



Friday, 5th February 2016

Attn: Ms Yeo Lian Sim, Mr Richard Ooi, Mr Michael Tang
Singapore Exchange Limited
11 North Buona Vista Drive
#06-07, The Metropolis Tower 2
Singapore 138589

Dear Ms Lian Sim, Mr Ooi and Mr Tang,

Response to the consultation paper “Sustainability Reporting: Comply or Explain”

We welcome the opportunity to respond to your consultation on the proposed changes to the Singapore Exchange’s sustainability reporting requirements. We would like to first express our strong support for your objective to strengthen environmental, social and governance (ESG) disclosure requirements for the benefit of issuers and investors alike.

The Climate Disclosure Standards Board (CDSB) is a consortium of businesses and environmental organisations, formed at the World Economic Forum in 2007. We are an international organisation committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental information with the same rigour as financial information in mainstream reports, such as the annual report.

Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems. The *CDSB Framework for reporting environmental information*¹ helps issuers fulfil the “environmental” section of ESG reporting by providing guidance on reporting robust, clear and comparable information to investors.

CDSB is a project of CDP (formerly Carbon Disclosure Project) and thus the responses included herein represent CDP’s views as well. CDP recognizes ESG disclosure is not yet the norm for many Southeast Asian corporations compared to other regions and would encourage companies embarking down this path to pursue a phased in approach and further consult environmental disclosure guidance documentation.

For over a decade CDP has worked with companies to catalyse action towards more sustainable world and designed roadmaps for new disclosers to climate change for companies all freely available on CDP’s website². CDSB provides an important focus for formalizing and advancing the significant progress CDP has made in developing climate change-related reporting by bringing it into mainstream financial reporting. CDP provides the secretariat to the CDSB consortium, advancing its work program in association with leading representatives of the accounting, business, standard setting and regulatory professions.

Our specific and general comments on the consultation follow in the appendix below. Please do not hesitate to contact us if you have any further queries.

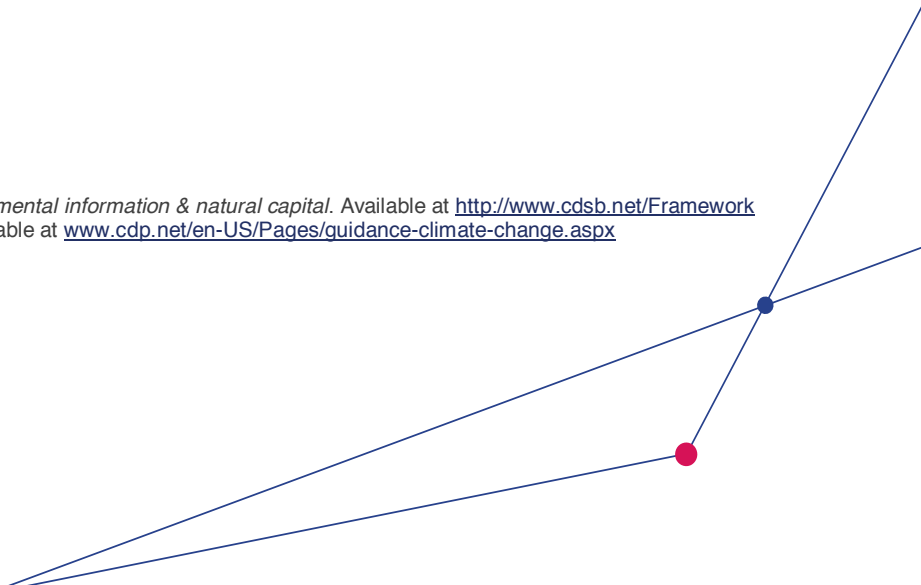
Kind regards,

Michael Zimonyi
Senior Project Officer
Climate Disclosure Standards Board

¹ CDSB (2015) *CDSB Framework for reporting environmental information & natural capital*. Available at <http://www.cdsb.net/Framework>
² CDP (2015) *Climate change program guidance*. Available at www.cdp.net/en-US/Pages/guidance-climate-change.aspx

.....
E: michael.zimonyi@cdsb.net
T: +44 (0) 203 818 3939
www.cdsb.net

.....
3rd Floor, Quadrant House
4 Thomas More Square
Thomas More Street
London, E1W 1YW



Appendix – Consultation response

Statement of interest

CDSB's interest in the consultation stands from our mission to advance and align the global mainstream corporate reporting model to equate natural capital with financial capital.

In addition, CDSB has published proposed corporate climate change reporting requirements for implementation by stock exchanges³. Following this work, we have been actively engaging with exchanges globally on the implementation of voluntary and mandatory environmental reporting requirements. As part of this, CDSB has been working with the UN Sustainable Stock Exchanges Initiative by contributing to its Model Guidance on Reporting ESG Information to Investors⁴ and through its regional dialogues.

Due to our area of expertise, all of our comments relate to the reporting of environmental information only.

Summary of major points

1. **Integrated reporting:** The benefits to issuers and investors of integrating sustainability information into their annual report have been well documented^{5,6}. We therefore strongly encourage the Exchange to specify that sustainability information shall be reported in the annual report, at the same time as the financial information.
2. **Alignment with financial information:** We commend and support the Exchange's efforts to align the reporting of financial and sustainability information through its requirements. We believe that this attention to detail will result in information that is more suited to investor decision-making.
3. **Investor audience:** Our interpretation of the requirement is that the reported information is intended for the issuer's current and potential investors. We support this specification if this is the case, but suggest that this is made clearer in the requirement to help issuers ensure that their reporting is prepared with this audience in mind.
4. **Guidance:** The update to the Exchange's guidance for reporting sustainability information will play an important role in the success of this update. For this reason, we have included comments to the certain specifics for the guidance, in relation to these updated requirements.

Responses to consultation questions

Question 1: 'Comply or explain' basis

Do you support sustainability reporting in the form set out in this consultation paper on a 'comply or explain' basis, giving listed issuers the opportunity to explain their individual practices and reasons for deviating from specified requirements?

We support the Exchange's efforts to implement these requirements on a 'comply or explain' basis. We base our opinion on our review of the FTSE350's compliance with the "comply or explain" requirements of the UK

³ Climate Disclosure Standards Board (2014) *Climate resilient stock markets*. Available at <http://cdsb.net/markets>

⁴ UN Sustainable Stock Exchanges Initiative (2015) *Model Guidance on Reporting ESG Information to Investors: A Voluntary Tool For Stock Exchanges to Guide Issuers*. Available at <http://www.sseinitiative.org/wp-content/uploads/2015/10/SSE-Model-Guidance-on-Reporting-ESG.pdf>

⁵ More than 90% of investors polled believe it would be valuable for companies to combine nancial and non- financial information into an integrated reporting model. Source: ACCA (2013) *Understanding investors: directions for corporate reporting*. Available at <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/financial-reporting/pol-afb-ui02.pdf>

⁶ International Integrated Reporting Council (2015) *Integrated Reporting and investor benefits*. Available at http://integratedreporting.org/wp-content/uploads/2016/01/1323_CreatingValue_No3_8a-1.pdf

.....
E: michael.zimonyi@cdsb.net
T: +44 (0) 203 818 3939
www.cdsb.net

.....
3rd Floor, Quadrant House
4 Thomas More Square
Thomas More Street
London, E1W 1YW

Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, where 90% of companies disclosed information regarding the environmental impacts of their business operations⁷. Of the 10% that did not, 70% provided an explanation as to why that information was omitted. We see this as evidence that a 'comply or explain' approach can be effective in practice.

However, we strongly encourage the Exchange to consider requiring that this information is incorporated in the issuer's annual report only as part of this requirement. As information that is intended to be provided for an investor audience, the right placement for such information is alongside the issuer's financial information. This ensures that it is presented in a way that is of most use to the users of the report, including the non-specialised mainstream investor community. Reporting sustainability information in the annual report encourages comparability with the issuer's financial reporting. It also inherently brings with it more rigorous preparation of the reported information, thus ensuring its quality and, in turn, the usability in the reported sustainability information by investors.

Integrating financial and sustainability information is also in line with international trends and best practice. Encouraging companies to report sustainability information therefore can place them in a more favourable position internationally.

Question 2: Frequency of sustainability reporting

Do you agree that the sustainability report should be issued on an annual basis, within 5 months of the end of the issuer's financial year?

We agree that sustainability information should be issued on an annual basis. We also strongly agree with specifying that this information should be reported for the same period as the issuer's financial information, as this is crucial for the usability of the sustainability information for investor analysis alongside financial information.

To provide further alignment between financial and ESG information, we suggest that the guidance to the requirement suggests that information should be prepared for the entities within the boundary of the organisation, or group, for which the financial report is prepared and, where appropriate, to distinguish information reported for entities and activities outside that boundary.

However, we recommend the Exchange to align the period for releasing this information with that of the period for reporting financial information, to within 4 months after the end of the issuer's financial year. Although we are sympathetic with the Exchange's intentions to reduce the burden on issuers by staggering the deadlines for various types of reporting, it is important to consider that sustainability information is intended to be used **in conjunction** with financial information. Not having sustainability information available at the same time as financial information may have considerable negative effects on the usability of this information by investors and others.

Question 3: Primary components

Do you agree that the 5 items listed above should be required in the sustainability report? You may suggest additional items, giving reasons for your suggestions.

Yes, this covers most of the requirements for reporting developed through our analysis. In addition, we suggest to include

- *Risks and opportunities* under **Material ESG factors** – 4.1 (a);
- *Performance and comparative analysis* against **Targets** – 4.1 (c):

⁷ Climate Disclosure Standards Board (2016) *Comply or explain: A review of FTSE 350 companies' environmental and greenhouse gas reporting in annual reports*. Available at <http://cdsb.net/FTSE350>

.....
E: michael.zimonyi@cdsb.net
T: +44 (0) 203 818 3939
www.cdsb.net

.....
3rd Floor, Quadrant House
4 Thomas More Square
Thomas More Street
London, E1W 1YW

- If the guide to these requirements includes a list of reporting frameworks in connection with 4.1 (d) **Sustainability reporting framework**, we would suggest that the *CDSB Framework for reporting environmental information & natural capital*⁸ is included, in the hope that it will be of use to issuers.

Question 4: Stakeholder engagement

Do you agree that stakeholders should be engaged in determining the material ESG factors? Should this verification process be considered essential and therefore included as a primary component of sustainability reporting?

To answer this question, it is important to consider the intended purpose of the reporting in question.

Currently, sustainability information may be of interest to a wide variety of users including investors, consumers, non-governmental organisations, UN agencies, ratings agencies and others trying to assess the positive or negative contribution that reporting organisations are making to climate change. This means that reporting organisations have difficulty in interpreting what is material for reporting purposes (as most sustainability information is likely to be material to one or more of the possible audiences) and in understanding how information might influence the decisions of the possible users.

We propose that, just as the users of financial reporting are clearly stated for financial reporting, the Exchange identifies users of this information and define their needs so that information is reported to satisfy the needs of the stated users. As the crucial link between issuers and their current and potential investors, we believe that it would be most appropriate for the Exchange to focus the purpose of these reporting requirements to inform providers of capital (i.e. current and potential investors).

With this in mind, we would agree with the recommendation to engage this stakeholder group in determining the material ESG factors.

Question 5: Materiality

Do you agree with this working guideline of materiality? If there are aspects which are inappropriate, please identify, explain and suggest a better alternative.

We support this definition of materiality. We can see its roots in the definitions offered by the International Integrated Reporting Council and the International Accounting Standards Board. We hope that this in turn will help ensure the consistent application of considerations for determining materiality across financial and sustainability information, aiding the consistency and comparability of financial and sustainability information for the users of these reports.

Question 6: Anti-corruption and diversity

Should anti-corruption and diversity be considered essential and therefore included as part of the primary components of sustainability reporting?

CDSB has no comments on this aspect of the consultation.

Question 7: Responsibility of the Board

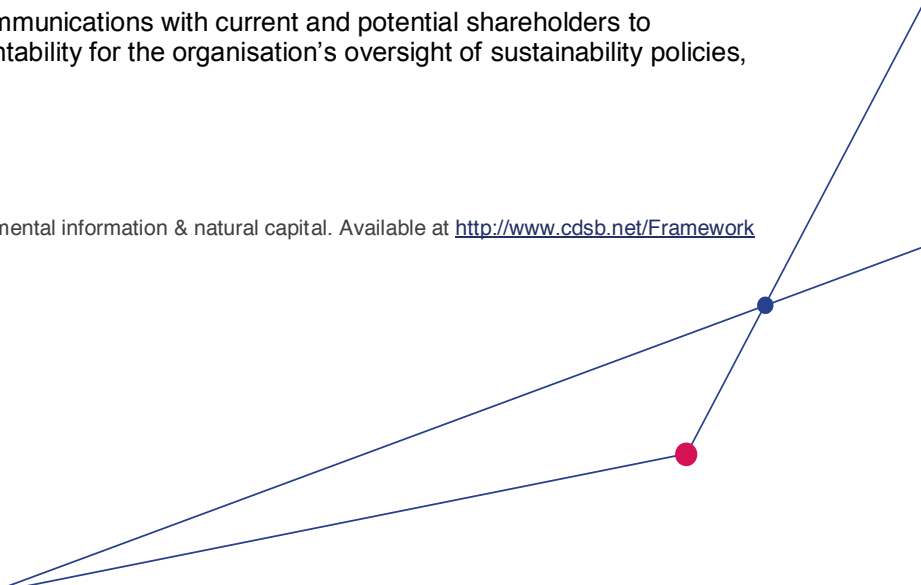
Do you agree with the specific roles and responsibilities assigned to the Board with regard to sustainability reporting?

Yes. We see this as a key component of communications with current and potential shareholders to demonstrate transparency about and accountability for the organisation's oversight of sustainability policies,

⁸ CDSB (2015) CDSB Framework for reporting environmental information & natural capital. Available at <http://www.cdsb.net/Framework>

.....
E: michael.zimonyi@cdsb.net
T: +44 (0) 203 818 3939
www.cdsb.net

.....
3rd Floor, Quadrant House
4 Thomas More Square
Thomas More Street
London, E1W 1YW



strategy and information. Successful sustainability policies require the support and leadership of an organisation's Board.

Question 8: Independent assurance

Do you agree that assurance should be voluntary? If you disagree, please give reasons.

Yes. CDSB encourages organisations to engage with assurance providers to agree an appropriate assurance approach according to existing standards such as International Standards on Assurance Engagements (ISAE) 3000 or 3410, or similar national standards.

Question 9: Phased approach

Do you agree that sustainability reporting should be implemented by way of a phased approach?

Yes. A phased approach set over a reasonable number of reporting periods may minimise the burden on reporting issuers and encourage them on the quality of information they report, rather than requiring them to report all factors, regardless of the quality of information.

.....
E: michael.zimonyi@cdsb.net
T: +44 (0) 203 818 3939
www.cdsb.net
.....

3rd Floor, Quadrant House
4 Thomas More Square
Thomas More Street
London, E1W 1YW

