CFA Institute

# ESG DISCLOSURES IN ASIA PACIFIC

A Review of ESG Disclosure Regimes for Listed Companies in Selected Markets

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# 1. Executive Summary

In recent years, the integration of material environmental, social, and governance (ESG) factors into the investment management process has attracted increasing attention. This attention is the result of the growing recognition of the impact that material ESG factors have on the long-term prospects and sustainability of a listed company. An increasing number of investors accept that an evaluation of an investment opportunity (be it equity or fixed income) is not complete without proper appreciation and analysis of these factors.

To facilitate such analyses, investors need ready access to high-quality, comparable, relevant ESG information, which is not always available. As a result, listed companies have been under increasing pressure to report more and better data. This issue also has appeared on the radar of governments, regulators, and other standard setters (such as stock exchanges), who are driving changes in reporting and disclosures by listed companies through policies, regulations, and guidelines.

The report is designed to keep stakeholders abreast of the latest developments and regional trends in disclosure regimes. In addition to an overview of regulations, we look at opportunities and challenges for various stakeholder groups. We make observations and provide recommendations on how stakeholders may contribute to the development of more transparent and informative ESG disclosure practices in their market.

We note that of the three components of ESG, corporate governance and related reporting is largely table stakes, and generally far more common and advanced than the environmental and social components. The most significant recent advancements, however, have been made in environmental and social disclosures, and these developments naturally come to the fore in our review.

Several global frameworks have been developed, such as Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), Integrated Reporting (<IR>), and Task Force on Climate-Related Financial Disclosures (TCFD). They differ in their approaches, philosophies, and purpose. For example, SASB primarily addresses the needs of investors, GRI addresses more broadly those of all stakeholders, and TCFD focuses on climate-related disclosures. While the frameworks are largely complementary, their profusion, instead of providing clarity, has only added to the confusion for reporting corporations and for investors.

At the individual market level, regulators and exchanges have adopted a range of approaches, from mandating key performance indicator (KPI) disclosures to recommending global frameworks. They also differ in the level of obligation imposed on reporting companies, ranging from voluntary, to comply-or-explain, to mandatory.

In addition to keeping investors informed and regulators satisfied (where required), the process of preparing ESG disclosures benefits the company, for example, by forcing their directors and management to become more aware of relevant ESG risks and opportunities, and investors' and stakeholders' perceptions of them. By signalling such awareness to the market a company could demonstrate strategic leadership on the management of such issues.

A number of listed companies have recognised such strategic benefits and led the charge by providing insightful and top-quality reports. Many others, however, are questioning and challenging their necessity – it is not immediately apparent to them which data are useful to investors and why. For their part, few investors have been able to articulate the impact of ESG information on an issuer's valuation, whether through adjustments to future cash flows or to its cost of capital. Without this understanding, the information gap likely will persist despite the best intentions of standard setters around the world.

In Asia Pacific, regulators and stock exchanges are placing increased focus on the topic for a number of different reasons, including, for example, the following:

- to adhere to international best practices,
- to ensure the competitiveness of their listed companies in the quest for international capital, and/or
- to prepare the corporate sector for a global shift to sustainability.

There may not be a one-size-fits-all approach in ESG-related disclosures, but it is clear to CFA Institute that further standardisation and refinement of such disclosures will improve their quality, consistency, and comparability. This report provides an overview of ESG disclosure regimes in seven Asia-Pacific markets: Australia, China, Hong Kong SAR, India, Japan, Singapore, and Thailand. We have also included the United Kingdom because of its global significance and advanced thinking/approach to ESG disclosures regimes.

# 1.1 Key Observations

### Progress

- The volume of ESG-related disclosures has increased in Asia Pacific. Not all of these disclosures have been of high quality or useful, however. For many issuers, it remains a box-ticking exercise because the collection and reporting of additional data is burdensome and costly. An understanding of the benefits of such reporting is lacking.
- Development of a mature ESG disclosure mentality takes time. Nevertheless, fast progress is possible, as the example of Thailand shows. In shaping such development, more nimble emerging markets may have an advantage over developed ones, in which practices and habits are more entrenched and harder to change.

### Reporting obligations

- In the Hong Kong SAR and Singapore markets, the reporting obligation is on a comply-or-explain basis, whereas in Australia, India, Japan, Thailand, and the United Kingdom, reporting is voluntary. Not all major developed markets have addressed ESG disclosures. In particular, neither exchanges nor regulators in the United States mandate these disclosures, relying instead on the existing materiality requirements for disclosures under the SEC Rule 10b-5[1] targeting securities fraud. They have not issued conclusive guidance on the matter.[2]
- There has been a move from voluntary disclosures, to comply-or-explain disclosures, to mandatory disclosures. The trend of ratcheting up of the level of obligation and the scope of disclosures is likely to continue. Unfortunately, in markets where disclosures are voluntary, the progress has been slow as the decision to disclose remains largely at the discretion of the issuer.
- China is on the cusp of moving from a voluntary disclosure regime to a mandatory one, with the introduction of mandatory ESG reporting in 2020. Although the framework is still being formulated, many in the industry are monitoring developments closely as its success may inspire others to follow suit.

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[1] U.S. Securities and Exchange Commission, *Rule 10b-5: Employment of Manipulative and Deceptive Practices* (1948). https://www.govinfo.gov/app/details/CFR-2018-title17-vol4/CFR-2018-title17-vol4-sec240-10b-5

[2] U.S. Securities and Exchange Commission, *Commission Guidance Regarding Disclosure Related to Climate Change*, issued by the Securities and Exchange Commission in 2010, states that potential impact of climate change on a company's business, if material, needs to be included in non-financial statement disclosures. A February 2019 update of Regulation S-K adds a requirement to provide a discussion of diversity policies relating to the composition of the board of directors.

- In some markets (e.g., China and India), the initial focus has been on getting larger companies to comply as they are deemed to have more resources and are expected to provide leadership. In others (e.g., Hong Kong SAR and Singapore), stock exchanges have applied the same rules and guidelines uniformly to all listed companies.

### Environmental versus Social versus Governance

- In the past, corporate governance was seen as the most relevant of the three ESG factors for creating long-term value. Governance disclosure frameworks, therefore, tend to be more mature and many disclosures are already mandated by regulators. An increased awareness of climate change risks, however, has moved environmental factors to the forefront. New ESG disclosure initiatives are likely to prioritise environmental factors on par with, if not higher than, governance and social factors. In particular, environmental disclosures are expected to be the core of China's new mandatory regime, as the country faces up to its environmental legacy and strives to shape a sustainable future.
- Although there are substantial differences between the national frameworks in key performance indicators (KPIs) and other factors, there are some consistent themes, such as energy consumption, carbon emissions, waste generation, and water usage in the environmental category; employee turnover, diversity, and health and safety in the social category; and board independence, composition, and remuneration in the governance category.

## 1.2 Recommendations

### For governments, regulators, and stock exchanges

- Ensure meaningful, accurate, timely, and comprehensive disclosures, taking into account characteristics of companies operating in different industries.
- Keep in view global standards and developments and work toward harmonisation and standardisation, where appropriate.
- Clearly articulate how disclosure regimes will benefit issuers; offer guidance and training, in particular to smaller, less resourceful companies.

### For issuers

- Educate the board and senior executives to more fully integrate and report on how ESG fits in with the company's strategic outlook, risk management framework, and corporate accountability, so that they can steer the company accordingly.

- Ensure that all relevant and material ESG information and any related KPIs are communicated to the company's stakeholders, including employees, investors, and other capital providers in a consistent and timely manner.

### For asset owners and investment managers

- Encourage investee companies to upgrade the quality and consistency of ESG information, including more detail on what is material ESG information and how it may affect valuation and future corporate performance.

# 2. Introduction

Although investors in Asia Pacific lag behind those in Europe or North America in adopting environmental, social, and governance (ESG) considerations into their investment decisions, their interest in the topic is growing. According to the Principles for Responsible Investment (PRI), global assets under management that incorporate sustainability reached US$89.7 trillion in 2018, a 31% jump over one year earlier.[3] A report published in April 2019 by the Global Sustainable Investment Alliance noted that sustainable investing assets in the five major markets it covered (Europe, the United States, Japan, Canada, and Australia/New Zealand) amounted to US$30.7 trillion.[4] The Asia-Pacific markets accounted for less than 10% of the total but experienced the highest growth rates since 2014.

In response, regulators and exchanges in Asia-Pacific markets are showing an increased interest in promoting ESG integration by mandating or recommending disclosures. This report offers a landscape review of such disclosures for listed companies in selected markets.

The goal of the report is to keep stakeholders abreast of the latest developments and regional trends in disclosure regimes, focusing on seven Asia-Pacific markets: Australia, China, Hong Kong SAR, India, Japan, Singapore, and Thailand. We also include the United Kingdom as a reference point because of its global significance and the advanced state of its ESG disclosure regime.

In addition to an overview of existing regulations and their evolution, we look at opportunities and challenges for various stakeholder groups, including regulators, exchanges, listed companies and investors. We make country- and region-specific observations and provide suggestions on how stakeholders may contribute to the development of more transparent and informative ESG disclosure practices in their market.

It is necessary to distinguish ESG disclosures mandated or recommended by exchanges for the benefit of investors and other capital providers from those mandated by legislation

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[3] Principles for Responsible Investment, *Annual Report 2018*. https://d8g8t13e9vf2o.cloudfront.net/Uploads/g/f/c/priannualreport_605237.pdf

[4] Global Sustainable Investment Alliance, *2018 Global Sustainable Investment Review*. http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

covering such areas as health and safety, industrial accidents, environmental pollution, energy efficiency, gender equality, and modern slavery. Although the two types of disclosures overlap to some extent, the main purpose of the latter is to allow specific regulatory agencies to monitor compliance with relevant laws and regulations.

This report focuses chiefly on the disclosures mandated or recommended by exchanges that are applicable to listed companies and published typically in annual reports for the benefit of shareholders and investors. Other more specific disclosures will be mentioned when deemed helpful to presenting a complete picture. A more detailed listing of relevant legislation, regulations, guidelines, and required KPIs is provided in Appendix 1.

Comprehensive ESG reporting is usually implemented on a comply-or-explain basis, giving companies a choice to comply with regulations or explain publicly why they do not. This approach is more flexible, because companies can choose the aspects of ESG that are most relevant to them.

Some regulators leave it to the markets to determine the usefulness of ESG disclosures, by making them voluntary. The observed trend, however, is to tighten the requirements over time. For example, the ESG reporting guidelines issued in 2012 by the Stock Exchange of Hong Kong (HKEX) were initially voluntary, but five years later, some of guidelines became required on a comply-or-explain basis.

Many national ESG disclosure frameworks are informed by, or directly make reference to, one or more global frameworks that have been published over the past two decades. The most prominent global frameworks are reviewed in Appendix 2.

ESG integration is an important focus of research and advocacy efforts of CFA Institute. Appendix 3 provides a selection of research and thought leadership publications of CFA Institute in this area.

# 3. Asia-Pacific Overview

All major Asia-Pacific markets have taken steps toward mandating or encouraging disclosures in some or all aspects of ESG within the past two decades. Corporate governance, in particular, came into focus in the early 2000s, in the aftermath of the collapse of the dot-com bubble and the Enron scandal. China[5] and Singapore[6] published their codes and reporting requirements in 2001, Australia[7] published recommendations in 2003, and the Hong Kong SAR market published its code in 2005. In Thailand, the Stock Exchange of Thailand (SET) published Principles of Good Governance in 2012, which was later replaced by the Corporate Governance Code in 2017. The Tokyo Stock Exchange (TSE) published *Principles of Corporate Governance for Listed Companies* in 2004 and the Corporate Governance Code in 2015.

Some of these codes included reporting on issues beyond governance, which today are covered by the broader ESG label. More specific ESG reporting guidelines, however, were issued only within the past decade. Thailand published its Guidelines for Sustainability Reporting[8] in 2010. Australia's guideline was published in 2011. In the same year, voluntary guidelines on corporate responsibility were published in India. Hong Kong's guideline followed in 2012, as did China's, with its initial mandatory corporate social responsibility reporting covering state-owned enterprises. Thailand's Securities and Exchange Commission (SEC) has required social responsibility reporting since 2014 and Singapore introduced ESG reporting requirements in 2016. Table 1 presents this evolution of ESG reporting frameworks.

An analysis by the Asian Corporate Governance Association (ACGA) and CLSA[9] notes a trend in most markets in the region to "race to the top" in reporting, as the level of obligation tends to ratchet up from voluntary, to comply-or-explain, to mandatory.

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[5] China Securities Regulatory Commission, *Code of Corporate Governance for Listed Companies in China* (2001). http://www.csrc.gov.cn/pub/csrc_en/laws/rfdm/DepartmentRules/201804/P020180427400732459560.pdf

[6] Corporate Governance Committee, *Code of Corporate Governance* (6 August 2018). http://www.mas.gov.sg/~/media/MAS/Regulations and Financial Stability/Regulatory and Supervisory Framework/Corporate Governance of Listed Companies/Code of Corporate Governance 6 Aug 2018.pdf

[7] *Australian Principles of Good Governance and Best Practices Recommendations* (March 2003). https://www.asx.com.au/documents/asx-compliance/principles-and-recommendations-march-2003.pdf

[8] Stock Exchange of Thailand, *Guidelines for Sustainability Reporting* (2010, in Thai). https://www.set.or.th/sustainable_dev/th/sr/publication/files/sustainability_report.pdf

[9] ACGA/CLSA, CG Watch 2018: *Hard Decisions: Asia Faces Tough Choices in CG Reform*, Special Report (5 December 2018). https://www.clsa.com/wp-content/uploads/2018/12/CG-Watch-2018-Short-version-181205-L.pdf

Notably, China appears poised to lead this trend. The current reporting requirements for Chinese companies focus on environmental pollution and corporate social responsibility. The country's Environmental Protection Law mandates that companies disclose publicly the amount of key environmental pollutants they discharge. The Shenzhen Stock Exchange and the Shanghai Stock Exchange[10] issued social responsibility guidelines in 2006 and 2008, respectively, which include certain voluntary reporting requirements. The guidelines published by the Shanghai Stock Exchange also include environmental disclosures.

In 2018, the China Securities Regulatory Commission (CSRC) announced that broad ESG disclosures would become mandatory for all listed companies and bond issuers in 2020. The exact framework is currently under consultation with the industry. It is expected to be highly prescriptive and contain a list of required key performance indicators (KPIs).

In most of the surveyed markets, stock exchanges have taken the lead on providing ESG reporting guidance for listed companies, with varying degrees of specificity. In the United Kingdom, the regulator mandates ESG disclosures, whereas the London Stock Exchange has published a guideline that includes a detailed list of recommended KPIs. The HKEX also has adopted a hands-on approach by publishing a relatively detailed list of required and recommended KPIs. In contrast, the Singapore Exchange has left it to individual companies to choose from one of the widely accepted global frameworks. Similarly, the SET uses the Global Reporting Initiative (GRI) framework in its reporting guidelines. India's voluntary guidelines come from the Ministry of Corporate Affairs. In Japan, the Ministry of the Environment has issued the most detailed, albeit voluntary, guidelines; the Tokyo Stock Exchange recommends including ESG disclosures in the corporate governance report, but it does not specify them. In Australia, the Australian Stock Exchange does not require ESG reporting, but the Financial Services Council and Australian Council of Superannuation Investors have jointly published detailed guidelines.

Among the three ESG factors, corporate governance stands out as the one whose relevance to the financial performance of companies was recognised earliest in the more developed markets of Australia, Hong Kong SAR and Singapore, where corporate codes of conduct and relevant disclosures were issued before ESG reporting frameworks. Environmental, sustainability or CSR reporting guidelines predate governance guidelines in India and Thailand, while China has yet to address corporate governance related disclosures. In

[10] Shanghai Stock Exchange, *Notice on Strengthening the Social Responsibility of Listed Companies and the Issuance of the Guidelines for Environmental Information Disclosure of Listed Companies of Shanghai Stock Exchange* (2008). http://www.sse.com.cn/lawandrules/sserules/listing/stock/c/c_20150912_3985851.shtml

Japan, the first environmental and governance disclosure guidelines were issued around the same time, in the early 2000s.

HKEX tightened its reporting obligations from voluntary to a comply-or-explain basis in 2017. The Securities and Futures Commission (SFC), which regulates HKEX, has indicated that it is considering making some ESG disclosures mandatory, to harmonise with China's policy direction,[11] which will mandate that all listed companies disclose ESG risks by 2020. In May 2019, HKEX published a consultation paper in which it proposes to make some disclosures mandatory. This indicates a broader trend toward stricter reporting requirements in the region, likely to be driven by China.

In the meantime, Thailand has emerged as a regional leader in ESG reporting. It has climbed fast in the global ranking of 35 global exchanges conducted by the magazine *Corporate Knights*[12] since 2012, to become the only Asia-Pacific exchange in the top 10 in 2018, based on the quality of ESG disclosures by listed companies. (The top ten in 2018 were: Nasdaq Helsinki, Euronext Paris, BME Spanish Stock Exchange, Deutsche Börse, Euronext Amsterdam, Borsa Italiana, Stock Exchange of Thailand, Johannesburg Stock Exchange, Oslo Børs, and SIX Swiss Exchange.)

[11] Securities and Futures Commission, *Strategic Framework for Green Finance* (21 September 2018). https://www.sfc.hk/web/EN/files/ER/PDF/SFCs%20Strategic%20Framework%20for%20Green%20Finance%20-%20Final%20Report%20(21%20Sept%202018....pdf

[12] "Sustainable Stock Exchanges," *Corporate Knights* (2012-2018). https://www.corporateknights.com/reports/sustainable-stock-exchanges/

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### Table 1. Evolution of ESG reporting frameworks in selected markets

| | AUSTRALIA | CHINA | HONG KONG SAR, CHINA | INDIA | JAPAN | SINGAPORE | THAILAND | UNITED KINGDOM |
|---|---|---|---|---|---|---|---|---|
| **Before 2011** | Corporate Governance Principles and Recommendations (2003) (Man.) | Guidelines on CSR (Shenzhen SE 2006, Shanghai SE 2008) (Vol.) | Code of Corporate Governance Practices (2005) (CoE) | Voluntary Guidelines on Corporate Social Responsibility (2009) (Vol.) | Environmental Reporting Guidelines (2003) (Vol.)<br>TSE Principles of Corporate Governance for Listed Companies (2004) (Vol.) | Code of Corporate Governance (2001) (Man.) | Guidelines for Sustainability Reporting (2010) (Vol.) | Corporate Governance Code (1992) (CoE) |
| **2011** | ESG Reporting Guide issued (Vol.) | | | National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business (Vol.) | | | | |
| **2012** | | State-owned enterprises to publish annual CSR report (Man.) | Implementation of ESG Guide (CoE) | Securities and Exchange Board of India Circular: Business Responsibility Report (Man.) | | | Principles of Good Corporate Governance (Vol.) | |
| **2013** | | | New Code of Corporate Governance (CoE) | The Companies Act 2013 (strengthening corporate governance) | | | | |
| **2014** | | | | Companies Corporate Social Responsibility (CSR) Rules | | | | |
| **2015** | Most recent update of ESG Reporting Guide | | | Listing Obligations and Disclosure Requirements (Man./Vol.) | Corporate Governance Code (Man.) | | | |
| **2016** | | Guidelines for Establishing the Green Financial System | Listed companies to follow general disclosure provision (CoE) | | | SGX Sustainability Reporting Guide published (CoE) | | EU NFRD implementation (Man.) |
| **2017** | | Environmental disclosures for key emission enterprises (Man.) | Listed companies to report environmental KPIs (CoE) | | | | Corporate Governance Code (Man.) | LSE guide to ESG reporting published (CoE) |
| **2018** | | Code of Corporate Governance for Listed Companies | | | Enhancing Corporate Governance Code (CoE) | Listed companies to provide sustainability report (CoE) | | |

*Source:* ACGA/CLSA, stock exchanges.
Vol., Voluntary; CoE, Comply-or-explain; Man., Mandatory; EU NFRD, EU Non-Financial Reporting Directive; LSE, London Stock Exchange.

## 3.1 Compliance

The level of compliance with requirements is not easy to judge across the markets. The ACGA/CLSA *CG Watch 2018* report evaluates the quality of governance and ESG reporting in selected Asia-Pacific markets. The report notes, however, that although the volume of ESG data in the region is skyrocketing, "the worth of that data is hotly contested."

The level of reporting, on a high level, is easier to analyse. According to a 2018 survey from KPMG, the share of Asian companies reporting on ESG jumped from 49% in 2011 to 78% in 2017. Similarly, the number of Asian sustainability reports which follow the GRI standards has increased markedly. In 2017, 42% of all GRI sustainability reports came from Asia, versus just 25% in 2011.[13]

*Corporate Knights* has been measuring the level of sustainability disclosures among companies listed on SSE member exchanges since 2012. The analysis, published in annual reports,[14] is based on companies included in the FTSE All-World Index and in the FTSE ESG research universe, with revenues exceeding $1 billion. The measure of disclosure is calculated using seven key quantitative indicators: greenhouse gas emissions, water use, energy use, occupational safety, waste, temporary staff, and staff turnover.

The level of disclosure is highest among European exchanges. In 2018, only one Asia-Pacific bourse, the SET, ranked within the top 10. The SET issued voluntary ESG reporting guidelines in 2012, and the securities regulator introduced mandatory disclosure requirements in 2014.[15] Table 2 presents the scores and rankings for our selected markets.

13 ACGA/CLSA, *CG Watch 2018: Hard Decisions: Asia Faces Tough Choices in CG Reform*, *Special Report* (5 December 2018). https://www.clsa.com/wp-content/uploads/2018/12/CG-Watch-2018-Short-version-181205-L.pdf

14 Corporate Knights, *Sustainable Stock Exchanges* (2012-2018). https://www.corporateknights.com/reports/sustainable-stock-exchanges/

15 Sustainable Stock Exchanges Initiative, *2018 Report on Progress* (2018). http://www.sseinitiative.org/wp-content/uploads/2018/10/SSE_On_Progress_Report_FINAL.pdf

**Table 2. SSE scores and rankings of ESG disclosures in selected exchanges**

| STOCK EXCHANGE | DISCLOSURE (SCORE - RANK) | GROWTH (SCORE - RANK) | TIMELINESS (SCORE - RANK) |
|---|---|---|---|
| Stock Exchange of Thailand | 73.1% - #7 | 36.6% - #23 | 65.7% - #13 |
| Australian Securities Exchange | 62.6% - #11 | 76.9% - #3 | 97.1% - #2 |
| London Stock Exchange | 58.0% - #14 | 40.7% - #20 | 80.0% - #8 |
| Tokyo Stock Exchange | 52.8% - #18 | 63.7% - #6 | 85.7% - #6 |
| Singapore Exchange | 39.7% - #24 | 45.7% - #16 | 60.0% - #15 |
| Bombay Stock Exchange/ National Stock Exchange | 25.9% - #28 | 58.5% - #11 | No score[16] |
| Hong Kong Stock Exchange | 12.2% - #32 | 84.9% - #1 | 34.2% - #22 |
| Shanghai Stock Exchange | 0.6% - #35 | 31.9% - #27 | 0% - #34 |

*Source:* SSE, UNCTAD, and *Corporate Knights*, based on FTSE-Russell data

Although sustainability reporting is fast becoming commonplace, many companies are clearly going through the motions of reporting without linking the obtained insights to their long-term business strategy. The ACGA/CLSA *CG Watch 2018* report notes that "it quite often feels as if companies are gathering and publishing all this information . . . without a clear sense of what it means for their future."[17] It is up to the consumers of the data to interpret them.

[16] Exchanges with fewer than 10 qualifying companies were not assessed for timeliness.

[17] ACGA/CLSA, *CG Watch 2018: Hard Decisions: Asia Faces Tough Choices in CG Reform*, *Special Report* (5 December 2018). https://www.clsa.com/wp-content/uploads/2018/12/CG-Watch-2018-Short-version-181205-L.pdf

Regulators, exchanges, asset owners, and investment managers promoting ESG have much room to articulate the value of thorough and substantive ESG disclosures for both investors and for listed companies. The process not only will result in better communication of risks and opportunities to investors but also in a deeper understanding of ESG issues by directors and executives of companies. Such understanding can lead to better risk mitigation and strategic decision-making.

# 4. Overview of Selected Frameworks

This section provides an overview of the disclosure regimes in the following seven Asia-Pacific markets: Australia, China, Hong Kong SAR, India, Japan, Singapore, and Thailand. An overview of the United Kingdom is also included as a reference point. A comparison across these markets can be found in Appendix 1. Note, however, that substantial differences exist among the frameworks: in the level of prescriptiveness, the selection of factors and KPIs, and in their categorisations.

For example, the London Stock Exchange (LSE) lists 34 recommended quantitative KPIs, whereas the Singapore Exchange (SGX) only names the themes to be included in ESG reporting and directs listed companies to refer to one of the global reporting frameworks for detailed KPI listings.

We based our categorisation of ESG factors on that adopted by the LSE in its "Guide to ESG Reporting" because of its comprehensive and structured approach.[18]

Although national legislative acts have been listed in our report, mandated disclosures are not included for comparison among the ESG disclosures required or recommended by the corresponding stock exchanges. They are mentioned in the brief analyses of each market that follow in this section.

In all seven selected markets, corporate governance is addressed separately from the broader ESG disclosures. Codes of corporate governance, with relevant disclosure regimes, were published earlier than the ESG disclosure frameworks in Australia, Hong Kong SAR, and Singapore. Japan addressed both around the same time. This reflects an earlier acceptance of governance factors as material to financial performance than social and environmental factors in the more mature Asia-Pacific markets. The opposite observation can be made about India and Thailand, while China has yet to address disclosures in a substantial way.

In all seven markets, the ESG disclosure recommendations focus predominantly on environmental and social factors, thus complementing the coverage of corporate governance factors in earlier regulations.

[18] London Stock Exchange Group, *Revealing the Full Picture: Your Guide to ESG Reporting* (January 2018). https://www.lseg.com/sites/default/files/content/images/Green_Finance/ESG/2018/February/LSEG_ESG_report_January_2018.pdf

## 4.1 Australia

The Australian Stock Exchange (ASX) does not require ESG reporting as a listing rule. Companies listed on the ASX are subject to Listing Rule 4.10.3,[19] adopted in 2003, which requires disclosures of compliance with the Corporate Governance Principles and Recommendations set by the ASX Corporate Governance Council. In Recommendation 7.4,[20] the Council states that a listed company should disclose, on a comply-or-explain basis, any material exposures to environmental and social sustainability risks and should describe how they are managed.

Corporate governance reporting requirements were first detailed in the ASX Listing Rules Guidance Note 9 issued in 2001 and most recently updated in 2016.[21] (The guidance note predates the ASX Corporate Governance Principles and Recommendations.)

To help listed companies meet the needs of Australia's increasingly ESG-savvy investors, the Financial Services Council (FSC) and the Australian Council of Superannuation Investors (ACSI) jointly published the *ESG Reporting Guide for Australian Companies* in 2011.[22] It was most recently updated in 2015. The recommended ESG disclosures are voluntary and address the environment, climate change, and human capital management as well as the broader community and other stakeholders.

In September 2018, the Australian Securities and Investment Commission (ASIC) published a report[23] analysing the reporting on climate risk by Australia's listed companies. This report aligns with the Corporations Act and ASIC's Regulatory Guide 247[24] and notes that 65% of companies in the ASX 100 index included climate change content (identified by key terms) in their annual reports. The percentage is lower for smaller companies.

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[19] Australian Securities Exchange, *Chapter 4: Periodic Disclosures* (1 December 2013). https://www.asx.com.au/documents/rules/Chapter04.pdf

[20] ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations*, 3rd ed. (2014). https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-3rd-edn.pdf

[21] Australian Securities Exchange, *ASX Listing Rules*, *Guidance Note 9* (19 December 2016). https://www.asx.com.au/documents/rules/gn09_disclosure_corporate_governance_practices.pdf

[22] Financial Services Council and Australian Council of Superannuation Investors, *ESG Reporting Guide for Australia Companies* (2015). https://www.asx.com.au/documents/asx-compliance/acsi-fsc-esg-reporting-guide-final-2015.pdf

[23] Australian Securities and Investment Commission, *Climate Risk Disclosure by Australia's Listed Companies* (September 2018). https://download.asic.gov.au/media/4871341/rep593-published-20-september-2018.pdf

[24] Australian Securities and Investment Commission, *Effective Disclosure in an Operating and Financial Review*, *Regulatory Guide 247* (March 2013). https://download.asic.gov.au/media/1247147/rg247.pdf

Interestingly, although the trend is positive among the top 100 companies, it is negative among all listed companies, with only 14% of all companies talking about climate change in their annual reports in 2018, down from 22% in 2011. ASIC attributes this decline to considerations of a transition risk after passing the Clean Energy Act in 2011, which established a carbon pricing mechanism and created a cap on carbon pollution.

Listed companies have been steadily improving their level of ESG reporting, likely in response to investor pressure. In its annual report, ACSI tracked the level and quality of sustainability reporting by listed companies, with an emphasis on climate-related disclosures.[25] Broad trends show that of the 200 companies included in the ASX200 index, 101 provided "detailed" reporting in 2016, compared with 39 in 2008; 83 offered a "basic/moderate" level of reporting, down from 130 in 2008; and only 16 did not report on ESG issues in 2016, down from 31 in 2008.

Because the practice is already well established, the quality of reporting and the level of detail Australian companies provide is the best in the region, according to the ACGA/CLSA *CG Watch 2018* report.[26] Even in the absence of formal requirements and detailed guidance from the stock exchange, the report notes Australia's "generally high standards of sustainability reporting" compared with other markets in Asia Pacific.[27]

In addition to investor-oriented disclosures, the Australian Corporations Act 2001[28] requires all companies to report on compliance with environmental regulations to which they are subject and on performance on relevant metrics.

The Workplace Gender Equality Act 2012[29] requires reporting on the gender composition of the workforce, differences in remuneration between men and women, and other issues surrounding gender equality, sex-based discrimination, and harassment. The requirement applies to corporations and other organisations that employ more than 100 people and all providers of higher education, excluding country or state governments.

[25] Australian Council of Superannuation Investors, *Corporate Sustainability Reporting in Australia* (July 2017). https://www.acsi.org.au/images/stories/ACSIDocuments/generalresearchpublic/2017-Sustainability-Report-FINAL.pdf

[26] ACGA/CLSA, *CG Watch 2018: Hard Decisions: Asia Faces Tough Choices in CG Reform, Special Report* (5 December 2018). https://www.clsa.com/wp-content/uploads/2018/12/CG-Watch-2018-Short-version-181205-L.pdf

[27] ACGA/CLSA, *CG Watch 2018: Hard Decisions: Asia Faces Tough Choices in CG Reform, Special Report* (5 December 2018). https://www.clsa.com/wp-content/uploads/2018/12/CG-Watch-2018-Short-version-181205-L.pdf

[28] Australian Government, Federal Register of Legislation, *Corporations Act 2001* (29 October 2018). https://www.legislation.gov.au/Details/C2018C00424 (Section 299.1.f)

[29] Australian Government, Federal Register of Legislation, *Workplace Gender Equality Act of 2012* (25 July 2016). https://www.legislation.gov.au/Details/C2016C00895

The National Greenhouse and Energy Reporting (NGER) Act 2007[30] requires controlling corporations (at the top of the corporate hierarchies) to publicly report on a range of KPIs. The reporting is mandatory if the company meets certain emission, energy production, or energy consumption thresholds. The KPIs are as follows:

- emissions (fuel combustion, coal mining, oil or gas, carbon capture and storage, mineral products, chemical products, metal products, hydrofluorocarbons, waste),
- energy production, and
- energy consumption (from combustion and other sources).

## 4.2 China

China's rapidly developing capital markets have yet to see a comprehensive ESG disclosure regime, but the country's regulators are aware of the need for guidelines and have made steps toward meeting this need. The *Guidelines for Establishing the Green Financial System*,[31] published in 2016 by the People's Bank of China, together with several ministries and commissions, established a timeline according to which all listed companies must disclose environmental information by 2020. The framework is currently under industry review.

In the meantime, companies discharging key pollutants must disclose relevant environment information in their annual and interim reports, as mandated by the China Securities Regulatory Commission (CSRC) in its *Standards for the Content and Formats of Information Disclosure of Companies Publicly Issuing Securities No. 2—Content and Formats of Annual Reports*[32], which was updated in 2017. The country's *Environmental Protection Law*, amended in 2015, also requires public disclosure of environmental pollution.

In 2008, the Shanghai Stock Exchange issued *Notice on Strengthening the Social Responsibility of Listed Companies and the Issuance of the Guidelines for Environmental Information Disclosure of Listed Companies*,[33] which focus on environmental and ecological

30 Australian Government, National Greenhouse and Energy Reporting, *The NGER Scheme*. http://www.cleanenergyregulator.gov.au/NGER

31 People's Bank of China, *Guidelines for Establishing the Green Financial System* (2016). http://www.pbc.gov.cn/english/130721/3131759/index.html

32 China Securities Regulatory Commission, *Standards for the Content and Formats of Information Disclosure of Companies Publicly Issuing Securities No. 2—Content and Formats of Annual Reports* (2017). http://en.pkulaw.cn/display.aspx?cgid=307656&lib=law

33 Shanghai Stock Exchange, *Notice on Strengthening the Social Responsibility of Listed Companies and the Issuance of the Guidelines for Environmental Information Disclosure of Listed Companies of Shanghai Stock Exchange* (2008). http://www.sse.com.cn/lawandrules/sserules/listing/stock/c/c_20150912_3985851.shtml

sustainability. The document requires companies to provide information on their environmental and ecological initiatives.

The Shenzhen Stock Exchange, in its *Guidelines on Standard Operating of Listed Companies*,[34] recommends voluntary social responsibility disclosures and supports the legally mandated requirements to disclose information on environmental pollution.

State-owned enterprises in China are subject to the guidelines from the State-owned Assets Supervision and Administration Commission, which require publishing of CSR reports as of 2012.[35]

Although some companies voluntarily disclose ESG metrics beyond what is mandated by the environmental regulation, the overall level and quality of such disclosures is low, with the Shanghai Stock Exchange placing last in the *Corporate Knights* 2018 ranking.[36]

## 4.3 Hong Kong SAR, China

With the enactment of the new Companies Ordinance[37] in 2014, all companies incorporated in Hong Kong SAR were required to include information on their environmental policies and performance in the directors' report. The law, however, did not specify the scope or the level of detail of the required disclosures.

To help listed companies meet this requirement and to provide a broader picture of their performance, including social and governance factors, in 2012, the Hong Kong Stock Exchange (HKEX) issued the *Environmental, Social and Governance Reporting Guide*,[38] as Appendix 27 of the Main Board Listing Rules and Appendix 20 of the Growth Enterprise Market Rules. Initially a voluntary "recommended practice," environmental disclosures

[34] Shenzhen Stock Exchange, *Guidelines of the Shenzhen Stock Exchange for Standardized Operation of Companies Listed on the Main Board* (2015). http://www.lawinfochina.com/display.aspx?lib=law&id=11654&CGid=

[35] State-owned Assets Supervision and Administration Commission of the State Council, *Guidelines to the State-owned Enterprises Directly under the Central Government* (2011). http://en.sasac.gov.cn/2011/12/06/c_313.htm

[36] "Sustainable Stock Exchanges," *Corporate Knights* (2012-2018). https://www.corporateknights.com/reports/sustainable-stock-exchanges/

[37] *Companies Ordinance (Chapter 622)* (2014). http://www.hklii.hk/eng/hk/legis/ord/622/

[38] HKEX, *Listing Rules, Interpretation & Guidance, Appendix 27, Environmental, Social, and Governance Reporting Guide* (January 2016). http://en-rules.hkex.com.hk/net_file_store/new_rulebooks/h/k/HKEX4476_3841_VER10.pdf

(organised as subject area A) became obligations of listed companies on a comply-or-explain basis in 2017, whereas social disclosures (subject area B) remain voluntary.

Subject area A (environmental) KPIs address three aspects: emissions, use of resources, and environmental impact. Subject area B (social) KPIs address eight aspects: employment, health and safety, development and training, labour standards, supply chain management, product responsibility, anticorruption, and community investment.

In May 2018, HKEX published a review[39] of issuer compliance with the ESG reporting guide. The analysis of 400 randomly selected issuers revealed an overall high level of compliance, but a varying quality of reporting, ranging from comprehensive, considered, and detailed, to "box-ticking" without explanation or detail.

Although all selected issuers published a report within the deadline, only 38% complied with all 11 aspects, 80% with nine aspects, and 94% with seven aspects. Compliance varied by industry, with the materials industry leading the ranking, and the energy industry and financials trailing.

The move to the comply-or-explain rule from voluntary disclosures in 2017 resulted in nearly 50% of issuers reporting quantitative data for the first time in 2018. Nevertheless, the usefulness of the data is in question, as 43% of companies did not identify and assess ESG topics that were material to their business, according to the HKEX review.

In addition to the ESG reporting guide, Appendix 14 of the Listing Rules[40] includes the *Corporate Governance Code* and specifies requirements for an annual *Corporate Governance Report*, which is a mandatory section of a listed company's annual report and summary of financial reports. The code was first adopted in 2005 and revised in 2012.

The disclosures in the *Corporate Governance Report* are mostly qualitative. They include the following mandatory and recommended disclosures:

### Mandatory disclosures

- How principles of the Code have been applied, exceeded, or deviated from
- Composition of the board, number of meetings held, attendance, statement of responsibilities of directors, and relationships among directors

[39] HKEX, *Analysis of Environment, Social, and Governance Practice Disclosure in 2016/2017* (May 2018). https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Other-Resources/Exchanges-Review-of-Issuers-Annual-Disclosure/ESG-Guide/esgreport_2016_2017.pdf?la=en

[40] HKEX, *Listing Rules, Interpretation & Guidance, Appendix 14, Corporate Governance Code and Corporate Governance Report* (April 2012). https://www.hkex.com.hk/-/media/hkex-market/listing/rules-and-guidance/listing-rules-contingency/main-board-listing-rules/appendices/appendix_14

- Board committee roles, functions, number of meetings, and summary of activities
- Auditor's remuneration
- Outline of shareholder rights and related procedures
- Risk management and internal control systems and practices

### Recommended disclosures

- Shareholdings by senior management
- Shareholder breakdown by type
- Details of shareholder meetings, relevant issues, and dates
- Division of responsibilities between the board and management

The ACGA/CLSA *CG Watch 2018* report notes that despite the mandatory requirements having been in place for more than a decade, "Hong Kong SAR based companies should be doing much better" in this area, and indicates that "boilerplate reporting is still the norm" and directors' biographies are "generic and brief."[41]

In September 2018, the SFC published the *Strategic Framework for Green Finance*, in which it indicates the intention to focus on green finance, to complement China's ambitious goals in this area. In particular, SFC plans to enhance climate-related disclosures of companies listed in the territory, "taking into account the Mainland's policy direction to target mandatory environmental disclosure by 2020" and aiming to align with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).[42]

In May 2019, HKEX published a consultation paper[43] in which it proposes, among other changes, to make the disclosure of ESG policies mandatory, to require disclosing targets for environmental KPIs and to tighten the social KPI requirement from voluntary to comply-or-explain. It stops short, however, of making environmental KPI disclosures mandatory.

[41] ACGA/CLSA, *CG Watch 2018: Hard Decisions: Asia Faces Tough Choices in CG Reform, Special Report* (5 December 2018). https://www.clsa.com/wp-content/uploads/2018/12/CG-Watch-2018-Short-version-181205-L.pdf

[42] Securities and Futures Commission, *Strategic Framework for Green Finance* (September 2018). https://www.sfc.hk/web/EN/files/ER/PDF/SFCs%20Strategic%20Framework%20for%20Green%20Finance%20-%20Final%20Report%20(21%20Sept%202018....pdf

[43] Hong Kong Exchanges and Clearing, *Consultation Paper: Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules* (May 2019). https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Consultation-Paper/cp201905.pdf

## 4.4 India

In 2009, India's Ministry of Corporate Affairs published *Corporate Social Responsibility Voluntary Guidelines*,[44] recommending that all businesses formulate a Corporate Social Responsibility (CSR) policy around six core elements: care for stakeholders, ethical functioning, respect for workers' rights and welfare, respect for human rights, respect for environment, and activities for social and inclusive development.

Two years later, the guidelines were superseded by the expanded and more detailed *National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business*.[45]

The guidelines, which are designed to be used by all businesses in India, contain a list of KPIs on which companies should report, corresponding to the following nine principles:

1. Ethics, transparency, and accountability (centred on corporate governance)
2. Product life-cycle sustainability
3. Employee well-being
4. Stakeholder engagement
5. Human rights
6. Environment
7. Policy advocacy
8. Inclusive growth
9. Customer value

In 2012, the Securities and Exchange Board of India (SEBI) issued a circular[46] that made it mandatory for the largest 100 listed companies to publish an annual business responsibility report. The requirement was expanded to the 500 largest companies in SEBI's *Listing Obligations and Disclosure Requirements Regulations 2015*.[47]

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[44] Ministry of Corporate Affairs, Government of India, *Corporate Social Responsibility Voluntary Guidelines 2009* (14–21 December 2009). http://www.mca.gov.in/Ministry/latestnews/CSR_Voluntary_Guidelines_24dec2009.pdf

[45] Ministry of Corporate Affairs, Government of India, *National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business* (July 2011). http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf

[46] Securities and Exchange Board of India, *Business Responsibility Report* (13 August 2012). https://www.sebi.gov.in/sebi_data/attachdocs/1344915990072.pdf

[47] Securities and Exchange Board of India, *SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015*. https://www.sebi.gov.in/legal/regulations/feb-2017/securities-and-exchange-board-of-india-listing-obligations-and-disclosure-requirements-regulations-2015-last-amended-on-may-07-2019-_37269.html

The business responsibility report is required to address a company's implementation of the nine principles, as well as its compliance with the requirement to spend 2% of its average net profit over the past three years on CSR initiatives.

Referencing the nine principles, the 2012 circular specifies a list of disclosures, many of which are in a yes/no form, to determine whether the company has policies in place to address the principles.

Although some broadly used measures of equal employment practices and environmental sustainability are listed, this framework does not approach the breadth of global ESG frameworks or those in other markets analysed here.

In 2018, Bombay Stock Exchange published *Guidance Document on ESG Disclosures*,[48] a more modern and comprehensive set of voluntary ESG reporting recommendations, informed by global sustainability reporting frameworks. It underscores the importance of ESG disclosures to investors and provides 33 specific issues and metrics on which companies should focus.

Although corporate social responsibility reporting in India is mandatory for the 500 largest companies and voluntary for others, ESG reporting is voluntary. The ACGA/CLSA *CG Watch 2018* report notes that the quality of reporting is usually good, especially for companies with a large foreign shareholder presence. Notably, the BSE and the National Stock Exchange ranked above the Hong Kong Exchange in the *Corporate Knights* 2018 ranking.[49]

## 4.5 Japan

Japan stands out from the other developed markets we analysed, in that reporting on environmental and social issues predates - if only by one year - reporting on corporate governance. It is also the only market in this study in which the government has taken responsibility for providing the reporting guidance.

[48] BSE Limited, *Guidance Document on ESG Disclosures* (2018). https://www.bseindia.com/downloads1/BSEs_Guidance_doc_on_ESG.pdf

[49] "Sustainable Stock Exchanges", *Corporate Knights* (2012-2018). https://www.corporateknights.com/reports/sustainable-stock-exchanges/

In 2003, the Ministry of Environment issued *Environmental Reporting Guidelines*[50] – much earlier than the other markets – and most recently revised them in 2012. The guidelines cover issues beyond environmental regulation, including social and governance issues.

The reporting is voluntary, but it is strongly encouraged and expected of large enterprises. The KPIs recommended in the guidelines include the following:

- Total input of energy, materials, and water, as well as reduction initiatives
- Use of recycled resources
- Greenhouse gas emissions, water discharge, air pollution, release and transfer of chemical substances, leakage of hazardous substances, and impact on the environment
- Amount of waste generated and disposed of in landfills or by incineration
- Sustainable use of biological resources, conservation of biological diversity, and equitable allocation of benefits from genetic resources
- Economic and social impacts of the company's environmental initiatives

In addition to environmental aspects, this guidance covers social and governance issues. Reporting is expected in the following areas:

- Policies and initiatives related to governance, ethics, compliance, and fair trade
- Law violations and lawsuits
- Whistleblower protection
- Antimonopoly, anticompetition, and fair transaction initiatives
- Protection of intellectual property
- Prevention of corruption and bribery
- Human rights protection
- Diversity, equal opportunity, and prevention of discrimination in employment
- Prevention of forced labour and child labour
- Employment of the disabled
- Wage conditions, working hours, maternity and childcare leave, and retirement provisions
- Freedom of association and collective bargaining
- Protection of civil, political, economic, social, and cultural rights of stakeholders
- Personal information protection and cybersecurity
- Industrial health, hygiene, and safety
- Consumer protection and product safety
- Contribution to local communities

[50] Ministry of the Environment, Government of Japan, *Environmental Reporting Guidelines* (April 2012). https://www.env.go.jp/en/policy/economy/erg2012.pdf

In 2004, the Tokyo Stock Exchange published *Principles of Corporate Governance for Listed Companies*.[51] The exchange also created a database of corporate governance information, provision of which became a requirement in the exchange's listing rules. The information includes:

- Organisational and capital structure, eg. foreign shareholding,
- Directors, their independence and relationships,
- Statutory auditors and their relationships with the company,
- Board committees and their structure,
- Remuneration of directors and executives,
- Shareholder engagement, e.g. the use of English language and electronic voting.

In 2017, the Ministry of Economy, Trade, and Industry published *Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation*.[52] In this guidance, the Ministry stressed the importance of ESG integration as well as of setting and publishing relevant KPIs; however, it did not mandate disclosures or name specific KPIs.

The Tokyo Stock Exchange formulated and published *Japan's Corporate Governance Code* in 2015.[53] It requires listed companies to disclose in its annual report information on their corporate governance structures and practices as well as any information relevant to other ESG matters.

Japan's corporate reporting was given a new direction as a result of the 2014 Ito Review,[54] which recommended improvements to communication between companies and investors to better align their interests and expectations.[55] Among them were broader disclosures, going beyond purely financial metrics and casting light on mid- and long-term value creation. Integrated reporting was suggested as an effective tool to achieve this outcome.

[51] Tokyo Stock Exchange, *Principles of Corporate Governance for Listed Companies* (2004). https://www.jpx.co.jp/english/equities/listing/cg/tvdivq0000008j6d-att/principles.pdf
[52] Ministry of Economy, Trade, and Industry, *Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation* (29 May 2017). http://www.meti.go.jp/english/press/2017/pdf/0529_004b.pdf
[53] Tokyo Stock Exchange, *Japan's Corporate Governance Code* (1 June 2018). https://www.jpx.co.jp/english/news/1020/b5b4pj000000jvxr-att/20180602_en.pdf
[54] Ministry of Economy, Trade, and Industry, Final Report of the Ito Review, *Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors Project* (27 August 2014). http://www.meti.go.jp/english/press/2014/0806_04.html
[55] World Business Council for Sustainable Development, *The Reporting Exchange: Corporate and Sustainability Reporting Trends in Japan*. https://docs.wbcsd.org/2019/02/Corporate_and_sustainability_reporting_trends_in_Japan.pdf

Since 2014, many companies have adopted the Integrated Reporting <IR> Framework in their reporting. A 2018 survey by KPMG,[56] noted that in 2017, 341 companies issued integrated reports, up from only 62 companies five years earlier. The number corresponds to 57% of companies included in the Nikkei 225 index and 51% of the whole listed market's capitalisation.

According to the ACGA/CLSA *CG Watch 2018 report*, "the quality and depth of reporting on corporate governance . . . remains formulaic and only partially informative,"[57] with little information, in particular, provided on board diversity or value of independent directors.

In ESG reporting, the ACGA/CLSA survey found that only 6 out of 15 reviewed companies published reports of a high standard and an equal number of companies produced "dismal to poor" quality reports.

## 4.6 Singapore

In Singapore, the Singapore Exchange (SGX) drives corporate sustainability reporting. In 2016, SGX published the *Sustainability Reporting Guide*,[58] which mandates annual sustainability reporting by all listed companies on a comply-or-explain basis.

The guide does not prescribe a reporting framework or list recommended KPIs. Instead, it refers to globally recognised ESG reporting frameworks, such as the GRI Sustainability Reporting Guidelines, the International Integrated Reporting Council's Framework, and the Sustainability Accounting Standards Board's (SASB) standards. More specific frameworks, such as those published by the Climate Disclosure Standards Board,[59] the Carbon Disclosure Project,[60] or the Roundtable on Sustainable Palm Oil[61] may also be considered. The reporting company is expected to choose the standard that is most relevant and appropriate for its business.

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[56] KPMG, *Survey of Integrated Reports in Japan 2017* (March 2018). https://assets.kpmg/content/dam/kpmg/jp/pdf/jp-en-integrated-reporting-20180323.pdf
[57] ACGA/CLSA, *CG Watch 2018: Hard Decisions: Asia Faces Tough Choices in CG Reform, Special Report* (5 December 2018). https://www.clsa.com/wp-content/uploads/2018/12/CG-Watch-2018-Short-version-181205-L.pdf
[58] SGX-ST Listing Rules, Practice Note 7.6, *Sustainability Reporting Guide* (20 July 2016). http://rulebook.sgx.com/net_file_store/new_rulebooks/s/g/SGX_Mainboard_Practice_Note_7.6_July_20_2016.pdf
[59] Climate Disclosure Standards Board, *Climate Change Reporting Framework* (October 2012). https://www.cdsb.net/what-we-do/reporting-frameworks/climate-change
[60] Carbon Disclosure Project. https://www.cdp.net/en
[61] Roundtable on Sustainable Palm Oil. https://rspo.org/

SGX highlights the following factors that need to be covered in reporting, if material and applicable to the company:

- Environmental, including materials, energy, water, emissions, effluents and waste, and environmental complaint mechanisms
- Social, including health and safety, employment practices and labour rights (collective bargaining), product responsibility, anticorruption and assessment of suppliers, and gender diversity (if deemed material or of interest to stakeholders)

Materiality of factors is understood as their ability "to act as barriers or enablers to achieving business goals in the short, medium and long term."[62] Materiality is assessed in financial terms.

In reporting on each factor, companies are expected to address policies, practices, performance, and targets for the next year as well as to provide a board statement about how it has considered sustainability issues.[63]

Corporate governance reporting is mandated by the Code of Corporate Governance,[64] which is published by the Monetary Authority of Singapore and most recently revised in 2018. Under the comply-or-explain obligation, listed companies need to address issues of board independence and diversity of thought and background, division of responsibilities between the leadership of the board and the company management, transparency of the appointment of directors, assessment of the board's effectiveness, remuneration policies, risk management and internal controls, audit, shareholder rights, engagement with shareholders, and interests of other stakeholders.

The ACGA/CLSA *CG Watch 2018* report notes a "fairly high degree of compliance" among large-cap companies, but a "generally lower quality" reporting among mid-cap companies.[65] It adds that corporate governance reporting in Singapore tends to be formulaic and patchy in providing useful insights into the workings of committees and skills of individual directors.

[62] SGX-ST Listing Rules, Practice Note 7.6, *Sustainability Reporting Guide* (20 July 2016). http://rulebook.sgx.com/net_file_store/new_rulebooks/s/g/SGX_Mainboard_Practice_Note_7.6_July_20_2016.pdf

[63] ACGA/CLSA, *CG Watch 2018: Hard Decisions: Asia Faces Tough Choices in CG Reform, Special Report* (5 December 2018). https://www.clsa.com/wp-content/uploads/2018/12/CG-Watch-2018-Short-version-181205-L.pdf

[64] Monetary Authority of Singapore, *Code of Corporate Governance* (6 August 2018). http://www.mas.gov.sg/regulations-and-financial-stability/regulatory-and-supervisory-framework/corporate-governance/corporate-governance-of-listed-companies/code-of-corporate-governance.aspx

[65] ACGA/CLSA, *CG Watch 2018: Hard Decisions: Asia Faces Tough Choices in CG Reform, Special Report* (5 December 2018). https://www.clsa.com/wp-content/uploads/2018/12/CG-Watch-2018-Short-version-181205-L.pdf

In addition to broad reporting frameworks, focused regulations addressing reporting on specific matters are also in place. In particular,

- The *Workplace Safety and Health Act*[66] mandates reporting of accidents and occupational diseases.
- The *Environmental Protection and Management Act*[67] and the *Environmental Public Health Act*[68] require reporting of incidents and issues related to environmental protection and threats to public health.
- The *Water Efficiency Management Plan*[69] requires large water users to report on water usage and submit action plans to reduce water consumption.
- The *Energy Conservation Act*[70] requires corporations to report on energy consumption, energy production, and greenhouse gas emissions.

## 4.7 Thailand

Although a smaller and less mature than the other markets featured in this report, Thailand deserves a closer look because of its rapid progress on the quality of its ESG reporting by listed companies. During the six years since 2012, when the *Corporate Knights* ranking of exchanges by the quality of ESG reporting was first published[71], the SET moved from being ranked as 31st out of 35 in 2012, to 7th in 2018, leapfrogging the Australian Securities Exchange, the second-highest ranked bourse in the region.

The sustainability reporting environment in Thailand includes a mix of compulsory and voluntary disclosures. In 2010, the SET published its *Guidelines for Sustainability Reporting*,[72] based on the GRI framework. Since 2014, Thailand's Securities and Exchange Commission (SEC) has required disclosures of policies and activities around corporate social responsibility. KPI-based ESG reporting remains voluntary, although

[66] Singapore Government, *Workplace Safety and Health Act* (31 July 2009). https://sso.agc.gov.sg/Act/WSHA2006
[67] Singapore Government, *Environmental Protection and Management Act* (21 December 2002). https://sso.agc.gov.sg/Act/EPMA1999
[68] Singapore Government, *Environmental Public Health Act* (31 December 2002). https://sso.agc.gov.sg/Act/EPHA1987
[69] Singapore National Water Agency, *Water Efficiency Management Plan*. https://www.pub.gov.sg/savewater/atwork/managementplan
[70] Singapore Government, *Energy Conservation Act* (31 May 2014). https://sso.agc.gov.sg/Act/ECA2012
[71] "Sustainable Stock Exchanges", *Corporate Knights* (2012-2018). https://www.corporateknights.com/reports/sustainable-stock-exchanges/
[72] Stock Exchange of Thailand, *Guidelines for Sustainability Reporting* (2010, in Thai). https://www.set.or.th/sustainable_dev/th/sr/publication/files/sustainability_report.pdf

SET encourages it by positioning good disclosures as a competitive advantage. The exchange sees this also as a point of diversification and a way to attract foreign investors. It has been active in promoting best sustainability practices, including comprehensive disclosures, among listed companies.

The SEC issued a new Corporate Governance Code[73] in 2017, which replaced the 2012 Principles of Good Corporate Governance for listed companies issued by the SET. It requires that company boards ensure sustainability reporting using a framework that is appropriate and "proportionate to the company's size and complexity." As per the SET's guidelines, many companies choose to use GRI as their reporting framework. SET publishes annually a list of companies that meet their ESG performance criteria.

According to ACGA/CLSA, Thai companies are among the best in the region in sustainability disclosures. The ACGA/CLSA *CG Watch 2018* report attributes Thailand's progress in corporate governance and ESG to efforts by the country's government to gain recognition on its efforts to curb human trafficking, grow sustainable fishery, and stem corruption. New legislative measures to achieve these goals, and their enforcement, have brought into focus broader issues of corporate governance and ESG practices. The SEC, together with SET, has been doing its part by promoting best sustainability practices.

In the SSE report,[74] SET was credited as providing strategic on-going training to issuers on a wide range of topics, including, for example, sustainability reporting, sustainability indexing, risks, and materiality. As a result, Thai companies punch above their weight in global sustainable investing indices, with 20 companies included in the Dow Jones Sustainability Emerging Markets Index[75] in 2018, the highest number, on par with Taiwan. For comparison, the neighbouring Malaysia accounts for only 2 companies in the index, and India, with an economy five times bigger than Thailand, accounts for 10. This sends a strong signal to issuers that quality reporting is a benefit not a burden.

[73] National Corporate Governance Committee, *Thai Corporate Governance Code for Listed Companies 2017*, European Corporate Governance Institute (2017). https://ecgi.global/node/6197
[74] Sustainable Stock Exchanges Initiative, *2018 Report on Progress* (2018). http://www.sseinitiative.org/wp-content/uploads/2018/10/SSE_On_Progress_Report_FINAL.pdf
[75] RobecoSAM, *Dow Jones Sustainability Indices In Collaboration with RobecoSAM* (2018). https://www.robecosam.com/media/c/7/e/c7e87c9963866ed03a3057155d6a69c0_djsi-2018-componentlist-world_tcm1016-15777.pdf

## 4.8 United Kingdom

The Financial Conduct Authority (FCA), the United Kingdom's financial regulator, sets listing rules and disclosure obligations of listed companies in the United Kingdom.

Several pieces of legislation and regulatory guidance documents regulate various aspects of ESG and related reporting in the United Kingdom. The broadest of them is the UK *Companies Act*,[76] which mandates a number of ESG disclosures for companies traded on the LSE Main Market, the New York Stock Exchange (NYSE), Nasdaq Stock Market (Nasdaq), and the European Economic Area (EEA) regulated entities.

A 2016 update[77] to the Companies Act implements the EU Non-Financial Reporting Directive (NFRD), which mandates inclusion of nonfinancial and diversity information in annual strategic reports, with a focus on "environmental, employee, social, respect for human rights, and anti-corruption and antibribery matters." An earlier provision of the Act covers gender diversity.

Although the Companies Act does not specify the KPIs that companies are expected to report, the LSE Group published a comprehensive guide[78] to help companies meet its requirements. It provides a list of 34 quantitative indicators, based on the FTSE-Russell ESG Ratings Model, and specifies the level of relevance of each indicator to companies in various industry sectors.

LSE emphasises the importance of materiality of ESG factors and recommends that issuers explain how material, or relevant, each factor is to the company's business. Information is considered material if its omission could influence decisions of shareholders or investors. The relevant factors are viewed from the position of their likelihood to affect the company's future performance as well as the effect of the company's activity on the environment.

Companies listed on LSE under the Premium Listing regime (which has stricter rules than the EU minimum requirements) are required to report on their compliance with

[76] Gov.UK, National Archives, *Companies Act of 2006*. https://www.legislation.gov.uk/ukpga/2006/46/contents
[77] Gov.UK, National Archives, *The Companies, Partnerships, and Groups Regulations 2016* (19 December 2016). http://www.legislation.gov.uk/uksi/2016/1245/pdfs/uksi_20161245_en.pdf
[78] London Stock Exchange Group, *Revealing the Full Picture: Your Guide to ESG Reporting* (January 2018). https://www.lseg.com/sites/default/files/content/images/Green_Finance/ESG/2018/February/LSEG_ESG_report_January_2018.pdf

the *Corporate Governance Code*,[79] published by the Financial Reporting Council. The code, first issued in 1992 and revised most recently in 2018, covers matters of board leadership and effectiveness, remuneration, accountability, and shareholder relations. Listed companies are obligated to report on a comply-or-explain basis.

Three additional reporting schemes address more specific areas of environmental impact. They apply to corporations regardless of their listing status as well as public sector organisations.

- The *Pollution Inventory*[80] requires companies that operate large sewage treatment plants, dispose radioactive waste, or run a large mine or quarry, as well as certain others, to report on their emissions and off-site transfers of environmental pollutants.
- The *Energy Savings Opportunity Scheme*[81] applies to large companies and organisations that conduct audits of energy use every four years.
- Reporting on certain social concerns is addressed specifically as part of other legislation. Under the *Equality Act*,[82] employers with 250 or more employees must report on the gender pay gap. The *Modern Slavery Act*[83] requires companies to report on their actions to eliminate forced labour, including their supply chains.

[79] Financial Reporting Council, *The UK Corporate Governance Code* (July 2018). https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.PDF
[80] Gov.UK, *Pollution Inventory Reporting* (2 April 2014). https://www.gov.uk/government/collections/pollution-inventory-reporting
[81] Gov.UK, *Guidance: ESOS* (26 June 2014). https://www.gov.uk/guidance/energy-savings-opportunity-scheme-esos
[82] Gov.UK, *Guidance: Gender Pay Gap Reporting: Overview* (22 February 2017). https://www.gov.uk/guidance/gender-pay-gap-reporting-overview
[83] Gov.UK, National Archives, *Modern Slavery Act* 2015. http://www.legislation.gov.uk/ukpga/2015/30/contents/enacted

# 5. Conclusions and Recommendations

The integration of material ESG factors into the investment management process has attracted increasing attention. As a result, investors have been demanding high-quality, comparable, relevant ESG information from issuers. Regulators and stock exchanges in Asia Pacific are driving changes in reporting and disclosures through policies, regulations, and guidelines. Although the volume of reporting has increased substantially, there is, nevertheless, room for improvement in terms of the quality of such disclosures.

More important, the value proposition of ESG disclosures needs to be better articulated to motivate companies and boards to make improvements in this area, and not to treat it as a box-ticking exercise. For example, the process of preparing ESG disclosures brings strategic benefits to companies by educating and informing their directors and management about the risks and opportunities that ESG factors bring about. Thorough and complete disclosures improve communication between issuers and investors, allowing the latter to make better investment decisions and improve the efficiency of capital allocation.

As we have observed in the selected markets, development of a mature ESG disclosure mentality takes time – years and even decades. Nevertheless, fast progress is feasible, as the example of Thailand shows. In shaping such development, more nimble emerging markets may have an advantage over developed ones, where practices and habits are entrenched and hard to change.

Progress is likely to occur in a phased manner. The trend of ratcheting up the level of obligation and the scope of disclosures is likely to continue, with governments, regulators, and standard setters driving these changes. Notwithstanding this, each stakeholder group has a unique role to play in maintaining momentum and improving the quality of reporting. Our recommendations hence are as follows:

### For governments, regulators, and stock exchanges

- Ensure meaningful, accurate, timely, and comprehensive disclosures, taking into account characteristics of companies operating in different industries.
- Keep in view global standards and developments and work toward harmonisation and standardisation, where appropriate.

- Clearly articulate how disclosure regimes will benefit issuers; offer guidance and training, in particular to smaller, less resourceful companies.

### For issuers

- Educate the board and senior executives to more fully integrate and report on how ESG fits in with the company's strategic outlook, risk management framework, and corporate accountability, so that they can steer the company accordingly.
- Ensure that all relevant and material ESG information and any related KPIs are communicated to the company's stakeholders, including employees, investors, and other capital providers in a consistent and timely manner.

### For asset owners and investment managers

- Encourage investee companies to upgrade the quality and consistency of ESG information, including more detail on what is material ESG information and how it may affect valuation and future corporate performance.

CFA Institute believes that more thorough consideration of ESG factors by financial professionals can improve the fundamental analysis they undertake. We are focused on the quality and comparability of the ESG information provided by issuers and will continue to monitor developments in this area.

# Appendix 1: Comparison of Selected ESG Disclosure Frameworks

| | AUSTRALIA | HONG KONG SAR, CHINA | INDIA | JAPAN | SINGAPORE | THAILAND | UNITED KINGDOM |
|---|---|---|---|---|---|---|---|
| **National Legislation** | | | | | | | |
| **Relevant Laws** | Australia Corporations Act 2001 | Companies Ordinance (Chapter 622) | Companies Act of India, 1956, updated 2013 | Financial Instruments and Exchange Act 1948, updated 2007 | Workplace Safety and Health Act | The Occupational Safety, Health and Environment Act (2011) | UK Companies Act 2006 (updated 2016) |
| | Workplace Gender Equality Act 2012 | | Charter on Corporate Responsibility for Environmental Protection (CREP), Ministry of Environment and Forest, 2003 | | Environmental Protection and Management Act | The Enhancement and Conservation of National Environment Quality Act (1992) | Pollution Inventory (Environment Agency, 2014, updated 2018) |
| | National Greenhouse and Energy Reporting (NGER) Act 2007 | | Indian Factories Act (1987) | | Environmental Public Health Act | | Energy Savings Opportunity Scheme (Environment Agency, 2014, updated 2018) |
| | | | Environmental Protection Act (1986) | | Energy Conservation Act | | Equality Act (Government Equalities Office, 2017) |
| | | | | | Water Efficiency Management Plan | | Modern Slavery Act 2015 |
| **Corporate Governance Regulations** | | | | | | | |
| **Regulations, Principles and Guidance** | Corporate Governance Principles and Recommendations (ASX Corporate Governance Council) Listing Rule 4.10.3, Appendix 4G | HKEX Main Board Listing Rules, Appendix 14 | Listing Obligations and Disclosure Requirements (SEBI, 2015), National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business (2011) | Principles of Corporate Governance for Listed Companies 2004<br>JPX Corporate Governance Code 2015 | Code of Corporate Governance | Corporate Governance Code (2017) | The UK Corporate Governance Code (Financial Reporting Council, 1992, updated 2018) |
| **Obligation Regime** | Mandatory | Mandatory (Corporate Governance Report)<br>Comply-or-explain (Corporate Governance Code) | Mandatory[84] | Mandatory | Comply-or-explain | Mandatory | Comply-or-explain |
| **Year of Implementation** | 2003 | 2005 | 2015 | 2004 | 2001 | 2012 | 1992 |
| **Latest Revision** | 2014 | 2012 | | 2018 | 2018 | 2017 | 2018 |

[84] Publication of a Business Responsibility Report is mandatory for the 500 largest companies. The corporate governance disclosure themes and KPIs listed in the table are stated in a BSE guidance document and are voluntary.

| | AUSTRALIA | HONG KONG SAR, CHINA | INDIA | JAPAN | SINGAPORE | THAILAND | UNITED KINGDOM |
|---|---|---|---|---|---|---|---|
| **Required or Recommended Disclosure Themes and KPIs** | | | | | | | |
| **Board Leadership** | • Board performance<br>• Directors' independence | • Directors' independence | • CEO/Chair separation of power policy<br>• Directors' independence | • Director's independence | • Director relationships | • Board members' directorships in other companies | • Strategy<br>• Culture<br>• Engagement of workforce and other stakeholders |
| **Division of Responsibilities** | • Skills matrix of board members | • Committees and their activities | | • Committee structure | • Committee activities | • Responsibilities and activities of board committees | • Independent directors<br>• Number of meetings |
| **Composition, Succession, and Evaluation** | • Gender diversity of the board and senior executives<br>• Nomination committee policy | • Board composition, accountabilities | • Gender diversity of the board | • Policy for the appointment and dismissal of directors<br>• Directors nominating policy | • Directors selection process<br>• Directors induction and training<br>• Board diversity policy | • Nomination and appointment policies of directors and key executives<br>• Board composition (age, gender, experience, other directorships)<br>• Board diversity policy<br>• Board training and assessment process | • Independent evaluator<br>• Nomination committee<br>• Gender balance of senior management |
| **Audit, Risk, and Internal Control** | • Audit committee policy<br>• Risk committee policy | • Auditor's remuneration, including nonaudit services<br>• Internal control policies | • Processes to eliminate board and CEO conflicts of interest | • Auditor's independence | • Whistleblower policies | • Auditor's fees<br>• Control of use of insider information | • Auditor independence |
| **Remuneration** | • Key management remuneration<br>• Remuneration policy<br>• Remuneration committee policy | • Shares held by senior management | • Links of executive remuneration and performance | • Management and directors remuneration policy | • Remuneration policies<br>• Engagement of external remuneration consultants | • Directors' remuneration policy | • Remuneration committee work<br>• Appointment and independence of external consultants |
| **Shareholder Rights** | | • Procedures to convene extraordinary general meeting and put forward proposals | | • Shareholder engagement | • Shareholder engagement | | • Shareholder engagement |
| **Corporate Structure** | | | | • Cross-shareholding policy | | | |

| | AUSTRALIA | HONG KONG SAR, CHINA | INDIA | JAPAN | SINGAPORE | THAILAND | UNITED KINGDOM |
|---|---|---|---|---|---|---|---|
| **Exchange-Led ESG Reporting Frameworks** | | | | | | | |
| **Regulations, Principles, and Guidance** | ESG Reporting Guide for Australian Companies | Environmental, Social, and Governance Reporting Guide (HKEX Main Board Listing Rules, Appendix 27) | Guidance Document on ESG Disclosures (Bombay Stock Exchange) | Environmental Reporting Guidelines (Ministry of Environment, 2012) | Sustainability Reporting Guide (SGX-ST Listing Rules, Practice Note 7.6) | Guidelines for Sustainability Reporting (2010) (Vol.)[85] | LSE Group Guide to ESG Reporting (No listing rule requirement) |
| **Obligation Regime** | Voluntary | Comply-or-explain | Voluntary | Voluntary | Comply-or-explain | Voluntary | Voluntary |
| **Year of Implementation** | 2011 | 2012 | 2018 | 2003 | 2016 | 2010 | 2018 |
| **Latest Revision** | 2015 | 2017 | | 2012 | | | |
| **Environmental Disclosures** | | | | | | | |
| **Biodiversity** | • Biodiversity impact management | | • Efforts to reconstruct biodiversity | | • Biodiversity impact management | • Impact of activities in protected areas<br>• Protection and restoration activities | |
| **Climate Change** | • Energy consumption, including renewables<br>• Carbon (GHG) emissions<br>• Exposure to climate change risk, measures to address them | • Energy consumption<br>• GHG emissions<br>• Energy efficiency initiatives | • Energy consumption<br>• GHG emissions<br>• Primary source of energy<br>• Share of renewable energy<br>• Use of energy-efficient technologies | • Energy consumption<br>• GHG emissions | • Energy consumption<br>• Climate change mitigation and adaptation initiatives | • Exposure to climate change risk<br>• Risk mitigation initiatives and costs<br>• Energy consumption and intensity<br>• Energy reduction<br>• GHG emissions<br>• GHG reductions | • Energy consumption<br>• GHG emissions<br>• Fuel efficiency |
| **Pollution and Resources** | • Hazardous waste management<br>• Involvement in toxic metals<br>• Waste production<br>• Track record of environmental incidents (fines, sanctions, breaches of licence) | • Discharges into water and land, (NOX, SOX, other)<br>• Generation of hazardous waste<br>• Nonhazardous waste production<br>• Waste management policies<br>• Use of packaging materials<br>• Environmental impact | • Waste generation<br>• Waste recycling<br>• Use of recyclable raw materials<br>• Use of recycled input materials | • Materials input<br>• Materials recycled<br>• Air pollution and its impact<br>• Chemical substance releases<br>• Waste generation and disposal<br>• Fines and penalties for environmental violations | • Materials use<br>• Emissions<br>• Effluents and waste<br>• Environmental complaint mechanisms | • Use of renewable and nonrenewable materials<br>• Use of recycled materials<br>• Air emissions (NOX, SOX, ozone-depleting substances, particulates etc.)<br>• Waste generation and disposal<br>• Significant spills<br>• Hazardous waste<br>• Product packaging | • NOX, SOX, and VOC emissions<br>• Hazardous waste generation<br>• Waste recycling<br>• Oil and gas, coal reserves<br>• Use of certified palm oil, forest products, seafood<br>• Environmental fines and penalties |
| **Water Use** | • Water consumption<br>• Water impact management | • Water consumption<br>• Water efficiency initiatives | • Water consumption<br>• Water recycling and re-use | • Water withdrawal<br>• Water discharge | • Water use | • Water use<br>• Water recycling and re-use<br>• Water discharge | • Water use<br>• Water recycling |

[85] Based on GRI. High-level KPIs of the GRI framework are listed.

| | AUSTRALIA | HONG KONG SAR, CHINA | INDIA | JAPAN | SINGAPORE | THAILAND | UNITED KINGDOM |
|---|---|---|---|---|---|---|---|
| **Social Disclosures** | | | | | | | |
| **Labour Standards** | • Employee satisfaction<br>• Voluntary turnover rates<br>• Gender balance of board and senior management<br>• Remuneration by gender<br>• Maternity return rate<br>• Employee training<br>• Supply chain audits<br>• Whistleblower policies | • Employee turnover<br>• Gender balance of workforce<br>• Age balance of workforce<br>• Employee training | • Employee turnover<br>• Employee wages and benefits<br>• Employee training<br>• Gender balance<br>• Gender pay ratio<br>• Ratio of employees with disabilities<br>• Number of grievances | • Diversity, equal opportunity, antidiscrimination initiatives<br>• Wage conditions, working hours, maternity, child care<br>• Freedom of association and collective bargaining | • Employment practices and labour rights<br>• Diversity (gender, skill and experience)<br>• Collective bargaining | • Employee diversity by gender and region<br>• Employee turnover and benefits<br>• Number of contract employees<br>• Employees covered by collective bargaining<br>• Management hired from local communities<br>• Training | • Voluntary staff turnover<br>• Percentage of contractors and temporary staff<br>• Employee training |
| **Human Rights and Community** | • Involvement in high-community impact activities | • Measures to avoid child labour<br>• Supplier engagement practices<br>• Community contributions and resources | • Number of human rights grievances<br>• Prevention of child and forced labour in the supply chain<br>• Community investments<br>• Procurement from local suppliers<br>• Community investment and development | • Human rights protection initiatives<br>• Prevention of forced and child labour<br>• Contribution to local communities | • Community impact management initiatives | • Commitment to external initiatives<br>• Stakeholder engagement<br>• Entry-level wages by gender<br>• Infrastructure and services development<br>• Indirect economic impact on communities<br>• Measures on prevention of child labour and compulsory labour<br>• Indigenous rights incidents | • Group donations/community investments |
| **Health and Safety** | • Health and safety performance | • Health and safety measures<br>• Work-related fatalities and injuries<br>• Days lost to injuries | | • Industrial health, hygiene, and safety | • Health and safety | • Rates of injury and fatalities by region and gender<br>• Occupational diseases | • Health and safety training<br>• Lost time incident rate<br>• Employee/contractor fatalities |
| **Customer Responsibility** | | • Share of recalled products<br>• Product or service complaints<br>• IP policies<br>• QA policies<br>• Consumer data protection and privacy policies | • Product labelling standards<br>• Customer complaints | • Antimonopoly, anticompetition, fair transaction initiatives<br>• IP protection<br>• Personal information protection, cybersecurity<br>• Customer protection and product safety | • Product responsibility policy | • Product safety incidents<br>• Sale of banned or disputed products<br>• Customer privacy | |

| | AUSTRALIA | HONG KONG SAR, CHINA | INDIA | JAPAN | SINGAPORE | THAILAND | UNITED KINGDOM |
|---|---|---|---|---|---|---|---|
| **Governance Disclosures** | | | | | | | |
| **Anticorruption** | • Involvement in countries with high corruption risk<br>• Government or regulator business<br>• Involvement in sectors vulnerable to criminal activity | • Instances of corruption, legal cases<br>• Whistleblower policies | | • Prevention of corruption and bribery initiatives<br>• Whistleblower protections | • Stance on bribery and corruption | • Operations at risk of corruption<br>• Anticorruption policies and training<br>• Corruption incidents | • Staff disciplined or dismissed due to noncompliance with anticorruption policies<br>• Fines, penalties, settlements<br>• Political contributions |
| **Tax Transparency** | • Approach to tax optimization | | | | | | |

ESG, environmental, social, governance; GHG, greenhouse gas; IP, intellectual property; KPI, key performance indicators; NOX, nitrogen oxide; QA, quality assurance; SOX, sulphur oxide; VOC, volatile organic compounds.

# Appendix 2: Global ESG Reporting Frameworks

Several global environmental, social, and governance (ESG) disclosure frameworks have been developed over the past two decades. Although some methodologies and scope overlap, generally, they are not mutually compatible and, at times, they compete with one another for adoption in global markets. This does not foster reliability or encourage the wider adoption of ESG disclosures. Therefore, it has prompted efforts to simplify and harmonise these disparate frameworks.

**Global Reporting Initiative**

The Global Reporting Initiative (GRI) is a global organisation whose mission is to establish and promote standards of reporting by businesses, organisations, and governments on sustainability issues, such as climate change, human rights, and corruption. GRI launched its first Sustainability Reporting Standards[86] in 2000 and has updated them periodically.

The fourth major update was published in October 2016. Unlike earlier versions, the most recent guideline adopts a modular approach. It consists of 36 modules, covering universal standards and topic-specific standards, including economic, environmental, and social issues.

Although GRI standards are broad in scope, they stress the materiality of the reporting metrics. Materiality, however, is viewed from the point of view of the organisation's impact on the environment, society, and the economy, rather than the impact of ESG factors on the organisation.[87] The prescribed disclosures include specific KPIs as well as descriptions of how the organisation interacts with the issue or resource in scope and how it addresses relevant issues.

GRI standards are the most popular global ESG reporting framework. More than half of the companies that report sustainability information use these standards.[88]

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[86] GRI Standards. https://www.globalreporting.org/standards/

[87] Liz Enochs, *SASB and GRI Step Up Project to Align Reporting Standards*, GreenBiz (20 September 2018). https://www.greenbiz.com/article/sasb-and-gri-step-project-align-reporting-standards

[88] Liz Enochs, *SASB and GRI Step Up Project to Align Reporting Standards*, GreenBiz (20 September 2018). https://www.greenbiz.com/article/sasb-and-gri-step-project-align-reporting-standards

### Sustainability Accounting Standards Board

The Sustainability Accounting Standards Board (SASB) was founded in 2011 as an independent standards-setting organisation. Its efforts are focused on the United States, where it aims to have its sustainability accounting standards incorporated into mandatory filings required of all public companies.

The SASB has developed a set of 77 industry-specific standards, which include disclosure topics, accounting metrics, technical protocols, and activity metrics. In its degree of specificity, the SASB framework is similar to GRI, and both differ from several other, less prescriptive, principles-based frameworks.

The view of materiality underlying the SASB framework is based on the impact of external factors, such as environment, society, and the economy on the reporting company, and on how that impact can affect investor decisions.[89] In this approach, SASB differs from GRI, which prioritises the company's effect on its natural, social, and economic environment.

The SASB and GRI are the two dominant frameworks for sustainability reporting.[90] Although they use different approaches, in October 2018, the two organisations announced an effort, financed by Bloomberg Inc., to harmonise their frameworks in overlapping areas. In addition, they aim to align the frameworks with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).[91]

### Integrated Reporting

The Integrated Reporting <IR> Framework published by the International Integrated Reporting Council (IIRC) in 2013 incorporates ESG issues as they pertain to human, social and relationship, and natural capital factors. Their mutual interdependence on those factors that depend on financial, manufactured, and intellectual capital form the core concept of this integrated-thinking framework.

The <IR> Framework is principles based. It does not specify KPIs, but it describes how KPIs should be chosen to best paint an image of the organisation's activities, taking into account all

[89] Liz Enochs, *SASB and GRI Step Up Project to Align Reporting Standards*, GreenBiz (20 September 2018). https://www.greenbiz.com/article/sasb-and-gri-step-project-align-reporting-standards
[90] Liz Enochs, *SASB and GRI Step Up Project to Align Reporting Standards*, GreenBiz (20 September 2018). https://www.greenbiz.com/article/sasb-and-gri-step-project-align-reporting-standards
[91] Liz Enochs, *SASB and GRI Step Up Project to Align Reporting Standards*, GreenBiz (20 September 2018). https://www.greenbiz.com/article/sasb-and-gri-step-project-align-reporting-standards

stakeholder relationships in a future-oriented holistic view. The materiality of a factor is defined as its power to affect the organisation's ability to create value over the short, medium, and long term.

The framework has been criticised[92] for allowing organisations to ignore in their reporting externalities those factors that do not affect them, such as the environmental impact of their activities.

## Sustainable Stock Exchanges Initiative

The Sustainable Stock Exchanges (SSE) Initiative is a project of United Nations involving, among other things, the Principles for Responsible Investment (PRI). SSE's history as a research and consensus-building platform goes back to 2004; however, only in 2015 did it publish "Model Guidance on Reporting ESG Information to Investors."[93] This guidance is a resource for stock exchanges to use when issuing their own guidance for listed companies.

The guidance does not specify KPIs but sets out principles for exchanges to follow in creating their own reporting guidelines. SSE guidance refers to a range of other global standards and frameworks, such as GRI, <IR>, SASB, CDSB, or TCFD, which can serve as further resources for exchanges to use.

SSE counts 82 stock exchanges as its partners, including those of Australia, Hong Kong SAR, Japan, Singapore, and the United Kingdom.

## Task Force on Climate-Related Financial Disclosures

The Financial Stability Board established the TCFD in 2011. In 2017, it released a set of recommendations[94] that provide a general framework for climate-related financial disclosures. Two other documents[95] provide implementation guidance for companies.

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[92] John Flower, *The International Integrated Reporting Council: A Story of Failure, Critical Perspectives on Accounting* 27 (March 2015): 1–17. https://www.sciencedirect.com/science/article/pii/S1045235414000744?via%3Dihub

[93] Sustainable Stock Exchanges Initiative, *Model Guidance on Reporting ESG Information to Investors.* http://www.sseinitiative.org/wp-content/uploads/2017/06/SSE-Model-Guidance-on-Reporting-ESG.pdf

[94] Task Force on Climate-Related Financial Disclosures, *Recommendations of the Task Force on Climate-Related Financial Disclosures* (June 2017). https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf

[95] Task Force on Climate-Related Financial Disclosures, *Annex: Implementing the Recommendations of the TCFD* (June 2017). https://www.fsb-tcfd.org/publications/final-implementing-tcfd-recommendations/; Task Force on Climate-Related Financial Disclosures, *Technical Supplement: The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities* (June 2017). https://www.fsb-tcfd.org/publications/final-technical-supplement/

The TCFD reporting requirements focus on greenhouse gas emissions, exposure to climate-related risks, and changes (both positive and negative) associated with the transition to a lower-carbon economy. The choice of most relevant metrics is left to discretion of the reporting companies.

**World Federation of Exchanges**

The World Federation of Exchanges (WFE) is a global industry group bringing together exchanges and clearinghouses. The Australian Stock Exchange, Hong Kong Exchanges and Clearing Limited, Japan Exchange Group, London Stock Exchange Group, and Singapore Exchange are members of the organisation, as are most of the world's biggest and most important exchanges, including the Intercontinental Exchange (which owns the New York Stock Exchange) and Nasdaq.

In 2015, WFE's Sustainability Working Group published the *ESG Guidance and Metrics*, which member exchanges can use to shape their own ESG disclosure frameworks and policies. The guidance was revised in June 2018.[96]

The current WFE guidance identifies 30 metrics, 10 each in the ESG categories. WFE advises exchanges to implement the recommended list of metrics on a comply-or-explain basis.

[96] World Federation of Exchanges, *WFE ESG Guidance and Metrics* (June 2018). https://www.world-exchanges.org/storage/app/media/research/Studies_Reports/WFE%20ESG%20Guidance%20June%20 2018.pdf

# Appendix 3: Additional ESG Resources from CFA Institute

**Positions on Environmental, Social, and Governance Integration**

CFA Institute (2018).

https://www.cfainstitute.org/-/media/documents/article/position-paper/cfa-institute-position-statement-esg.ashx

**Environmental, Social, and Governance Issues in Investing: A Guide for Investment Professionals**

Usman Hayat, CFA, Matt Orsagh, CFA, CIPM (2015).

https://www.cfainstitute.org/en/advocacy/policy-positions/environmental-social-and-governance-issues-in-investing-a-guide-for-investment-professionals

**Handbook on Sustainable Investments**

Swiss Sustainable Finance (2017).

https://www.cfainstitute.org/en/research/foundation/2017/handbook-on-sustainable-investments

**The Corporate Governance of Listed Companies: A Manual for Investors**

Matt Orsagh, CFA, CIPM; Linda Rittenhouse, JD, Jim Allen, CFA (2018).

https://www.cfainstitute.org/en/advocacy/policy-positions/corporate-governance-of-listed-companies-3rd-edition

**The Evolving Future of Fiduciary Duty in an ESG World: A Survey of CFA Institute EU-Based Members**

Sviatoslav Rosov, CFA (2018).

https://www.cfainstitute.org/en/research/survey-reports/evolving-future-of-fiduciary-duty-in-an-esg-world

**Guidance and Case Studies for ESG Integration: Equities and Fixed Income**

(In partnership with Principles for Responsible Investment.)

Matt Orsagh, CFA; James Allen, CFA; Justin Sloggett, CFA; Anna Georgieva; Sofia Bartholdy; Kris Douma (2018).

https://www.cfainstitute.org/en/research/survey-reports/guidance-case-studies-esg-integration-survey-report

**ESG Integration in the Americas: Markets, Practices, and Data**

(In partnership with Principles for Responsible Investment.)

Matt Orsagh, CFA; James Allen, CFA; Justin Sloggett, CFA; Anna Georgieva; Sofia Bartholdy; Kris Douma (2018).

https://www.cfainstitute.org/en/research/survey-reports/esg-integration-americas-survey-report

**ESG Integration in Europe, The Middle East, and Africa: Markets, Practices, and Data**

(In partnership with Principles for Responsible Investment.)

Matt Orsagh, CFA; James Allen, CFA; Justin Sloggett, CFA; Sofia Bartholdy; Anna Georgieva; Nabyla Abo Dehman; Yulia Sofronova (2019).

https://www.cfainstitute.org/en/research/survey-reports/esg-integration-emea

**ESG Integration in Asia Pacific: Markets, Practices, and Data**

(In partnership with Principles for Responsible Investment.)

Matt Orsagh, CFA; James Allen, CFA; Justin Sloggett, CFA; Anna Georgieva; Sofia Bartholdy (2019).

https://www.cfainstitute.org/en/research/survey-reports/esg-integration-apac

**ESG Integration in China: Guidance and Case Studies**

(In partnership with Principles for Responsible Investment.)

Matt Orsagh, CFA; James Allen, CFA; Justin Sloggett, CFA; Anna Georgieva; Sofia Bartholdy (2019).

https://www.cfainstitute.org/en/research/survey-reports/esg-integration-china

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