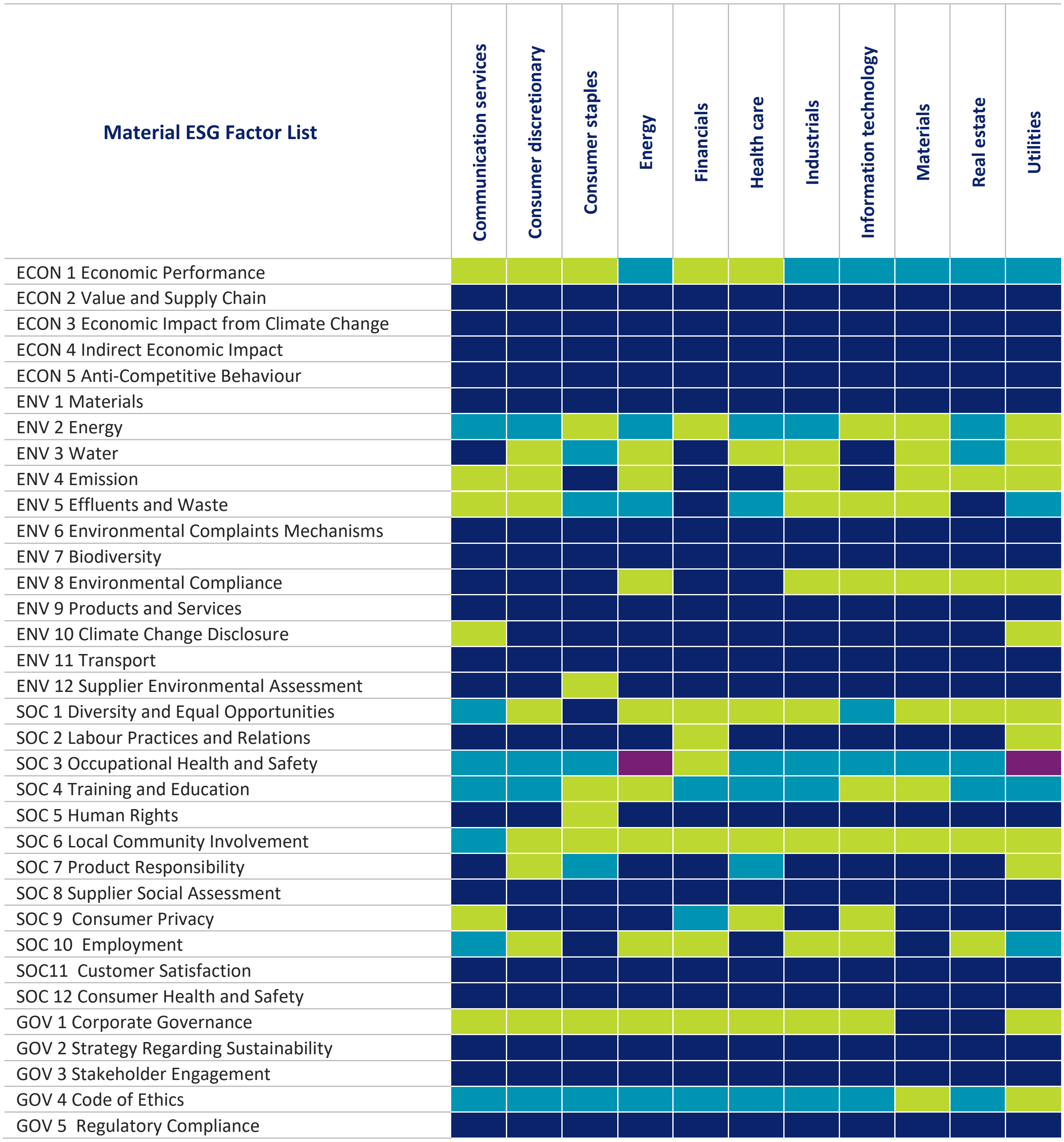

Figure 10: Material ESG Factors Mapping among Industry Sectors

Notes:

1. ECON=economic topics, ENV=environmental topics, SOC=social topics, GOV=governance topics.

2. The reference of colour pattern is shown as below.

	0 to 25% listed issuers in the sector
	>25% to 50% listed issuers in the sector
	>50% to 75% listed issuers in the sector
	>75% listed issuers in the sector

NEEDS IMPROVEMENT

The consultation process with stakeholder groups during materiality identification can be improved. Some listed issuers stated that they had considered impacts on stakeholders as one of their selection criteria, without substantial evidence of stakeholder consultation. It is recognised that first-time reporting listed issuers may have chosen to take a phased-in approach towards stakeholder engagement. They would do well to expand on their engagement in subsequent reports. Listed issuers need real feedback from key stakeholder groups to reduce information bias in their materiality assessment. More listed issuers engaged internal stakeholders, which could be attributed to the ease and accessibility of engaging this group. However, opinions from external stakeholders should be included as well.

Listed issuers should also enhance their reports by disclosing material topics that are specific and material to their business area in addition to generic sustainability topics such as “training and education” and “local community involvement”. For example, listed issuers in financial industry may be more likely to be concerned with “consumer privacy”. Sustainability Accounting Standards Board (SASB)[11] maps out common material issues within different industries. Listed issuers can use those tools as a starting point to determine their industry specific material topics.

WHAT MAKES DISCLOSURES OUTSTANDING

A selection of tips for enhancing disclosures for material ESG factors is set out below. This is not meant to be an exhaustive coverage of every good disclosure.

- Elaboration on materiality assessment methodology or criteria, such as using materiality matrix to review sustainability topics.
- Clear evidence of stakeholder engagement during materiality determination. An effective materiality list should incorporate the feedback collected from engagement activities with internal and external stakeholders.
- Reflections upon the impact of climate risks on business operations in the identification of material ESG factors.
- Board-level involvement in materiality analysis as part of strategy development.

4.3 Policies, Practices and Performance

Listed issuers should disclose their policies, practices and performance in relation to their material ESG factors. Having clear performance measures allows listed issuers to track their performances over time and enables potential areas for improvements to be identified.

11. SASB identifies financially material issues, which are the issues that are reasonably likely to impact the financial condition or operating performance of a company and therefore are the most important to investor. Source: www.sasb.org

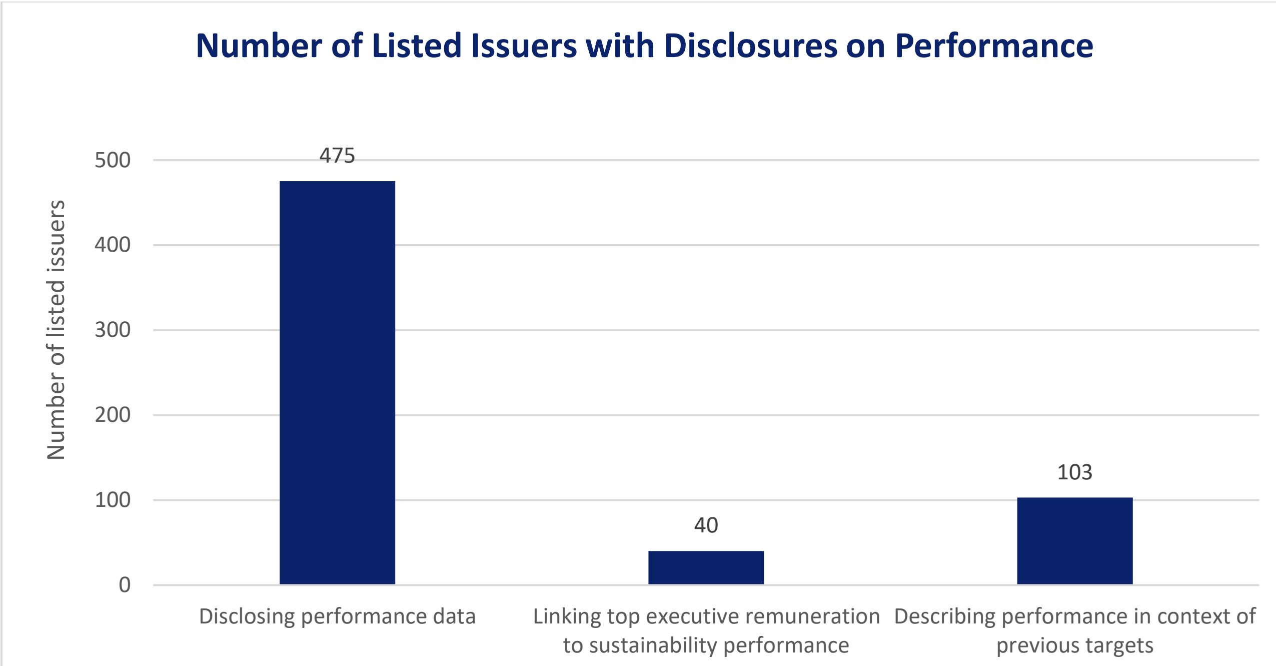

Figure 11: Number of Listed Issuers with Disclosures on Performance

STRENGTHS

The disclosure rate of policies, practices and performance was the highest among the five primary components. 96% of 495 listed issuers disclosed past year performance data in their sustainability reports. The average number of years of data provided in the reports was about 2 years. 233 listed issuers disclosed data which covers only the current reporting period while 242 listed issuers reported multiple years of data. Listed issuers who were experienced in reporting formed the majority of those that disclosed multi-year data because they probably had the data collection mechanisms in place. 103 of the 475 listed issuers discussed their performance data in relation to previously disclosed targets. As many of the assessed listed issuers were first-time reporters, they naturally do not have previously disclosed targets.

OF INTEREST

A small group of listed issuers, about 8% of 495 listed issuers, mentioned the linkage between the top executive remuneration and non-financial performance indicators in performance management system. Some listed issuers provided details of sustainability indicators in remuneration packages of top management, such as environmental, health or workplace safety indicators as components. Among these 40 reporting listed issuers, 45% of them were from the real estate sector and 68% were from the 'big cap' category.

Linking top executive remuneration with non-financial performance is a clear indication of the board's commitment and responsibility towards sustainability. It is encouraging that some listed issuers have adopted this practice, and more of them should follow suit. Senior management will likely be motivated to adopt sustainability practices and good reporting habits as sustainability performance measurement systems becomes more prevalent.

NEEDS IMPROVEMENT

Although many listed issuers disclosed sustainability policy and performance data, there were cases where some listed issuers disclosed performance data in relation to only some material ESG factors rather than the full materiality list. In order to fill the information gap, listed issuers need to realise the linkage between materiality analysis and performance management. Collecting performance data of material ESG factors allows them to oversee the implementation of practices to manage the material ESG factors and set feasible targets for the next reporting period. Since many listed issuers disclosed their targets this year, it is likely that there will be more comparison of performances to targets in future sustainability reports.

WHAT MAKES DISCLOSURES OUTSTANDING

A selection of tips for enhancing disclosures for policies, practices and performance is set out below. This is not meant to be an exhaustive coverage of every good disclosure.

- Performance data presentation in context of previously disclosed targets to facilitate understanding of progress status.
- Disclosures on multiple-year performance data with consistent indicators to track positive and negative trends within the organisation.
- Linkages between top executive remuneration system and key performance indicators (“KPIs”) of material ESG factors.
- Independent assurance on performance disclosures to enhance reliability.

4.4 Targets

Setting targets for material ESG factors is essential in the sustainability report as it provides a clear and specific direction of where listed issuers are working towards. Targets in relation to material ESG factors vary from short term to long term. It also serves as a basis of comparison for future performance and plays a crucial role in the monitoring of performance. Lastly, by putting a set of targets under scrutiny and tracking, listed issuers may also take timely corrective actions should performance fail to stay on track.

Figure 12: Number of Listed Issuers with Disclosures on Targets

STRENGTHS

Among the 495 listed issuers, 383 of them (77%) have set their sustainability targets, with either quantitative or qualitative measures.

33% of the 383 listed issuers with targets showed linkage between their targets and business strategy. 14% of them linked their targets with financial performance. It is encouraging to note that some listed issuers indicate linkages between their targets and business strategy or financial performance. For instance, listed issuers may set goals to reduce energy consumption in office to promote green business and save cost. Targets with sufficient reasons provide listed issuers with a clear focus on what to achieve. It is advisable to show this linkage between targets and business strategy to make targets more purposeful. Additionally, showing the linkage between targets and financial performance would further emphasise the importance of the targets on the listed issuer's financial performance.

OF INTEREST

In this study, the targets are classified into three different categories according to the time length. Short term targets refer to the targets that listed issuers hope to achieve within the next reporting period. Intermediate term targets are those that they hope to achieve within 2 to 5 years, and long term targets are those that they only aim to achieve after 5 years or are not time-bound. Listed issuers can select to work on any type of targets based on their business nature and scope. Some listed issuers disclosed more than one target category while some stated perpetual targets as well. As seen in Figure 12, long term target was the most disclosed type of targets.

Listed issuers can select the most suitable type of targets to set in their performance measurement system taking into consideration the business cycle and corporate plans. Current year targets or short term targets provide listed issuers with an easy means to track their achievements, whereas long term targets allow them to envision their strategic ambitions in long run.

NEEDS IMPROVEMENT

It is anticipated that more listed issuers would furnish the details of future targets with practical measures and timeline to take advantage of the benefits in sustainability reporting. As a significant facet of performance management system, targets should be developed strategically taking into account business plans and financial goals. To make wise decisions on goal setting, the board or sustainability committee should demonstrate effective leadership.

WHAT MAKES DISCLOSURES OUTSTANDING

A selection of tips for enhancing disclosures for targets is set out below. This is not meant to be an exhaustive coverage of every good disclosure.

- Both short-term and long-term targets in relation to each material ESG factors.
- Establishment of performance management system.
- Alignment between target setting and business strategy/financial performance.

4.5 Sustainability Reporting Framework

Listed issuers should strive to use a globally-recognised framework, as it will enable them to garner wider acceptance in the global marketplace. In the meantime, they should select a sustainability reporting framework that is appropriate for their industry and business model and explain their choice. Some more renowned sustainability reporting frameworks include the Global Reporting Initiative (GRI),[12] International Integrated Reporting Council (IIRC),[13] United Nations Global Compact (UNGC),[14] Sustainable

12. GRI is an independent international organization that pioneered sustainability reporting in 1997. It is the most widely adopted global standards for sustainability reporting. Source: www.globalreporting.org/information/about-gri/Pages/default.aspx
13. IIRC is a global coalition of regulators, investors, companies, standard setters, accounting professionals and NGOs. The coalition promotes communication for value creation as the next step in the evolution of corporate reporting. Source: http://integratedreporting.org/the-iirc-2/
14. UNGC is a corporate sustainability initiative seeking to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption. It also takes actions to advance societal goals. Source: www.unglobalcompact.org/what-is-gc

Development Goals (SDG),[15] Roundtable on Sustainable Palm Oil (RSPO)[16] and Sustainability Accounting Standards Board (SASB).

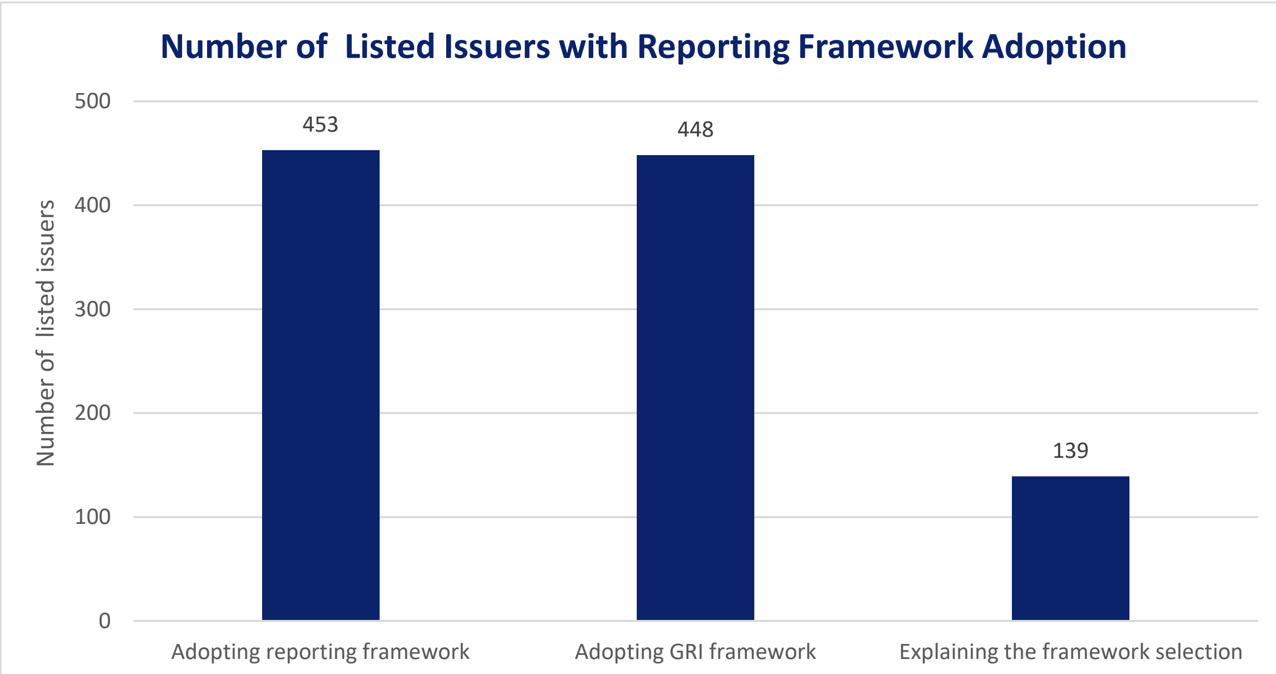

Figure 13: Number of Listed Issuers with Reporting Framework Adoption

STRENGTHS

As seen in Figure 13, the overall framework adoption rate was 453 out of 495 listed issuers (92%). The most popular framework was GRI, with a high adoption rate of 91%. Some listed issuers utilised more than one framework to provide more comprehensive reporting.

OF INTEREST

About 10 listed issuers used the RSPO framework, all of which came from the consumer staples sector and were mostly in the palm oil business. After identifying climate change as their material issue, about 11 listed issuers who were mature in sustainability reporting addressed climate change following the guidelines from either the Task Force on Climate-related Financial Disclosures (TCFD),[17] the Carbon

15. SDG is a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. Source: www.un.org/sustainabledevelopment/development-agenda/

16. RSPO is a not-for-profit organization that unites stakeholders from the 7 sectors of the palm oil industry: oil palm producers, processors or traders, consumer goods manufacturers, retailers, banks/investors, and environmental and social non-governmental organisations (NGOs), to develop and implement global standards for sustainable palm oil. Source: https://rspo.org/about

17. TCFD will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. Source: www.fsb-tcfd.org/about/

Disclosure Project (CDP)[18] or the Science Based Targets initiative (SBTi).[19]

NEEDS IMPROVEMENT

Only 139 listed issuers, out of 453 which adopted a sustainability framework for reporting, provided an explanation for their selection of framework. Apart from adopting a sustainability reporting framework, listed issuers should also strive to explain why they have chosen a particular framework to show the factors taken into consideration in selecting the reporting framework and that they understand which framework is more suitable. Using internationally-recognised reporting standards enhances comparability across time and across entities.

WHAT MAKES DISCLOSURES OUTSTANDING

A selection of tips for enhancing disclosures for sustainability reporting framework is set out below. This is not meant to be an exhaustive coverage of every good disclosure.

- Explanations on the selection of framework(s) to provide credibility to the report.

4.6 Board Statement

A board statement should come with the following acknowledgements: the board having (1) considered sustainability issues as part of its strategic formulation, (2) determined the material ESG factors and (3) overseen the management and monitoring of the material ESG factors. A board statement demonstrates effective leadership in sustainability governance and provides a broad view in terms of strategy formulation.

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18. CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Source: www.cdp.net/en
19. SBTi provides companies with a clearly defined pathway to future-proof growth by specifying how much and how quickly they need to reduce their greenhouse gas emissions. Source: https://sciencebasedtargets.org/what-is-a-science-based-target/

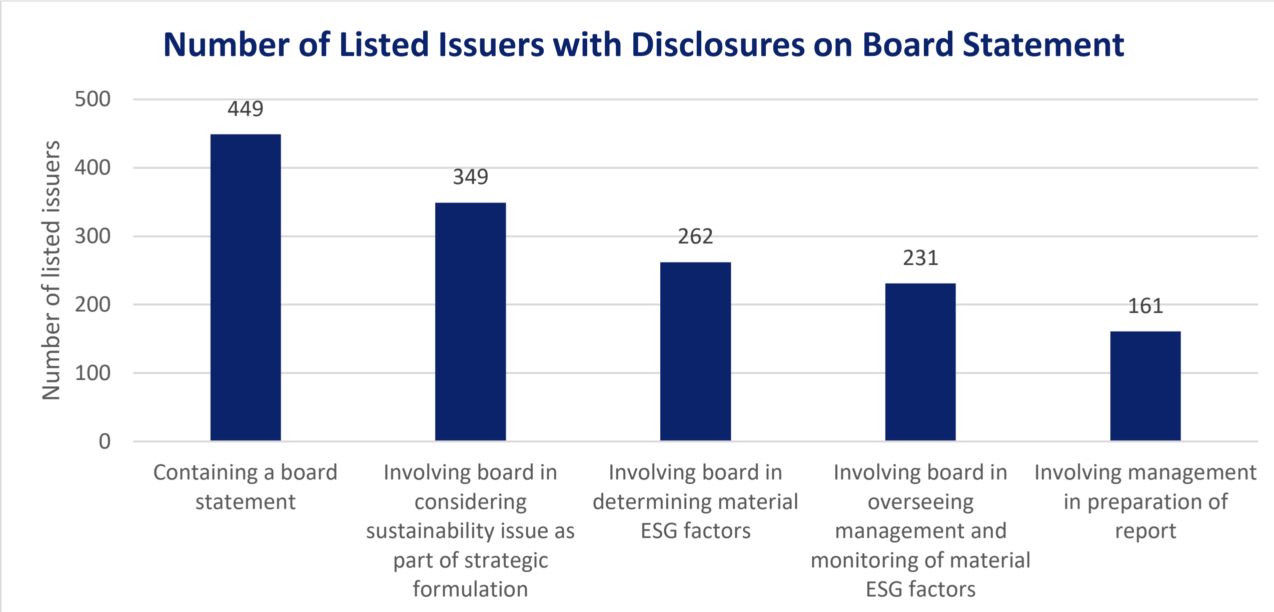

Figure 14: Number of Listed Issuers with Disclosures on Board Statement

STRENGTHS

91% of 495 listed issuers included a board statement in their sustainability reports. The three essential elements in the board statement were further assessed. 71% stated the board's involvement in considering sustainability issues as part of strategic formulation, which is the most disclosed element in board statement. 53% indicated the board's involvement in determining material ESG factors, while 47% of listed issuers disclosed the board's involvement in overseeing management and monitoring of material ESG factors.

OF INTEREST

161 listed issuers described the role of management in the preparation of the report. Some stated that senior management were either part of the sustainability committee or the sustainability task force that was in charge of reporting the listed issuers' sustainability practices. Within the organisations of some listed issuers, sustainability governance system was composed of chief sustainability officer or sustainability managers and other executives, reporting to the board.

NEEDS IMPROVEMENT

Listed issuers should provide sufficient disclosure of the Board's role in such related matters in the board statement. The board statement provides insights on the governance structure over sustainability-related matters. The presence of a board statement is a basic primary component for listed issuers to satisfy.

WHAT MAKES DISCLOSURES OUTSTANDING

A selection of tips for enhancing disclosures for board statement is set out below. This is not meant to be an exhaustive coverage of every good disclosure.

- The board's oversight and accountability in board statement.
- Description of the specific actions that the board has taken to consider sustainability issues as part of its strategic formulation, determine the material ESG factors and oversee the management and monitoring of the material ESG factors.

5. Key Principles of Reporting Practices

Section 5 analyses the key principles in sustainability reporting practices set out in the SGX Sustainability Reporting Guide to engender accountability and trust.

5.1 Stakeholder Engagement

It is pertinent to include stakeholders in a listed issuer's sustainability reporting process, from employees and shareholders to all other stakeholders across the value chain of listed issuers. The views of stakeholders help listed issuers identify their material ESG factors and also give them a better understanding of sustainability in the context of their business and operating environment. Listed issuers should seek to establish an active and constructive response mechanism and strengthen the relationship with stakeholders.

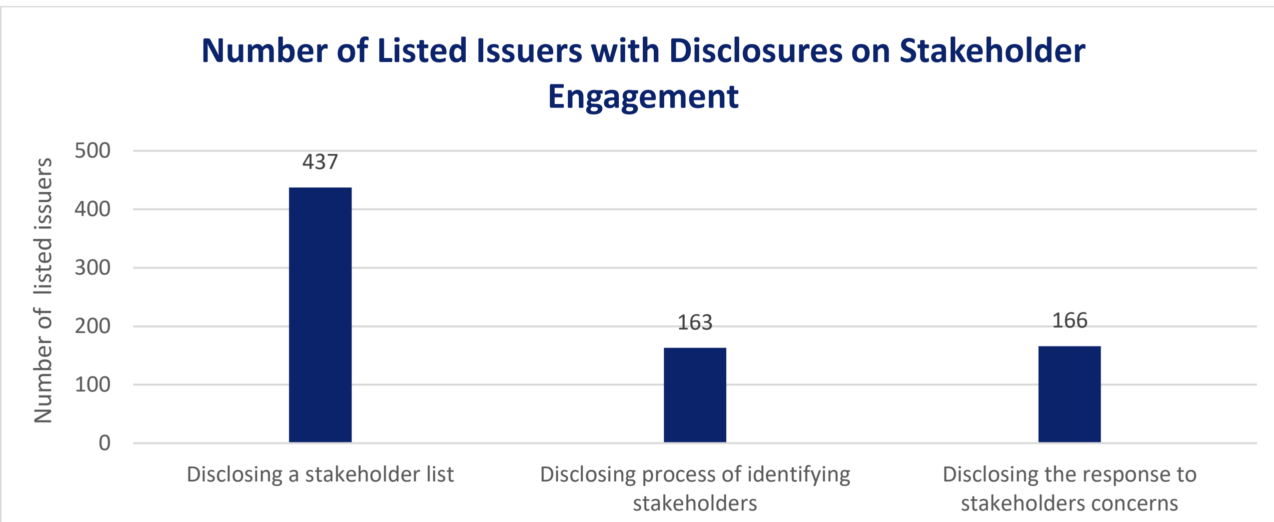

Figure 15: Number of Listed Issuers with Disclosures on Stakeholder Engagement

Figure 15 shows the practices of stakeholder engagement and inclusiveness in relation to sustainability reporting. A large majority of 437 listed issuers (88%) provided a list of stakeholder groups but only 163 disclosed their process of identifying stakeholders. Frequently disclosed stakeholder groups included employees, shareholders, investors, customers, suppliers/contractors, community, the media, as well as government and regulators. Only 34% of listed issuers disclosed their responses to the concerns raised by stakeholders.

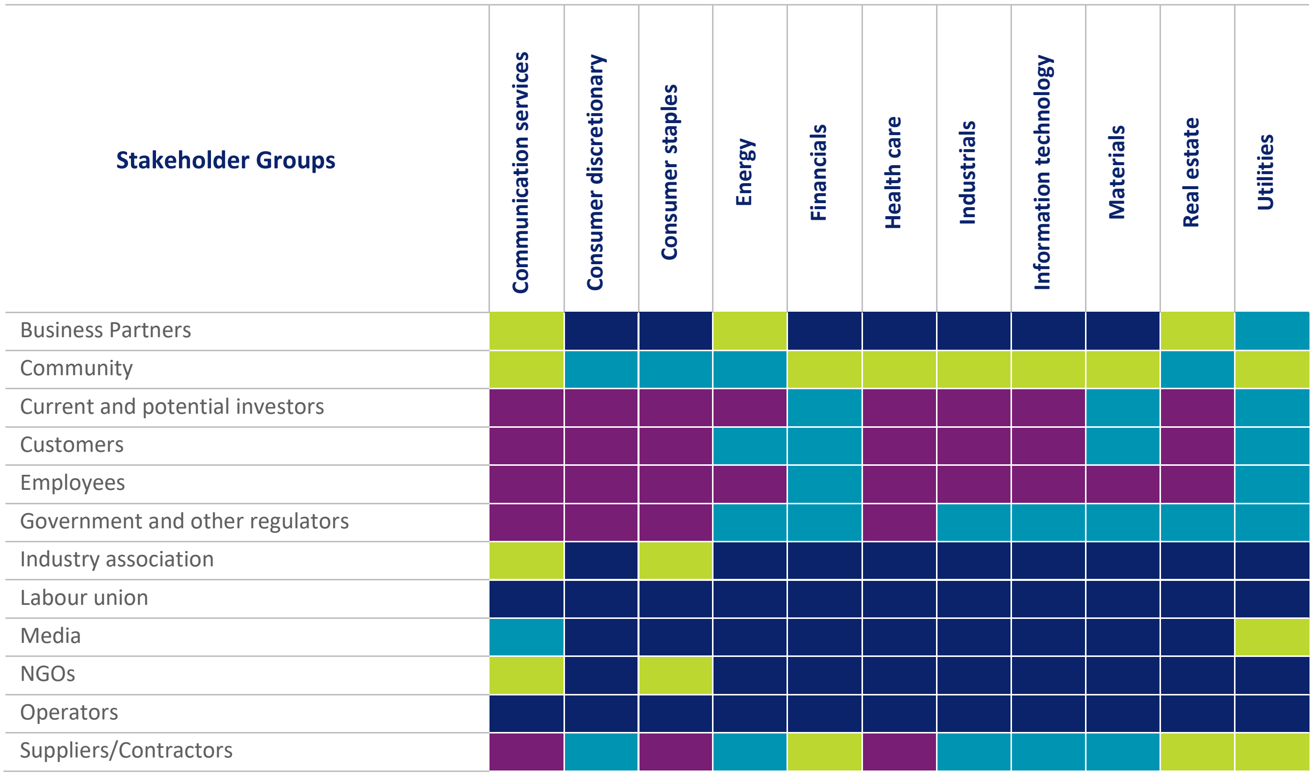

Figure 16: Stakeholder Engagement Mapping among Industry Sectors

Note: The reference of colour pattern is shown as below.

	0 to 25% listed issuers in the sector
	>25% to 50% listed issuers in the sector
	>50% to 75% listed issuers in the sector
	>75% listed issuers in the sector

Stakeholder engagement is a key ingredient in sustainability reporting. The revised Code of Corporate Governance included a new principle of managing stakeholder relationships for companies to consider and balance the needs and interests of material stakeholders. That new principle was accompanied by provisions requiring the establishment of arrangements to identify stakeholders, and to select those which are crucial to focus on. To promote good sustainability governance, and efficiently manage stakeholder relationships, it is important to engage them.

5.2 Risks and Opportunities

Effective risks and opportunities assessment allows listed issuers to make strategic planning for the future. Amid economic volatility, the private sector will probably face more challenges. In addition to existing financial risk analysis, listed issuers should investigate their risks and opportunities in a sustainability context. It allows them to review economic, environmental and social risks and potentially turn them into business opportunities.

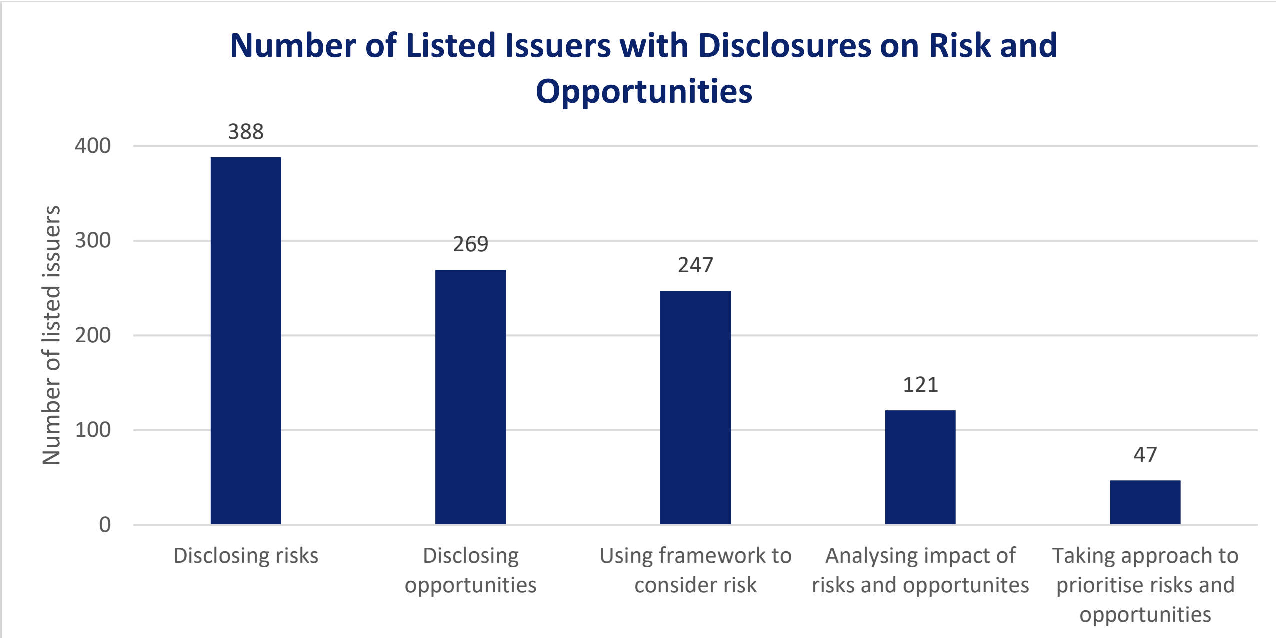

Figure 17: Number of Listed Issuers with Disclosures on Risks and Opportunities

Some commonly identified non-financial risks included workplace health and safety, regulatory action against non-compliance, climate change, political instability and lawsuits. Some disclosures on opportunities were concerned with using new renewable energy and adopting new technological system. Figure 17 reveals a higher disclosure rate of risks than opportunities. This is likely due to the longstanding corporate governance requirement for risk management processes to be in place. Financial risks such as credit risk, exchange rate risk and liquidity risk were already well addressed in the corporate governance report. The most popular framework used for considering risks was the Enterprise Risk Management (ERM) framework.[20]

Studying the impact of risks and opportunities on performance enables listed issuers to set targets and monitor their performance indicators. This practice can be further entrenched. The disclosures on non-financial risks were often omitted in most sustainability reports. Sustainability risk management should be well acknowledged as a critical part of enterprise risk management. Listed issuers should also consider the influence of some common non-financial risks, such as climate risk, political risk, reputational risk and occupational health and safety risk. More significantly, listed issuers should seek to turn risks into business opportunities. For instance, facing the challenge of climate change, the business sector should actively seek environmentally friendly business solutions, such as the 3Rs (Reduce, Reuse, Recycle) approach.

20. ERM is a plan-based business strategy that aims to identify, assess, and prepare for any dangers, hazards, and other potentials for disaster, both physical and figurative, that may interfere with an organisation's operations and objectives. Source: www.coso.org/Pages/erm.aspx

5.3 Independent Assurance

Independent assurance increases stakeholders' confidence in the accuracy and integrity of the report. The SGX Sustainability Reporting Guide recommends that listed issuers adopt internal verification or external assurance by independent professional bodies.

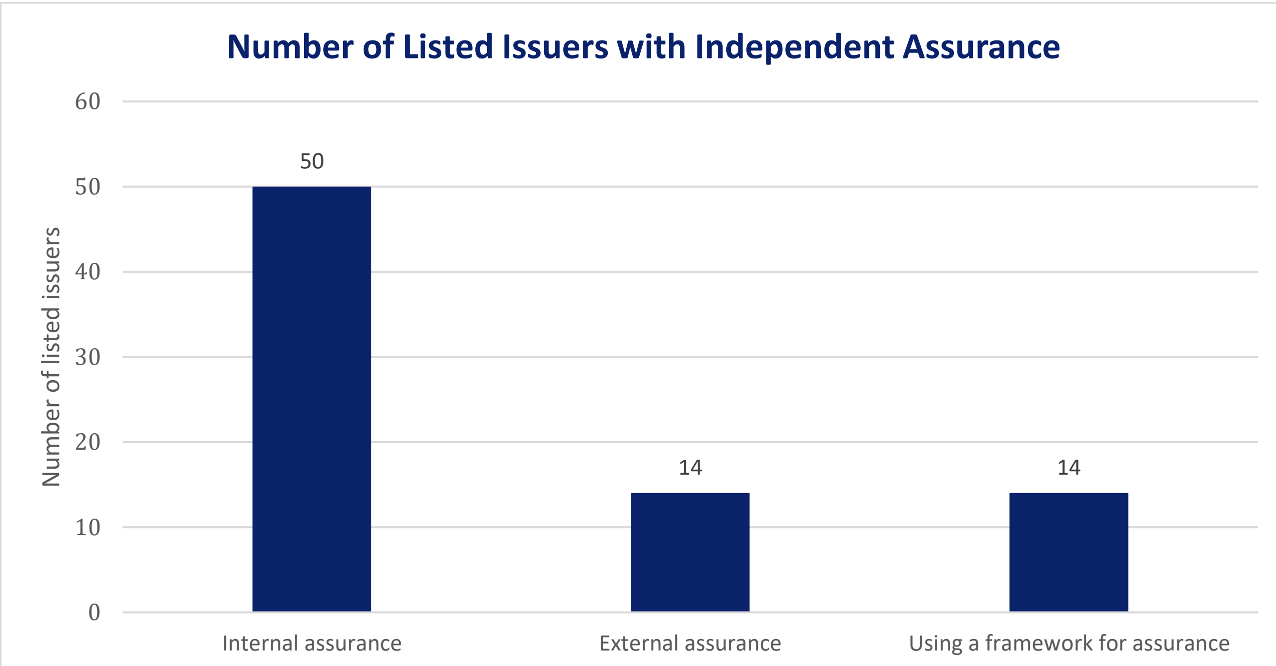

Figure 18: Number of Listed Issuers with Independent Assurance

50 listed issuers carried out internal assurance of their own sustainability reports and 42 of them were first-time reporting listed issuers. This is an encouraging sign. A minority of 14 listed issuers engaged external independent agencies for third-party assurance of their sustainability reports. All of these 14 listed issuers were experienced reporting listed issuers with strong sustainability record and 93% of them were classified as 'big cap' listed issuers. Eight listed issuers with external assurances verified the full scope of their reports. International Standard on Assurance Engagements (ISAE) 3000 was the most utilised framework.

Overall, the total number of listed issuers who have sought either internal or external assurance for their sustainability report remained low. About 10.1% have conducted some form of internal review or internal verification. However, the methodology and standard of internal assurance was not stated in most sustainability reports.

All of the 14 sustainability reports with independent external assurance were published by established reporting listed issuers. This demonstrated their commitment to ensuring the reliability of the information contained in their sustainability reports.

While it is not compulsory to conduct internal or external assurance, reporting listed issuers are encouraged to start with internal verification for accuracy, move to external assurance on limited scope and then to full scope. Doing so increases the credibility of their reporting.

5.4 Timeliness

Listed issuers should provide stakeholders with timely updates on their sustainability practice. An issuer listed on SGX must either include a write up pertaining to sustainability in their annual report within 4 months from the FY end, or release a standalone sustainability report within 5 months. Inaugural reporting listed issuers receive a grace period of 12 months from the FY end in the first year of reporting.

All 495 listed issuers have released their sustainability reports on a timely basis, adhering to their respective deadlines dictated by the SGX-ST Listing Rules. Timely disclosure of sustainability information is a reflection of well-managed sustainability reporting mechanisms. After the submission of their first sustainability report, listed issuers will not be permitted any extensions. In subsequent reporting, all listed issuers should ensure prompt and fair disclosures of sustainability practices. They are free to select the form in which they disclose their sustainability reports as long as they adhere to the deadlines. It is recommended that SGX monitor the timeliness of report submissions and reasons for any non-compliance. Apart from annual sustainability report submission, listed issuers can also consider updating their performance data on a more frequent basis on the sustainability portal of their company websites, to meet the demands from stakeholder groups, so long as material information continue to be disclosed immediately on SGXNet.

5.5 Balanced Reporting

As there may be a tendency for listed issuers to disclose favourable aspects and leave out negative aspects, the SGX Sustainability Reporting Guide recommends that listed issuers disclose unfavourable aspects in addition to the usual disclosures on favourable aspects. This is to give the report an accurate and balanced view.

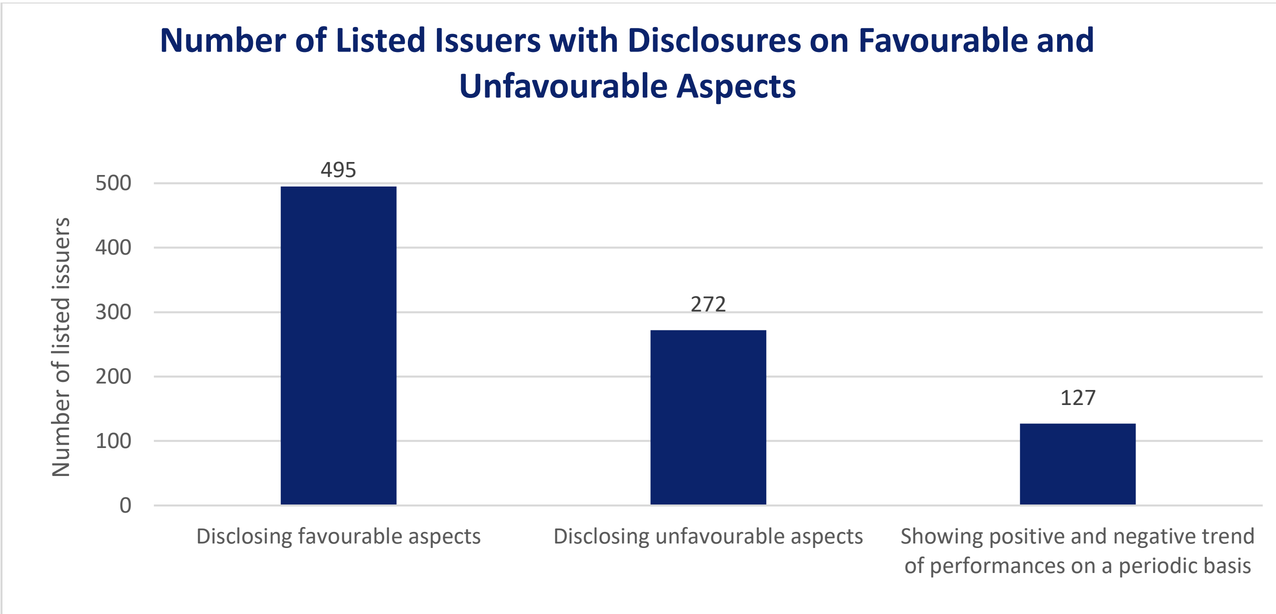

Figure 19: Number of Listed Issuers with Disclosures on Favourable and Unfavourable Aspects

While all listed issuers disclosed favourable aspects in their sustainability reports, about 55% disclosed unfavourable aspects. Some disclosed unfavourable aspects were workplace injury rates, loss of productivity in the workplace and fines for non-compliance with regulatory requirements and failure to meet previously set targets.

Some listed issuers went further in using past data to present a periodic trend of their performances. In total, 26% of 495 listed issuers disclosed both positive and negative trends of performance over time in their reports. Some examples of a negative trend of performance included increasing water consumption per capita and increasing carbon emission intensity.

By presenting both positive and negative aspects of their sustainability management, listed issuers enhanced accountability for results, which will boost investors' confidence. They should understand the importance of a credible reporting style with coverage on both favourable and unfavourable aspects.

6. Discussion and Limitations

In the assessment, a high positive correlation was found between the quality of component disclosure and compliance with the reporting principles recommended by the SGX Sustainability Reporting Guide. The high correlation indicates that the commitment to reporting principles further improves the disclosure level in the primary components. The relevance of reporting principles on each primary component is further elaborated in Table 2. Listed issuers are encouraged to incorporate the relevant reporting principle into the primary components, and provide more quality disclosures in their reporting practices.

As SGX requires that all sustainability reports announced by listed issuers should be uploaded to SGXNet, the study solely evaluated corporate disclosures available on SGX website. Only the sustainability reports and communications of listed issuers were assessed. The study did not seek to evaluate actual sustainability practices but it is assumed that sustainability implementation is reflected in sustainability reports.

Primary Components	Relevant Reporting Principles
Material ESG Factors	Stakeholder Engagement Stakeholders need to be consulted during materiality assessment.
	Board Responsibility The board should be involved in identifying and reviewing material topics at the fundamental level.
Policies, Practices and Performance	Balanced Reporting Performance data disclosures should display the balance between favourable and unfavourable information.
	Performance Measurement System Sustainability KPIs should be included in performance measurement system.
	Independent Assurance Independent assurance on performance reporting contributes to credibility.
	Board Responsibility The board should oversee the management and monitoring of the material ESG factors.
Targets	Risks and Opportunities Potential risks and opportunities should be analysed to determine future strategic direction in target setting.
	Performance Measurement System Listed issuers should compare performance achievement against previously disclosed goals.
	Board Responsibility The board is responsible for considering sustainability issues in the formulation of corporate strategy.
Sustainability Reporting Framework	Global Standards and Comparability Framework adoption enhances the comparability of sustainability data across entities and across time.

Board Statement	<u>Board Responsibility</u> The board has ultimate responsibility in sustainability reporting and they should indicate their commitments in board statement.

Table 2: Linkages between Components Disclosures and Reporting Principles

7. Future Implications

7.1 Organise Sector-specific Training

It is recommended that SGX hold sector-specific training workshops for representatives from listed issuers. There are clear differences in the sustainability reporting performance among different industry groups. Sector characteristics largely determine the key stakeholder groups of a listed issuer and the results of their materiality assessment. For example, energy and industrials sectors tend to disclose more environmental material topics than other sectors (in Figure 10). That is because some listed issuers are moving towards a low-carbon business. Providing sector-specific sustainability reporting training workshops can help those listed issuers to attain a better understanding of how peer companies in the same industry manage the material ESG factors. Trainers can point out the significant omissions that are typical for listed issuers within that industry.

Apart from board members and senior management, SGX can also engage industry experts, sustainability professionals, investors and stakeholder representatives to organise panel discussions and workshops. With practical insights from multiple stakeholders, listed issuers can validate the benchmarks that they should adopt.

7.2 Conduct Further Research

The positive externality of sustainability on the environment and the society has been widely discussed. However, listed issuers would be more motivated to invest their limited resources in sustainability if they recognise its economic value. As SGX owns the database for financial statistics and sustainability performance scores, it is suggested that SGX should initiate empirical studies on the business returns of sustainability reporting. Researchers have accumulated some region-specific empirical evidence on the business value of sustainability reporting, which could be measured by various financial indicators, such as net profit, return on equity and brand value. According to Kaspereit and Lopatta's study in 2016, the association between corporate sustainability and market value was positive among the 600 largest European companies.[21] In United States, 68% of the 210 surveyed firms believe that their sustainability performance has helped them to grasp new commercial opportunities from clients (ING Group, 2018).[22] In Singapore's context, Loh, Thomas and Wang (2017) quantified the positive impact of voluntary sustainability reporting on firm value among Singapore listed issuers.[23] The study was done when sustainability reporting was still on a voluntary basis. As the number of reporting listed issuers rapidly

21. Kaspereit, T. & Lopatta, K. (2016). The value relevance of SAM's corporate sustainability ranking and GRI sustainability reporting in the European stock markets. *Business Ethics: A European Review*. 25(1).
22. ING Group. (2018). "From Sustainability to Business Value: finance as a catalyst", ING Group, 2018. Retrieved from https://www.ingwb.com/media/2266556/ing-sustainability-study-2018.pdf
23. Loh, L., Thomas, T., & Wang, Y. (2017). Sustainability reporting and firm value: Evidence from Singapore-listed companies. *Sustainability*, 9(11), 2112.

increases due to the new regulatory rules, a larger sample size is now available to show the relationship between sustainability performance and financial outcomes. Listed issuers will be more inclined to adopt sustainable practices and improve sustainability reporting practices if the positive correlation between sustainability performance and financial returns and brand value can be tangibly demonstrated.

The assessment showed that ‘small cap’ listed issuers tend to trail in sustainability reporting, and they also account for 70% of listed companies on SGX. One possible reason could be due to resource constraints faced by ‘small cap’ listed issuer. The perception that sustainability is not a priority for the business could be overcome if the positive relationship between sustainability reporting and financial value is shown and understood.

8. Conclusion

As a result of SGX's new requirements, the number of listed issuers communicating sustainability disclosures grew rapidly. A majority of them have fulfilled the basic requirements of reporting on the five primary components and they are making good progress towards meeting the expectations of stakeholders. However, clear gaps of disclosures still exist between market capitalisation groups and industry sector groups, and between first-time and mature reporting listed issuers. That varied level of disclosure stems from their differing readiness to adopt sustainable business practices. Many first-time reporting listed issuers need time to establish reporting mechanism to meet standards.

SGX could organise sustainability reporting training workshop for specific sectors. Further research on the business value of sustainability reporting could help listed issuers and key stakeholder groups to understand the return of sustainability in business context.

Sustainability reporting focuses attention on stakeholders and their interests. To achieve a green, responsible and sustainable economy, companies should look beyond minimal legal compliance and communicate decision-useful sustainability information. By taking action to scale up, we would collectively be better equipped to tackle the myriad environmental, social and economic challenges that lie ahead.

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