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S'pore's large listed firms 'making progress' in climate reporting

But more has to be done in connecting climate risks to firms' bottom line: Study

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Large listed companies in Singapore are making progress in their climate reporting, said a new study out on July 8.

Companies with a market capitalisation of more than $1 billion as at July 2023 did well in areas such as creating committees to deal with climate risks and opportunities, and disclosing the physical and transitional risks related to climate change.

But more needs to be done in connecting climate risks to the companies' bottom line, it added.

The study, conducted by the Accounting and Corporate Regulatory Authority (Acra) and the Sustainable and Green Finance Institute at the National University of Singapore, covered 51 large listed companies and studied their climate-related disclosures for the 2022 financial year.

These disclosures were based on the Task Force on Climate-related Financial Disclosures framework.

Improving climate reporting is vital, especially as Singapore will introduce mandatory climate reporting in phases from the financial year 2025 for listed companies, aligned to the International Sustainability Standards Board (ISSB) requirements. This will also be required of non-listed companies with an annual revenue of at least $1 billion and total assets of at least $500 million from the financial year 2027.

A separate report by EY, also out on July 8, revealed that 96 per cent of Singapore-listed companies have started climate-related reporting efforts, up from the 65 per cent that did so last year. It noted that more issuers are also disclosing climate-related risks and opportunities.

In the Acra-NUS study, governance emerged as a strong point among the companies covered. Some 75 per cent of them fully disclosed their process of reporting to and involving their boards in climate matters.

But they need to do better in showing how the board gets involved in shaping performance goals, the study said.

An example of a company that produced strong disclosures on governance is Singtel Group, whose report described in detail the climate-related roles that its board and the various committees have, including setting key performance indicators and linking them to compensation.

Acra assistant chief executive Kuldip Gill said: "Board members need to drive this sustainability journey and need to be more aligned with what's happening in terms of the ISSB standards, global standards... to drive long-term financial growth and resilience."

Most companies also disclosed both physical and transitional risks related to climate change, but only 61 per cent discussed the related opportunities, the study showed.

It added that only 16 per cent of the firms fully disclosed how they incorporate climate change in their financial strategy. For instance, City Development Limited put a number to the cost of climate inaction, revealing that a scenario where the Earth warmed by 1.5 deg C would cost the company an estimated $120 million.

When it comes to risk management, companies also generally did not compare the significance of climate-related risks with other risks, or explain their potential magnitude.

"This suggests room for improvement, as such information is necessary for investors to evaluate the company's readiness in facing the upcoming economic and regulatory changes, including the transition to a lower-carbon economy," Acra and NUS said.

Companies also did well in disclosing their Scope 1 and 2 greenhouse gas emissions – which refer to those either directly emitted by the company or indirectly emitted as a result of the company's activities. They also made progress in reporting Scope 3 emissions – those that arise because of other organisations along the supply chain that are not directly owned by the company.

"However, more could be done in terms of setting interim milestones to track tangible and timely progress," Acra and NUS said.

"Transparency could also be enhanced in disclosures for opportunity metrics and how executive pay was tied to climate performance as less than 10 per cent of companies studied have done so."

Moving forward, companies should prepare for upcoming requirements on climate-related reporting by connecting their climate reporting to their financial reporting, the study said. This means firms should look at how climate risks may affect the valuation of their assets, for instance.

Ms Gill added that companies also have to view reporting as more than a compliance exercise.

"I think you need to integrate sustainable practices within your business strategies so that you can reshape your business model. It's to future-proof yourself against (change) – whether it's a regulatory change, whether it's a global change – it's more about resilience in the long term," she said.

She noted that the kicking in of requirements will be harder for the non-listed firms, because they have not had to produce the mandated reports.

"But I do believe that they will go on this journey, because our lenders or investors or other stakeholders are increasingly looking at sustainability performance or climate performance in their lending and investing decisions. So I think... they will get up to speed, just that it will be a little bit slower," she added.

She also said that companies just have to take the first step and pointed to government support, such as a Sustainability Reporting Grant to provide funding help for firms to produce their first sustainability report.

A registry is also being developed by the Singapore Business Federation, in collaboration with other organisations, to help translate business activities into greenhouse gas emissions.

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