Perspectives of Financial Institutions on Sustainability Disclosures

Singapore Exchange

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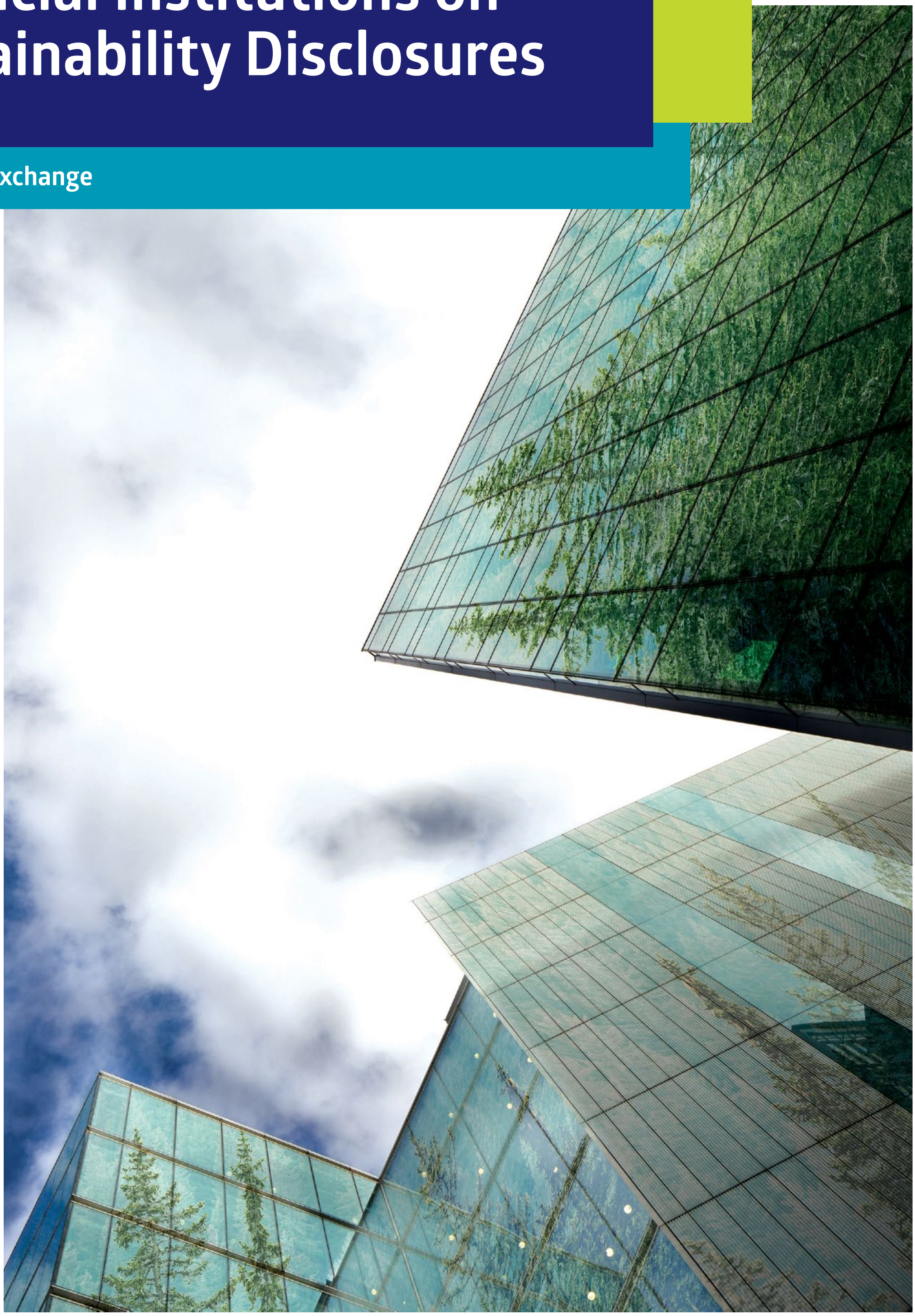

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Abbreviations

CDSB	Climate Disclosure Standards Board
CGS	Centre for Governance and Sustainability
EESG	Environmental, Economic, Social, and Governance
ESG	Environmental, Social and Governance
FCAP	Financial Centre Advisory Panel
FIs	Financial Institutions
GFIT	Green Finance Industry Taskforce
GRI	Global Reporting Initiative
IIRC	International Integrated Reporting Council
ListCos	Publicly listed companies on the Singapore Exchange
MAS	Monetary Authority of Singapore
NUS	National University of Singapore
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goals
SGX	Singapore Exchange
SR	Sustainability Reports
TCFD	Task Force on Climate-related Financial Disclosures

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Foreword

The rise of sustainability as a concept in the financial market has been phenomenal. Investors are increasingly demanding that environmental, social and governance factors be considered in their investment targets. The impact of sustainability in investment and credit analysis and corporate performance has therefore grown exponentially.

The financial market is also called upon to leverage the power of finance to advance sustainability in businesses. Financial market participants are providers of capital and risk transfer solutions. They, therefore, have the opportunity and ability to drive the embrace of sustainable practices among their customers.

Amid these trends, the aim of this study is to ascertain the manner in which Singapore financial institutions are perceiving sustainability. For instance, how important sustainability is to their business and how they engage with the topic. Focus group discussions were conducted with key market participants, guided by a questionnaire designed around specified topics.

It is hoped that this pulse check will validate local anecdotal evidence as well as global studies on the state of sustainability integration in the financial market. Building on these results, we also suggest areas in which further efforts may be undertaken.

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Executive Summary

The financial industry and market are key pillars of the Singapore economy. Our financial industry and market also have far-reaching roles and influence beyond the shores of the Little Red Dot. Singapore consequently recognises that the industry and market have an important role to play, for instance in progressing the battle against climate change.

As financial institutions (FIs) increasingly include environmental, social and governance (ESG) considerations in their core investment and lending decisions, corporates are also driven to integrate these into their business activities and disclosures in order to access capital.

Singapore Exchange (SGX) mandated in 2016 that ListCos (publicly listed companies on SGX) produce Sustainability Reports (SR) annually. Components of the report may be decided on, according to a 'comply or explain' basis. ListCos have since then shown a high adoption rate for sustainability reporting. Room for improvement remains as companies become more familiar with reporting and as scrutiny and reliance on ESG disclosures increase. Many stakeholders rely on SR for decision-making and FIs are a key stakeholder for this purpose. How SR can be enhanced in order for the disclosures to remain relevant to FIs is therefore important to understand. Hearing from FIs could eventually help corporates to improve their financial standing.

To understand the extent to which ESG disclosures support FIs in their sustainability assessments, SGX, NUS and KPMG initiated this study to obtain a baseline understanding around the practical challenges and expectations of FIs as a user of sustainability information. This paper intends to inform corporates of how their SR are used and assessed and guide them towards more meaningful disclosures. ESG disclosures, to be useful, should support the FIs' risk management and financing/investing strategies.

The report's information and data were collected through two methods: gathering FIs' perspectives through a questionnaire and deep dives into specific topics through focus group discussions. By adopting a 2-pronged approach, the study seeks to provide both an overview and analysis of FIs' perspectives. Responses from the participants are kept anonymous.

Key Findings:

FIs are highly committed to sustainability

- 100% of the respondents indicated that it is important for their organisation to fully integrate sustainability into their investment strategy by 2030.
- FIs recognised that they play a critical role in moving the sustainability agenda forward through their allocation and cost of capital.

Governance on sustainability is important

- FIs indicated there is a need for more structured governance over sustainability, including Board and senior management oversight and leadership.

ESG disclosures need to be comparable

- FIs faced some difficulties in interpreting ESG disclosures for meaningful benchmarking and assessing a company's green practices within and across industries. This was due to the various reporting frameworks and standards that needed to be aligned to guide reporting and disclosures.
- FIs indicated that they want guidance but not prescription from regulators on the application of reporting frameworks.
- The current ESG disclosures needed to be strengthened with quantification, and harmonisation for comparability across and within industries.
- Respondents were generally supportive of some sort of taxonomy to support the scaling up of sustainable finance, by identifying the activities or investments that deliver on sustainability objectives.

Environmental disclosure, including carbon emissions, is key

- Environmental disclosures and in particular, carbon emissions featured prominently as key disclosures. 6 out of 9 environmental indicators were considered by respondents as important disclosures for FIs' considerations when investing, financing or underwriting.

Governments and regulators can facilitate better disclosures

- FIs supported governmental efforts to provide guidance on key issues such as the quantification of ESG risks and harmonisation of standards.
- Regulators and government were also called upon to offer technical assistance on data collection and calculation methods, standardised disclosure methods, and understanding of frameworks to support Singapore's sustainability priorities.

> An example of the technical assistance suggested was a standard set of calculation for ESG performance that could be aligned to international standards such as the EU Taxonomy. Another example was to provide some assistance to identify the top five, ten things that companies should focus on. The discussants also suggested that the regulator could provide guidance on what kind of data to prepare, so companies could adopt the appropriate actions on reporting.

- The FIs suggested government schemes and tax incentives to encourage sustainable practices.

Recommendations

1. Emerging efforts globally and locally to harmonise reporting standards should continue unabated.
2. Corporates and FIs are called upon to deepen their understanding and disclosures on climate related risks and opportunities. Capacity building is key to deepen understanding and drive meaningful disclosures.
3. Regulators and government can support the transition to a green economy through a series of both 'carrots and sticks'. Regulators should consider providing capacity building support and guidance, and not just financial incentives.

1. Introduction

Hub For Green Finance

The Monetary Authority of Singapore (MAS) recognises that finance plays an essential role in driving long term sustainable economic growth. MAS launched the Green Finance Action Plan in November 2019 at the Singapore FinTech Festival as part of its drive to synergise smart finance and green finance by leveraging on technology to build resilience and develop sustainable markets[1]. As part of this plan, MAS published its Guidelines on Environmental Risk Management in December 2020. These guidelines were developed for banks, insurers and asset managers. They aim to enhance financial institution resilience to environmental risk, and strengthen the sector's role in supporting the transition to an environmentally sustainable economy in Singapore and in the region.

The government revealed on 10 February 2021 the Singapore Green Plan 2030, which contains targets that will strengthen Singapore's commitment to the United Nations' 2030 Sustainable Development Agenda and Paris Agreement as well as position the city-state to achieve its long-term, net-zero emissions goal. Through this plan, the government is taking the lead by issuing green bonds on select public infrastructure projects which will enable the flow of capital towards sustainable development and attract green issuers. These efforts will enable Singapore to emerge as a hub of green finance.

Changing Landscape

30 years ago, a mere 12 percent of companies published SR. Today, 80 percent of companies worldwide now report on sustainability[2]. Among the world's largest 250 companies, 96 percent of them report on sustainability. This is driven not only by new laws and regulations but also by a growing understanding in the finance sector of the power ESG issues have to impact financial performance and corporate value.

Corporates have an important role to play in driving long term sustainable economic growth. The Singapore Exchange (SGX) mandated in 2016 that ListCos have to produce SR annually. Components of the report are included on a 'comply or explain basis'. Mandatory sustainability reporting began for the financial year ending on or after 31 December 2017. SGX commissioned the Centre for Governance and Sustainability (CGS) of NUS Business School to conduct an inaugural study in 2019 to examine the quality of SR among ListCos[3].

The 2019 study by SGX and CGS found that 'SGX's mandatory sustainability reporting requirements have contributed to 3.8-time increase in SR produced. Disclosure of sustainability performance, non-financial risk and opportunities became more prevalent in corporate disclosures.' 'However, clear gaps of disclosures still exist between market capitalisation groups and industry sector groups, and between first-time and mature reporting listed issuers.' In this regard, ListCos in Singapore have room for improvement to make meaningful and impactful disclosures and practices (Loh and Tang, 2019).

The current COVID-19 pandemic has brought much more limelight onto sustainability, particularly the social aspect of ESG. For example, companies have become much more aware of the importance of ensuring the health and safety of their employees, customers and suppliers. Severe local, regional and global restrictions on travel and movement as a result of COVID-19 have also had a wide-ranging effect on economic activities. Besides diseases, natural disasters due to climate change have also inflicted huge losses on businesses. The embrace of sustainability in financing and other aspects of the financial industry and market have thus become more urgent.

[1] MAS website. Retrieved from: https://www.mas.gov.sg/development/sustainable-finance#_green-finance-action-plan.

[2] The time has come" The KPMG Survey of Sustainability Reporting 2020, KPMG IMPACT December 2020. https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf

[3] Sustainability Reporting: Progress and Challenges. Retreived from: https://bschool.nus.edu.sg/cgs/wp-content/uploads/sites/7/2019/12/SGX-CGIO-Sustainability-Reporting-Progress-and-Challenges-Report-2019.pdf

Journey to Green Economy

Singapore is promoting green growth and actively pursuing new opportunities in existing and new sectors. It wants to build an ecosystem to support and equip companies and people with the right skills to seize these opportunities.

MAS signed an MOU with International Finance Corporation in June 2018 to encourage green bond issuances by FIs in Asia. In April 2019, ICBC Singapore Branch issued the world's first green "Belt & Road Inter-bank Regular Cooperation" bond. This is part of the BRI Green Development initiative that aims to support the development of green projects under the Belt and Road Initiative (BRI), enhance financial infrastructure among the Belt Road countries and encourage investors to consider sustainability and climate change benefits of their investments.

In August 2020, the Minister for Sustainability and the Environment, Ms Grace Fu said the sustainability sector is expected to create 55,000 jobs in the next decade, with 4,000 created next year. These include skilled roles in the high-tech agriculture and aquaculture industry, waste management, and public hygiene[4].

On 24 November 2020, MAS announced the Green and Sustainability-Linked Loan Grant Scheme (GSLS) launch, which will be effective as of 1 January 2021. The first of its kind globally, the GSLS seeks to support corporates of all sizes to obtain green and sustainable financing by defraying the expenses of engaging independent service providers to validate the loan's green and sustainability credentials. The grant also encourages banks to develop green and sustainability-linked loan frameworks to make such financing more accessible to small and medium-sized enterprises (SMEs)[5].

China has estimated that it would require USD450-600 billion of investment annually to achieve its green policy goals under the 13th Five-Year Plan. Closer to home, it is estimated that ASEAN will need USD200 billion in green investment annually till 2030[6].

To do so, FIs need improvement in the quality of sustainability disclosures to benchmark the companies they are assessing for sound decision-making. Unfortunately, such information is currently not forthcoming.

[4] Published in The Straits Times on 27 August 2020. Retrieved from: https://www.straitstimes.com/politics/addendum-to-presidents-address-55000-new-jobs-to-be-created-in-sustainability-sector-in

[5] MAS website. Retrieved from: https://www.mas.gov.sg/news/media-releases/2020/mas-launches-worlds-first-grant-scheme-to-support-green-and-sustainability-linked-loans

[6] MAS website. Retrieved from: https://www.mas.gov.sg/news/speeches/2019/nurturing-the-growth-of-green-social-and-sustainability-bonds

2. Research Objective

SGX and CGS conducted an inaugural study on the state of sustainability reporting in 2019. While the study provided an assessment of corporate disclosures from the regulatory viewpoint, it is necessary to understand FIs' perspectives on corporate sustainability disclosures, particularly the main drivers for integrating ESG considerations into their business decisions. It is also important to determine how they are using corporate sustainability disclosures and the impact on their lending and investment decisions. Identifying critical gaps in existing disclosures would better assist issuers to report useful information to FIs, and in turn aid the decision making of FIs.

This study aims to understand FIs' expectations and their roadmap towards improving corporate SR. It provides insights and recommendations for companies' consideration in their SR, while laying the platform for further studies, such as identifying gaps in existing disclosure policies and guidelines and integrating findings into the MAS Financial Centre Advisory Panel (FCAP) Green Finance Industry Taskforce (GFIT). The MAS FCAP is established in 2015 and comprises leaders in the banking, insurance, and asset management industries, aiming to strategize and develop the competitive edge of Singapore's financial sector (MAS, 2015).

3. Research Methodology

The information and data within this report were collected through two methods: gathering FIs' perspectives through a questionnaire and deep diving into the respective topics through focus group discussions. By adopting a two-pronged approach, the study intends to have an overall view as well as a deeper understanding of FIs' perspectives. Responses from the participants are kept anonymous.

The questionnaire participants are referred to as respondents in the report.

The focus group participants are referred to as discussants in the report.

The respondents and discussants are members of the MAS FCAP GFIT. The polling results from the questionnaire and perspectives from the discussions offered insights and suggestions that are useful for a better understanding of the current situation faced not only by FIs, but also the reporting companies.

3.1 Pre-Focus Group Questionnaire

A pre-focus group questionnaire was sent to respective FIs to collect quantitative as well as qualitative responses. A total of 14 institutions responded to the questionnaire, with participants consisting of senior managers and sustainability officers from local and international established financial institutions, asset managers, institutional investors, and insurers under the MAS FCAP. The participants were carefully selected based on their significant influence on sustainability in the organisation and industry they lead and managed, allowing an in-depth and comprehensive understanding of the current condition and challenges concerning sustainability disclosures. The questionnaire consisted of 21 questions covering three key areas: governance; strategy and risk; and disclosures.

The three topics are similar to the three aspects outlined in MAS's supervisory expectations for FIs in their governance, risk management, and disclosure of environmental risk[7].

Governance: FIs were asked to identify key players in the sustainability assessment and decision-making process as part of the organisation's corporate governance structure.

Strategy and Risk: FIs were asked on their strategy, areas of consideration, stakeholder engagement, EESG risk management, and challenges to integrating sustainability in decision-making.

Disclosures: FIs' perspectives on ListCos sustainability disclosures, particularly as SGX and CGS's 2019 study found differences in the rate and quality of sustainability disclosures.

3.2 Focus Group Discussions

Respondents from the questionnaire participated in the discussions, exploring findings from the pre-focus group questionnaire were referenced to draw a list of probing questions for the focus group discussions.

Four focus group discussions were conducted online from August to October 2020, with 52 participants. The one-hour long discussion was recorded with the consent of the participants.

Each session began with a brief introduction of the project and the polling results from the pre-focus group questionnaire. The following topics were discussed:

- Drivers for considering sustainability
- Identifying how FIs can better use sustainability information in their decision making
- Identifying what types of information FIs need
- Barriers to using sustainability information and solutions to addressing barriers

[7] MAS website. Retrieved from: https://www.mas.gov.sg/news/media-releases/2020/mas-consults-on-environmental-risk-management-guidelines-for-financial-institutions

3.3 Research Framework

A company's sustainability efforts can be visualised as a structure built on a foundation of strong corporate governance, with three critical reporting areas. The three reporting areas or pillars are Disclosures and Frameworks, Drivers and Strategy, ESG and Risk Management that support Sustainability Integration.

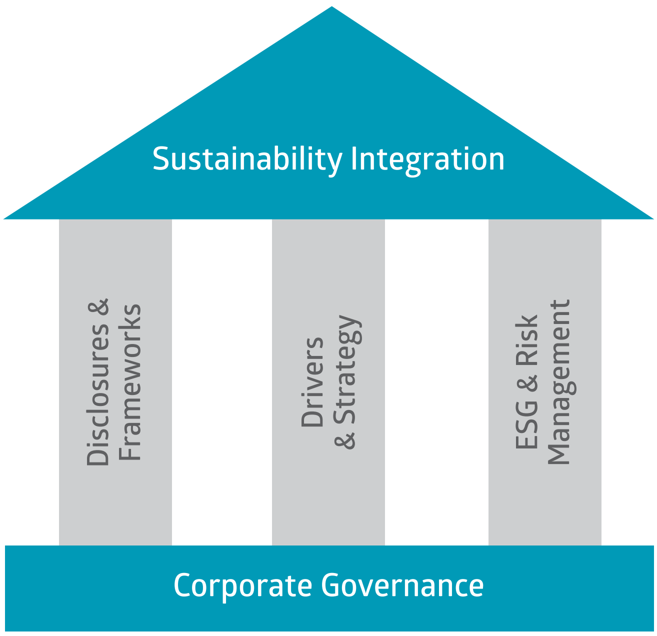
Disclosures and Frameworks refer to the practice of measuring and disclosing an organisation's ESG impacts and the reporting frameworks that were used.

Drivers and Strategy refer to drivers and strategy in sustainability efforts.

ESG and Risk Management refer to the barriers and challenges to ESG disclosures and companies' management of exposure to ESG risks.

Sustainability Integration refers to the connection between corporate reporters to material issues identified by investors and stakeholders, a necessary element in meaningful sustainability initiatives and disclosures.

Figure 1:
Research framework



The diagram in **Figure 1** illustrates how a company would appear to the public if it has a strong foundation, with equally strong pillars of support in sustainability efforts, holding up the company's mission in integrating sustainability disclosures. Taken as a whole, an overall view of the research findings would give a sense of the current state of corporate governance, sustainability disclosures, efforts and integration of sustainability disclosures among ListCos.

4. Research Findings

The research findings from the pre-focus group questionnaire and focus group discussion are organised according to the research framework. We will discuss our findings in turn, as follows:

Corporate Governance

Disclosures and Frameworks

Drivers and Strategy

ESG and Risk Management

Sustainability Integration

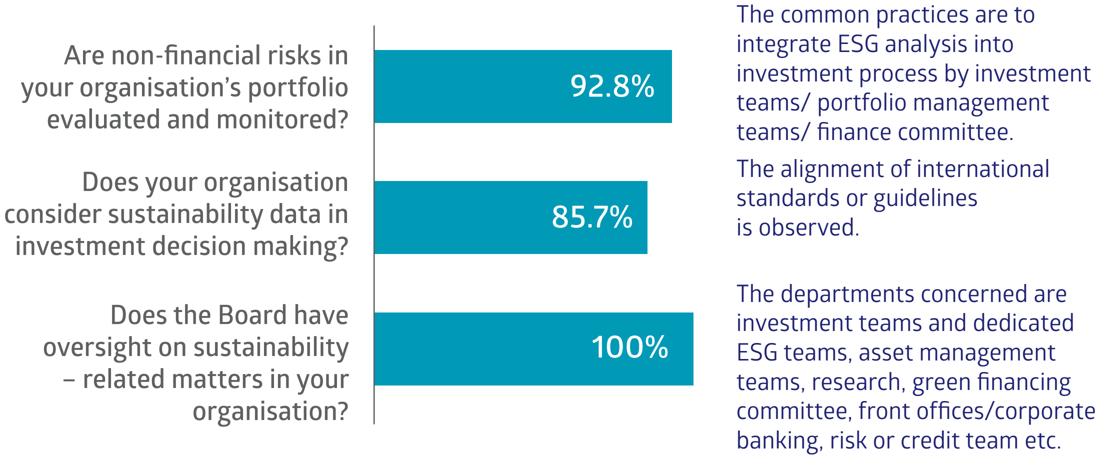
4.1 Corporate Governance

Corporate governance, the exercise of ethical and effective leadership, is essential in the achievement of ethical culture, good performance, effective control and legitimacy. It plays a significant role in the quality of sustainability disclosures, where poor governance can result in incomplete and unbalanced disclosures. Research has shown that a lack of commitment towards sustainability, strategy, or difficulty in translating policies into action (Steward et al., 2016), reduced the value-add to investors and the potential to future-proof the business. Where there is a lack of governance structure and commitment at the board level for sustainability, the SR often reveals a disjointed narrative with the possibility of unsubstantiated claims on sustainability. Balanced and transparent disclosures by companies can provide assurance to the FIs that use this reporting for their decision making, that the companies are actively aware of their potential impacts, they understand the risks to their business and they have put in place measures to address them.

The discussants in this study noted that investors are increasingly seeking greater transparency into how companies address environmental and social trends, including changes in stakeholder expectations, in their business strategy, governance, risk assessment, and measurement and disclosure practices. They commented that investors want companies to report on how sustainability drives and protects value through credible communication of performance and ongoing engagement. FIs also want to see that the Board is actively engaged in integrating ESG into long term strategy.

As such, the Board plays a vital role in overseeing the integration of sustainability considerations in the FIs' investment direction and decision. This is supported by the questionnaire results, which indicated that all FIs have board oversight in sustainability-related matters **(Figure 2)**. 86% of respondents stated that they considered sustainability data when making investment decisions and have dedicated departments or teams handling this aspect. The teams are responsible for overseeing the alignment of international standards and guidelines. In addition, 93% of the respondents shared that they actively examine ESG risks in their investment decision making.

Figure 2:
Financial institutions' views on governance



These insights are anchored by the focus group discussions which emphasised the importance of governance in companies to support the sustainability agenda and greater transparency in disclosures. The discussants noted that sustainability requires companies to have strong governance and commitment to set targets and guidelines.

> "I think one area that gets overlooked is the governance aspect, when sustainability reporting becomes more of a recording exercise. Eventually there will be a divide between what is reported and the types of decision the company makes because there is no strong governance structure in the sustainability reporting itself".

However, the discussants observed that while most companies professed their commitment to sustainability, not all set targets for achieving it. Furthermore, the discussants noticed that a lack of commitment to sustainability and inadequate support from management for sustainability initiatives can result in sustainability reporting being carried out as a compliance-based exercise instead of being steered by the Board. The discussants surmised that a lack of coherence and direction in pushing the sustainability agenda reveals a lack of robust governance structure in the company.

When FIs review companies in their investment portfolio, they often look for signs of strong corporate governance practices, that in turn establish and drive sustainability within the company.

This means companies must show robust and transparent internal controls and policies framework in relation to sustainability development and reporting. FIs felt that only with such frameworks in place, does the company show it is coherent in pushing the sustainability agenda. FIs also expected companies to show that specific considerations for ESG are an integral part of strategic management and corporate planning.

> Elements of "Task Force on Climate-related Financial Disclosures" in terms of the governance approach could be used for other forms of reporting more broadly outside of climate.

4.2 Disclosures and Frameworks

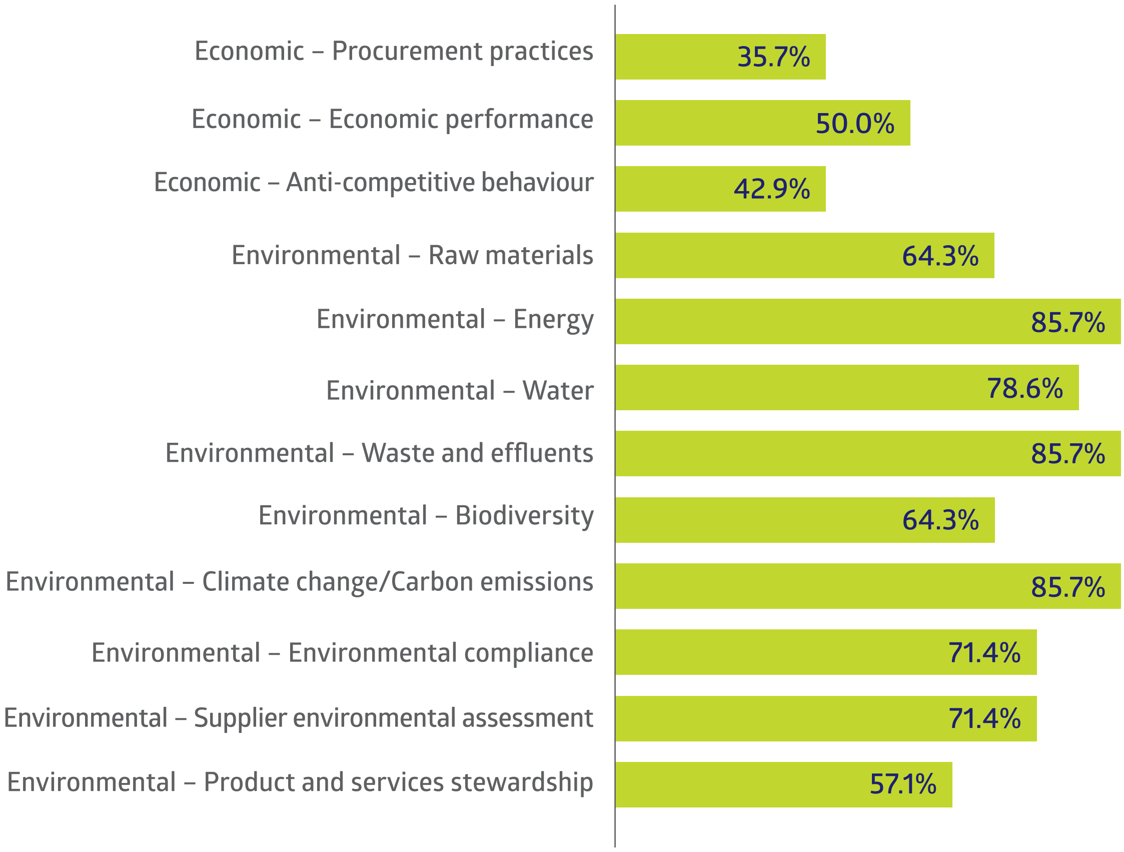
Disclosures

The practice of measuring and disclosing an organisation's ESG impacts is a crucial part of the process of sustainability reporting. Organisations can then be held accountable for their performance while working towards the goal of sustainable development.

As seen in **Figure 3**, 79% to 86% of FIs considered environmental disclosures on energy, water, waste and effluents and carbon emissions to be important to their decision making. In contrast, about 50% or less of the respondents felt that economic related indicators are important information for decision making. The focus group discussions also revealed an emphasis on the prioritisation of environmental factors over economic factors in sustainability disclosures. Energy and GHG emissions remain top multi-industry priorities, in alignment with global ambitions on mitigating climate change.

Figure 3:
Importance of economic and environmental indicators

What sustainability disclosures are most important for decision making?



During the focus group discussions, discussants had highlighted the importance of a common database to track accurate and consistent data, particularly for environmental disclosures. This would facilitate the comparison of data across organisations and within industries. The discussants also highlighted that data consistency could be looked at from a sector/industry level instead of trying to achieve a single reporting format for all sectors/industries to incorporate sector-specific nuances.

For disclosure on social aspects, 71% felt that disclosures on employment practices, as well as diversity and equal opportunities, are important. In comparison, 71% to 79% of the respondents felt that disclosures on corporate governance, anti-corruption and regulatory compliance are important **(Figure 4)**. Although governance is deemed important by most stakeholders, the discussants had highlighted that governance disclosures are often overlooked and not disclosed sufficiently, indicating a need to improve on the transparency on governance-related disclosures.

Figure 4:
Importance of social and governance indicators

Discussion findings revealed a varying degree of difficulty in developing a comprehensive overview and assessment of ESG data reported due to the lack of consistency and poor quality of disclosures. Some companies did not report adequately on material issues and risks or set targets to monitor their sustainability performance. FIs noted that some disclosures and targets had little to do with sustainable development. Some companies also seemed to be setting targets out of convenience to the organisation. All these could signify poor governance of sustainability, the respondents said. This could also result from a lack of understanding of ESG disclosures, which affects the ability to collect and utilise important information.

FIs have difficulties in making meaningful interpretations of the data provided, as well as harmonising the various reporting formats to be able to compare and benchmark companies. For comparability of data, past and consistent data are required to be available for comparisons and forecasting; such information is usually missing or not available for sustainability disclosures (Knebel and Seele, 2015). To ensure comparability of disclosures, it is not sufficient to simply disclose the improvements in percentages (relative indicators), but also to quantify environmental/social/economic impacts as necessary (absolute indicators) (Zsóka and Vajkai, 2018).

Apart from the collection and understanding of data, the accuracy of data is critical. The discussants felt that companies could engage external assurance providers to verify the data provided and bridge the gap between disclosures and practices. Providing technical guidance on data collection and calculation methods and the standardisation of disclosure methods are key areas where the discussants felt that regulators could guide companies as they begin their reporting processes. For instance, regulators could advise on which sustainability reporting standards should be used and identify the types of data that companies should collect and the related criteria, as well as the most relevant material factors for them to report on. Some semblance of consistency across companies within industries may be achieved this way.

> "Regulators probably need to provide guidance on what kind of data should companies, borrowers or listed companies prepare, so that they can start to know what kind of data they need to collect… perhaps maybe even set up separate teams, start engaging sustainability professionals or auditors."

Frameworks

There are currently several internationally recognised frameworks that are used to guide the sustainability reporting process and performance metrics, including GRI, SASB and TCFD.

In terms of framework, the discussants quoted the three aforementioned frameworks as the preferred reporting frameworks for assessment and relevance to stakeholder with GRI as the popular framework globally (KPMG, 2017) and in Singapore with a 90% usage rate (Loh and Tang, 2019). TCFD was cited for its recommendations for strategy, governance, climate-change and risk assessment while SASB was quoted for its focus on materiality analysis. While both the SASB and TCFD frameworks guide reporters in disclosing sustainability data in a systematic manner, each framework has a specific angle and focus that would be applicable to certain sectors or industries. Discussants also noted that the frameworks for sustainability disclosures are constantly evolving and acknowledged that no one framework could be applied across all sectors and industries.

> "Enforcing any one particular framework can result in having a relatively narrow view of materiality and can result in a compliance mindset as companies are just responding by complying".

The discussants highlighted that each of the GRI, SASB and TCFD frameworks have their strengths as well as their limitations. The approach to how materiality is assessed is particularly different between GRI and SASB, with SASB focussed on how sustainability affects the company's financial position, whereas GRI focusses more on a company's contribution to sustainable development. SASB is also thought to be US-centric and needs to be adapted for use in the local and regional context. During the focus group discussion, it was suggested that SASB could be supplemented by quantitative formulation to quantify risk that investors can understand, as the current framework focuses more on qualitative analysis.

To improve comparability of sustainability disclosures, we gathered views from the discussants on whether regulators should mandate a specific framework for reporting; however they thought it premature to regulate a specific framework. The four focus group discussions all identified that regulators should provide a certain level of guidance but not prescription, on the relevant framework for the respective sectors and industries. This is consistent with SGX's current regulation on not mandating any specific framework but providing flexibility for organisations to select the most appropriate framework based on their needs.

Respondents suggested some form of harmonisation at the regional or international level to reduce the complexities involved in adopting the appropriate framework for reporting companies. This would also facilitate efforts to benchmark companies for investment decisions and assist Singapore's vision to be a regional hub for green finance. In line with this, five internationally significant framework- and standard-setting institutions have published a prototype climate-related financial disclosure standard.

The changing landscape of sustainability reporting frameworks

Framework institutions have collaborated to address the challenge reporters face in the understanding of different frameworks. Since 2016, the GRI has developed resources on linking GRI Standards with the Sustainable Development Goals (SDG) (GRI, 2020). In July 2020, GRI Standards and SASB announced a collaborative workplan that aims to streamline the application of both reporting standards and the usage of ESG data to meet the needs of stakeholders.

In September 2020, five of the most widely used international framework institutions released a joint statement for collaboration and a better integration of framework towards a more comprehensive reporting system. This includes the GRI, SASB, International Integrated Reporting Council (IIRC), Climate Disclosure Standards Board (CDSB) and the CDP. The collaboration aims to guide reporters in the usage of multiple frameworks in a complementary manner, while reducing the complexity of collection and usage of sustainability disclosures when making business decisions (CDP, 2020). Through the alignment of different frameworks, reporters, FIs and stakeholders can gain a deeper awareness of how they can disclose sustainability data in an effective and insightful manner.

Following this statement, SASB and IIRC announced their intention to merge into the Value Reporting Foundation by mid-2021. The merger intends to provide investors and corporations with a comprehensive corporate reporting framework across the full range of enterprise value drivers and standards.

In December 2020, the group of five published a prototype climate-related financial disclosure standard that illustrated how their frameworks and the TCFD recommendations can be used together.

The International Business Council has also taken important steps to facilitate the convergence of reporting, through the development of a common set of metrics for disclosure of sustainable value creation, that leverage off existing sustainability frameworks. The core and expanded set of "Stakeholder Capitalism Metrics" and disclosures can be used by companies to align their mainstream reporting on performance against ESG indicators and track their contributions towards the SDGs on a consistent basis.

The IFRS Foundation has stepped to the fore and consulted on establishing a Sustainability Standards Board (SSB) under its structure. The International Organization of Securities Commissions (IOSCO), representing securities regulators globally, has said that it is is working to improve the consistency, comparability and reliability of sustainability disclosure, and will work with the IFRS Foundation and other stakeholders to advance these priorities.

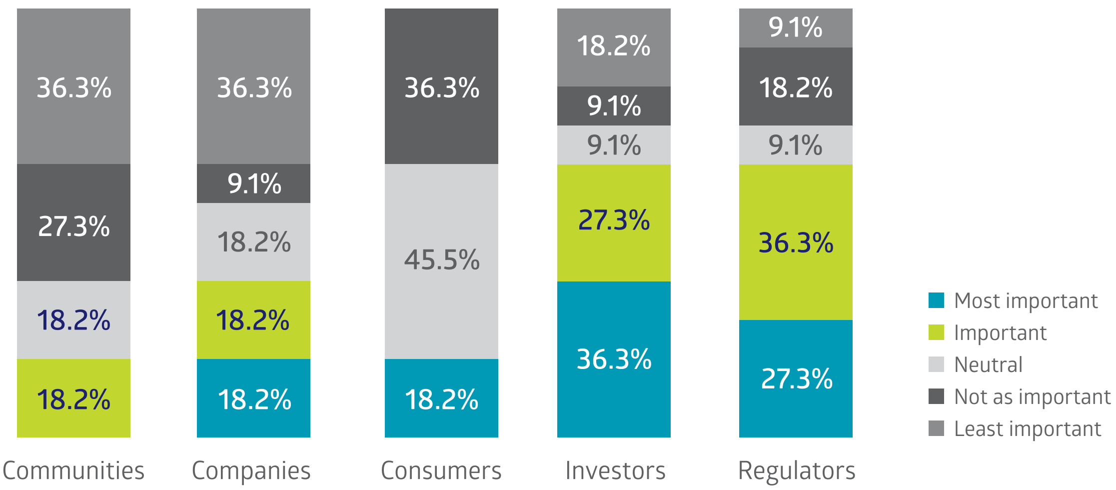
4.3 Drivers and Strategy

Drivers

Questionnaire respondents and focus group discussants were asked to identify the key drivers for sustainability disclosures, as well as their strategy for incorporating sustainability into decision making. The three top drivers identified for sustainability disclosures are regulatory, public pressures and economic factors. The polling results from the questionnaire, as depicted in **Figure 5**, showed that of the five stakeholders identified in driving the sustainability agenda, regulators and investors ranked ahead of consumers, companies, and communities. Regulators are identified as a main driver to push the sustainability agenda as they have the levers to implement policies and practices at the national level.

Figure 5:
Drivers for sustainability reporting

Ranking of the stakeholder groups based on the leading role it plays in promoting sustainability reporting



The discussants supported the polling views, calling for regulators to engage with and provide guidance to business leaders and Boards, citing that a top-down approach would strengthen the governance over sustainability disclosures. Nevertheless, discussants said the market does not want regulators to be prescriptive in their actions.

"We engage with companies in critical sectors and we use voting as an effective tool to communicate these issues."

"We believe that these issues should ideally be managed by the Board and management, and we hold the directors accountable by voting against when it comes to a lack of progress and improving the kind of disclosures that we believe are important."

The Singapore government has been unstinting In its efforts to become a regional hub for sustainable finance. The government could also play a key part in tackling many of the concerns the FIs highlighted.

At the market level, financial institutions play a crucial role in inducing sustainability 'behaviour' in their clients through their lending and investment activities. FIs, as institutional lenders or investors, wield considerably more influence than consumers in moulding companies' behaviours through allocation and cost of capital loans.

Public pressure was suggested as a possible driver for sustainability, particularly due to a growing preference for more environmentally friendly or sustainable products among the younger generation. A 2019 Morgan Stanley Institute for Sustainable Investing questionnaire found that 95% of 'millennials', defined as those born between 1981 and 1996, were interested in sustainable investing[8]. As the strong interest of this demographic group continues to grow, organisations may encounter greater pressure to integrate sustainability into their business decisions, and enhance their disclosures. Other internal and external stakeholders may also push for greater sustainability initiatives.

Local and international banks also have increasing peer pressure to stop lending to oil and coal sectors. For instance, Deutsche Bank pledged to review its diversification plans of coal-connected clients by 2022 and cut ties with companies that make more than half their revenues from coal mining by 2025[9]. Meanwhile, Citibank has also announced that they will stop thermal coal mining financing by 2030 and Goldman Sachs promised to stop funding Arctic drilling in a bid to pull back on coal[10]. With all these different drivers in place, sustainability disclosures will remain relevant in the years to come.

[8] MSCI ESG Research LLC, March 2020, "Swipe to invest: the story behind millennials and ESG investing", https://www.msci.com/documents/10199/07e7a7d3-59c3-4d0b-b0b5-029e8fd3974b

[9] Banking Dive, July 2020, "Citi pledges to stop thermal coal-mining financing by 2030", https://www.bankingdive.com/news/citibank-pledge-stop-thermal-coal-mining-financing/576451/

[10] MarketWatch, Dec 2019, "Goldman Sachs becomes first major U.S. bank to stop funding Arctic drilling, pulls back on coal" https://www.marketwatch.com/story/goldman-sachs-becomes-first-major-us-bank-to-stop-funding-arctic-drilling-pulls-back-on-coal-2019-12-16

Strategy

The respondents were asked to identify their organisation's current sustainability maturity and where they would like it to be by 2030.

The following sustainability perspectives were indicated in the questionnaire:

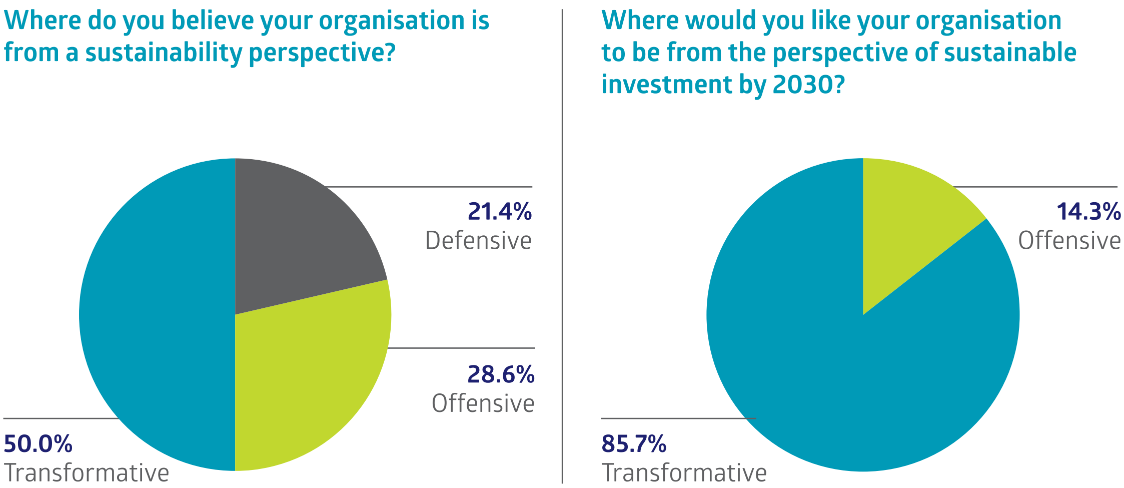
- Defensive perspective: Sustainability efforts are present but not integrated into core business.
- Offensive perspective: Sustainability is hardwired into all business processes. ESG is driven at an operational level.
- Transformative perspective: Sustainability is integrated into the DNA of the business and is driven from a leadership level.

The responses to this question shed some light on the direction and strategy that FIs are adopting in their sustainability agenda.

As shown in **Figure 6**, 86% of the respondents indicated that they would adopt a transformative perspective by 2030, establishing the integration of sustainability into business strategy and driving sustainability from the leadership level. 14% of this group further indicated an aim to adopt an offensive perspective, which stipulates that sustainability would be hardwired in their business operations and ESG would be driven at an operational level.

Currently only 50% identified with having a transformative response, and the remaining respondents indicated that sustainability had not been integrated into their core business yet.

Figure 6:
Financial institutions' sustainability perspective

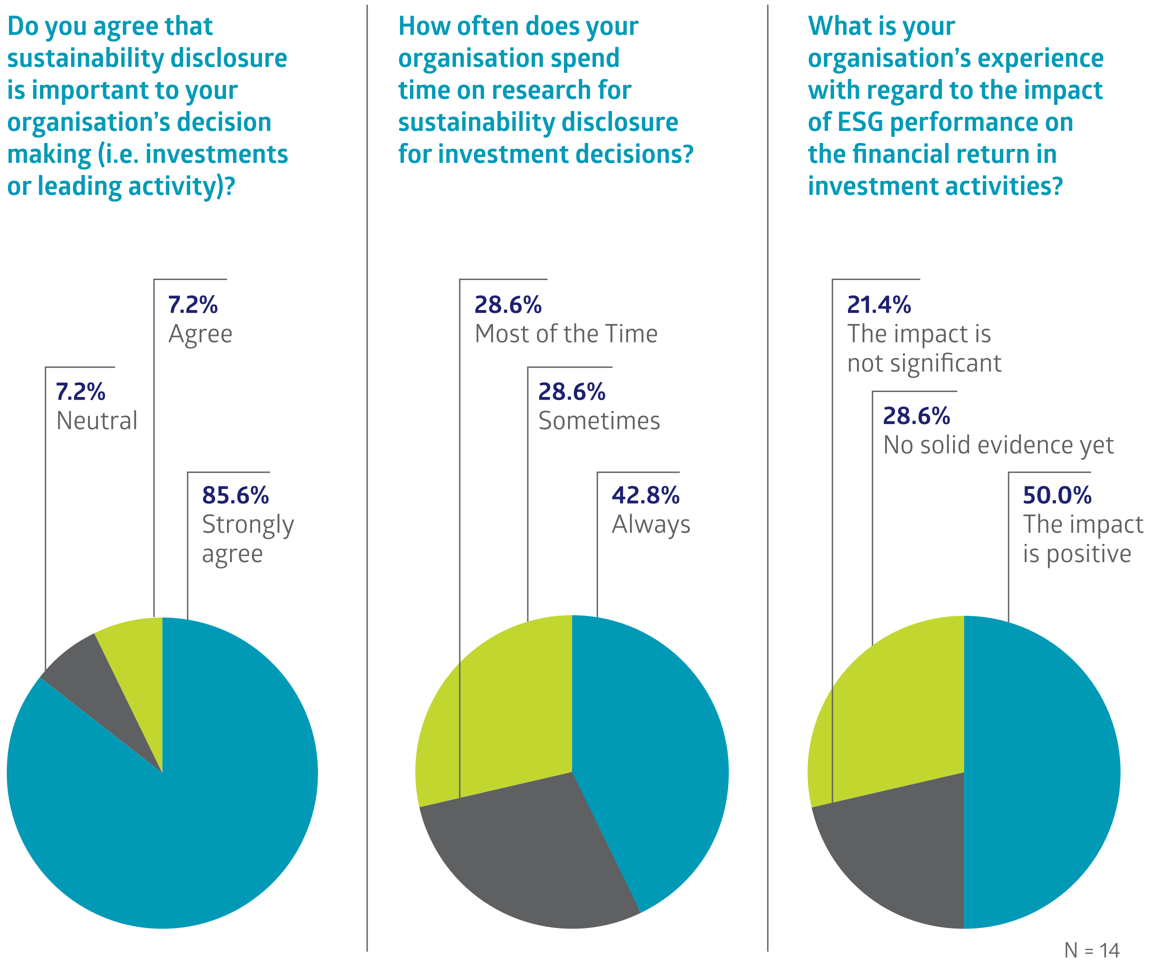


Defensive (Sustainability efforts are present but not integrated into core business); Offensive (Sustainability is hardwired into all business processes and ESG is driven at an operational level); Transformative (Sustainability is integrated into the DNA of the business and is driven from a leadership level).

The respondents were also surveyed on the importance of sustainability disclosures, the time spent on research on sustainability disclosures and the impact of ESG performance on financial return. Similarly, focus group discussants were asked to provide in-depth sharing on the strategies adopted by their organisations, both from the company's perspective and from a lender/investor perspective. According to the FIs, it was integral that business strategy involved strategy on risk management, of which climate change was highlighted to be a critical component.

Figure 7:

Financial institutions views on sustainability disclosures, time spent on research, and impact of ESG performance on financial return

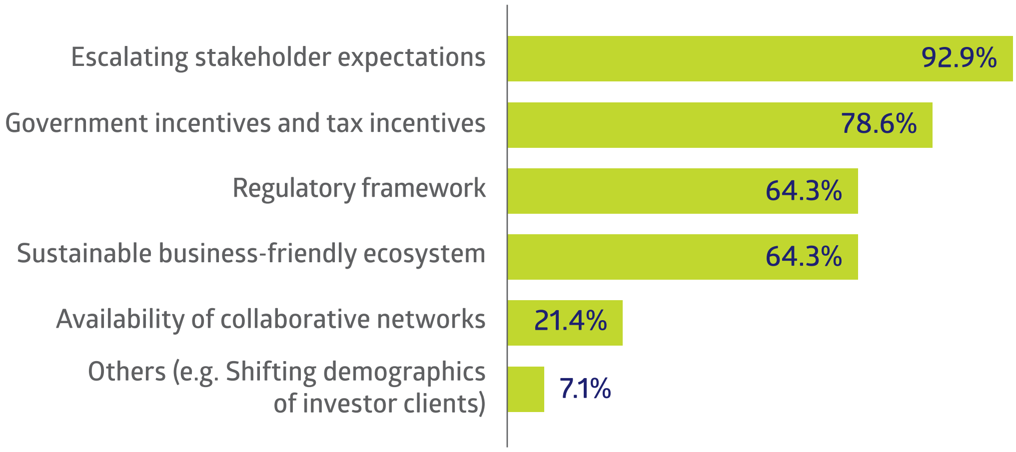


In terms of investment, from **Figure 7**, 93% of respondents agree that sustainability disclosures were important to their decision making, with 71% indicating that their organisation typically reviews sustainability disclosures during investment decisions at least most of the time. Half of the respondents felt that the impact of ESG performance on the financial return in investment activities was positive.

Discussants also commented that different strategies were applied to active versus passive investment. Active investment involves making direct assessments and engagement with the companies they are investing in. FIs engaged in passive fund management looked at the comparability of data and the disclosure of consistent information against specific international standards. An aspect of FIs' strategy also involve industry/sector focus frameworks, whereby asset managers were able to see the quantification of material risks for comparison across industries.

Figure 8:
Incentives for more sustainability initiatives/ policies in lending and investment decisions

Which of the following could be incentives for more sustainability initiatives/policies in your lending and investment decisions?



As seen in **Figure 8**, the questionnaire revealed that most respondents (93%) felt that escalating stakeholder expectations, government incentives and tax incentives (79%) were crucial incentives for sustainability initiatives/policies in their lending and investment decisions. Consistent with the earlier subsection on **"Drivers"**, public pressure was identified as a possible driver in pushing the sustainability agenda.

FIs also play an influential role in advocating sustainability integration in business strategy. FIs prefer a strategy of engagement as opposed to divesting from companies that are not sustainability driven. FIs look for interaction between sustainability disclosures and integration to financial and investment decision making process. Discussants pointed out that when companies provide transparency through disclosures and SR, greater engagement would follow - in the form of more frequent dialogues, assessment of companies' sustainability strategy and validating the governance structure.

Often, a significant amount of data is disclosed without clear links to business strategy and this could affect the drive for sustainability integration. Therefore, it is recommended that the decision-makers in the organisation develop targets, in a manner that enhances the financial and sustainable prospects of the business. Furthermore, FIs have suggested for regulators to actively engage Boards and key management of companies to strengthen their commitment to sustainability.

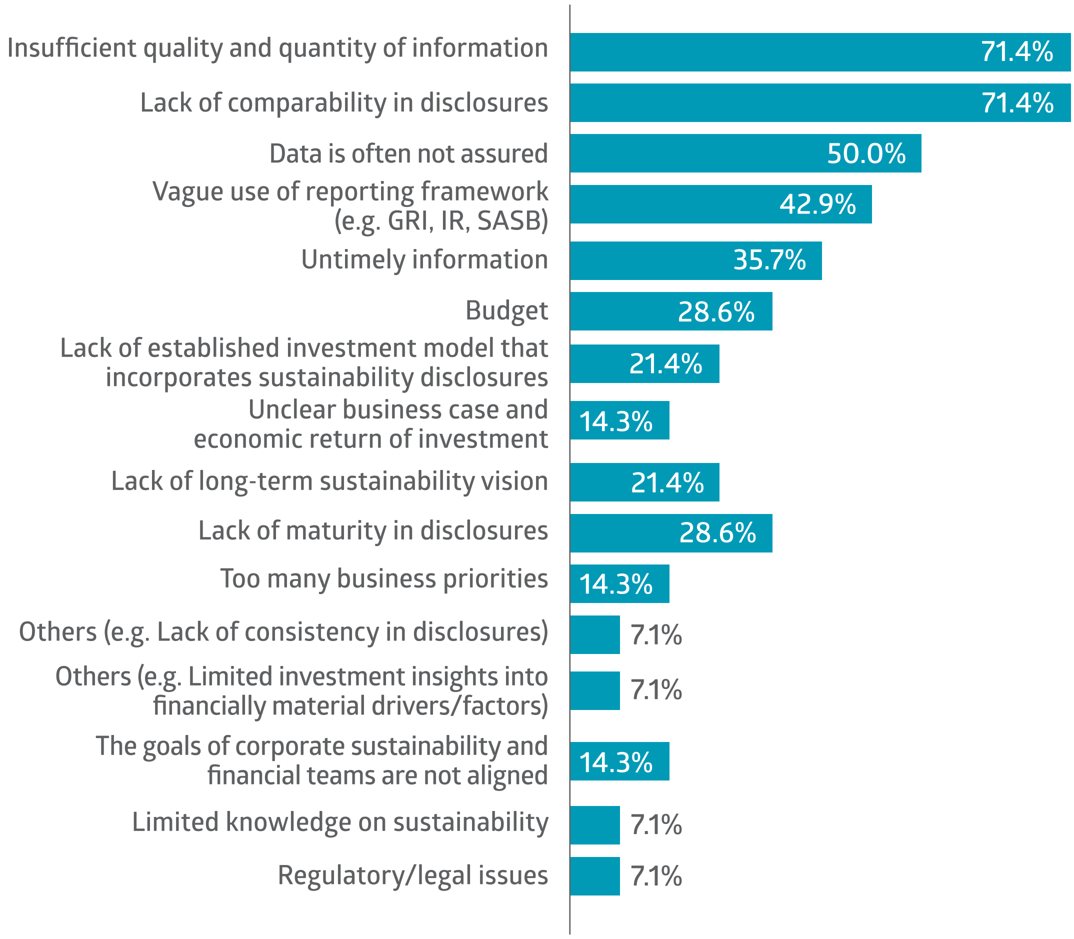
4.4 ESG and Risk Management

ESG

According to the questionnaire, 85% of respondents strongly agreed/agreed that ESG disclosures were important to the organisations' decision-making on strategy. However, there were often barriers when integrating ESG information into decision-making and risk management by FIs.

Figure 9:
Barriers to integrating sustainability in decision making

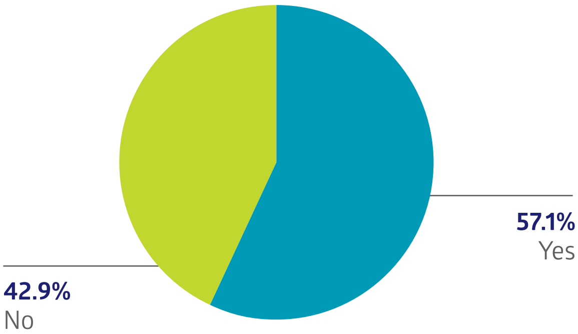
What are the main barriers your organisation faces when integrating sustainability into decision making?



Out of the 16 barriers indicated in the questionnaire, FIs indicated the following four barriers to be the most significant when integrating sustainability in decision-making; (1) 'insufficient quality and quantity of information', (2) 'lack of comparability in disclosures', (3) 'data not assured' and (4) 'vague use of reporting framework'. The responses reflected similar sentiments in the findings in **Section 4.2 Disclosures** on challenges faced by organisations when assessing and integrating ESG strategies. Earlier it was identified that some companies made sustainability disclosures to comply with standards, rather than to contribute to sustainability. Organisations currently focus on reporting on growth, and less on risk in their SR, but FIs are concerned about risks (Sridharan, 2018). There was also the issue of 'data dump', where a large amount of data is produced with little or unproven relevance to the decision-making process (Pinchot and Christianson, 2020).

Figure 10:
Effectiveness of ESG index

Would a publicly available ESG index on the stock exchanges help with your investment decision making?



Respondents were also asked to comment on the effectiveness of an ESG index, with views split 57% in support of, and 43% against. Opponents of the ESG index cited the unclear implications of aggregate data on individual investment decisions, low quality of publicly available ESG data, the oversupply of data rating services, and unclear ESG norms.

Among the three components (E, S, G), the level of disclosures varies. Social components, including factors such as human rights and working conditions, were shared as one of the most challenging factors to quantify. Additionally, some environmental components, were highlighted as niche areas requiring scientific expertise for effective interpretation of data.

Integration of ESG disclosures into decision-making process can introduce risks, but strong ESG propositions correlate with higher equity returns (Khan et al., 2016). Furthermore, an organisation's economic value and value creation for society are interdependent (Alsayegh et al., 2020). While it is unlikely for FIs to be able to address all risks, specific risks can be addressed through an understanding of materiality assessments. Materiality assessments break down the unique ESG risks organisations face and allow FIs to prioritise their decisions based on the importance and urgency of risks.

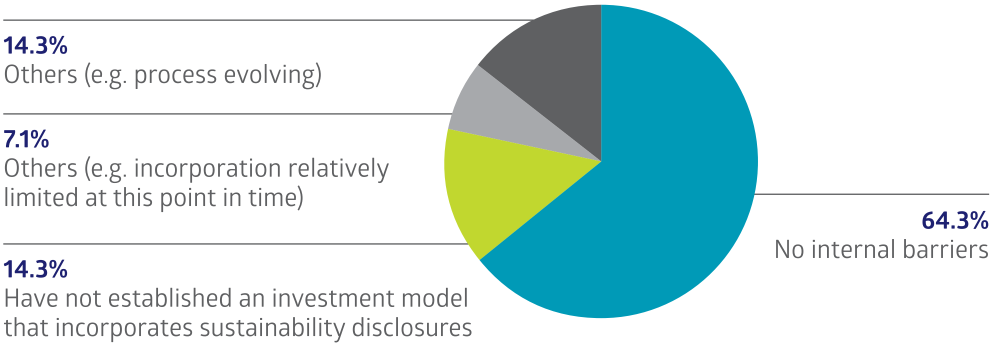
Risk Management

On the other hand, approximately 64% of the respondents indicated that there were no internal barriers to integrating ESG disclosures in the decision-making process. The absence of internal barriers was necessary as part of risk management as it indicates openness and transparency in the decision-making process.

This percentage was consistent with **Section 4.3 Strategy** in which 50% of respondents adopt a transformative perspective, integrate sustainability into their business strategy and drive sustainability from the leadership level.

Figure 11:
Impact of internal barriers on investment decision-making

How do the internal barriers impact your investment decision making process to integrate sustainability disclosures?



Several considerations were quoted for effective risk management to take place. Firstly, to understand and manage the risks posed by ESG factors, quantification of ESG risks is required, although the discussants agreed it was currently difficult to so do. While most FIs have specialised departments or trained personnel looking at ESG risk, it is an area that requires more research as well as guidance from local and international standards. Without proper justification of ESG risk quantification, it can be challenging to integrate ESG into financial or investment decisions and to value-add to businesses and stakeholders. The discussants highlighted that the call for quantification of ESG risks is gaining traction and recommended some form of taxonomy or quantifiable metrics to calculate ESG performance and risks.

Certain ESG indicators featured more prominently in the discussions. In terms of environmental risks, climate-related risks featured high on FIs' risk assessment. Social risks such as the recent COVID-19 pandemic, unrest and labour issues were examples of risk assessments that influenced FIs' investment considerations.

FIs are also calling on the companies to identify and report their exposure to ESG risks, as well as articulate their strategy in managing these risks. While companies may be reluctant to be transparent about exposing their risks, there is benefit in being open by earning the investment community's trust. In addition, discussants understand that sustainable investment requires a long-term perspective and continuous management, particularly as risks directly impact longer-term returns.

While some organisations already weigh the potential environmental and social risks of investment decisions in their risk analysis, the practice is generally still in the nascent stage. FIs believe that they lack a rigorous methodology that can be used to evaluate impact-related risks. They suggested that risk management disclosures become more forward-looking and comparable so that sustainability disclosures can be used in a meaningful manner and value-add to the organisation and stakeholders.

The reinforcement of the disclosure and framework pillar would strengthen the ESG and risk management pillar. This in turn, provides a baseline for FIs and reporting companies to effectively integrate sustainability disclosures in their investment and business strategy.

4.5 Sustainability Integration

Sustainability integration refers to the connection between corporate reporters and material issues identified by investors and stakeholders, a necessary element in meaningful sustainability initiatives and disclosures. All respondents indicated that it was important for their organisations to integrate sustainability into their investment strategy by 2030. Similarly, there is strong support from FIs in this regard, as it is a common consensus that ESG integration adds business value and informs investors. However, many discussants also acknowledged that this sentiment has not yet been translated into actionable outcomes at the company reporting level, nor at a regional level.

Key challenges on ESG integration were highlighted, such as data collection techniques, usage of an appropriate framework and the quality and comparability of disclosures. These challenges would hamper aspiration to integrate sustainability disclosures in decision-making. In the initial process of data compilation, some companies face difficulties in collecting or measuring robust and verified data. Consequently, insufficient or inaccurate data collected resulted in lack of consistency and comparability. For these reasons, implementing policy for actions that contribute to sustainability is a struggle for some companies.

In essence, for the integration of sustainability disclosures to take place, the three pillars identified in this study need to be reinforced and well-constructed. It is necessary for companies to understand how their disclosures fit into their business models to align their internal expertise towards sustainability.

Roadmap for Action

A confluence of factors has precipitated the rise of sustainability in investment considerations. The responses of FIs affirmed this importance. Aligned with this trend, Singapore has also taken action towards better sustainability disclosures and enhanced integration of sustainability into the decisions made by FIs.

Drawing from the in-depth discussions with the FIs' discussants, some recommendations have been proposed, with a broad consideration of Singapore's vision and mission of developing a green economy and becoming a regional hub for green finance.

Sustainability Reporting Standard and Framework Setters

The reinforcement of the disclosures and frameworks pillar would strengthen the ESG and risk management pillar, filling the gap in guidance needed by financial institutions.

In terms of a framework that would help to provide the structure for disclosures, GRI, SASB and TCFD with their distinctive features are currently the preferred options. However, the convergence of sustainability reporting standards is expected, with greater ties to financial reporting.

Creating a taxonomy for classifying activities as green or otherwise would also help FIs better understand the underlying activities within their product or service and better communicate the same. At the time of writing this report, the GFIT had published a Taxonomy for public consultation.

As highlighted by the respondents, the varying use of the different sustainability reporting frameworks and standards by companies caused a barrier to the consistency and comparability of data disclosures. While it is recognised that these frameworks and standards may serve different purposes, it is hoped that harmonisation efforts for use by the financial industry continue unabated. Ensuring that these reporting tools is adapted for the local and regional context is also important.

Corporates and FIs

Among environmental disclosures, FIs have generally converged around placing key focus on carbon emissions. This comes about with the increasing awareness on climate change issues among the financial community, due in no small part to the work of the TCFD in drawing the attention of financial markets to the idiosyncratic and systemic risks that climate change poses.

For FIs to properly evaluate their carbon exposures, they require carbon emissions data from the upstream corporations they invest in, lend to or insure.

Corporates and FIs are called upon to deepen their understanding of the climate-related risks and opportunities that affect their business. Specifically for FIs, this involves assessing their investee companies and their customers to understand the risks that they face. Building awareness and capability can implant carbon consciousness across all echelons within the firm. Boards play a leading role in identifying these ESG risks as well as ensuring that mitigation strategies are in place. Business leaders must manage these risks with a forward-looking, long-term mind-set. Disclosing their carbon emissions is the first step. Having internal or external assurance can further bolster confidence in the reliability of data.

Regulators and the Government

The Government has outlined the Singapore Green Plan 2030 to set the pace for sustainable development. The MAS has issued technical guidance and regulatory requirements or expectations to encourage the inclusion of sustainability policies into investment and lending decisions. SGX has also mandated sustainability reporting.

Regulators and the Government can continue to facilitate the transition of corporate Singapore by using a 'carrots' and sticks' approach. Incentives, whether monetary or otherwise, can catalyse action, while setting mandatory requirements can drive compliance behaviour.

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