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SUSTAINABILITY REPORTING

Recent Developments and their Impact on Singapore

BY
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Although it has come to the fore in the past few years, sustainability reporting has been around for decades. Initially, most non-financial reporting was incorporated into financial statements and was largely about employee well-being.

Corporate scandals played a pivotal role in spurring the uptake of sustainability reporting. After the Bhopal chemical disaster, a Right-To-Know Act was passed in the US in 1986, mandating companies to disclose releases of over 320 toxic compounds. Similarly, in the wake of the Exxon Valdez oil spill in 1989, oil and gas companies stepped up their environmental disclosures. Gradually, sustainability reporting became more of a norm, even for firms not embroiled in controversy. The idea of a "triple bottom line" – financial, environmental and social performance – first emerged in the 1990s, and has seen considerable uptake by firms worldwide.

DEVELOPMENTS IN SINGAPORE

Sustainability may very well be the zeitgeist of the past decade, as made apparent when the Singapore Exchange confirmed in June 2016

[1] http://www.carrotsandsticks.net/wp-content/uploads/2016/05/Carrots-Sticks-2016.pdf

that listed companies have to engage in sustainability reporting on a "comply or explain" basis. These new guidelines will come into force from FY 2017, with companies being allowed 12 months from the financial year's end to launch their reports. Each report must contain five main components – material environmental, social and governance (ESG) factors, policies, practices and performance per material issue, targets per material issue, the sustainability reporting framework and a Board statement.

Broadly, the goal of sustainability reporting can be summed up as relaying the means through which exchanges of services and resources between companies and their stakeholders (including the economy and the environment) influence their common welfare. To stay ahead, companies have to evolve in response to these changing expectations.

DEVELOPMENTS IN ASIA

In the Asia Pacific, sustainability reporting instruments have risen in number by approximately 75% since 2013, an upswing partly driven by new exchange requirements.[1] As early as 2007, Bursa Malaysia had declared that ESG disclosure was mandatory for listed companies. The Philippines, in 2011, had mandated large firms to make corporate social responsibility disclosures. In 2012, Indonesia implemented a new law making it compulsory for limited liability companies to make social and environmental disclosures in their annual reports.

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VIEWPOINT
SUSTAINABILITY REPORTING

For the year 2013, only 17 Asian firms were in the Global Reporting Initiative (GRI)'s G4 reporting database, but the number skyrocketed to 903 in 2015. The wave of increased sustainability reporting has not bypassed Asian countries. Sustainability reporting is no longer mere icing on the cake – its increasing acceptance as a norm means that it has become a rational imperative.

SUSTAINABILITY REPORTING UPTAKE IN SINGAPORE

In 2010, a mere 79 listed firms made disclosures pertaining to sustainability, according to CSR Singapore. Fast forward three years and the situation has changed. As of 2013, 160 listed firms – more than twice the 2010 number – engaged in sustainability reporting. The rapid increase in uptake was largely due to companies with smaller market capitalisation entering the fray, showing that large and small firms alike can carry out sustainability reporting. There was a 90% rise in firms using GRI's framework, which may attest to a greater regard for formalised reporting processes typically preferred by investors.

Even so, there is still room for further improvement. It was noted that only 32.1% of companies from industries flagged by SGX as being vulnerable to greater environmental and social risks reported on their sustainability practices. Additionally, companies' least detailed disclosures were for environmental indicators, particularly for the service-oriented industries, where the link to sustainability may appear more tenuous but is nonetheless present.

LATEST DEVELOPMENTS IN REPORTING FRAMEWORKS

New expectations are coming from all quarters. The recently-announced Corporate Human Rights Benchmark is being designed by a consortium of investors, a think tank, an NGO and an investor research agency, highlighting the diverse stakeholders keen on

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evaluating firms. A 2015 Morgan Stanley study discovered that 71% of investors are keen on sustainable investing; the proportion is even higher among millennials, with 84% of them being keen on this practice.[2] This, compounded by additional regulatory pressure, means that more companies are jumping onto the sustainability bandwagon.

It is unsurprising that there has been a proliferation of reporting frameworks and benchmarks. GRI released the fourth generation of its reporting standards (G4) in 2013. This is the most commonly-used sustainability reporting framework in the world – utilised in more than 90 nations and at least 9,170 organisations. According to GRI, there are numerous benefits of reporting, running the gamut from refining the companies' strategy and vision, to enhancing their organisational processes and management systems, and increasing their attractiveness to employees. The year 2013 also saw the launch of the International Integrated Reporting Framework. Integrated reports focus on how companies can generate value, taking a holistic view of their unique, individual circumstances. While value creation does include financial health, it is more oriented towards the long term and takes stakeholder well-being into account as well. Visionary firms will see community engagement as instruments of profitable growth in the long run.[3] With integrated reporting, firms can enhance their understanding of the material influences affecting their

value creation capabilities. Companies in Singapore that have elected to report in this fashion include CapitaLand and DBS.

The growing need to account for the wide variety of "capitals" employed to generate value has driven the emergence of novel modes of reporting, according to an ACCA report published in May 2016.[4] The same report discussed the valuation methodologies devised by organisations like the Natural Capital Coalition and The Economics of Ecosystems and Biodiversity. Puma, too, has launched a revolutionary environmental profit and loss account in 2011 to help it quantify its natural capital. As the company's Executive Chairman, Jochen Zeitz, told PwC, this move has helped the company

[2] https://www.morganstanley.com/sustainableinvesting/pdf/Sustainable_Signals.pdf

[3] http://cecp.co/pdfs/resources/Business_at_its_best.pdf

[4] http://cdsb.cdnf.net/sites/default/files/acca_cdsb_mapping_the_sustainability_landscape_lost_in_the_right_direction.pdf

[5] http://www.pwc.com/gx/en/audit-services/corporate-reporting/sustainability-reporting/assets/pumas-reporting-highlights-global-business-challenges.pdf

[6] http://www.un.org/sustainabledevelopment/sustainable-development-goals/

[7] http://www.pwc.com/gx/en/sustainability/SDG/SDG%20Research_FINAL.pdf

[8] https://www.globalreporting.org/resourcelibrary/Sustainability-and-Reporting-Trends-in-2025-1.pdf

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to "conserve the benefits of eco system services… (and) also ensure the longevity of our businesses".[5]

In keeping with this global shift towards sustainability, the United Nations released 17 Sustainable Development Goals[6] (SDGs) in 2015, and a PwC 2015 research found that 71% of companies have begun preparing engagement strategies relating to these SDGs.[7] Companies should keep the SDGs in mind to tailor their reporting processes and sustainability roadmaps accordingly.

For Singapore, the UN's SDGs most pertinent to local companies are "Industry, innovation and infrastructure"; "Sustainable cities and communities" and "Responsible consumption and production". The first deals partly with making industrial processes more efficient and eco-friendly, as well as investing in research and development, in line with the Singapore government's recent strategic thrusts. The second aims to make cities more liveable, which coincides with our 2015 Sustainable Singapore Blueprint. The last is concerned with targets such as decreasing waste production and increasing resource use efficiency, and is applicable to many industries. In spite of potential clashes between corporate agendas and public welfare, the objective of sustainability reporting could eventually grow to encompass helping governments evaluate collective corporate impacts with respect to such global goals.

Other prominent initiatives are the Carbon Disclosure Project and the Dow Jones Sustainability Index. These two score firms on their performance, enabling more detailed benchmarking, and fostering healthy competition. Another framework of note is IRIS, which encompasses 559 different metrics which evaluate an investment's financial, environmental and social performance.

In the near future, supply chain transparency is predicted to become even more paramount. We may see the rise of "integrated indicators" that combine financial and non-financial data, as well as metrics to measure trust. Far from the snapshots of today, the future sustainability report could contain ever-changing, real-time data.

The way ahead is not without obstacles. Different organisations may request similar data from one company, leading to unnecessary duplication and incoherence. Conflicting definitions of concepts like "materiality" and a morass of different terminologies may add further complexity. It will be interesting to see how these challenges are tackled as the field progresses from its nascent stage.

THE ROLE OF ACCOUNTANTS

Despite the new concepts, many commonalities between sustainability reporting and financial reporting exist – compliance, risk identification and risk management, corporate governance including information reporting and assurance. Given the rise of big data, the "monetisation of impacts" and "valuation of externalities" are also emerging trends, according to a GRI analysis paper of future trends.[8] With the demand for assurance functions forecasted to grow, accountants will have many chances to apply their technical expertise in adjacent areas and continue to build trust in society.

CONCLUSION

The modern developments relating to sustainability have transformed the face of corporate reporting worldwide. Given these trends, this is an opportunity for companies to review their current strategies and build comprehensive data collection and reporting processes. Leading companies will be able to identify ample opportunities for value creation, for example, through operating efficiency gains and improved consumer trust, thus turning sustainability reporting from a mere compliance exercise into an engine of long-term value creation. ISCA

This is the second article in the ISCA Corporate Reporting Committee's series of articles on sustainability reporting to raise awareness and quality of sustainability reporting in Singapore.

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