Sustainability: Moving from Talk to Action

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The sustainability journey is a marathon that requires stamina, patience, a good strategy, proper planning and ambition. In recent years, the push has been on sustainability disclosures. How did we get here, and what should companies do going forward with the plethora of standards and increased scrutiny?

Companies in Singapore and across Asia are increasingly embracing sustainability as a key driver of business success and resilience in a rapidly changing world.

Today, environmental, social and governance (ESG) considerations are recognised as integral to long-term business performance and value creation. The sustainability agenda is driving significant changes in how businesses operate, how investors allocate capital and how governments regulate corporate behaviour.

More than a decade after the Sustainable Development Goals (SDGs) were launched at the United Nations Conference on Sustainable Development, regulations around ESG reporting have evolved. The SDGs serve as a framework for governments, businesses and civil society to work together towards a more sustainable future. And the global effort to come up with a standard reporting framework continues.

Growth of corporate sustainability reporting

There is growing scrutiny and pressure on businesses to disclose their impacts and efforts to manage ESG issues. Sustainability reporting has become standard practice for many companies, whether mandatory or voluntary.

As the practice of corporate sustainability reporting has grown, so too has the landscape of sustainability reporting standards and frameworks. One of the main challenges for companies preparing reports is keeping up with the numerous developments in this global sustainability reporting landscape.

The alphabet soup of standards, frameworks and jurisdictional requirements has sometimes led to confusion and inconsistent disclosure in the market.

In 2020, the shift towards the convergence of reporting standards was boosted by a number of developments by global agencies, like the International Financial Reporting Standards (IFRS) Foundation, Global Reporting Initiative (GRI), World Economic Forum (WEF) and Sustainability Accounting Standards Board (SASB), as shown in the box, "Key Developments in the Sustainability Reporting Landscape, 2020."

In 2021, the International Sustainability Standards Board (ISSB) under the IFRS Foundation, which now houses the SASB Standards and Integrated Reporting

Key Developments in the Sustainability Reporting Landscape, 2020

May
The IIRC released a new consultation draft proposing revisiions to the International <IR> Frameworks

June
Exposure draft of changes to the GRI's Universal Standards releaed for comment

July
GRI and SASB announce collaboration to promote clarity and compatibility

September
Five global organisations release a statement of intent to work together

September
WEF weighs into sustainability reporting landscape with a white paper *Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*

September
The IFRS Foundation publishes a consultation paper on its role in improving the consistency and comparability of global sustainability reporting

November
IIRC and SASB announce merger to form the Value Reporting Foundation

December
Five global organisations release a prototype for a climate-related financial disclosure standard

Source: "How is the sustainability landscape changing?" Bursa Malaysia

Framework, was set up. The ISSB seeks to harmonise the fragmented landscape to spur consistency and quality in disclosures. ISSB Standards allow companies and investors to standardise on a single, global baseline of sustainability disclosures for the capital markets. This has received strong support, with many jurisdictions preparing to adopt them to streamline sustainability disclosures for businesses large and small.

The European Union (EU), through its Corporate Sustainability Reporting Directive (CSRD) published in 2022, signified another major step forward. The stated aim is to systemise sustainability reporting across the EU, with a commitment to consider global standard-setting initiatives like the ISSB in its own EU Sustainability Reporting Standards (ESRS).

While the trends seem to point to a long-awaited harmonisation, uncertainty still lingers. The standard-setting organisations have different overall objectives and approaches. Specifically, Europe adopts a "double materiality" approach, focusing on the financial and societal impact of sustainability, while the ISSB focuses only on the financial impact of sustainability issues. There may not be a straightforward outcome but what is clear is that sustainability disclosures will be integrated into financial reporting.

Despite the progress in sustainability reporting, many still see it as a cumbersome exercise and look forward to a greater consolidation of standards that would reduce their reporting burden. However, the possibility of true convergence seems bleak for the time being.

The exception might be climate reporting, with convergence around the foundational principles embodied in the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

More recently, interoperability guidance has paved the way for a higher level of alignment on climate-related disclosures. The TCFD has shaped rising climate disclosure practices and regulations since they were issued in 2017, including the work of ISSB, Europe's CSRD and the US Securities and Exchange Commission climate rule. On 1 January 2024, the TCFD officially disbanded, and the IFRS Foundation, which oversees the ISSB, assumed its responsibilities. The TCFD Recommendations have now evolved into the ISSB Standards.

Climate change rising up the agenda

While several broad ESG reporting regulations have come into force, it is clear that the focus will be on climate change. As of 2023, as many as 35 jurisdictions around the world have made or have plans to make climate disclosures mandatory, including Singapore, Hong Kong, Taiwan, Japan, Malaysia, New Zealand and Australia in the Asia-Pacific region. KPMG's *Survey of Sustainability Reporting* 2022 highlighted a near doubling of companies adopting TCFD in two years.

The accelerated momentum in climate disclosures comes as companies, under pressure from their stakeholders, increasingly see the need to understand how climate change may affect their businesses, strategies and financial performance. Climate change is already causing severe human and economic impacts around the world.

The latest Intergovernmental Panel on Climate Change report in 2023 indicated that with every fraction of a degree of warming, the threats of adverse climate impacts will intensify. Greenhouse gas (GHG) emissions across all sectors have to come down urgently within this decade, and financial support for climate action has to be accelerated.

Climate disclosures play a critical role in mainstreaming climate considerations into financial decision-making processes, thereby directing the flow of capital towards climate-resilient and low-carbon investments.

Singapore has come a long way in its climate reporting journey, as shown in the box, "Climate Reporting in Singapore".

Climate Reporting in Singapore

In Singapore, sustainability regulations and frameworks have continuously evolved to keep pace with global standards and best practices. Singapore Exchange (SGX) first introduced sustainability reporting requirements for listed companies in 2016, mandating disclosure of ESG-related information annually.

However, only one in four of the top 100 largest SGX-listed companies by market capitalisation produced a detailed, standalone report covering a range of social and environmental issues in the first year of mandatory reporting. Research by Corporate Citizenship in Singapore (now SLR Consulting) then found that three in four companies needed to make a step change in their disclosures to meet the SGX requirements.

Fast forward to today, sustainability reporting has become integral to corporate disclosure practices. Companies, both listed and non-listed, report against not one but a multitude of reporting standards and frameworks.

Comply or explain

SGX has mandated all issuers to include climate-related reporting in their sustainability reports based on the TCFD recommendations on a "comply or explain" basis from FY2022. More recently, Singapore announced mandatory climate-related reporting that is ISSB-aligned for both listed and large non-listed companies, with obligations for listed issuers to begin disclosing as early as 2025.

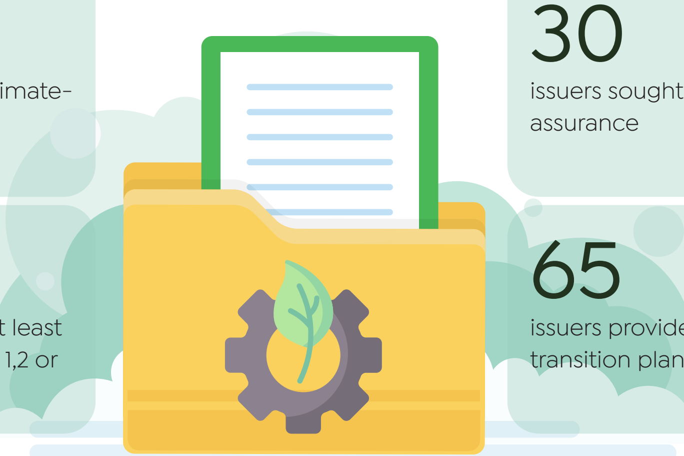
The *Sustainability Reporting Review* 2023 jointly published by SGX and National University of Singapore (NUS) found that of the 535 SGX-listed issuers that published their sustainability reports, 393 issuers (73 per cent) provided climate-related disclosures based on the TCFD framework, with most commencing climate reporting before it becomes mandatory (see box, "Focus on climate-related disclosures").

However, Singapore companies still lag behind their global peers, according to the 2023 *TCFD*

Focus on climate-related disclosures

393
issuers provided climate-related disclosures

30
issuers sought external assurance



86%
issuers disclosed at least one of their Scope 1,2 or 3 GHG emissions

65
issuers provided climate transition plan disclosures

Source: Sustainability Reporting Review 2023, SGX and NUS Centre for Governance and Sustainability

Status Report. Local companies that disclosed in line with at least five of the 11 TCFD recommendations stood at 43 per cent versus the global average of 58 per cent.

There will be continued significant momentum around making climate-related financial disclosures, as companies work towards heeding financial markets' call for clear and consistent climate reporting.

However, with little time and carbon budget to spare, there needs to be real action, not just disclosures, to meet the Paris Agreement. Firms committing to ambitious decarbonisation goals and pathways must not only talk the talk but walk it.

Greenwashing

Whether aspirational or practical, companies must back up their promises with actual effort, and be transparent in accounting for impact. This is not only the right thing to do, but companies also increasingly risk being called out for empty promises.

In Singapore, while there has not been an obvious ESG backlash, there has been greater attention on greenwashing. Currently, environmental claims in advertising in Singapore are governed by legislation such as the Consumer Protection (Fair Trading) Act as well as the Singapore Code of Advertising Practice issued by the Advertising Standards Authority of Singapore. The Competition Commission of Singapore is also developing a set of guidelines targeted at greenwashing and environmental claims.

While Singapore is not yet as advanced in regulating greenwashing as the US or Europe, it is taking the lead as the green finance hub of Asia to foster a responsible and transparent sustainable finance ecosystem.

The Singapore-Asia Taxonomy was launched by the Green Finance Industry Taskforce established by the Monetary Authority of Singapore (MAS) in December 2023. This is intended to clarify what constitutes sustainable and transitional financing and reduce the risk of green or transition washing by banks and financial institutions.

Before this, MAS had published a circular on the Disclosure and Reporting Guidelines for Retail ESG Funds. The guidelines require fund managers to reveal the investment's ESG focus and relevant criteria, methodologies or metrics, and the sustainable investing strategies of retail funds sold with an ESG label.

Rise and fall of ESG

There has been exceptional market and policy momentum behind ESG in the last couple of years, reflecting a growing recognition among investors of the importance of integrating sustainability considerations into investment decision-making. During the pandemic boom in 2021, sustainable funds in the US alone hit a record US$358 billion (S$482 billion) in assets, up from US$95 billion in 2017. ESG investing also gained significant traction in Singapore and the wider region during that time.

But ESG has since lost its lustre and even suffered backlash recently, amidst increased concerns over greenwashing claims, virtue signalling and "woke" ESG activism. This is especially so in corporate America, where politics has weaponised the issue. Meanwhile, in other parts of the world, there is also a serious crackdown on greenwashing.

In the UK, the Competition and Markets Authority had investigated major fashion brands over vague green claims. The proposed EU "Green Claims" directive will ban several marketing practices related to greenwashing, such as using generic claims without substantiation. Closer to home, the Australian Securities and Investments Commission had made action against greenwashing one of its 2023 enforcement priorities and launched its first court action against alleged greenwashing conduct.

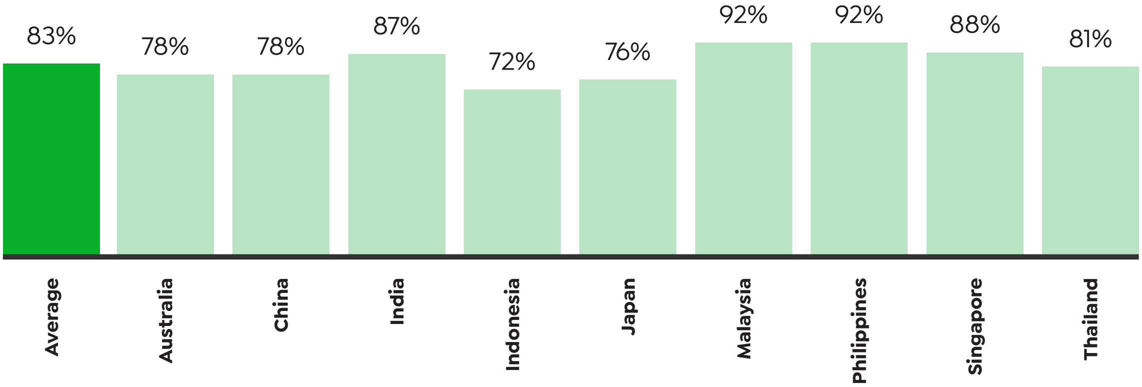
While the debate continues over whether ESG is dead or here to stay, all this scrutiny will hopefully push companies to back up their big promises with concrete practices, as it should have been the whole time. A 2023 Kearney study found that more than eight in 10 (82 per cent) executives in Asia Pacific are concerned about greenwashing, but they say that this has motivated their firm to invest more in resources and capabilities to deliver on commitments (see box, "Concern about Greenwashing").

The less positive flipside of this trend is the phenomenon of "greenhushing", where companies become more cautious in target setting and hesitant to publicly communicate about their sustainability plans. With public crackdowns like the removal of companies by the Science Based Targets initiative from its validated list (including high-profile names like Amazon and HSBC), it is not surprising that companies are getting the jitters.

But now is not the time to pull back on ambition or communication. Instead, companies should have an honest discussion on what impact they can make and build a credible plan around that.

Concern about Greenwashing

Percentage of business leaders surveyed who say they are concerned about greenwashing, by country.



Source: Kearney 2023 Asia Pacific Sustainability Study

The journey continues

Beyond navigating the current ESG turbulence, companies must be prepared for a long-haul journey that requires dedication and investment.

For Singapore companies, sustainability implementation and integration present a dual challenge and opportunity. One key challenge lies in balancing sustainability goals with economic competitiveness in a globalised marketplace. Companies may face pressures to maintain cost efficiency while investing in sustainable practices, especially in industries with high resource consumption.

Navigating the web of regulatory frameworks and evolving sustainability standards can also be daunting, especially for small and medium-sized firms. However, these challenges also offer opportunities for companies to differentiate themselves in the market.

By integrating sustainable practices into their business models, companies can enhance brand reputation, attract environmentally conscious consumers, and access new markets for sustainable products and services. Sustainability initiatives can also drive operational efficiency, reduce risks, and ultimately contribute to long-term profitability and resilience in a constantly evolving business landscape.

Key trends that will shape corporate sustainability in Singapore and the region include:

1. **Climate action and resilience.** With the increasing frequency of climate-related events, companies in Asia are expected to prioritise climate action and resilience. This includes setting ambitious emissions reduction targets, adopting renewable energy sources, and implementing credible transition plans.
2. **Sustainable supply chains.** Asia plays a significant role in global supply chains, and there is increasing pressure for companies to ensure sustainability throughout their supply chains. This involves engaging suppliers, conducting due diligence on environmental and social risks, and promoting responsible sourcing practices.
3. **Social impact and inclusion.** While the “S” in ESG has been getting less of the spotlight, it is more important than ever to focus on the social aspect in the context of a post-pandemic world. Increasingly, companies are expected to prioritise social impact and inclusion, and address issues such as gender equality, labour rights and community development.
4. **Digitalisation and technology.** Digitalisation and technology will play a critical role in advancing corporate sustainability in Asia, especially in improving data quality and consistency. Companies should keep up with digital solutions that enhance transparency, efficiency and accountability in sustainability initiatives.

Going the distance

Over the past decade, some companies have gone beyond reporting as a compliance exercise to embracing it as a way to assess their ESG performance, align on priorities and foster a culture of commitment to ESG efforts. These companies see sustainability reporting as a critical channel for communicating their sustainability commitments and progress to stakeholders.

Sustainability is a strategic lever that can drive innovation, enhance competitiveness and create long-term value and positive impact for the business and society. It is, however, crucial to gain executive buy-in and commitment for the sustainability agenda to be sustainable. Companies should be prepared to invest in sustainability for the long haul in order to reap the benefits and see actual significant positive impacts.

Like how experts would advise marathon runners, companies should not get caught up in the buzz of the race and surge ahead only to lose steam and fall out of the race. Companies would be advised to keep to their chosen pace and prepare for the course. With the right planning in place, it would be easier to stick to their pace, relish the journey and reach (or even surpass) their targets.