

RESPONSE TO CONSULTATION PAPER ON CLIMATE AND DIVERSITY: THE WAY FORWARD

Singapore Exchange Regulation invites comments on this Consultation Paper. Please send your responses through any of the following means:

Email	listingrules@sgx.com
Mail	Singapore Exchange Regulation 11 North Buona Vista Drive #06-07, The Metropolis Tower 2 Singapore 138589 (Attention: Listing Policy & Product Admission)

Please include your full name and, where relevant, the organisation you are representing, as well as your email address or contact number so that we may contact you for clarification. Anonymous responses may be disregarded.

SGX may make public all or part of any written submission, and may disclose your identity. You may request confidential treatment for any part of the submission which is proprietary, confidential or commercially sensitive, by clearly marking such information. You may request not to be specifically identified.

Any policy or rule amendment may be subject to regulatory concurrence. For this purpose, you should note that notwithstanding any confidentiality request, we may share your response with the relevant regulator.

By sending a response, you are deemed to have consented to the collection, use and disclosure of personal data that is provided to us for the purpose of this Consultation Paper or other policy or rule proposals.

Please refer to the Consultation Paper for more details on the proposals.

Respondent's Information

Name(s)	Yvette Kwan
Organisation (if applicable)	ASIFMA
Email Address(es)	ykwan@asifma.org
Contact Number(s)	+852 2531 6573
Statement of Interest	Please refer to our introductory paragraphs below

Disclosure of Identity

Please check the box if you do not wish to be specifically identified as a respondent:

I/We do not wish to be specifically identified as a respondent.

On behalf of the Asset Management Group (AAMG)¹ of Asia Securities Industry & Financial Markets Association (ASIFMA)², we would like to submit our responses to the Singapore Exchange Regulation Pte Ltd (SGX) Consultation Paper on Climate and Diversity: The Way Forward.

Our members who are predominantly global asset managers, are pleased to have the opportunity to present our views during this consultation. As stewards and owners of capital, we welcome initiatives that strengthen the frameworks that uphold the integrity and thus viability of capital markets. To this end, our members are generally supportive of the proposed enhancements to the SGX's listing rules on climate and diversity, proposed by the SGX.

¹ ASIFMA Asset Management Group (AAMG) is a separate division of ASIFMA set up to represent the interest of asset managers. AAMG currently has 37 members, most of which are among the world's largest asset managers. A list of the AAMG members can be found in <https://www.asifma.org/membership/members/>

² ASIFMA is an independent, regional trade association with over 150 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive and efficient Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the [GFMA](#) alliance with [SIFMA](#) in the United States and [AFME](#) in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

Consultation Questions

Question 1: Roadmap towards Mandatory Climate-related Disclosures

Do you agree with the proposed roadmap towards mandatory climate-related disclosures, consistent with the recommendations made by the Task Force on Climate-related Financial Disclosures (**TCFD**), and the recommendations, "**TCFD Recommendations**)? You may also provide suggestions on the roadmap.

Please select one option:

Yes

No

Please give reasons for your view:

AAMG supports the adoption of TCFD Recommendations by issuers. We have recently published a paper entitled 'Investor's ESG Expectations: An Asian Perspective' which specifically focuses on why investee companies should adopt best practice on ESG matters, why it is important to investors, and exactly what investors would like to see investee companies disclose. In fact, we recommend that issuers adopt the TCFD Recommendations not just for climate, but for broader sustainability issues. We hope SGX will find the ideas in the paper useful in shaping future regulations. A link to the English / Chinese version of the paper is available at <https://www.asifma.org/publications/>.

Our members appreciate that issuers are not impacted by climate-related risks and broader sustainability issues equally. We agree with the phased approach that SGX is proposing that adopts mandatory requirements for industry sectors which account for the highest GHG emissions first. We would argue that issuers in these sectors, such as energy, possess the most institutional knowledge and are the most advanced in thinking about sustainability, and can and should be subject to higher mandatory climate reporting requirements initially.

*We do however recognise the difficulties in obtaining comparable and consistent climate-related disclosures due to fragmented and inconsistent reporting frameworks across and within industries and jurisdictions. As such, we believe that it is essential to work towards a single, globally adopted disclosure framework and set of standards, as is envisaged by the creation of the Sustainability Standards Board (**SSB**) under the IFRS Foundation, and the SGX's roadmap should give due consideration to these international developments.*

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 the Green Finance Industry Taskforce).

Please select one option:

Yes

No

Please give reasons for your view:

We agree with a prioritisation based at first instance on industries given the materiality of climate-related issues to certain industries, however we refer you to our answer to Question 2(b) for more details of the hybrid model we prefer.

Classification systems: *Our members believe that widely-used classification codes for industry segmentation, like Global Industry Classification System (GICS), would provide greater clarity for both issuers and investors as to which companies would fall under priority sectors. Given the wide prevalence of conglomerates in Singapore, we would like to see certain revenue thresholds in place to ensure that conglomerates with a significant presence in prioritised industries be in scope even if classified under another industry.*

Industry sectors: *Some of our members are inclined to support the five sectors identified by TCFD including the financial industries, whilst others are inclined to support those industries identified by the Green Finance Industry Taskforce (GFIT) as being most appropriate for the local and ASEAN context. Our members however agree that prioritised sectors should be required to mandatorily disclose their climate-related disclosures as soon as possible.*

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

Please select one option:

Yes

No

Please give reasons for your view:

We realise that smaller companies in prioritised sectors may still be subject to significant climate-related risks, but their resource constraints should be recognised. Our members would suggest that prioritisation based on industry be overlaid by a size threshold which incorporates several dimensions, such as market capitalisation, total assets, revenues and number of employees. The reason for a basket of size determinants is that market capitalisation alone may be volatile and influenced by the level of leverage, relative to total assets. On the other hand, revenues in certain extractive sectors can also be volatile due to commodity price fluctuations and total assets could be relatively low in certain service sectors, despite high levels of emissions.

We do not think the issuer's listing board should be used as the basis for prioritisation. For example, it would be unfair to smaller companies on the Mainboard, if companies on Catalist were to be exempted from certain disclosure requirements.

To be clear, the rules should still ensure mandatory reporting for prioritised industries, but the level of disclosure should be commensurate with the size of operations especially during the transitory implementation phase. Ultimately however, climate risk affects all companies, and we would like to see more rather than fewer SGX issuers in scope to adopt an effective framework to report how this systemic risk is being managed. Therefore, we urge SGX to clarify how it plans to expand the universe of mandatory reporters to 'more sectors' in FY 2024 and beyond.

Question 3: Amendments to Incorporate TCFD Recommendations

Do you agree with the proposed amendments to incorporate the TCFD Recommendations in the sustainability reporting regime in the Listing Rules?

Please select one option:

- Yes
 No

Please give reasons for your view:

AAMG agrees that this is a reasonable first step to incorporate TCFD Recommendations in the sustainability reporting regime in the Listing Rules. We recognise that the data and methodologies that TCFD recommends is still being developed and difficult to mandate. As climate-related disclosure requirements evolve internationally, we would expect that the requirements in the Sustainability Reporting Regime would also evolve. SGX needs to balance requirements to ensure they are not too prescriptive at this nascent stage, and the desire by investors, operating across jurisdictions, for comparable data. In the meantime, SGX should encourage issuers to disclose the challenges they face in respect to data, such as Scope 3 disclosure, and the steps taken to address such challenges.

Question 4: Sustainability Reporting Frameworks and ESG Indicators

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

Please select one option:

- Yes
 No

Please give reasons for your view:

We agree that SGX should not at this point in time, prescribe specific sustainability reporting frameworks and ESG indicators. We believe it is premature and worth waiting. AAMG has responded to the IFRS Foundation's Consultation Paper on Sustainability Reporting and supports their efforts to create a coherent and comprehensive set of internationally recognised, investor-focused, industry-specific sustainability reporting standards.

Question 5: Guideline on Materiality

Do you agree that the working guideline on materiality, as stated in the Sustainability Reporting Guide, should be retained?

Please select one option:

- Yes
 No

Please give reasons for your view:

We believe that the working guideline on materiality is useful and provides sufficient guidance for issuers and should be retained for now. An update should be considered when the anticipated International Sustainability Standards Board under the IFRS Foundation comes up with a new definition.

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?

Please select one option:

- Yes
 No

Please give reasons for your view:

We recognise that some issuers will get their sustainability reports assured, but it may be premature to mandate it for all issuers. For those companies that do obtain assurance, it is important to disclose what components of the report have been assured, against what standards, and why.

Until we have a standardised assurance framework, we believe issuers should produce their sustainability reports with the same level of rigour and controls as they observe in producing financial reporting. Given the audit committee's experience in financial statement assurances, SGX could provide useful guidance on the committee's role in ensuring the accuracy and integrity of sustainability information being disclosed.

Ultimately, we believe that sustainability reports should be assured but this should not be performed solely by financial accountants or auditors. Because of the complexity of sustainability issues, the assurance requires experts with knowledge of different areas of ESG, such as climate risk and human rights. Having the right combination of people to assure is critical.

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

Please select one option:

- Yes
 No

Please give reasons for your view:

Please refer to our answer to Question 6(a).

- (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.

Please select one option:

Yes

No

Please give reasons for your view:

Should companies decide to get their sustainability reports assured, we agree that issuers should be required to disclose this information in their sustainability report. The disclosure should include:

- *The level and scope of assurance, including specific data points assured. Blanket assurances of sustainability reports would not be useful.*
- *Whether the assurance has been performed in accordance with recognized assurance standards (such as ISAE 3000, SSAE 3000, AA 1000, the ISO, or the GRI)*
- *Name of person or body responsible for oversight and signing off on internally assured report*
- *Name and qualification of external assurer(s) employed, if any*

Question 7: Training for Directors

- (a) Do you agree that the mandatory training for directors that have no prior experience as a director of an issuer listed on the SGX-ST (**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?

Please select one option:

Yes

No

Please give reasons for your view:

Our members believe that at a minimum, director training on sustainability should include:

- *Key concepts in sustainability and climate change, including other aspects of sustainability, such as biodiversity, human rights and equality*
- *The TCFD Recommendations*
- *Impact of companies' actions and behaviour on internal and external stakeholders*
- *Financial impacts resulting from sustainability risks*
- *Directors' duties and responsibilities to stakeholders*
- *Sustainability reporting, including who is responsible for the report, and investors and regulators' motivations*
- *Details and implications of Singapore's Corporate Governance Code*
- *Relevant material ESG issues*

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

Please select one option:

Yes

No

Please give reasons for your view:

All directors should understand sustainability, given its impact on the governance, strategy and risk management of a company. We believe that one-time training may not equip directors with the necessary skills or knowledge required, given how rapidly evolving the sustainability landscape, regulatory changes, disruptive innovative technologies and shifting consumer trends can be. We believe that at least the directors directly responsible for the oversight of sustainability issues should undergo regular refresher training of sustainability-related knowledge and skills to stay abreast of trends. This includes understanding developments in major international and regional sustainability principles, frameworks, standards and regulations.

Furthermore, the type and nature of training that the directors undergo should be publicly disclosed in the company's sustainability report.

Question 8: Reporting Timeframe

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

Please select one option:

Yes

No

Please give reasons for your view:

Investors and other stakeholders are increasingly monitoring companies' disclosure and management of sustainability-related issues to analyse and determine if there could be potential voting implications at the company's AGM. They look specifically at companies' sustainability reports to gain an understanding of the company's sustainability initiatives, as well as its management of a broad range of material issues traditionally defined as 'non-financial' risks.

We believe that material sustainability issues should actually be considered by issuers when preparing the annual report. Having companies provide timely, accurate, and comprehensive reporting on both financial statements and sustainability risks increases both data sets' usability and relevance. For regional precedence, the Philippines is requiring simultaneous issuance of the annual report and sustainability report.

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

Please select one option:

Yes

No

Please give reasons for your view:

Some of members do not believe that there should be a disclosure lag for issuers who have conducted external assurance for their sustainability reports. Timely information on material sustainability data is crucial for investors to prepare for the company's AGM. Furthermore, we believe that sustainability assurance can be planned accordingly for simultaneous publication with the annual report, similar to how interim audits are conducted for financial reporting (done quarterly).

Question 9: Board Diversity

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

Please select one option:

Yes

No

Please give reasons for your view:

Our members believe that diversity of perspectives for board discussion and decision-making are vital in enabling effective leadership and financial performance of a company. We expect boards to disclose their board diversity policy, including their approach, actions, and progress towards achieving diverse representation, including the demographic profile of the incumbent board. The format or medium that the issuer uses to disclose its board diversity policy is not important as long as the policy is regularly updated and readily accessible for stakeholders, particularly in preparation for the issuer's AGM.

- (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?

Please select one option:

Yes

No

Please give reasons for your view:

Gender is an important aspect of diversity that should be included in an issuers' board diversity policy. Significant advances in boardroom gender diversity have been made in markets such as the US, Canada, Australia, the UK, and the European Union, through voluntary initiatives and mandatory quotas. Our members are interested to see such changes across Asia, including addressing gender diversity at the senior management level (and broader workforce) of an issuer as explained in our response to Question 9(c).

The board's approach and definition of the different aspects to diversity should be mentioned. Other dimensions of board diversity include, professional characteristics such as a director's industry background, area of expertise and geographic location of said expertise, as well as personal factors such as ethnicity and age, albeit of less concern in the region as opposed to gender diversity.

(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?

Please select one option:

Yes

No

Please give reasons for your view:

Our members agree that targets for achieving stipulated diversity, accompanying plans and timelines for achieving the targets should be embedded within issuers' board diversity policy, allowing shareholders to consider the company's commitment to diversity. Disclosure of time-bound targets would allow us to assess the approach taken (and progress against targets) by the company given its business and the broader context in which the company operates.

Specifically, some of our members believe that specific targets should address gender diversity across boards, senior management levels and the broader workforce (with some advocating for 50% targets for gender diversity on boards).

(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?

Please select one option:

Yes

No

Please give reasons for your view:

On top of targets, accompanying plans and timeline, issuers should include disclosure on:

- *Board renewal and diversity consideration policies*
- *Steps the Nomination Committee (or equivalent) is taking to enhance board diversity*
- *The director appointment or nomination process. How unconscious biases may be addressed, and safeguards to ensure the robustness of the selection process to ensure that directors are not just appointed to fill quotas*
- *If search firms or recruitment consultants are used to identify candidates, whether the Nomination Committee (or equivalent) assessed the consultant's abilities to identify and place diverse directors, especially first-time directors*
- *How the board integrates the differing perspectives of members to facilitate inclusive leadership*
- *Approach and policy in relation to gender pay gaps*
- *Approach and policy for a company's suppliers on diversity and inclusion*

(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?

Please select one option:

Yes

No

Please give reasons for your view:

Boards should conduct regular assessments and disclose how directors contribute to the diversity matrix, taking into consideration diversity of experience, expertise and perspective, and the independence of individual directors. Apart from the demographic profile of the incumbent board, we would like to see forward looking disclosure that addresses diversity gaps that the board is looking to resolve with incoming directors.

Question 10: Implementation

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

Please select one option:

Yes

No

Please give reasons for your view:

The phased implementation, including application of the 'comply and explain' regime in the initial financial year, provides sufficient time for issuers to prepare for enhanced disclosure, assurance and training requirements.

We do note the nascent nature of sustainability reporting, with estimated data, unavailability of data and other factors potentially outside an issuer's control. As a result, we would expect issuers to provide an explanation of data limitations in the relevant disclosure, where applicable. The SGX should also adopt a pragmatic approach to the enforcement of the rules that recognises and does not penalise genuine efforts to comply with the rules.