SUSTAINABILITY REPORTING AND ESG REPORTING: A GENERAL OVERVIEW

Introduction

1. As extreme climate and weather events increase in frequency globally, S-ESG Reporting[1] of companies has become vital. The importance of S-ESG Reporting has been recognized by both the Finance Ministers of the Group of 20 and Central Bank Governors which have, together, tasked the FSB to address climate-related issues in S-ESG Reporting. To this end, the FSB convened a global TCFD which recommended that companies' financial reports ought to include climate related disclosures. Singapore equally recognizes the importance of S-ESG Reporting and thus actively contributed to the TCFD. This article now offers guidance on local S-ESG reporting requirements.

The Importance of Sustainability Reporting

2. S-ESG Reporting is crucial for improving the transparency, accountability, and regulatory compliance of companies. S-ESG reporting also boosts corporate reputation, investor relations and long-term success. S-ESG reporting thereby attracts and creates socially-conscious investors and consumers and as such, results in sustainable growth in companies and a positive impact on society and the environment.

A Brief Overview of Global Trends in S-ESG Reporting

3. Firstly, mandatory reporting regulations imposed by governments and regulatory bodies worldwide are becoming increasingly common and the EU CSRD is one such example. Secondly, there has been a push towards standardized reporting and regulatory frameworks examples of which include the: (a) GRI; (b) SASB; (c) ISSB; (d) Non-Financial Reporting Directive; (e) EU Sustainable Finance Disclosure Regulation; (f) CSRD; and (g) TCFD. Thirdly, companies are increasingly merging sustainability and financial reporting to provide a comprehensive view of a company's performance thereby helping stakeholders understand sustainability efforts and risks, which can in turn reduce companies' financing costs. Fourthly, advanced technologies such as big data and AI have been leveraged to improve the accuracy, transparency, and efficiency of sustainability reporting. Lastly, there has been an increased emphasis on climate-related disclosures such as in relation to a Company's carbon footprint and greenhouse gas emissions.

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[1] All acronyms used in this article are defined in a glossary attached after the end of this article.

4. We understand that large multinational companies in the EU may require companies which provide services to them (and such companies may be outside the EU) to provide compliance reports. In this connection, as observed in the preceding paragraph, there are many overlapping global reporting standards which companies need to comply with when performing S-ESG Reporting some of these standards apply to companies located in most countries whilst others apply largely to companies located in countries in the EU.

A Brief Overview of Rising Standards of Stakeholder Expectations in relation to S-ESG Reporting

5. Firstly, company stakeholders increasingly expect thorough and transparent disclosures of a company's S-ESG practices. Secondly, stakeholders expect that S-ESG Reporting should focus on material issues relevant to the company's environmental and societal impact. Thirdly, stakeholders expect companies to engage a broad range of stakeholders and incorporate their feedback into sustainability strategies. Fourthly, there is also greater emphasis on demonstrating how sustainability practices support a company's long-term value creation, resilience, and are in alignment with a company's business goals. Lastly, independent third-party verification is increasingly expected to ensure credibility and reliability of S-ESG reporting.

Brief Overview of the Regulatory Landscape in Singapore: Key Laws, Regulations and Parties Governing and Impacting Sustainability Reporting in Singapore

6. The key laws, regulations and parties governing and impacting S-ESG Reporting in Singapore are set out as follows:

   a. SGX RegCo and Singapore Exchange Listing Rules

      i. The SGX RegCo oversees sustainability reporting which was initially introduced on a voluntary basis in 2011 and made mandatory in 2016, by way of Rule 711A of the Mainboard Rules and Catalist Rules and Practice Notes 7F and 7.6 of the SGX Catalist Rules and Mainboard Rules, although only on a "comply or explain" basis. A phased approach to strict mandatory climate reporting (i.e., not merely on a "comply or explain" basis) is being implemented such that by 31 December 2024, climate reporting would be mandatory for issuers in the: (a) financial industry; (b) agriculture, food and forest products industry; (c) energy industry; (d) materials and buildings industry; and (e) transportation industry. For other issuers, climate reporting would remain on a "comply or explain" basis.

      ii. SGX RegCo recognizes the UN Sustainable Stock Exchange initiative which has identified 6 major sustainability reporting frameworks which are the: (a) GRI; (b) SASB; (c) International Integrated Reporting Council's integrated reporting; (d) CDP Global; (e) TCFD; and (f) Climate Disclosure Standards Board's framework for reporting environmental and climate change information.

      iii. Additionally, SGX RegCo has led a push towards adopting standardized reporting and regulatory frameworks. Before 7 March 2024, it had prescribed the TCFD recommendations for climate-related disclosures. On 7 March 2024, following the Sustainability Reporting Advisory Committee's recommendations, SGX RegCo issued a consultation paper to seek market input on how ISSB standards ought to be incorporated into sustainability reporting rules.

b. Monetary Authority of Singapore

   i. The MAS drives sustainable finance by developing guidelines for financial institutions to incorporate ESG considerations.

c. The ACRA and SGX RegCo

   i. On February 2024, ACRA and SGX RegCo released the Climate Action Report with the following key points:

      1. From FY2025, listed issuers must conduct climate reporting, with some exemptions.

      2. From FY2027, Large NLCos (i.e., companies limited by shares with annual revenue of at least S$1 billion and total assets of at least S$500 million) will be required to perform climate reporting, although some Large NLCos may be able to take advantage of certain exemptions.

      3. In 2027, the Sustainability Reporting Advisory Committee will evaluate whether companies with annual revenue between S$100 million to less than $1 billion should be required to perform S-ESG reporting by FY2030.

      4. Scope 3 GHC Emissions reporting for Large NLCos will not be required before FY2029. ACRA will provide at least 2-years' notice period for Large NLCos to prepare for reporting.

   ii. The Singapore Academy of Law and the Singapore Venture and Private Capital Association

      1. In the Startup Fund Raising space, the Singapore Academy of Law and the Singapore Venture and Private Capital Association introduced the VIMA in 2018 to balance investor and company interests. This has been updated to VIMA 2.0, which includes sample agreements for incorporating ESG provisions into share or convertible note financing. Early-stage companies can use a short form agreement, while later-stage companies may opt for a long-form version.

   iii. The Singapore Code of Corporate Governance

      1. The Code offers guidelines to foster high corporate governance standards. Although it does not specify sustainability reporting requirements, adherence to its principles, such as Principle 13 on stakeholder engagement, promotes strong S-ESG Reporting in listed companies in Singapore.

   iv. Legislation regarding Pollution and Energy Conservation in Singapore

1. Singapore's environmental legislation includes the Environmental Protection and Management Act 1999, Radiation Protection Act 2007, Environmental Public Health Act 1987, Prevention of Pollution of the Sea Act 1990, Clean Air Act and Water Pollution Control and Drainage Act. The Energy Conservation Act 2012 governs energy conservation. Collectively, the aforementioned pieces of legislation provide a regulatory framework for environmental protection and energy conservation in Singapore.

v. Sustainable Singapore Blueprint 2015

1. Introduced by Prime Minister Lee Hsien Loong on November 8, 2014, the SSB outlines Singapore's vision and strategies for a more sustainable and liveable city. To align with the SSB's goals, Singaporean companies should adopt robust S-ESG reporting to support the country's sustainable development objectives.

vi. Carbon Pricing Act 2018

1. The CPA is a part of Singapore's strategy to meet its Paris Agreement commitments and to promote energy and carbon efficiency. It mandates emissions reporting for registered facilities based on a monitoring plan. Companies should include compliance with the CPA in their S-ESG reporting to track their progress in adhering to Singapore's regulatory framework and thereby ensure accountability to, and engagement with, stakeholders.

Challenges and Opportunities for Companies and Individuals in the Road Ahead

7. Companies face several challenges in sustainability reporting compliance, including navigating complex and evolving standards, collecting accurate data and defining reporting scope. Further, the integration of ESG considerations into core business strategies, engaging stakeholders and conducting materiality assessments of ESG issues are resource-intensive processes. Additionally, obtaining third-party assurance to enhance the credibility of a company's sustainability report involves extra costs and effort. Lastly, under the CPA, carbon tax is chargeable on certain greenhouse gas emissions emitted by certain qualifying entities in Singapore. Companies would thus be challenged to adopt greener practices to reduce their carbon emissions thereby reducing their carbon tax whilst ensuring that such compliance does not lead to too great an increase in the price of their goods and/or services.

8. Thus, in light of the challenges aforementioned, there are many opportunities for innovation and leadership in sustainability report which include: (a) enhancing reporting frameworks; (b) using AI for data collection; (c) developing new ESG KPIs; (d) creating interactive reporting formats; (e) promoting third-party assurance; (f) merging financial and sustainability reporting; (g) setting transparency benchmarks; and (h) establishing robust data governance. Additionally, the move towards reducing carbon emissions for Large NLCos can result in a new line of business opportunities for SMEs to innovate and create solutions to reduce carbon emissions of such Large NLCos.

Concluding Remarks

9. In conclusion, sustainability reporting is critical to facilitate any investor’s and shareholder’s assessment of a company’s environmental impact and growth prospects. Further, as aforementioned, effective S-ESG Reporting enhances transparency, accountability, and compliance with regulations which thus boosts corporate reputation, investor relations and long-term success. Additionally, in companies’ attempts to reduce carbon footprint, new innovations in technology and goods and services will be likely to occur which will be of benefit to Singapore. As such, companies should stay updated on best practices and guidelines regarding S-ESG Reporting and, given the efforts of multiple parties to improve S-ESG Reporting as highlighted above, S-ESG Reporting of Singapore companies appears to be on a clear pathway of improvement in the years to come.

10. However, S-ESG Reporting compliance will mean that Large NLCos will have to start adopting more sustainable practices across their entire supply chain and such compliance may result in increases in the cost of goods and services. Nevertheless, such a consequence has to be accepted as an inevitable trade-off in achieving a cleaner and greener Singapore.

11. If you enjoyed this article, please stay tuned to our website and LinkedIn page for updates as we will be releasing more articles on sustainability in Singapore.

Glossary of Terms

Term	Definition
ACRA	Accounting and Corporate Regulatory Authority
AI	Artificial Intelligence
Climate Action Report	Turning Climate Ambition into Action in Singapore – Reponses to the Public Consultation on Sustainability Reporting Advisory Committee's Recommendations
Code	Code of Corporate Governance
CPA	Carbon Pricing Act 2018
ESG	Environmental, Social and Governance
EU	European Union
FSB	Financial Stability Board
GRI	Global Reporting Initiative
ISSB	International Sustainability Standards Board
Large NLCos	Large Non-Listed companies
SASB	Sustainability Accounting Standards Board
S-ESG Reporting	Sustainability and ESG reporting
SGX RegCo	Singapore Exchange Regulation
SSB	Sustainable Singapore Blueprint 2015
TCFD	Task Force on Climate-related Financial Disclosures
VIMA	Venture Capital Investment Model Agreements

About Lee & Lee's ESG Practice Group

The firm's ESG Practice Group calls upon the firm's cross-disciplinary expertise and full-service capabilities to address the full range of environmental, social, and governance issues faced by businesses in Singapore. Whether you are an international investment company embarking on a sustainability-linked infrastructure project or a small-medium enterprise navigating environmental regulations, our team of subject-matter lawyers stand ready to offer practical, effective, and commercially-sensible guidance and expertise amidst the evolving ESG regulatory landscape.

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