Guest-of-Honour Speech by Tan Boon Gin, CEO of SGX RegCo, at the launch of the Singapore Governance and Transparency Index 2021

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Ladies and gentlemen, good morning.

1. Thank you for the kind invitation for me to speak today.

2. The Singapore Governance and Transparency Index ("SGTI") has over the years become an increasingly integral part of our investors' assessment of individual companies and trusts to invest in, as well as a barometer of the overall market.

3. The steady climb in the overall scores over the past years is testament to the good work put in by the entire market community across all stakeholder groups to improve corporate governance especially among Issuers. Our role at Singapore Exchange Regulation has been to provide clear guidance on corporate governance disclosure and practices. We believe that the rising trend in the SGTI scores shows that such guidance, as well as our "community" approach has had a positive effect on standards and ultimately, companies' actual practices. I should add that SGX also displays on our website, the history of SGTI scores of each listed company, because we firmly believe that the scores should be an immutable part of the company's dataset..

4. This is in keeping with the underlying principle, that our role is to ensure investors have the information necessary for their decision-making. We do this by coordinating between investors and issuers to arrive at common landing points on what should be disclosed and how. For some areas such as financial statement reporting, consensus is long-standing on the core of reporting, although adjustments are made from time to time. However, as investor expectations evolve, disclosure requirements must also evolve in tandem, or risk the market and its Issuers being left behind.

5. This trend of constant evolution brings to mind 3 non-financial statement reporting areas that I would like to call to our issuers' attention today. They are climate, assurance for sustainability, and board diversity.

The importance of climate-related disclosures

6. First, on climate. The G7 Finance Ministers and Central Bank Governors this summer emphasised the need to 'green' the global financial system so that financial decisions take climate considerations into account. They noted that investors need

high quality, comparable and reliable information on climate risks. This trend comes amid growing demand for more information on the impact that firms have on the climate and the environment. The G7 supported the move towards mandatory climate reporting, based on the framework set by the Task Force on Climate-related Financial Disclosures ("TCFD").

7. Now SGX introduced mandatory sustainability reporting in 2016. As a result, 100% of our Issuers already produce sustainability reports. The question is how do we build upon this momentum to prepare our companies for the intensifying scrutiny on the climate related aspects of their businesses? This is precisely the focus of our upcoming public consultation which all of you can expect very soon.

8. Our consultation builds on findings from two key studies. The first was the survey of financial institutions ("FIs") on their decision-making and whether ESG factors played a role. The second was a review of the sustainability reports published by our listed companies.

9. Consider the findings of the first. We surveyed FIs which comprised insurers, investors and lenders. All of them emphasised that ESG aspects, particularly climate-related information, were important in their evaluation of what businesses to lend to, what risks to underwrite or what assets to invest in. In addition, they called for greater comparability of ESG information. In short, companies are increasingly having to prove to FIs that they have the wherewithal to deal with climate risk and to report consistently with their peers. To do so, companies will have to make available to FIs data outside of the usual financial statements. This is where their sustainability reports come in handy.

10. The second study, our review of listed issuers' sustainability reports, was conducted with the NUS Business School's Centre for Governance and Sustainability. The study showed continued improvement from the previous review. Companies, particularly Catalist issuers, are getting better at reporting ESG data. But this being only the second review, room for improvement clearly exists. In particular, climate-related information is still lacking and importantly, there is little assurance and standardisation of the data reported.

11. The findings underscored the growing importance of climate considerations that our companies need to pay attention to. This is reinforced by recent international developments.

12. For instance, in June this year, the United States' Securities and Exchange Commission ("US SEC") said the agency is considering a public company disclosure mandate which may necessitate public companies to publish data on areas such as greenhouse gas emissions[1].

13. Earlier this year, the EU said it planned to increase the number of companies that must publish environmental and social data under its Corporate Sustainability Reporting Directive, which requires companies to disclose a broader range of data such as their carbon emissions[2].

14. At the end of last year, the United Kingdom's Financial Conduct Authority ("FCA") started requiring listed companies to make disclosures consistent with the TCFD recommendations.

15. This growing regulatory consensus around the recommendations of the TCFD is, in our view, an endorsement of the area of sustainability disclosures for which investor demands are greatest, as well as where the underlying methodology is most scientific and mature. Given this, the upcoming consultation will focus significantly on the issue of whether SGX-listed companies should disclose climate-related information in accordance with the TCFD recommendations. We know all this is new to many if not most. We know it can be technically challenging, and we will be seeking your feedback on how best to support our Issuers and indeed our directors, in the transition.

16. The other issue raised by financial institutions is the need for quality data metrics that is consistent with international frameworks and that permit comparability for effective investment decisions. While compared with the TCFD, a similar consensus has yet to build on a framework for non-climate related information, SGX has through its own review of sustainability reports and conversations with data vendors and consumers, identified 27 commonly reported metrics. Now if all our Issuers adopted these 27 metrics as a starting point for their sustainability reports, would it go some way to addressing the issue of comparability? If we went one step further to provide a common reporting portal, would that be even more helpful for issuers? These are some of the other questions that we will be posing alongside our consultation on climate disclosures.

17. Allow me to make one final observation. As the recent devastating events in China and Germany unfolded, several directors asked me how we were going to regulate greenhouse gases. My reply to them was, “We are not the regulator of greenhouse gases. You are.” We regulate disclosures of greenhouse gasesand by doing so, we facilitate the efficient allocation of capital by investors looking at our Issuers though a climate lens. But in terms of the actual climate actions of each of these companies, it is you as directors who must oversee the identification, assessment and management of climate risks and opportunities. In short, SGX RegCo regulates the disclosures and you as directors and as the board, you will regulate the climate-related measures and actions of your companies.

The question of assurance

18. A second area that Issuers need to pay attention to is on the issue of assurance of their sustainability reports.

19. I have spoken on previous occasions about the increasing materiality of non-financial statement information. Our proposed changes also mean that we are shifting to more measurable and quantifiable non-financial statement disclosures. Evolving stakeholder and shareholder expectations in the transparency and accuracy of such information point to the trend that assurance will ultimately become a requirement.

20. Having said that, we are keenly aware that there is still limited consensus on standard setting for sustainability reporting, let alone sustainability auditing. In the absence of sustainability assurance standards, the EU, for example, recognises that it would be more feasible to take on a progressive approach and adopt a ‘limited' assurance requirement, which calls for less evidence than the stronger and more demanding ‘reasonable' assurance requirement[3].

21. So what should the Singapore approach be? Should we wait for common reporting and assurance standards for sustainability to be put in place first, or can companies in the interim already give better assurance to users of sustainability reports? This will be another area we would like to hear your views.

22. After all, our rules today already require a statement from the board on the sustainability report. As directors, you take ultimate responsibility for the information provided in the sustainability reports. Assurance can serve to give you the comfort that the internal sustainability reporting policies and processes are robust, and that the sustainability report is accurate and complete. By overseeing the actual assurance, you can ensure your internal or external auditors provide it in a manner befitting the high standards your stakeholders expect.

The spotlight on board diversity

23. The final area of attention is on board diversity. It is globally recognised that having board diversity in leadership is good for business. This is particularly important in times of uncertainty when companies may benefit from the different perspectives that directors with different backgrounds and experience may offer.

24. This is also an area where global regulators have begun to introduce more prescriptive rules.

25. Late last year, Nasdaq filed a proposal with the US SEC to adopt new listing rules related to board gender diversity and disclosures. If approved, the new listing rules would require all companies listed on Nasdaq's US exchange to publicly disclose consistent and transparent diversity statistics regarding their board of directors.[4]

26. The UK FCA has also announced just last month proposals to require issuers to disclose whether they meet specific board diversity targets, including having at least 40% of the board and at least one senior board position be occupied by women.

27. How is Singapore doing in this respect? In the latest statistics as of December 2020, Singapore's Council for Board Diversity ("CBD") found that the participation of women on boards of the top 100 listed companies improved by 1.4 percentage points from 2019 to 17.6%. But this was still below the 20% target the CBD had set for 2020.

28. We believe that more can be done at a faster pace in Singapore to build diverse corporate boards capable of steering companies into the future. The business environment is simply becoming so complex that even if we were look at this from a purely governance point of view, it is unrealistic to expect a group of individuals with largely the same backgrounds, mindsets, and experiences to have all the necessary tools and skillsets to spot red flags, and ask the right questions. Moreover, we are a firm believer that diversity is integral in widening the depth and breadth of collective skills and perspectives to drive innovation and better long-term performance. That is why we will also be including a proposal in the upcoming consultation related to mandating greater disclosure around board diversity.

29. But at the end of the day, it is the directors – particularly the Nominating Committee – that will be immediately responsible for making diversity happen. So

once again, the actual task of regulating diversity is for you, the directors, to carry out.

Conclusion

30. Before wrapping up, I wish to emphasise that the enhancement of sustainability-related disclosures is not a self-contained subject. It is the natural offshoot of our role in coordinating the interests of issuers and investors, to ensure that investors are provided with all the information necessary for them to make informed decisions. In that light, may I again congratulate all companies involved for their continuously improving performance in their SGTI scores, while emphasising that the evolving business and regulatory landscape means that companies must be ready to continuously up the ante on governance, diversity, transparency and sustainability. Thank you very much.