Publication: The Business Times, p 10
Date: 17 Augsut 2016
Headline: Getting your company ready for sustainability reporting

Getting your company ready for sustainability reporting

The clock is ticking and, as a director says, "companies that do not have sustainable business practices are already being shunned by customers, lenders and investors". BY THEMIN SUWARDY AND MELVIN YONG

ONLY about 50 Singapore-listed companies have so far put out sustainability reports, even as the clock ticks down to the year-end when new guidelines for sustainability reporting kick in, say consultants.

This represents just over 6 per cent of all companies listed on the Singapore Exchange (SGX).

In June, SGX announced new guidelines on sustainability reporting, which require listed companies to review their sustainability practices every year.

The guidelines, on a "comply or explain" basis, will take effect in 2018 for companies with financial years ending on or after Dec 31, 2017.

"Many of the companies that have yet to report are seriously starting a dialogue . . . with a view in mind for a trial year of reporting in 2017," said Simon Yeo, assurance partner at EY.

Mr Yeo said about 9-in-10 of the 50 or so companies have reported their sustainability practices in accordance with the Global Reporting Initiative (GRI) framework, which is largely in step with the SGX requirements.

Sustainability reporting is increasingly gaining traction with investors and could feature in their investment decisions.

"The regional trend that sustainability reporting is becoming a listing requirement in the Hong Kong, Malaysia and Singapore stock exchanges suggests that stakeholders, including investors, are requesting information and disclosures beyond traditional financial performance," said Mr Yeo.

A 2014 global survey by EY and research house Institutional Investor, titled "Tomorrow's Investment Rules: Global survey of institutional investors on non-financial performance", found that 87 per cent of investors frequently or occasionally considered environmental, social and governance (ESG) factors when examining the risk and timeframe to hold an investment.

Further, nearly 8-in-10 investors (78 per cent) frequently or occasionally adjusted their valuations due to a risk identified from ESG performance, which in turn increases the cost of capital.

According to the report, these findings provide evidence that ESG information, which is largely found in sustainability reporting, is becoming a key input in investment decisions.

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> **Fang Eu-lin, PwC Singapore**

But sustainability reporting is a concept that many Singapore companies are still coming to terms with.

Observers say there could be a range of factors that could impede local organisations in their sustainability reporting journey.

"Management buy-in and understanding is often an initial hurdle, although this could be overcome through awareness building, particularly on the value proposition of the exercise," said Fang Eu-lin, sustainability and climate change practice leader at PwC Singapore.

Proper data collection for sustainability reporting purposes and external stakeholder engagement are also possible impediments, alongside companies' reluctance to disclose sustainability targets for fear of not meeting them.

"Identifying and compiling this data for sustainability reporting may feel onerous at the start but our experience shows that the process gets simpler as time goes on," said Ms Fang.

Getting on the sustainability reporting bandwagon can be facilitated in a few simple ways, according to Mr Yeo.

These include critically identifying and assessing the material sustainability issues; deciding on suitable KPIs (key performance indicators) for the company's industry, business and stakeholders; and then developing systems and processes to monitor the relevant data.

Under SGX guidelines, there are no penalties if companies fail to comply.

So should more be done to nudge those not yet on the journey?

EY's Mr Yeo said that, rather than using penalties, investor pressure should be allowed to play a bigger role in ensuring the efficacy of sustainability reporting.

"Investors holding companies accountable for their ESG performance will view companies who put out balanced sustainability reports and actively manage their sustainability impacts to have better risk management and opportunities evaluation systems, as this builds investor confidence and typically improves access to capital," said Mr Yeo.

PwC's Ms Fang suggested a carrot approach would be more effective in getting companies to bite.

"The key to increasing adoption is by emphasising the true long-term value and benefits that companies can derive from sustainability reporting," she said.

"The exercise should not come across as a check-the-box process, but one that companies embed into their culture and values," she added.

Indeed, companies that have started down the path of sustainability reporting say such efforts will be rewarded by investors.

"We have received many positive comments on our sustainability report thus far, and this has encouraged us to continue to highlight our efforts in this area," said Philip Levinson, CEO and executive director of Cambridge Industrial Trust (CIT) Management.

CIT's efforts have also been recognised by the market when it was recently included in SGX's inaugural Sustainability Leaders Index, one of only 24 companies to be added.

"This has added another measurable dimension to our sustainability reporting efforts and has been favourably received by institutional investors," said Mr Levinson.

For sustainability reporting to work, the tone at the top through the board is also important.

Soh Yew Hock, a director who sits on the boards of several SGX-listed companies, said: "The board can and should set the tone by firstly having a strong code of ethics requiring the company to act responsibly in all its business activities because they have economic, social and environmental impacts."

He observed that bigger and more established companies would have fewer issues with costs, time and effort in adopting sustainability reporting but smaller firms could find it burdensome.

"For a start, consideration could be given to the size of companies – say, by market cap and the nature of the companies' businesses," he said.

Sapphire Corp – an investment management and holding company with units in engineering, procurement and construction, and mining services businesses – said while it has not yet adopted sustainability reporting, it is working to include such issues in its 2016 annual report.

Sapphire Corp chairman Steven Lim said there are both tangible and intangible benefits for doing so.

"A likely tangible benefit will be cost saving arising from efficient utilisation of resources, such as water and electricity; and a likely intangible benefit will be enhancement of the company's brand, arising from its adoption of measures to enhance sustainability of its business," he said.

But the biggest benefit of adopting sustainability reporting is arguably building trust – particularly with business partners, customers and investors, and also with other stakeholders.

Mr Soh said: "Already, companies that do not have sustainable business practices are being shunned by customers, lenders and investors, and they are no longer on the radar screen of important fund managers and institutional investors."

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