SUSTAINABILITY GUIDE FOR BOARDS

PRODUCED BY

SID
SINGAPORE
INSTITUTE OF
DIRECTORS

IN COLLABORATION WITH

KPMG

SUPPORTED BY

SGX

PREFACE

Sustainability is becoming a critical issue for corporates.

While companies are already managing environmental, social and governance (ESG) issues as part of their daily operations, sustainability is now a strategic imperative as business practices, and the outcomes of these practices, come under the spotlight.

SID, in collaboration with KPMG, and with the support of SGX, is pleased to produce the *Sustainability Guide for Boards*.

The first of its kind in Singapore, this publication is designed to help Boards fulfil their governance role in the strategic formulation and execution of the company's sustainability vision. Specifically, it dovetails with the directions of the SGX Listing Rules 711A and 711B, which require sustainability reporting for listed companies on a 'comply or explain' basis.

The complete Guide is a 124-page A4-sized book which describes the concepts that directors need to be familiar with, and the steps needed to discharge their duties concerning sustainability. This "At A Glance" booklet is a summary of the Guide, including the appendix on the *SGX Sustainability Reporting Guide*. To obtain the complete Guide, please turn to the back of this booklet.

We hope you will find this resource useful.

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WHAT TO EXPECT IN THE COMPLETE GUIDE

1. SUSTAINABILITY AGENDA

2. GOVERNANCE

3. STRATEGY   4. EXECUTION   5. REPORTING

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THE SUSTAINABILITY AGENDA

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THE SUSTAINABILITY AGENDA

Sustainable development has been defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

The sustainability movement came about in response to concerns over:

- **Climate change:** the environmental threats that accompanied rapid industrialisation and modern lifestyles.
- **Adverse social and community impact:** the significant income disparity, poverty and social tension arising from population growth, changing demographics and globalisation.
- **Corporate governance issues:** corporate scandals and economic crises arising from inadequate checks and balances in corporations.

The concerns and actions of stakeholders of enterprises – consumers, investors, non-government organisations, governments and the UN – have helped to pressurise corporations to respond.

Components of Business Sustainability

Economic	Environmental
Social	Governance
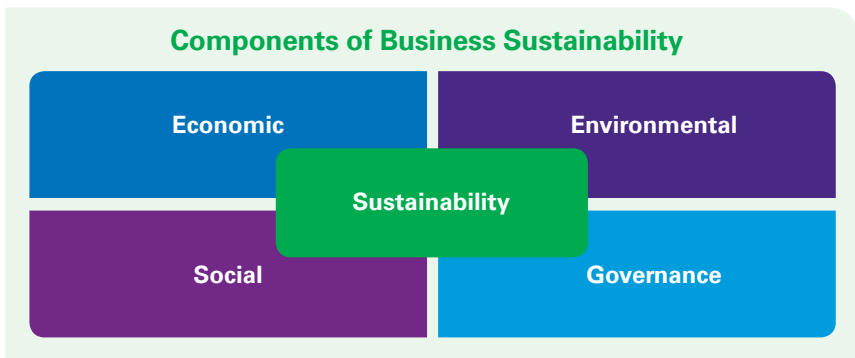
Sustainability

For economic, reputational, ethical and other reasons, it benefits companies to respond to the sustainability agenda in a proactive and positive manner. Many companies are, in fact, doing so. While recognising that economic performance is a key driver of business sustainability, they also prioritise other drivers such as environmental, social and governance (ESG) factors that impact business value.

Some businesses have gone further to form coalitions to share and promote the sustainability cause. At the same time, new forms of hybrid organisations that blend commercial and social objectives are also emerging.

Also in Section 1

Concepts
- CSR and sustainability
- The CSR Pyramid
- The Stakeholder Theory of Enterprise
- The greenhouse effect and global warming
- The power of corporations
- Triple Bottom Line
- Creating Shared Value
- Lifestyles of Health and Sustainability (LOHAS)

Case Study
- Singapore's sustainability journey

Organisations and Initiatives
- Major NGOs
- Principles for Responsible Investment
- Singapore Stewardship Principles
- Sustainable Stock Exchanges Initiative
- UN Global Compact
- UN Guiding Principles on Business and Human Rights
- UN Framework Convention on Climate Change
- UN Millennium Development Goals
- UN Sustainable Development Goals
- Climate Disclosure Standards Board
- Caux Round Table for Moral Capitalism
- World Business Council for Sustainable Development

GOVERNANCE

The Board is ultimately responsible for the company's strategic direction. It should ensure that ESG considerations are holistically integrated in the company's strategy. In doing so, it sets the tone at the top for a strong sustainability culture in the company.

At the Board level, the governance of sustainability can be structured along several lines, including:

• Oversight by the Board
• Oversight by a Board Risk Committee (BRC) or other Risk Committees
• Oversight by a specialist Sustainability Committee

At the management level, it is typical to have a Management Sustainability Committee, or even a full-time Chief Sustainability Officer.

As part of its oversight, the Board could consider adopting an assurance framework that provides comfort on sustainability practices. This includes internal (business policy management, management representation and internal audit) and external assurance. Two standards commonly used for assurance of sustainability reporting are the AA1000 Assurance Standard and the International Standard on Assurance Engagements 3000.

The SGX Sustainability Reporting Guide requires the Board of a listed company to issue a statement in the company's sustainability report on how it has considered sustainability issues.

Board's Role in Sustainability

Code of Corporate Governance – Guideline 1.1(f)
The Board's role is to consider sustainability issues, e.g. environmental and social factors, as part of its strategic formulation.

SGX Sustainability Reporting Guide – Principle 3.1
Consistent with its role, the Board should determine the ESG factors identified as material to the business and see to it that they are monitored and managed. The Board's close interaction with management will enable the Board to satisfy itself on the way sustainability governance is structured and functioning through the various levels of management. The Board has ultimate responsibility for the issuer's sustainability reporting. If any question is raised regarding the issuer's sustainability reporting, the Board should make sure it is addressed.

Also in Section 2

Concepts
- Roles and responsibilities of the Chief Sustainability Officer
- Selecting governance structures
- Assurance framework
- Board statement requirement

Examples
- International Standard on Assurance Engagements 3000
- AA1000 Assurance Standard
- Sample Board statements

Case Studies
- City Development Limited's Kwek Leng Joo
- PUMA S.A.F.E. Team
- Wilmar International Limited
- South Korea's national movement towards sustainability best practices

STRATEGY

The business strategy provides the overall direction of an enterprise. The sustainability strategy should be an integral part of the business strategy.

In essence, the business mission and vision drive the sustainability strategy. As the latter takes into account ESG risks and opportunities, it plays an important role in the formation of a viable and effective overall business strategy.

The scope of a sustainability strategy varies for different companies, and depends on the extent to which ESG factors are considered. In general, a company could focus on:
• CSR-focused sustainability, which emphasises building goodwill and achieving good stakeholder relations, and is usually only a small part of the business strategy.
• Risk-based sustainability, where the focus is on managing risk exposures in sustainability matters to minimise adverse impact on the business.
• Integrated sustainability, where both the risks and opportunities resulting from sustainability matters are integrated with the business strategy.

For most companies, sustainability is a journey that depends on varying business needs and circumstances. Therefore, different strategies for sustainability should be adopted for different parts of a business at different times.

Like a business strategy, a sustainability strategy includes the following components:

• Mission	• Values	• Commitments
• Vision	• Focus areas	• Action plan

Sustainability Strategies

	CSR-focused Sustainability	Risk-based Sustainability	Integrated Sustainability
Driver within organisation	Corporate Communications or Public Relations; or Investor Relations; or CSR Committee	Risk Management Committee	CEO and Corporate Strategy Committee
Target constituents	Largely community but can also include internal stakeholders	Business and "problematic" stakeholders (to minimise downside)	Business and broad spectrum of stakeholders (minimise downside and maximise upside)
How it benefits the company	Building up goodwill and some risk mitigation	Primarily risk management, mitigating "what could go wrong"	Risk and opportunity management to enhance overall business value

Also in Section 3

Concepts
- Relationship between business strategy and sustainability strategy
- Types of sustainability strategies
- The sustainability journey
- Strategy development

Case Studies
- NTUC FairPrice
- Accenture
- Conagra Brands
- Facebook
- GlaxoSmithKline
- StarHub
- Unilever
- Frasers Property Australia

EXECUTION

Sound execution of a sustainability strategy is critical to a company's endeavours. The Board has oversight of management and implementation of the strategy, in particular, the six key components set out below.

1. Engage Stakeholders

The Board should ensure that key stakeholder groups – those who have substantial influence, including direct and indirect economic impact on the business – are identified, and that plans are in place to engage them, and meaningfully capture, prioritise and address their concerns.

An effective stakeholder engagement process should be carried out in three iterative phases:

- **Prioritise stakeholders and their concerns**
  As it is a challenge to meet all the needs of the myriad of stakeholders, the company should identify and prioritise the key groups and their needs and concerns. A methodology with clear criteria for prioritisation should be established.
- **Develop and implement stakeholder engagement plan**
  Stakeholder engagement is, ideally, a two-way process. There are different levels and methods of achieving such engagement which depend on a number of factors such as the nature of the relationships and the means of communication.
- **Review stakeholder engagement**
  Stakeholder engagement outputs (i.e. the stakeholder engagement plan and its implementation) and outcomes (i.e. the decisions and actions of stakeholders) should be integrated with overall sustainability performance monitoring and evaluation. This, in turn, feeds back into the strategy development process. The company should be prepared to publicly report – through its sustainability report, annual report, website content or social media outreach – on the aggregate of its stakeholder engagement activities together with the overall outcome and impact.

2. Assess Materiality

The Board should ensure there is a robust process for assessing the significant ESG risks and opportunities. Business objectives and stakeholder concerns should be considered in a balanced manner.

Materiality is assessed by first identifying the ESG issues that can significantly affect a company and its stakeholders. These are then condensed into a list of factors and initiatives that can be integrated with the company's strategy, targets, and reporting requirements.

While there is no prescribed approach for assessing materiality, recognised reporting frameworks can be useful guides. The diagram illustrates a phased approach for assessing materiality.

Materiality Assessment Framework

PHASE 1: Define purpose and scope
- Identify key ESG risks and opportunities
- Involve internal and external stakeholders
- Embed materiality into business strategy

PHASE 2: Identify potential topics
- Assign responsibilities and involve various business functions
- Focus on stakeholders with greatest impacts
- Establish a process for capturing changes to material ESG topics

PHASE 3: Categorise
- Determine interconnectedness of material ESG topics
- Cluster material ESG topics into macro categories

PHASE 4: Gather information about the impact and importance of topics
- Quantify actual and potential ESG impacts of each topic

PHASE 5: Prioritise
- Score each topic against business objectives and key stakeholders
- Integrate material ESG topic into company-wide ERM

PHASE 6: Engage the Board
- Obtain approval from the Board on materiality process

PHASE 7: Seek Stakeholder Feedback
- Document feedback from internal and external stakeholders

The materiality process and the results it produces are unique to the company. Each company has its own business objectives and stakeholders, which means there is also no fixed or ideal number of material ESG topics the company should identify.

3. Establish Policies and Practices

In achieving sustainability goals, ESG policies and practices guide company and employee behaviour.

Policies can cover a range of matters. Examples of ESG policies that a company can consider developing are shown in the table.

Sample ESG Policies		
Environmental Policies	**Social Policies**	**Governance Policies**
• Climate change • Energy • Environmental • Materials management • Waste management • Water conservation	• Board diversity • Corporate social responsibility • Equal opportunity • Health and safety • Human resource • Human rights • Personal data	• Anti-competitive behaviour • Anti-corruption • Anti-money laundering • Code of conduct • Conflicts of interest • Fraud • Supplier assessment • Whistle-blowing

4. Set and Review Targets

Together with management, the Board should discuss and agree on ESG targets and performance indicators that need to be set, measured, rewarded and communicated.

Targets set should be specific, measurable, achievable, relevant and time-bound (SMART). Performance, as measured against these targets, should then be monitored on a regular basis.

5. Measure Performance

The measurement of a company's ESG performance serves as a feedback loop to improve various aspects of a sustainability strategy.

It is important to ensure that accurate, timely and reliable data is collected to accurately measure such performance and drive improvement. A company may also choose to obtain external assurance over its ESG data.

6. Build Capacity

As resources are finite, a company must ensure it builds its capacity to meet its sustainability objectives. It should appropriately invest in the right resources to positively influence the value generated for the business and stakeholders.

The kinds of capital a company should invest in are:

- **Human capital:** people and sustainability expertise, including a Chief Sustainability Officer and employee training.
- **Intellectual capital:** systems and procedures including data collection and trend analytics on the company's ESG information.
- **Natural capital:** more effective use of natural resources such as water and clean energy (solar, wind, and hydro energy).
- **Social and relationship capital:** lasting relationships with stakeholders, including the communities in which the company operates.

Also in Section 4

Concepts
- Stakeholder engagement process
- Levels and approaches to stakeholder engagement
- Challenges in materiality assessment

Examples
- Key stakeholders and concerns
- Sample material factors

Case Studies
- Singtel
- LEGO
- Standard Chartered Bank
- adidas AG
- H&M
- PepsiCo

REPORTING

A company's sustainability report provides its stakeholders with important non-financial information as well as insights on its ESG strategy, management and performance.

It is important to select a suitable reporting framework as the extent and granularity of disclosures directly impact the effectiveness of the company's communications.

Three international reporting frameworks are:
• Global Reporting Initiative (GRI) Sustainability Reporting Standards
• Integrated Reporting <IR> Framework
• Sustainability Accounting Standards Board (SASB) Standards

There are also reporting frameworks specific to industries or thematic ESG issues, which the company may consider relevant to its business. Examples include the Global Real Estate Sustainability Benchmark, the Carbon Disclosure Project, and the Roundtable on Sustainable Palm Oil.

A company should select the reporting framework that is most suitable for its business, and which addresses stakeholders' needs and expectations. In regulated regimes, the reporting framework may be mandated or referenced.

In preparing its sustainability report, a company should take heed of the relevance of information to its stakeholders, the need for an accurate and balanced report that provides both favourable and unfavourable findings, and emerging trends.

GRI Standards
GRI is an international independent standards organisation that promotes sustainability reporting.
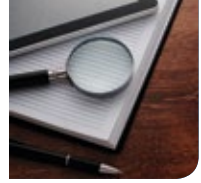
The GRI Standards are a set of 36 modular standards comprising general principles and indicators that a company can use to report on its sustainability policies, practices, performance, and targets.

The three universal Standards comprise:

- **GRI 101: Foundation** which sets out the reporting principles that are fundamental in helping a company decide what to disclose and how to ensure quality of reporting.
- **GRI 102: General Disclosures** which detail the contextual information about a company that should be reported.
- **GRI 103: Management Approach** which guides a company in identifying, analysing and responding to the impacts related to material topics.

The topic-specific Standards comprise:

- **200-series** – economic
- **300-series** – environmental
- **400-series** – social

In addition, 10 GRI sector supplements provide guidance for companies operating in the following sectors:

- Airport operators
- Construction and real estate
- Electric utilities
- Event organisers
- Financial services
- Food processing
- Media
- Mining and metals
- NGO
- Oil and gas

In preparing sustainability reports, companies apply the three universal Standards; then choose from the topic-specific Standards and sector supplements to report on their material topics.

Integrated Reporting <IR> Framework

The International Integrated Reporting Council is a global coalition of representatives from corporate, investment, accounting, securities, regulatory, academic, standard-setting bodies, and NGOs that came together to develop a universal framework for sustainability reporting.

The Council's <IR> Framework adopts a principle-based approach to sustainability reporting, with a focus on communicating long-term value creation to stakeholders.

The diagram below illustrates the <IR> Framework's concepts of capitals and value creation. The six key capitals contemplated under the <IR> Framework are:

- Financial Capital
- Manufactured Capital
- Intellectual Capital

- Human Capital
- Social and Relationship Capital
- Natural Capital

The Value Creation Process

Source: The Value Creation Process, The International <IR> Framework
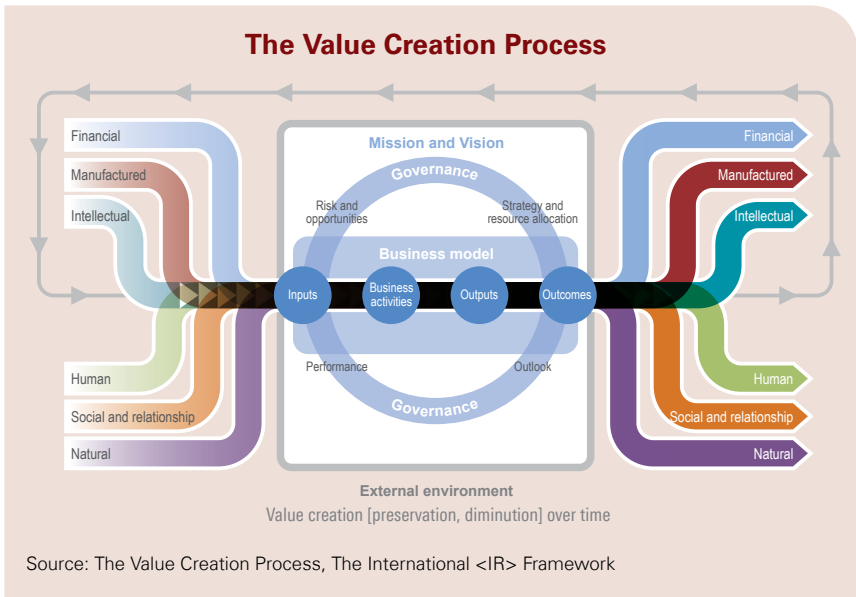
SASB Standards

SASB is an independent US nonprofit organisation that sets sustainability accounting standards.

The SASB Standards take an industry-specific approach to the disclosure of material sustainability information in the context of US financial reporting regulations.

The SASB Standards contain industry-specific disclosure topics, accounting metrics for each topic, and technical protocols for compiling data for five sustainability dimensions. It maintains sustainability accounting standards for 79 industries within 11 sectors as shown below.

- Consumption I
  - Agricultural Products
  - Meat, Poultry & Dairy
  - Processed Foods
  - Non-Alcoholic Beverages
  - Alcoholic Beverages
  - Tobacco
  - Household & Personal Products

- Consumption II
  - Multiline and Specialty Retailers & Distributors
  - Food Retailers & Distributors
  - Drug Retailers & Convenience Stores
  - E-Commerce
  - Apparel, Accessories & Footwear
  - Building Products & Furnishings
  - Appliance Manufacturing
  - Toys & Sporting Goods

- Financials
- Health Care
- Infrastructure
- Non-Renewable Resources
- Renewable Resources & Alternative Energy
- Resource Transformation
- Services
- Technology & Communications
- Transportation

Also in Section 5

Concepts
- Structure of GRI Standards
- SASB Universe of Sustainability Issues
- <IR> Guiding Principles and Content Elements
- Selecting a reporting framework
- GRI Reporting 2025 Project

Case Studies
- Keppel Land
- Bloomberg
- Maritime Port Authority

SGX SUSTAINABILITY REPORTING GUIDE

Application of Listing Rules

- Listing Rules 711A and 711B require every listed company to prepare an annual sustainability report on its sustainability practices, with reference to five primary components on a 'comply or explain' basis.

Principles of Sustainability Reporting

- **Board responsibility**
  Under the Code of Corporate Governance, the Board leads and controls the company, and has ultimate responsibility for the company's sustainability reporting process and sustainability report.

- **"Comply or explain"**
  Each SGX-listed company must issue a sustainability report with the primary components set out on the next page, or explain what it does instead and the reasons for doing so.

- **Report risks as well as opportunities**
  In identifying ESG factors, the company should consider both risks and opportunities.

- **Balanced reporting**
  Sustainability reports should give an accurate and balanced view, incorporating both favourable and unfavourable findings.

- **Performance measurement system**
  A good system benchmarks performance against stated objectives, and facilitates comparisons against time and entities.

- **Global standards and comparability**
  Companies should preferably adopt globally-recognised frameworks, disclosures and best practices to guide reporting.

- **Stakeholder engagement**
  A company should engage current and potential shareholders, as well as other stakeholders, to help it identify material ESG factors and solutions to the issues.

- **Independent assurance**
  This is voluntary, but it is encouraged to boost stakeholder confidence in the accuracy and completeness of sustainability data.

Primary Components of the Sustainability Report

- **Material ESG factors**
  The report should identify material ESG factors, and describe the reasons for, and process of, selection of such factors, taking into account the business, strategy, business models and key stakeholders.

- **Policies, practices and performance**
  The report should set out the company's policies, practices and performance in relation to the material ESG factors identified. There should be descriptive and quantitative information on each factor for the reporting period, with performance compared to previously disclosed targets.

- **Targets**
  The report should set out the company's targets for the coming year in relation to each material ESG factor identified.

- **Sustainability reporting framework**
  The company should select, and explain the reason for its selection and application of, a sustainability reporting framework. The framework should be appropriate given the industry in which the company operates, and its business model.

- **Board statement**
  The report should contain a statement by the Board to the effect that it has considered sustainability issues as part of its strategic formulation, determined the material ESG factors, and overseen their management and monitoring.

Obtain a copy of the complete Sustainability Guide for Boards
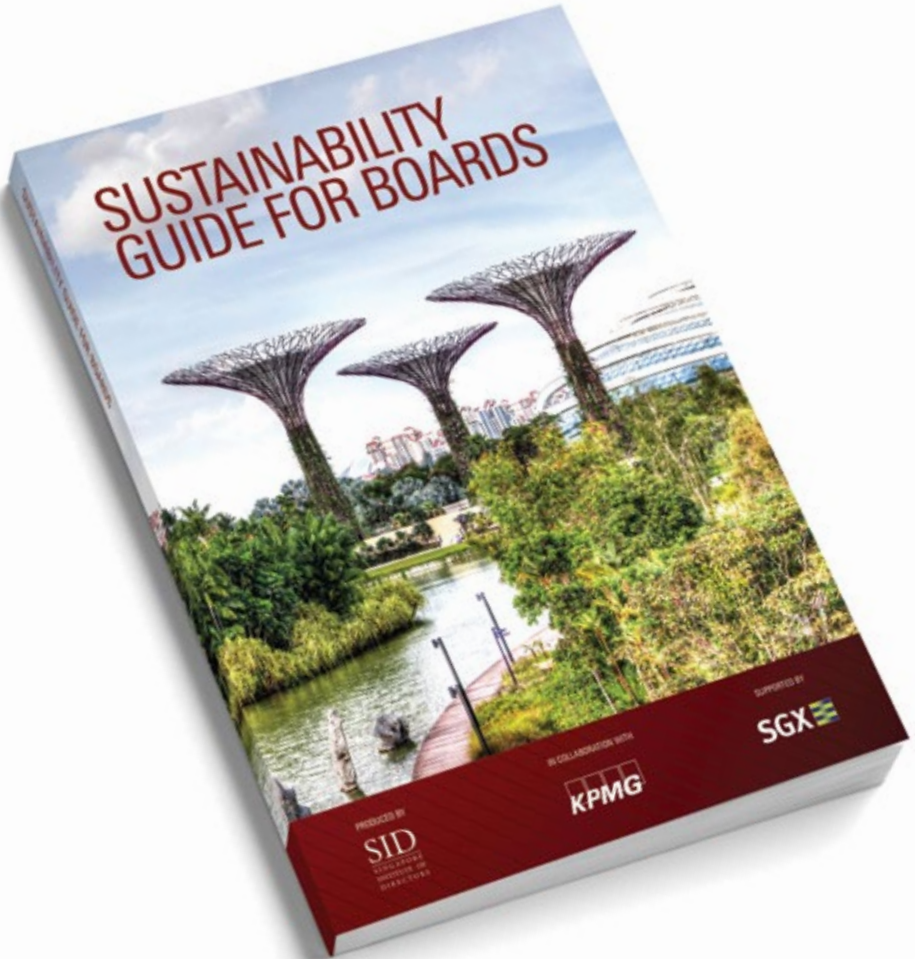
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