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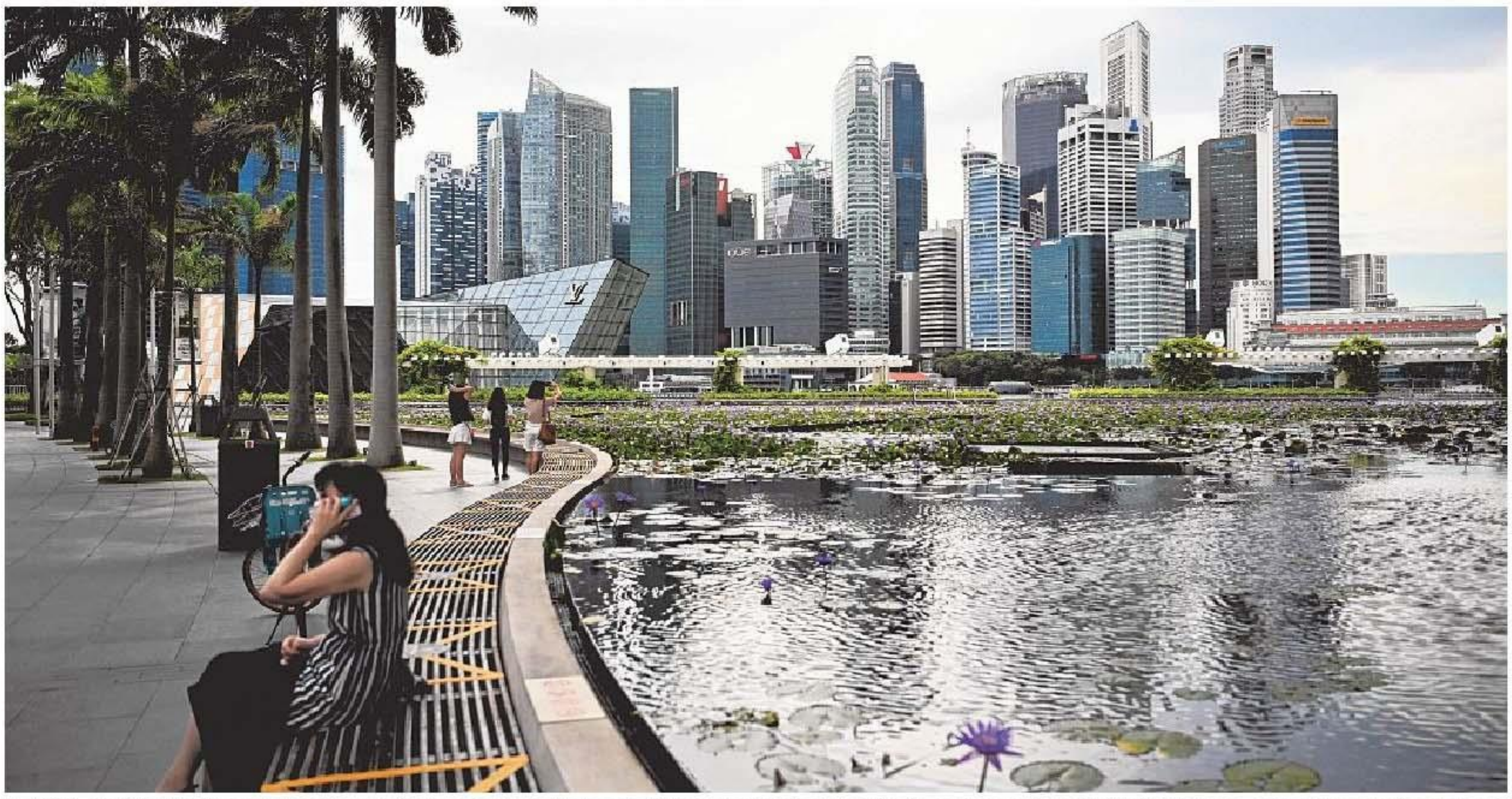

In 2024, mandatory climate reporting was imposed across Singapore Exchange-listed companies in certain sectors, including finance, agriculture, food and forest products, energy, materials and buildings, and transportation. There will be more compliance requirements in the 2025 financial year. ST FILE PHOTO

It can help firms spot and rectify problems early, attract more 'eco-conscious' investors

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Ramped-up rules on sustainability reporting might be burdensome for companies large and small, but they will pay off in the long run by attracting more "eco-conscious" investors, experts said.

A critical point in this process came in 2024 with the imposition of mandatory climate reporting across listed companies in certain sectors, including finance, agriculture, food and forest products, energy, materials and buildings, and transportation.

Climate reporting continues to be on a "comply or explain" basis for other listed firms for now.

There will be more compliance requirements in the 2025 financial year, when listed firms will have to report using climate-related disclosures aligned to the International Sustainability Standards Board.

This will apply especially to direct and indirect greenhouse gas emissions from a company's use of electricity, heat or steam.

More rules land in the 2027 financial year, when large non-listed companies will also be required to make sustainability disclosures.

Meeting such requirements certainly creates more costs for companies, experts said.

However, this should eventually reap benefits, particularly as global sustainability standards rise and companies will have to comply with international expectations.

Professor Lawrence Loh, director of the NUS Centre for Governance and Sustainability, said: "Compliance requirements for sustainability naturally come at a cost to companies, especially at the onset of reporting.

"But these have to be weighed against business benefits in the long term, including the lowering of risks such as changes in consumer and investor expectations, as well as in regulations and standards."

While companies have done well so far in their sustainability reporting, the challenge is to extend this performance to listed firms of all sizes, Prof Loh said.

He added that there is a clear "size effect" when it comes to the quality of sustainability reporting across listed companies.

"We cannot just take the commendable status of sustainability reporting amongst the large companies and apply them to the small and medium-sized companies."

NTU associate professor of accounting Kelvin Law said that money spent today will help firms create value in the long run, because they can see where they are being inefficient in their energy use or supply chains, and rectify it.

"Firms should stop viewing sustainability reporting as a 'cost centre'. I see it as a core business strategy integrated with other corporate strategies like finance and marketing," he said.

Prof Law said that companies can also think of sustainability reporting as an early warning radar, allowing firms to spot problems with their supply chain and regulatory compliance, as well as changing customer demands, before these issues start to affect profits.

"Think of sustainability reporting as an airplane's black box; airlines do not make money directly from having one, but the data helps prevent disasters and improve operations," he added.

Companies that track their sustainability metrics will also gain a competitive advantage as more countries implement regulations around disclosures. They will be prepared for this shift, Prof Law said.

"Some investors cannot invest in firms without clear environmental, social and governance (ESG) metrics.

"Mandatory reporting should improve liquidity as investors can benchmark a firm's ESG performance more easily," he added.

Impact investment funds or sovereign wealth funds with ESG criteria could also be drawn to the Singapore Exchange (SGX) if it complies with global best practices in sustainability.

SMU assistant professor of finance Aurobindo Ghosh said this could also expand the amount of funds available to all companies listed here.

But a potential short-term consequence of mandatory reporting could be that potential issuers get discouraged from listing on the SGX. It might also make it a less conducive environment for initial public offerings.

"This, however, would be mitigated as more global and regional exchanges adopt these best practices, while different investment sources, including sovereign wealth funds and impact investment funds, pivot towards these new sustainability reporting standards," Prof Ghosh said.

"Pushing for more credible and sustainable reporting standards would provide a more sustainable future for listings on the SGX."

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