Singapore Exchange Regulation Pte. Ltd.
11 North Buona Vista Drive
06-07 The Metropolis Tower 2
Singapore 138589
(Attention: Listing Policy & Product Admission)

12 October 2021

Consultation Paper on "Climate and Diversity: The Way Forward"

Dear Sir or Madam,

The Asian Corporate Governance Association (ACGA) is a non-profit membership association founded in 1999. We conduct research on corporate governance and ESG in 12 markets in Asia-Pacific and advocate at the regulatory and corporate level across the region to improve standards and practices. ACGA is entirely funded by a network of 110 member firms, of which 70% are institutional investors with more than US$36 trillion in assets under management globally.

We welcome the opportunity to respond to the consultation paper *Climate and Diversity: The Way Forward* published on 26 August 2021. Our submission below sets out specific responses to the 10 questions posed by the Exchange. We start, however, with a few high-level comments:

Board diversity
The number of women on boards at all SGX-listed companies at the end of June 2021 was just 13.2%. Meanwhile nearly half of all issuers (46%) have all male boards.[1] It is evident that bold steps are required to address a severe gender gap on the boards of Singapore's listed companies.

ACGA supports SGX's proposal to require issuers to disclose a diversity policy with firmer rules on the disclosure of targets and timelines. However, we believe this measure alone will not drive significant change within a reasonable period. We would urge SGX to adopt a more ambitious agenda befitting its status as an international financial centre: a policy that brings an end to single-gender boards and increases the ratio of female directors at issuers.

Back in 2017, the government's own Council for Board Diversity (CBD) set a target for 20% female board participation at the top 100 SGX companies by 2020, 25% by 2025 and 30% by 2030. Singapore falls short of achieving these goals: on average just 18% of all directors at these issuers are women.

Given the slow pace of change in Singapore on this issue, we believe that it is time to set a firm quota of 30% women on boards within four years (ie, by 2025). While this may seem

[1] Council for Board Diversity figures released on 1 September 2021

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challenging, Singapore could take a phased approach, initially applying this quota to the top 100 companies and Government Linked Companies. Given that this group has already reached 18%, an increase to 30% by 2025 does not seem excessively ambitious. It also means, conversely, that men would still comprise 70% of the board.

Indeed, we are encouraged that all statutory boards in Singapore now have women directors and none have all-male boards. The number of statutory boards with women on boards is almost 30%.

Other markets in the region are taking more assertive steps on gender diversity. India required all listed companies to have one female independent director by April 2020. Korea will require all large listed companies to have at least one female director from August 2022, although many firms have already implemented the change as early as March 2020.

Climate risk reporting
ACGA supports SGX's proposal to require issuers to undertake climate reporting based on the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations. We agree that climate change requires a swift regulatory response and note that, after New Zealand, Singapore would be the among first in the Asia-Pacific region to make TCFD reporting mandatory.

While we favour the proposed phased approach, ACGA believes that there should be a firmer deadline for all issuers to move away from "comply or explain" reporting and suggest a cut-off date of financial years commencing in January 2025 or 2026.

We agree that the specific industries identified by TCFD as suitable for mandatory reporting should be in the initial group of companies moving away from "comply or explain". However, we would like to see SGX widen this pool to the top 100 companies listed in Singapore, as well as all Government-Linked Companies (GLCs).

Question 1: Roadmap towards Mandatory Climate-related Disclosures

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

ACGA is pleased to see the Exchange proposing to move issuers toward mandatory TCFD reporting. We agree with the observation in the consultation paper that "the urgency of the issue demands that we move apace''.

It is evident from the "Sustainability Reporting Review 2021"[2] that assertive action is needed. Less than half of SGX-listed companies (45.4%) currently discuss climate change as an ESG factor and just 35.7% disclose performance data to that effect. A miniscule

[2] Published by SGX RegCo and the Centre for Governance and Sustainability (CGS)

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proportion of issuers (1.9%) use climate-focused frameworks in their sustainability disclosure.

We agree that mandatory TCFD disclosure would help prepare these companies for the prospect of reporting against a global climate standard in the future, as the consultation paper notes, from the International Financial Reporting Standards (IFRS) Foundation.

However, ACGA is concerned that the roadmap set out by SGX is generous. The proposal envisages TCFD climate reporting on a "comply or explain" basis for financial years commencing from January 2022, which would be relevant for annual reports published in 2023. Mandatory reporting would only come into play for annual reports published in 2024 for "some sectors of issuers". This pool would be further expanded to "more sectors of issuers" for reports published in 2025. (See below for an elaboration on which sectors these are likely to be.) This plan would mean that some, possibly a large proportion of, issuers could be reporting on a comply/explain basis through 2025 and beyond.

Given the urgency of the climate change issue and the imminent establishment by the IFRS Foundation of an International Sustainability Standards Board (ISSB), whose first task will be the publication of a set of globally comparable climate reporting standards, we encourage SGX to consider a firmer deadline for all issuers to adopt mandatory climate reporting. We recommend a cut-off date of financial years commencing in or after January 2025 (or 2026 at the latest).

In the coming years issuers in Singapore, as elsewhere, will face increasing pressure from regulators, investors and society to disclose climate risks, metrics and targets, as well as their governance mechanisms for managing these processes. A quicker transition to a mandatory approach would work to Singapore's advantage in our view.

Meanwhile, a more rapid adoption is not only in line with SGX's early endorsement of TCFD and advice to issuers on this topic in December 2017, but also supported by the maturing of sustainability reporting among listed issuers generally in Singapore (as detailed in the consultation paper) and plans by the Monetary Authority to make climate reporting mandatory for banks, asset managers and insurers. As the consultation paper notes, MAS "already expects all banks, asset managers and insurers to make climate-related disclosures by June 2022". And in June 2021 a senior MAS official said in a speech that it would consult soon on "how to transition these expectations into legally binding requirements, against a single, internationally aligned standard". With mandatory disclosure moving ahead quickly in the financial sector, and issuers improving their sustainability reporting year by year, the arguments in favour of continuing "comply or explain" for a portion of listed companies appear much less compelling.

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Question 2: Prioritisation of Industry Sectors

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

Subject to the qualification below, ACGA supports an industry-specific prioritisation as identified by TCFD and the MAS-appointed Green Finance Industry Taskforce (GFIT). As the consultation paper states, the TCFD recommendations cover such sectors as finance and non-financial industries most affected by climate change and the transition to a lower-carbon economy, including: agriculture, food, forestry; energy; materials and buildings; and transportation. GFIT lists a similar set of industries.

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

In addition to the sectoral approach, we would suggest that SGX include the top 100 listed companies and all listed GLCs in the initial list of issuers subject to mandatory disclosure (to the extent they are not already included in the sectoral lists). These companies make up most Singapore's largest listed companies and account for more than a third of the capitalisation of SGX.

Question 3: Amendments to Incorporate TCFD Recommendations

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

Yes. ACGA supports the more precise language proposed regarding the respective roles and responsibilities of the board and management in sustainability strategy and reporting. We also support upgrading the guidance to include new sections on climate-related disclosure, policies, practices, and performance.

Question 4: Sustainability Reporting Framework and ESG Indicators

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

Given the lack of a single global ESG reporting standard and the rapidly evolving nature of this area, including the expected emergence of new ISSB standards, we agree that SGX should not at this stage prescribe specific standards. However, this position should be reviewed as and when a global standard or framework becomes a reality. In the meantime, it is important that Singapore issuers understand how the multiplicity of standards interconnect and the purposes they serve. With the exception of a relatively small number

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of leading companies, it is likely that most issuers remain confused by the competing pressures to report in line with different standards.

Question 5: Guideline on Materiality

Do you agree that the Working Guideline on materiality should be retained?

Yes.

Question 6: Assurance

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

Yes. Internal assurance of sustainability reports is the least that any regulator or shareholder should expect of an issuer. Investors rely on this information and there must be a minimum level of quality control. The consultation paper (paragraph 4.9) nicely summaries how internal audit would go about this task and the value it can add. Indeed, as the paper notes, "The existing internal assurance frameworks should already cover ESG governance, risk assessments and controls." (paragraph 4.10)

In this context, we were dismayed to read that less than one in five (18.4%) of issuers in Singapore obtain any level of internal assurance, with the figure dropping to a miniscule 2.8% for external assurance.

In terms of the scope of coverage, such assurance should at a minimum confirm that the data reported is accurate and complete. But as the Institute of Internal Auditors states, internal assurance can provide much more than this: it can review ESG reporting for consistency with periodic financial filings; it can assess ESG reporting from a materiality and risk assessment (does the reporting cover the most important sustainability issues?); and it can incorporate ESG into internal audit plans.

To the extent that companies rely only on internal assurance, they should be required to disclose the findings of such assurance more broadly.

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

Yes. As the consultation paper notes, external assurance is the ultimate objective: "We consider that the growing investors' demand for consistent, comparable and reliable information must ultimately be met by external assurance of sustainability reports." IOSCO agrees, as does the European Union. And in 2021, the New Zealand government introduced

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legislation requiring "climate-reporting entities", which includes all listed companies, to have their greenhouse gas (GHG) emission data assured.

External assurance, however, is easier said than done. Not only do assurance standards vary, including the terminology used to describe the scope and reliability of any work done, but companies face the challenge of deciding which parts of their sustainability report to have assured. It is an expensive process and boards want to ensure that any external assurance is valued by end-users, in particular investors. In simple terms, the usual starting point is materiality—the specific ESG data points, governance processes, and internal risk controls that are most relevant to each individual company's situation and valuation.

Yet ACGA research into external assurance in Asia has found that much of it is extremely limited in scope (ie, focuses on just a few metrics) and often fails to opine on the governance processes that should provide oversight of reporting. The tendency is for issuers to cherry pick the most flattering parts of their sustainability reports to be assured, notably metrics in which they have a high degree of confidence or processes where they know they perform well. And we rarely come across ESG assurance reports that have been qualified.

One critical perspective is that if a sustainability risk is material enough to have a major financial or business impact, it should be discussed in the annual report and assessed alongside the financial statements. The obvious candidate is climate risk and there are growing calls from the international investment community for external auditors to assess TCFD reporting in line with their audit of the financial statements.

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

Yes. We would encourage full disclosure of any internal or external report, with a basis of opinion, description of the standards adopted, and discussion of recommendations for the board as to how sustainability risks can be better reported and managed.

Question 7: Training for Directors

(a) Do you agree that the mandatory training for First-time Directors should include a specific component on sustainability? If so, please provide your views on the specific topics relating to sustainability that should be covered.

ACGA supports mandatory training for first-time directors to include a specific component on sustainability.

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

ACGA agrees that all directors should undergo training on sustainability, but this should not be limited to a one-off session. As SGX itself notes in the consultation paper, "climate reporting is a journey for many issuers.'' Sustainability reporting standards and frameworks are complex and evolving. Directors' ability to navigate this area requires not only a sound knowledge of the fundamental metrics, but a constant sharpening of skills in properly gathering, scrutinizing, and disclosing such relevant ESG information to shareholders. We would strongly advise ongoing training for directors in this area to upgrade their skills, with disclosure of the nature, duration, and source of such instruction in annual reports.

Question 8: Reporting Timeframe

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

Yes. We agree with the proposal to mandate the publication of sustainability reports at the same time as annual reports. Investors have an increased demand for strategically relevant ESG information which is also financially material. It is a logical step to issue such reports at the same time as annual reports.

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

We have no objections to this proposal given the limited experience that Singapore issuers have of ESG assurance.

Question 9: Board Diversity

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

ACGA supports a revision of the Listing Rules requiring issuers to have a diversity policy disclosed in annual reports. However, we do not believe that the scope of this policy should be limited to the board.

Issuers should be required to provide a company-wide policy which sets out a clear strategy to improve diversity at board, senior management, and employee level. Current diversity demographics should be disclosed, including gender and age. Investors also seek information opportunities within the company for senior female employees to ascertain the number of women in leadership positions and a pipeline of potential board candidates.

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We elaborate on specific features of diversity policies which are most beneficial to investors in question 9(d) below.

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

Given Singapore's very low rate of female participation on boards, it is apparent that it is time to prioritise gender in diversity policies—arguably a lack of emphasis on gender has led to meagre progress in this area.

Gender should be a requisite element of issuers' diversity policies to address the dearth of female representation on boards. While ACGA believes diversity is not limited to gender, at this stage in Singapore's capital market development it is an issue which needs to be addressed at policy level as a matter of priority.

The rate of progress is particularly discouraging given the relatively high level of female representation at executive level. We note from a PWC report ("Board diversity disclosures in Singapore: from intent to outcomes") which reviewed the diversity disclosure in annual reports of 159 SGX-listed companies that women account for 30% of female CFOs. Yet they are not being elevated to board positions.

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

ACGA supports the setting of hard targets—numerical figures, rather than general statements of intent. Issuers should disclose current gender ratios within the board and senior management and set goals to address specific diversity deficiencies. Investors should be given a detailed update in each annual report as to how these targets have been met and what measures have been taken to achieve them.

Unfortunately, our experience is that issuers tend to view a diversity policy as a series of noble principles it adheres to rather than a tangible plan of action. A roadmap which gives a detailed account of initiatives being taken by the board, particularly in the recruitment process, is highly desirable.
We would encourage SGX to require specificity to improve the quality of disclosure. Already it appears that despite a relatively high number of SGX-listed firms having board diversity policies in place, the quality is of dubious value. PWC noted in its report on board diversity that up to 80% of companies have a diversity policy but only one in 10 outlines quantitative objectives. None of the companies PWC surveyed set out qualitative objectives. Only 18% of firms defined their plans to achieve their objectives and 24% disclosed what progress had been made in doing so.

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(d) Apart from targets, accompanying plans and timeline for achieving the targets, what other component, if any, must be part of the issuers' disclosure on their board diversity policy?
We would stress that gender diverse boards are now a key voting consideration for institutional investors. Based on feedback from our members, ACGA would suggest including the following components—

- Details of the basis upon which the issuer sets its targets, including industry and corporate demographics.
- Details of how targets are being met and if not, why, and how the board plans to remedy this.
- Specific disclosure of what steps the board is taking in the internal and external recruitment process to encourage the appointment of more female board members. Is the issuer hiring specialist recruiters? Does the issuer require a quota of female candidates to be fielded in the recruitment process? To what extent has the board relied on personal networks to find directors?
- Details of what steps the nomination committee is taking to improve the ratio of women on the board. We strongly support the appointment of female candidates to the nomination committee as a practical way to appoint more women on boards.
- Disclosure of what steps are being taken to broaden the skill set of female employees and provide them with experience to prepare them for board roles.
- Details of access to training and other workplace initiatives for female employees.

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

ACGA encourages disclosure of a detailed skills matrix for all directors and an evaluation of board performance on an annual basis. There is a tendency among issuers to limit disclosure of a directors' suitability for a board role to educational and professional qualifications, as well as past corporate experience.

We favour more explicit reporting on director skillsets, but in the context of diversity would welcome a board statement on gaps in the diversity balance and how it intends to mitigate this in its board refreshment process.

Question 10: Implementation

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

We have no specific comments.

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We would be happy to discuss any of the points raised in this letter or in our Questionnaire response.

Yours truly,

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Secretary General

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