WHO GOVERNS SUSTAINABILITY?

Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies

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GOVERNANCE FOR STAKEHOLDERS

Sustainable Finance Institute Asia

CONTENTS

SUMMARY OF FINDINGS

This report examines two key areas in sustainability governance and practices for 150 of the largest listed companies in Australia, Malaysia and Singapore – sustainability governance structures adopted by these companies and the appointment, role, reporting relationship and attributes of chief sustainability officers (CSOs).

The key findings are:

- 93% of the companies disclosed their sustainability governance structure, with all the Malaysian companies doing so.
- 66% of companies included a chart showing their sustainability governance structure, with the Australian companies less likely to do so.
- 38 of the 150 companies have formed a board sustainability committee or equivalent committee, or expanded the scope of an existing committee and included sustainability responsibilities in the name of the committee.
- All the Australian companies with a board sustainability committee have a non-executive director chairing this committee, with 83% of these chairmen being independent directors. In contrast, only 55% of the Malaysian companies and 54% of the Singaporean companies with a board sustainability committee have an independent chairman for the committee, with 9% and 15% respectively having an executive director as chairman.
- Two-thirds of members of the board sustainability committees of the Australian companies are independent directors, with executive directors making up only 3% of members. For the Malaysian and Singaporean companies, the percentage of independent directors is less than 60%, while there is a higher percentage of executive directors as members. There are also some rare cases of non-board members co-opted into the board sustainability committees of Malaysian and Singaporean companies.
- Overall, two types of sustainability governance structure emerged as most common: the entire board overseeing sustainability without any committee being tasked with it, or multiple existing committees taking on that responsibility. The next most common sustainability governance structure overall involves sustainability governance responsibilities not being formally embedded into the board or any board committee.
- The three existing committees most commonly involved in sustainability governance are the risk committee, audit committee and remuneration committee.
- The companies in the study have constituted a variety of other sustainability-related bodies outside of the formal board and board committee structure to help oversee and/or manage sustainability-related opportunities and risks. They have a variety of names, the most common being Sustainability Group, followed by Sustainability Committee, and then Sustainability Steering Committee.
- Fourteen companies have formed sustainability advisory panels. Of these, six advisory panels have only internal members appointed from among management and employees. The other eight advisory panels either have only external members or a combination of external and internal members. For the latter eight advisory panels, four advise the board, three advise management and one advises both the board and management.

- The companies in Australia were more likely to appoint a CSO, with 68% having done so, compared to 46% of the companies in Singapore and 22% of the companies in Malaysia.
- Across the three countries, 62% of the CSOs are women, with the percentage highest in Australia at 71%.
- 58% of the companies that have appointed a CSO in the three countries do not indicate who they report to, with 69% of the Australian companies, 45% of the Malaysian companies and 48% of the Singaporean companies not doing so. For the minority of companies that disclose the reporting relationship, the CSO most commonly reports to the CEO or equivalent.
- For those companies that have appointed a CSO in the three countries, 69% have a dedicated role.
- The percentages of internally and externally appointed CSOs are comparable for the companies in the three countries, with internally ranging from 61% to 65%.
- About 62% of the CSOs have held ESG-related roles prior to their current role. For those without such prior experience, prior experience in strategy & innovation, investor relations/communications, and operations were the most common.
- CSOs of the Australian companies are more likely to have prior ESG experience (77%), compared to those in the Singaporean and Malaysian companies.
- Overall, 31% of CSOs have both qualifications (academic and/or professional) and prior ESG-related working experience. Australian CSOs (41%) are more likely than Malaysian CSOs (27%) and Singaporean CSOs (17%) to have both relevant qualifications and work experience.

ISSUES FOR COMPANIES TO CONSIDER

Disclosure of Sustainability Governance Structure

- Has the company clearly disclosed its sustainability governance structure?
- Is there a chart that clearly shows the bodies that are involved in sustainability governance and management, and if not, should the company include such a chart?

Mandate and Support for Sustainability

- Do the bodies and individuals involved in sustainability governance and management have terms of reference/mandates clearly stating their responsibilities, powers and access to information, support and resources?
- What sustainability-related information should those responsible for sustainability governance and management expect to receive to discharge their responsibilities?

Establishing a Board Sustainability Committee

- Should the company form a board sustainability committee or a combined sustainability committee?
- Who should chair the board sustainability committee?
- If the board sustainability committee is chaired by an executive director or a non-independent non-executive director, are there conflicts that may arise?
- What is the appropriate composition of the board sustainability committee in terms independence and competencies?
- Should non-board members, either internal or external to the company, be co-opted as members of the board sustainability committee?
- What should be the responsibilities of the board sustainability committee?

Knowledge, Skills and Experience of Directors in Sustainability

- What are the material ESG factors for the industry and company?
- Are there directors with sufficient depth in knowledge, skills and experience in those areas of ESG which are most important to the industry and company?
- Is the current board skills matrix useful in assessing whether the board has the appropriate knowledge, skills and experience in areas most important to the company, including in relevant areas of ESG?

Models of Sustainability Governance

Sustainability governance structure where sustainability responsibilities are not formally embedded into the board of directors

- Is the board adequately discharging its fiduciary responsibilities for sustainability issues, such as with respect to climate risks?
- Are sustainability considerations being considered in board composition, board practices and board decision-making?
- Is the impact of sustainability-related risks and opportunities on the business based solely on management's inputs?
- Are the company's strategies, policies and practices adequately incorporating considerations of sustainability risks and opportunities?

Sustainability governance structure where sustainability responsibilities are fully integrated into board of directors

- Is the board paying sufficient attention to the impact of sustainability risks and opportunities, together with its existing responsibilities?
- Does the board have the appropriate composition (e.g., independence, competencies and diversity) to oversee sustainability risks and opportunities?
- Are the responsibilities and work of board committees taking into account sustainability considerations?

Sustainability governance structure with a dedicated board sustainability committee

- Does the board sustainability committee have the appropriate leadership and composition?
- Are all material ESG factors identified and does the board sustainability committee have oversight over them?
- Does the board sustainability committee review and approve the sustainability governance structure/model?
- What are the responsibilities of the board sustainability committee viz-a-viz other board committees where they may overlap?
- Does the board sustainability committee interact and communicate with other board committees on sustainability matters?
- Is there a risk of a "silo" approach to addressing sustainability matters?

Sustainability governance structure with a hybrid board sustainability committee

- Does the hybrid board sustainability committee have the appropriate leadership and composition?
- Are all material ESG factors identified and does the hybrid board sustainability committee have oversight over them?
- Does the hybrid board sustainability committee review and approve the sustainability governance structure/model?

- Are the responsibilities of the hybrid board sustainability committee compatible with its other responsibilities, with no conflicts?
- Is the hybrid board sustainability committee paying sufficient attention to sustainability risks and opportunities given its other responsibilities?
- Is the hybrid board sustainability committee achieving the right outcomes or does it instead reflect a narrow perspective of sustainability (such as viewing sustainability purely in terms of risks rather than opportunities)?
- Does the hybrid board sustainability committee interact and communicate with other board committees on sustainability matters?

Sustainability governance structure with sustainability responsibilities tasked to a single existing committee

- Does the existing committee have the appropriate composition to help oversee sustainability risks and opportunities?
- Is the existing committee paying sufficient attention to sustainability risks and opportunities given its existing responsibilities and nomenclature?
- Is the existing committee achieving the right outcomes or does it instead reflect a narrow perspective of sustainability?
- Where sustainability responsibilities are tasked to a risk or audit committee, does it reflect and convey a mindset that sustainability is only about risk mitigation and compliance, rather than also about opportunities?
- Does the existing committee interact and communicate with other board committees on sustainability matters?

Sustainability governance structure with sustainability responsibilities tasked to multiple existing committees

- Do the existing committees have the appropriate composition to help oversee sustainability issues related to their responsibilities?
- Are the existing committees paying sufficient attention to sustainability risks and opportunities given their existing responsibilities and nomenclature?
- Do the existing committees interact and communicate with other board committees on sustainability matters such that there is an integrated approach?

Sustainability governance structure with sustainability responsibilities tasked to board sustainability committee plus other board committees

- Does the board sustainability committee review and approve the sustainability governance structure/model?
- Are all material ESG factors identified and does the board sustainability committee have oversight over them?
- Are the responsibilities of the sustainability committee and other existing committees clearly defined, with particular attention paid to areas where responsibilities may overlap?

- Does the board sustainability committee have adequate interactions and communications with other board committees on sustainability matters that impact the work of these other committees?

Establishment of other sustainability-related bodies

- Which bodies or individuals, if any, have been tasked with managing the implementation of sustainability-related initiatives?
- Do the bodies or individuals have the appropriate competencies, resources and support to discharge their sustainability responsibilities?
- Are there terms of reference for these bodies or individuals which clearly set out their responsibilities?
- Do these bodies or individuals have clear reporting relationships and accountability?

Chief Sustainability Officers

- Should the company appoint a CSO?
- Who should the CSO report to?
- Should the CSO be a dedicated role?
- Should the company appoint an internal or external candidate for the CSO role?
- What are the desired qualifications and experience for the CSO?

ABOUT THIS REPORT

INTRODUCTION

Sustainability reporting frameworks and proposed sustainability reporting standards state that reporting entities should disclose information about the bodies in the reporting entity responsible for governance and management of sustainability-related risks and opportunities. These include those issued by the European Financial Reporting Advisory Group (EFRAG), Global Reporting Initiative (GRI), International Sustainability Standards Board (ISSB), Task Force on Climate-Related Financial Disclosures (TCFD) and the U.S. Securities and Exchange Commission.

For example, the Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information states that "…an entity shall disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of sustainability-related risks and opportunities, and information about management's role in those processes." The Exposure Draft on IFRS S2 Climate-related Disclosures contains similar requirements with respect to the governance and management of climate-related risks and opportunities.

The TCFD's recommendations under "Governance" states that reporting entities should disclose the organisation's governance around climate-related risks and opportunities, which should include descriptions of the board's oversight of climate-related risks and opportunities and management's role in assessing and managing these risks and opportunities.

However, reporting frameworks and standards do not prescribe the structures and processes that reporting entities should have in place. In practice, companies adopt a variety of sustainability governance and management structures, and there is little guidance on how they can assess what structures they should adopt and the advantages and disadvantages of different structures.

In this report, we examine the sustainability governance structures and practices that large publicly-listed companies in Australia, Malaysia and Singapore have adopted to oversee and manage sustainability-related risks and opportunities. We also provide our views on the advantages and disadvantages of different structures and practices, factors that entities should consider when deciding what to adopt, how to better ensure their effectiveness, and pitfalls to avoid for different structures and practices. We also examine the appointment, attributes and reporting relationship of the chief sustainability officer (CSO) or equivalent in the companies.

Our objective is not to prescribe "one-size-fits-all" structures and practices, but to raise issues that boards and management can consider in making decisions about the sustainability governance structures and practices to put in place for their company.

SAMPLE AND DATA

A "landscape" analysis of the 30 largest publicly-listed companies in each of the original five ASEAN countries of Indonesia, Malaysia, Philippines, Singapore and Thailand - based on market capitalisation - found that sustainability governance disclosures were well ahead for Malaysian and Singaporean companies, compared to those in the other ASEAN countries, as shown in Figure 1 below.

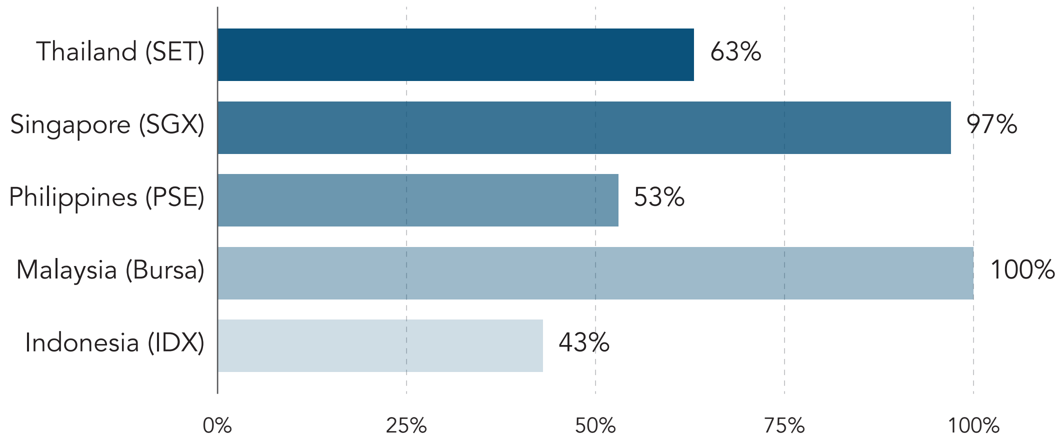


Figure 1: Sustainability governance disclosures for largest listed companies in Indonesia, Malaysia, Philippines, Singapore and Thailand

The 50 largest Singaporean and 50 largest Malaysian publicly-listed companies by market capitalisation were then selected for the in-depth analysis of their sustainability governance structures and practices. The 50 largest companies in Australia were also chosen for the purpose of benchmarking the disclosures by Malaysian and Singaporean companies against peers from another developed market in Asia Pacific.

In selecting the companies for inclusion, those with secondary listings, and listed issuers that are real estate investment trusts and business trusts, were excluded.

Data used for the research were obtained from the latest available public sources, such as annual reports, sustainability reports, company websites and social media. Data collection and analysis were done over the period from June 2022 to December 2022. Most of the data on sustainability governance obtained from annual reports and sustainability reports were for financial years ending in 2021.

Profile of companies

Figures 2 to 5 show that the sample companies come from diverse sectors. Overall, companies in the financial services sector made up the largest percentage of companies at 17.3%, followed closely by consumer staples (16.7%) and industrials (13.3%). The top sector in the individual markets were materials for Australia (22%), consumer staples for Malaysia (24%) and real estate for Singapore (22%).

Overall Distribution by Sectors (All 3 Markets)

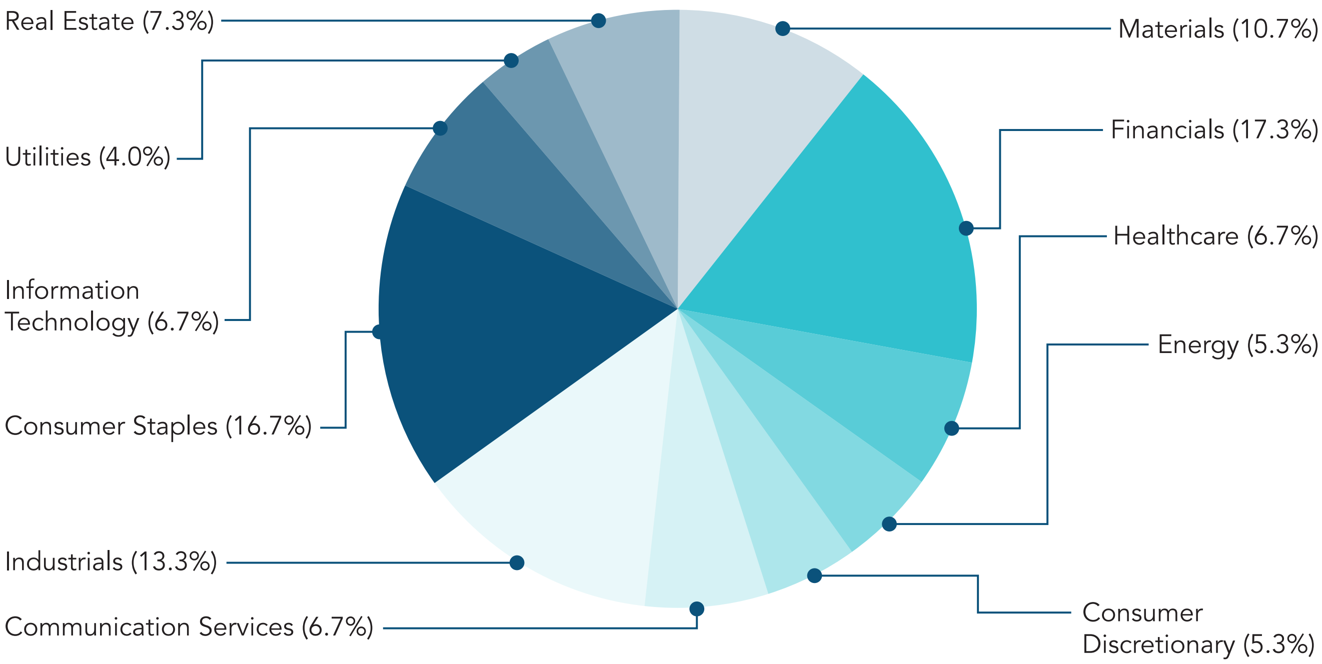


Figure 2: Sector Distribution of All Sample Companies

Overall Distribution by Sectors (ASX)

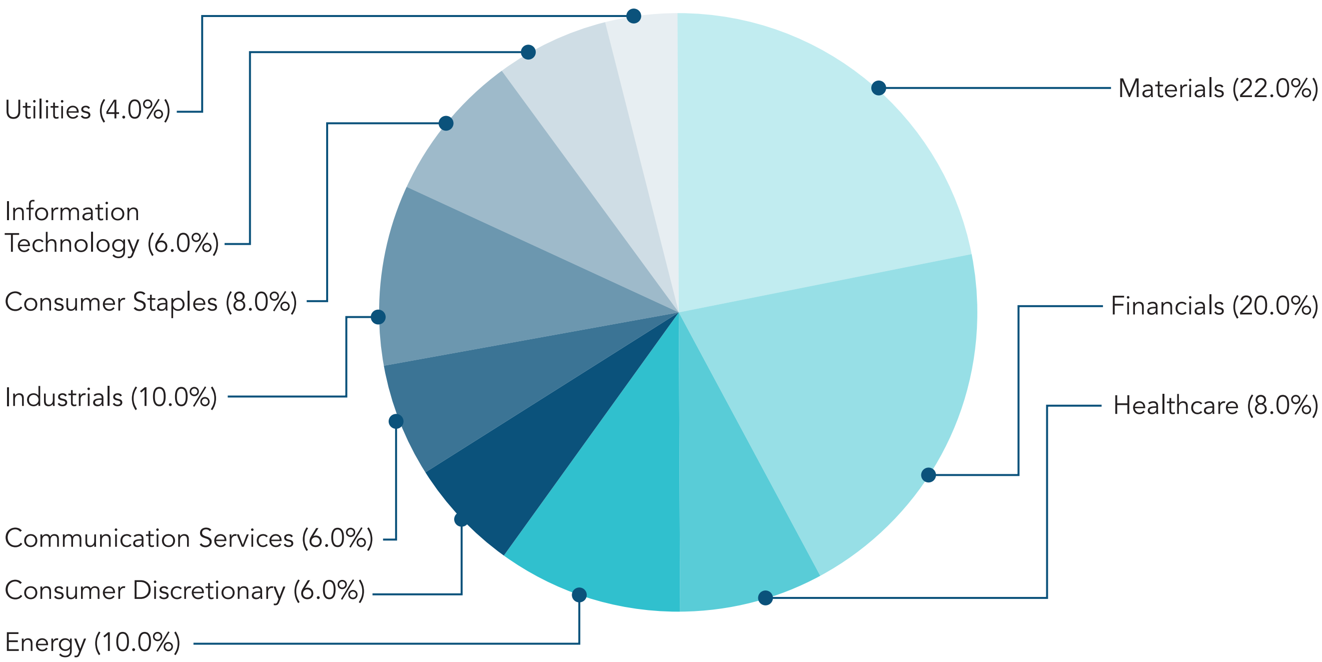


Figure 3: Sector distribution of Australian companies

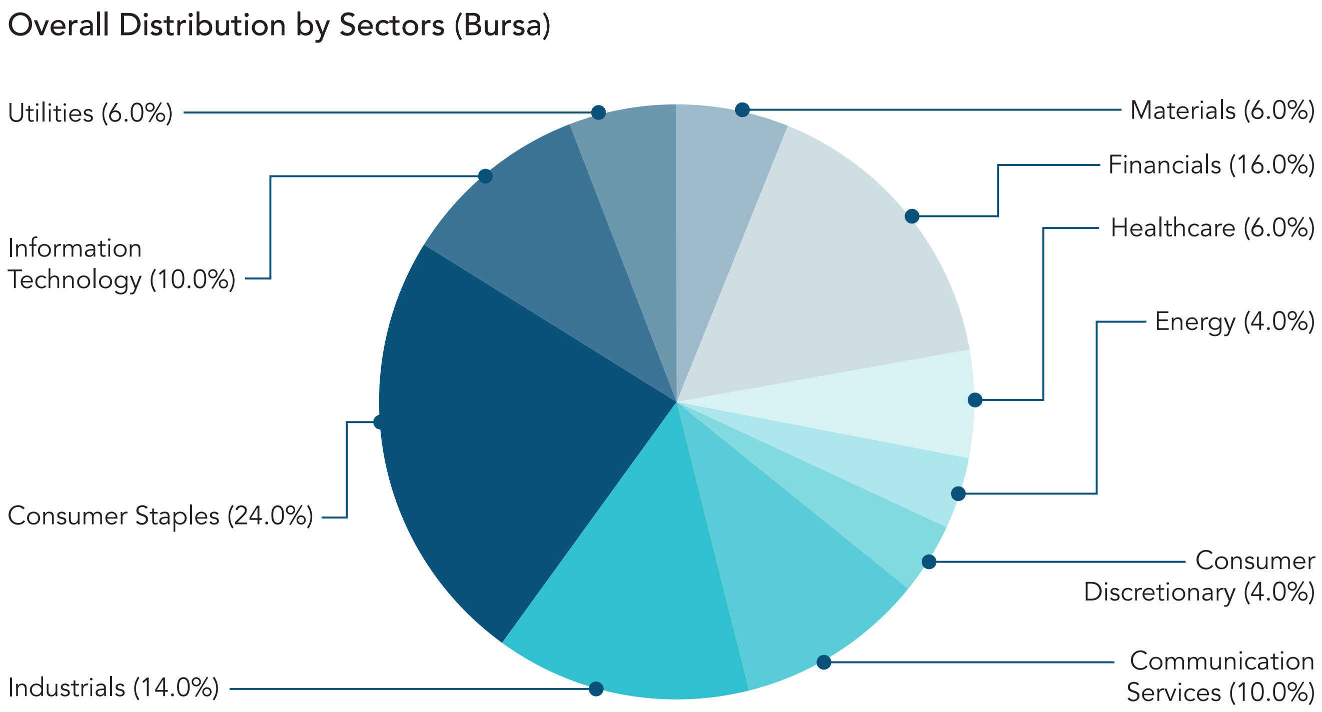


Figure 4: Sector distribution of Malaysian companies

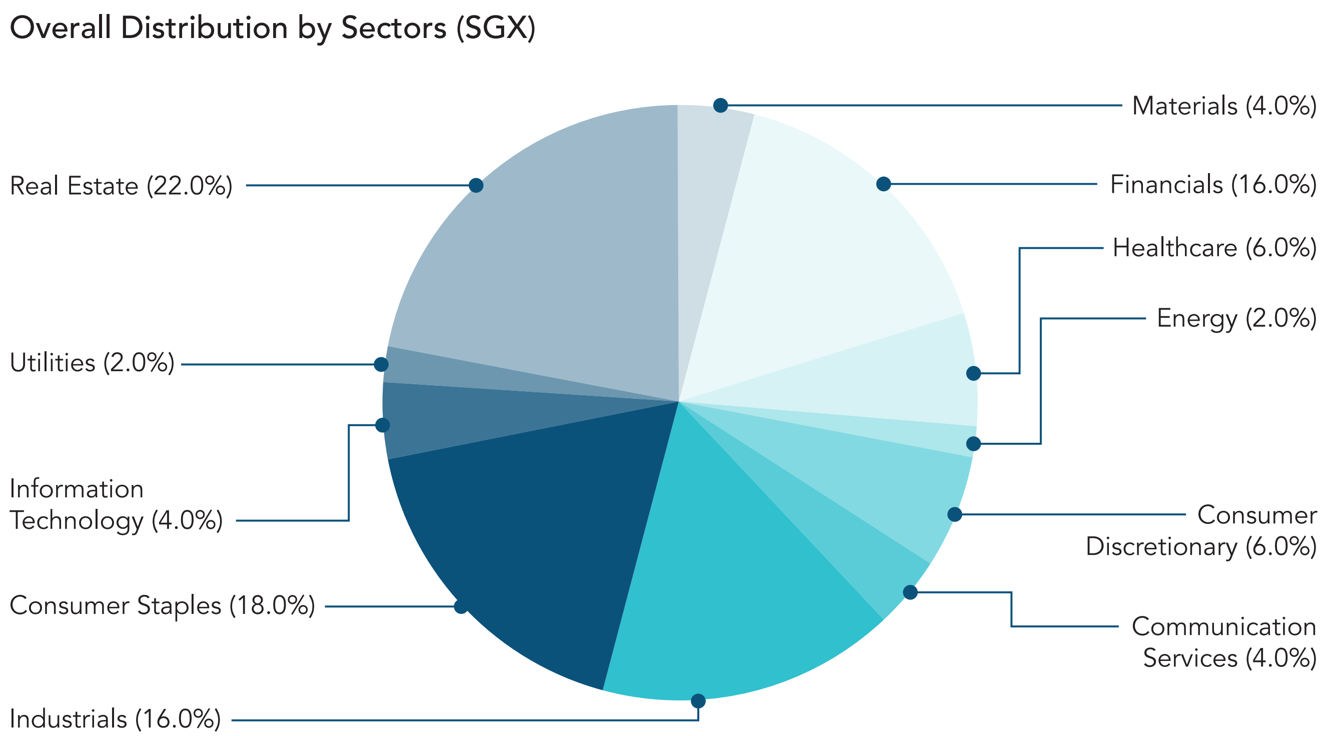


Figure 5: Sector distribution of Singaporean companies

Figure 6 shows the distribution of market capitalisation for the 150 companies across the three markets and for each market. For the entire sample, the smallest company has a market capitalisation of about US$0.8 billion, the largest about US$149 billion, and the median market capitalisation is US$5.6 billion. Median market capitalisation is highest for the Australian companies (US$9.9 billion), followed by the Malaysian companies (US$3.4 billion) and then Singaporean companies (US$2 billion).

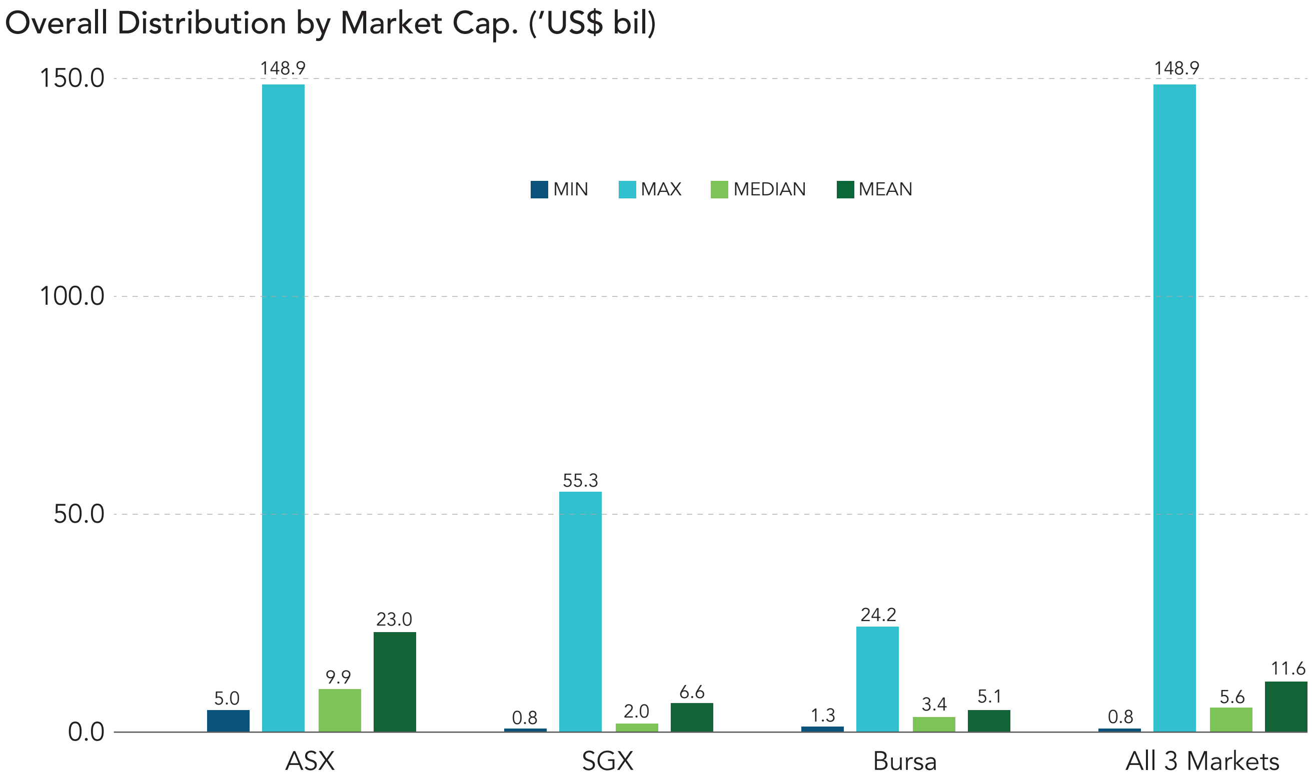


Figure 6: Market capitalisation of sample companies

SUSTAINABILITY GOVERNANCE STRUCTURE

DISCLOSURE OF SUSTAINABILITY GOVERNANCE STRUCTURE

Figure 7 shows the percentage of companies in Australia, Malaysia and Singapore which disclosed their sustainability governance structure, with or without a chart. The advantage of a chart is greater clarity not only of the structure but also the reporting relationships.

All 50 of the Malaysian companies disclosed information on their sustainability governance structure, followed by 90% of the Australian companies and 88% of the Singaporean companies. For Malaysia, 86% of the companies that disclosed information about their sustainability governance structure included a chart, while 70% of Singaporean companies did so. Australian companies generally preferred to disclose such information in purely textual form, with only 40% including a chart.

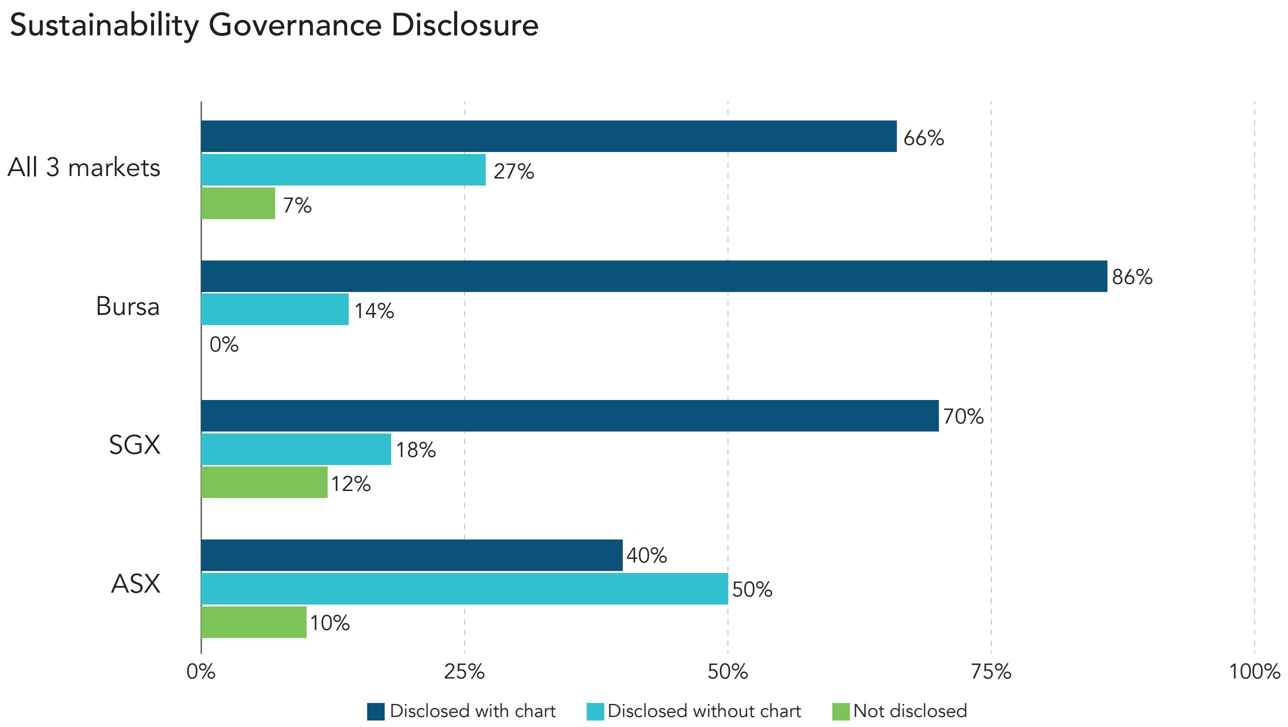


Figure 7: Disclosure of sustainability governance structure

Issues to consider about disclosure of sustainability governance structure

- Has the company clearly disclosed its sustainability governance structure?
- Is there a chart that clearly shows the bodies that are involved in sustainability governance and management, and if not, should the company include such a chart?

It is important that the bodies and individuals responsible for sustainability governance and management have the appropriate mandate and support. They should also not rely solely on information provided by those reporting to them, but proactively consider what information is necessary for them to discharge their responsibilities. This may include, for example, information relating to the materiality assessment of ESG factors, the stakeholders who have provided inputs for the assessment, how ESG metrics are chosen, how targets are set, choice of sustainability reporting framework, and scope of sustainability assurance.

Mandate and Support for Sustainability

- Do the bodies and individuals involved in sustainability governance and management have terms of reference/mandates clearly stating their responsibilities, powers and access to information, support and resources?
- What sustainability-related information should those responsible for sustainability governance and management expect to receive to discharge their responsibilities?

BOARD SUSTAINABILITY COMMITTEE

Fourteen Australian companies (28%), 11 Malaysian companies (22%) and 13 Singaporean companies (26%) have either formed a dedicated sustainability committee or equivalent committee, or expanded the scope of an existing committee to include responsibilities for sustainability.

Figure 8 shows the industry sectors of the companies which have established board sustainability committees.

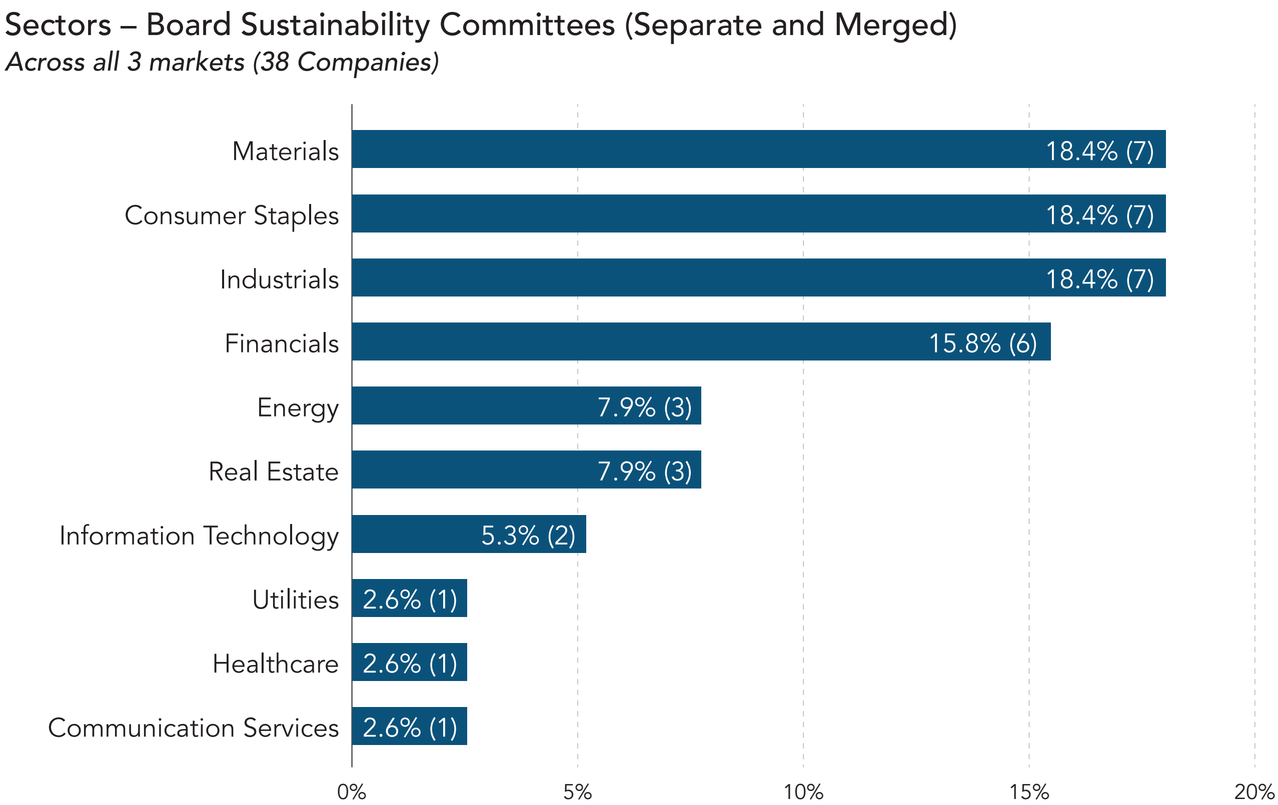


Figure 8: Establishment of board sustainability committees

Figures 9 to 11 show the names of the sustainability-related committees formed by companies in the three countries.

Name of Sustainability Committee	Number
Sustainability Committee	5
Environment, Health, Safety and Sustainability Committee	1
Environmental, Social & Safety Committee	1
Ethics, Environment, Social and Governance (EESG) Committee	1
Health, Safety and Sustainability Committee	1
Health, Environment, Safety and Security Committee	1
Safety and Sustainability Committee	3
Audit, Risk Management and Sustainability Committee	1
Total	14

Figure 9: Board sustainability committees in Australian companies

Name of Sustainability Committee	Number
Sustainability Committee	6
Environmental, Social and Governance Steering Committee	1
Sustainability and Governance Committee	1
Risk and Sustainability Committee	2
Strategic and Sustainability Committee	1
Total	11

Figure 10: Board sustainability committees in Malaysian companies

Name of Sustainability Committee	Number
Sustainability Committee	5
Corporate Responsibility and Sustainability Strategy Committee	1
Safety and Sustainability Committee	1
Customer Experience, Technology and Sustainability Committee	1
Risk and Sustainability Committee	5
Total	13

Figure 11: Board sustainability committees in Singaporean companies

As can be seen, some companies use different names for their sustainability committee, likely based on the most material ESG factors for them. Others have explicitly added sustainability responsibilities to an existing committee, such as a risk committee, and adopted a name that reflects the expanded responsibilities.

Regulators have generally not prescribed that companies should form a separate board sustainability committee, which is a sensible position as simply creating an additional committee does not mean that a company will be more effective in addressing sustainability risks and opportunities. Further, there is a risk of fragmentation of the board's responsibilities if there are too many different committees. Relevant considerations as to whether to establish a separate board sustainability committee include the nature of the business, materiality of ESG factors, size of the company, and size of the board.

Composition of sustainability committee

Since a board sustainability committee has not been prescribed, it is unsurprising that their composition varies across companies. Board sustainability committees may be chaired by independent non-executive directors, non-independent non-executive directors, or even executive directors. They may include only independent directors as members, or a mix of independent and non-independent directors, including executive directors. It is also possible to co-opt non-board members, such as external experts or internal management, as members of such committees.

Chair of board sustainability committee

Figure 12 shows that all the Australian companies which have a board sustainability committee have a non-executive director as the committee chairman, with 83% of these chairmen being independent directors. In contrast, only 55% of Malaysian companies and 54% of Singaporean companies with a board sustainability committee have an independent director as chairman, with 9% and 15% respectively having an executive director as chairman.

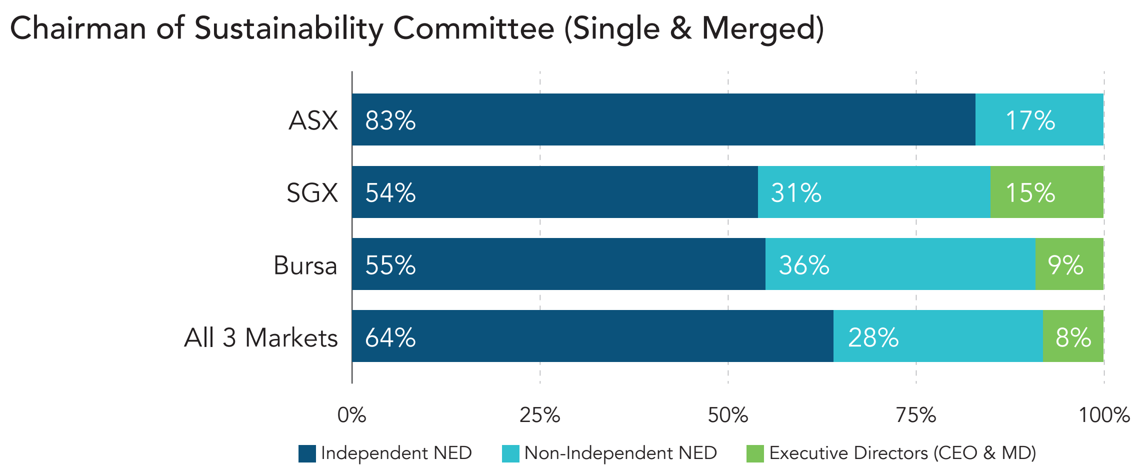


Figure 12: Chairman of board sustainability committees

There is a possible conflict where the board sustainability committee is chaired by an executive director, since the committee advising the board on the setting of sustainability priorities, goals and targets is led by a director who is also responsible for implementation. Priorities, goals and targets overseen by the board sustainability committee may also affect other areas where management is conflicted, such as where ESG goals are incorporated into remuneration policies.

Composition of board sustainability committee

Figure 13 shows that two-thirds of members of board sustainability committees of Australian companies are independent directors, with executive directors making up only 3% of members. For Malaysian and

Singaporean companies, the percentage of independent directors is less than 60%, while there is a higher percentage of executive directors as members. There are also some rare cases of non-board members co-opted into board sustainability committees of Malaysian and Singaporean companies.

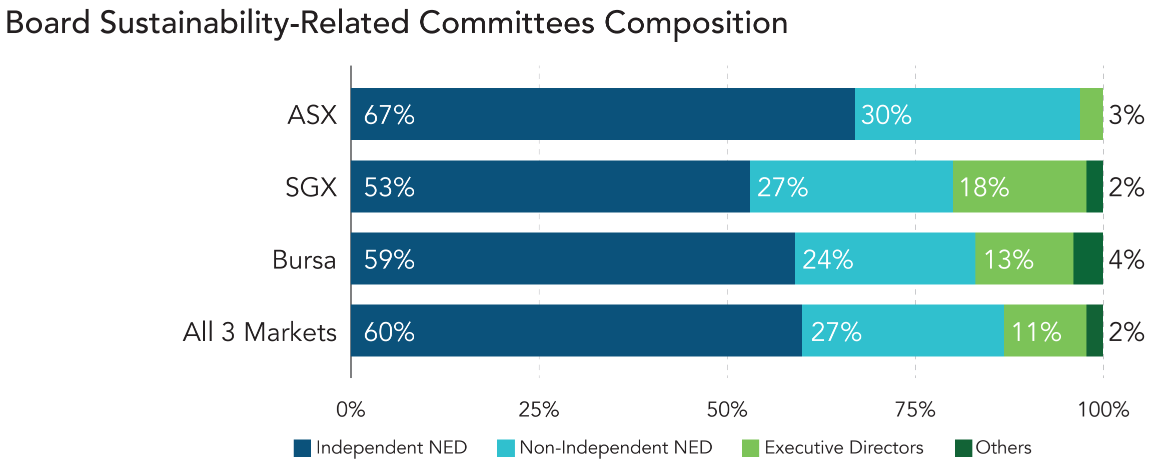


Figure 13: Independence of board sustainability committees

Co-opting non-board members into board sustainability committees is likely to be done to address lack of sustainability-related competencies among board members.

Issues to consider in deciding whether to establish a board sustainability committee

- Should the company form a board sustainability committee or a combined sustainability committee?
- Who should chair the board sustainability committee?
- If the board sustainability committee is chaired by an executive director or a non-independent non-executive director, are there conflicts that may arise?
- What is the appropriate composition of the board sustainability committee in terms independence and competencies?
- Should non-board members, either internal or external to the company, be co-opted as members of the board sustainability committee?
- What should be the responsibilities of the board sustainability committee?

This study did not examine in detail the skills and experience of members of board sustainability committees. However, it is interesting to observe that companies often claim that their directors have expertise or experience in sustainability or ESG in their published board skills matrices, as shown in the three examples below. While directors do not need to be technical experts on environmental and social issues to add value to the board, it is important to have directors who have a good grasp of the material ESG factors most relevant to the business and company. For instance, if labour rights are a material ESG factor, it may not be sufficient to only have directors who have expertise or experience in environmental and governance areas.

The three examples also show the different granularity in board skills and experience disclosed by companies. In the first example, the company has disclosed that at least seven of its nine directors have skills and experience in each of the nine areas, including eight out of nine directors for sustainability. There is the question of the depth of the skills and experience since it is arguably unlikely that a board will have nearly all directors with strong skills and experience in so many different areas.

In the second example, the directors' skills matrix only shows five areas, with seven directors deemed to have skills in "environmental, social and governance". It is unclear which aspects of ESG these directors have skills in.

The third example shows a more granular board skills matrix, with skills and experience defined in terms of "awareness", "practised/direct experience" and "high competency, knowledge and experience". More granular board skills matrices better show the diversity and depth of board skills possessed by different directors, including in sustainability-related areas.

Example 1: Company A

Skills/Experience	Summary	Directors with skill/experience
Retail markets	Extensive experience in retail, knowledge and experience of customer outcome focused transformation in the food, drinks or general merchandise sectors, including global experience	7/9
Governance	Demonstrated experience in, or a commitment to best practice corporate governance standards	9/9
Risk management	Expertise and experience anticipating, identifying and managing key risks, including financial, non-financial and emerging risks and monitoring the appropriateness and effectiveness of risk management frameworks and controls	9/9
Strategic thinking	Expertise and experience in identifying and critically assessing strategic opportunities and threats, including constructively questioning and challenging business plans and overseeing successful transformation execution in large, complex organisations to create sustained, resilient business outcomes	9/9
Sustainability	Knowledge, experience, and commitment to social and climate responsibility, including in relation to sustainability, governance, climate change, carbon emissions reduction, human rights and responsible sourcing to create long-term sustainable value and benefits	8/9
Digital data and innovation	Expertise and experience in innovation, adoption and implementation of new technologies, digital disruption, leveraging digital technologies, understanding the use of data and data analytics, and accelerating digital, eCommerce and convenience propositions responding to rapidly increasing demand	8/9
Financial acumen	Proficiency and expertise in capital management, financial accounting and corporate reporting, including understanding the key financial drivers of the business and the ability to probe the adequacies of internal financial controls and systems	9/9
Culture, people and remuneration	Experience in organisational culture and overseeing the operation of consequence management frameworks, people management and succession planning, setting strategy linked remuneration and reward frameworks, end-to-end remuneration governance and promoting diversity and inclusion	9/9
Regulatory and public policy	Expertise identifying and managing legal, regulatory, public policy and corporate affairs issues, including professional experience working or interacting with government and regulators	7/9

Example 2: Company B

Example 3: Company C

Skills and experience		Relevance to bank
Leadership 10 | 1	Held senior leadership role such as CEO or similar position in an organisation of significant size or complexity.	Setting strategy and evaluating the performance of senior leaders.
Financial services 6 | 1 | 4	Experience in the financial services sector and regulation, including retail and commercial banking services and adjacent sectors.	Appreciation of the operational landscape, opportunities and challenges in the sector.
Financial acumen 8 | 1 | 2	Proficiency in financial accounting and reporting, capital management and/or actuarial experience.	Assessing complex financial and capital management initiatives.
Strategy & global perspective 11	Experience in leading, developing or executing strategic business objectives, including bringing to bear a global perspective.	Reviewing and setting the organisational strategy in a global context.
Governance 8 | 3	Experience as a Non-Executive Director of a listed entity (Australia or overseas) and/or understanding of legal and regulatory frameworks underpinning corporate governance principles.	Understanding local and offshore legal and regulatory frameworks to effectively perform the role of Director.
Risk management 7 | 4	Experience in identifying, assessing and monitoring systemic, existing and emerging financial and non-financial risks.	Monitoring risk appetite, assessing the overall risk profile and adapting to emerging trends.
Digital and technology 4 | 4 | 3	Experience in technology and innovation and the impact on customer experience.	Supporting the Bank's digital strategy.
Enhanced customer outcomes 5 | 6	Understanding of the changing needs of customers with a focus on improving their financial wellbeing and enhancing their experience.	Providing constructive challenge to ensure customer needs are met.
Stakeholder engagement 8 | 3	Experience in building and maintaining trusted and collaborative relationships with governments, regulators and/or community partners.	Ensuring an effective engagement program with regulators and other stakeholders is in place.
People and culture 7 | 4	Understanding organisational culture, succession planning, and remuneration and reward frameworks.	Overseeing the culture of the Group and upholding the Code of Conduct and attracting and retaining talent.
Environment and social 5 | 6	Understanding the potential risks and opportunities from an environmental and social perspective.	Influencing sustainable practices, policies and decisions that support environmental and social outcomes.

High competency, knowledge and experience | Practised/Direct experience | Awareness

Figure 14: Examples of board skills matrices disclosed by companies

Issues to consider in assessing knowledge, skills and experience of directors in sustainability

- What are the material ESG factors for the industry and company?
- Are there directors with sufficient depth in knowledge, skills and experience in those areas of ESG which are most important to the industry and company?
- Is the current board skills matrix useful in assessing whether the board has the appropriate knowledge, skills and experience in areas most important to the company, including in relevant areas of ESG?

CHOICE OF SUSTAINABILITY GOVERNANCE STRUCTURE

A report by Ron Soonieus of the INSEAD Corporate Governance Centre identified six models of sustainability governance structure[1] and the frequency of use of each model, based on a BCG-INSEAD survey of board members from around the world. The six models are shown in Figure 15. Many of these models do not involve a dedicated board sustainability committee.

Source: BCG–INSEAD Board ESG Pulse Check (March 2022). Some 2% of companies surveyed say they use a 'different' model.

Figure 15: Models of sustainability governance

In Soonieus' view, the ideal model is where the responsibility for governance over sustainability is fully integrated into the board of directors. However, he cautioned that while companies should be aiming for this model in the long term, it does not mean that it is the best short-term solution.

Soonieus believed that a preferable stepping stone towards this ideal model for most companies is having multiple board committees being responsible for governance over sustainability.

1 Ron Soonieus. March 2022. *Designing sustainability governance: board structures and practices for better ESG performance.* INSEAD – The Corporate Governance Centre.

Figure 16 shows the different sustainability governance structures at the board level disclosed by the 150 companies included in our study, and the 50 companies in each of the three countries. The models of sustainability governance used in this report are broadly consistent with Soonieus', with some additional granularity.

Overall, two types of sustainability governance structure emerged as most common (although there are country differences in adoption of different structures): the entire board overseeing sustainability without any committee being tasked with it, or multiple existing committees taking on that responsibility. The next most common sustainability governance structure overall involves sustainability governance responsibilities being not formally embedded into the board or any board committee.

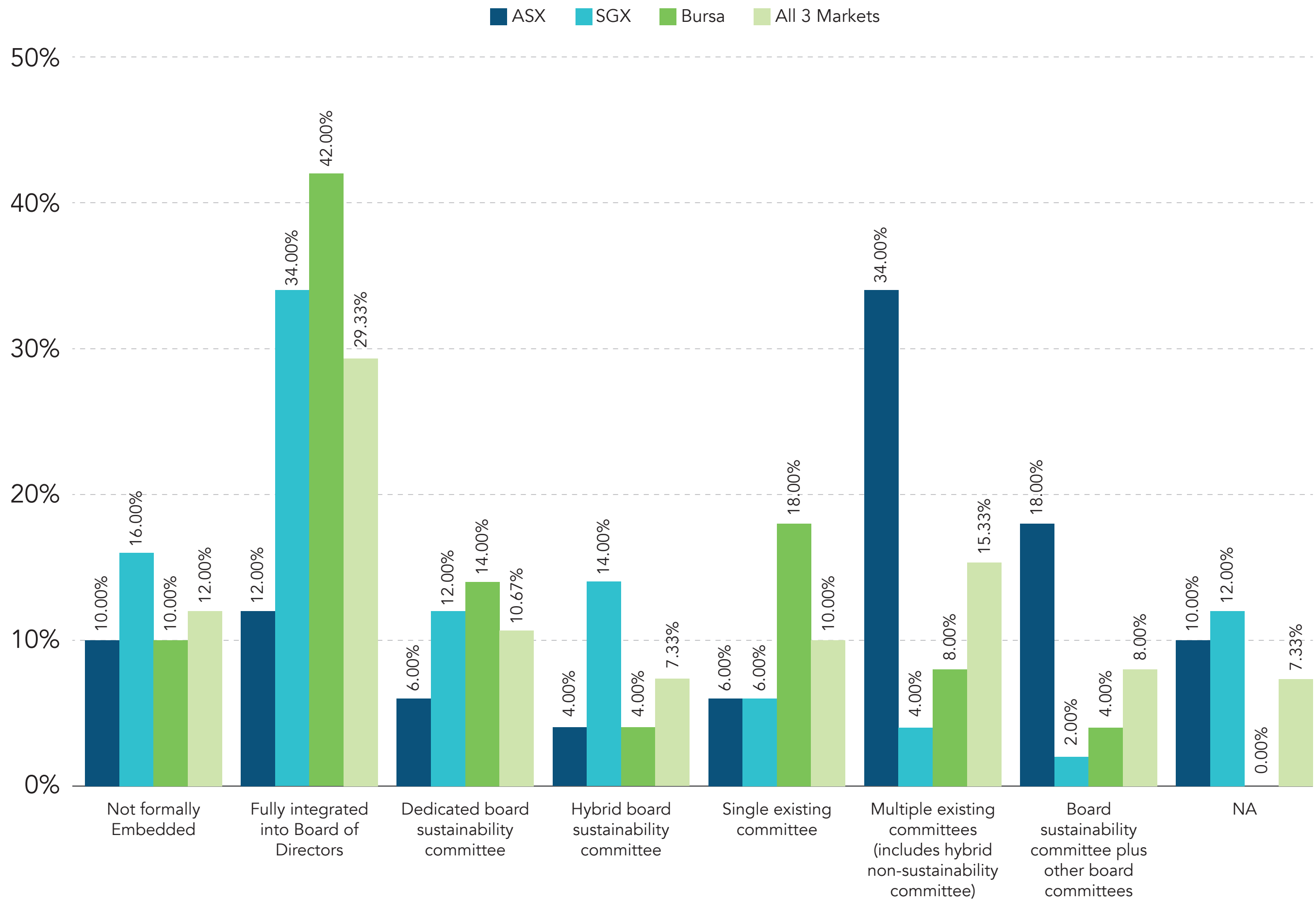


Figure 16: Models of sustainability governance adopted by sample companies

Model 1: Not formally embedded into board responsibilities

Across the three countries, 12% of companies have not formally embedded sustainability governance into the responsibilities of the board or board committees, with 10% of both Australian and Malaysian companies and 16% of Singaporean companies having this structure. For such companies, the sustainability governance structure shows that the ultimate responsibility for governance of sustainability rests with the Chief Executive Officer (CEO) or another senior executive.

Figure 17 shows such a sustainability governance structure adopted by one of the sample companies. While this particular company said that the Board, led by the Chairman, has oversight of sustainability matters and receives regular updates on sustainability issues, the sustainability governance structure shows no involvement of the board or board committees. This may suggest that the board has largely delegated responsibilities for sustainability to management.

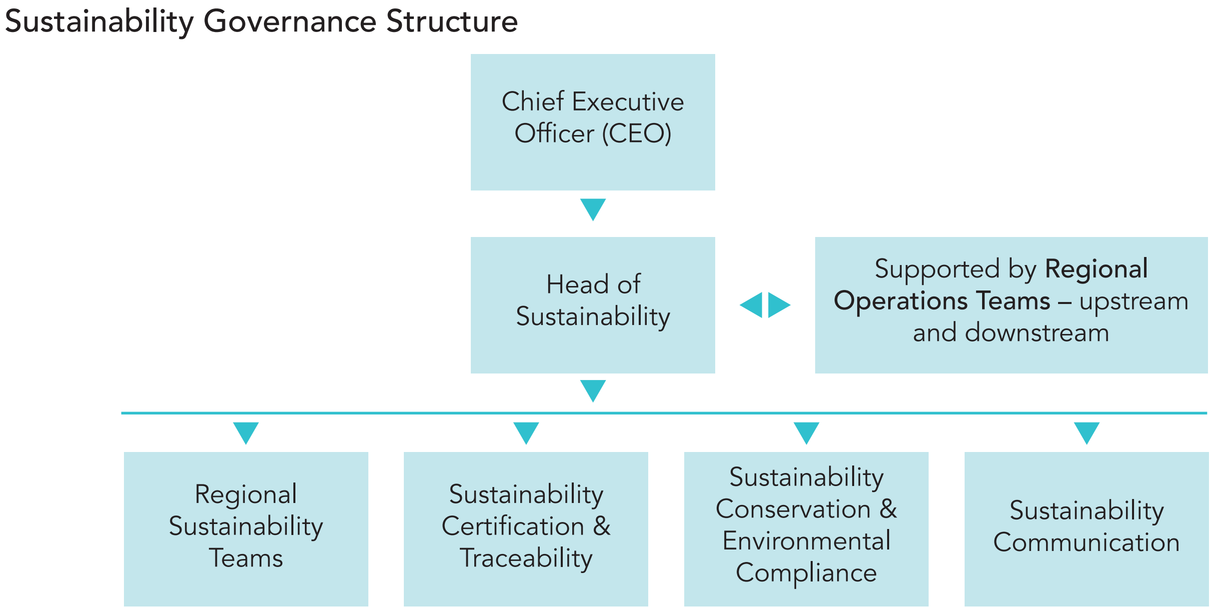


Figure 17: Example of company without board or board committee involvement in sustainability governance

Issues to consider under Model 1

- Is the board adequately discharging its fiduciary responsibilities for sustainability issues, such as with respect to climate risks?
- Are sustainability considerations being considered in board composition, board practices and board decision-making?
- Is the impact of sustainability-related risks and opportunities on the business based solely on management's inputs?
- Are the company's strategies, policies and practices adequately incorporating considerations of sustainability risks and opportunities?

Model 2: Fully integrated into board of directors

A direct contrast to Model 1 is where responsibilities for sustainability are fully integrated into the board of directors, rather than delegated to board committees.

Across the three markets, 29% of companies disclosed having such a structure, with 12% of the Australian companies, 42% of Malaysian companies and 34% of Singaporean companies doing so.

While Soonieus suggests that such a structure may be ideal in the long term, he also cautioned that this may not be best short-term solution.

Companies with such a structure may be a mix of two groups of companies – those which are mature in their sustainability journey with the board placing a high priority on it, and those which have yet to view sustainability as a priority and have therefore not considered the appropriate sustainability governance structure to put in place. For the latter companies, this structure may simply be the default, reflecting the legal position that the board is ultimately responsible for overseeing all business issues. With many companies still at the beginning of their sustainability journey, most companies with this structure may be in the latter group.

An example of a company which has adopted this structure is shown in Figure 18. In this company, the Sustainability Steering Committee is a management committee made up of senior executives from across its operations which meets annually to review the sustainability plans.

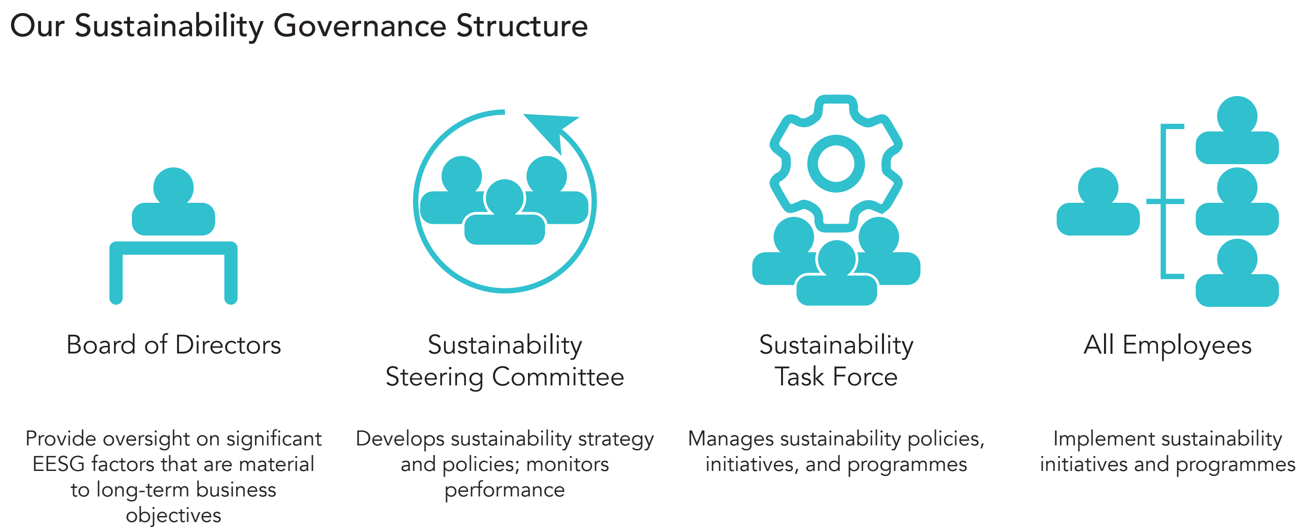


Figure 18: Example of company with a fully integrated model

Issues to consider under Model 2

- Is the board paying sufficient attention to the impact of sustainability risks and opportunities, together with its existing responsibilities?
- Does the board have the appropriate composition (e.g., independence, competencies and diversity) to oversee sustainability risks and opportunities?
- Are the responsibilities and work of board committees taking into account sustainability considerations?

Model 3: Board sustainability committee

In the previous section, it was reported that 14 Australian companies, 11 Malaysian companies and 13 Singaporean companies have either formed a dedicated sustainability committee or equivalent committee, or expanded the scope of an existing committee to include responsibilities for sustainability, effectively having a hybrid committee.

Model 3(a): Dedicated board sustainability committee

A dedicated board sustainability committee can play a useful role in ensuring that all material sustainability issues are considered holistically, and that there is a coordinated approach to addressing sustainability risks and opportunities.

However, under such a structure, boards need to ensure that sustainability is not something that is simply tasked to a single board committee through a "silo" approach, rather than fully integrated into the work of the board and other board committees. To be effective, it is important that the board sustainability committee interacts and communicates with the other committees.

An example of a company having a dedicated board sustainability committee is as shown in Figure 19.

Figure 19: Example of company with a dedicated board sustainability committee

Issues to consider under Model 3(a)

- Does the board sustainability committee have the appropriate leadership and composition?
- Are all material ESG factors identified and does the board sustainability committee have oversight over them?
- Does the board sustainability committee review and approve the sustainability governance structure/model?
- What are the responsibilities of the board sustainability committee viz-a-viz other board committees where they may overlap?
- Does the board sustainability committee interact and communicate with other board committees on sustainability matters?
- Is there a risk of a "silo" approach to addressing sustainability matters?

Model 3(b): Hybrid board sustainability committee

In our study, we found that 7% of companies across the three countries have a hybrid board sustainability committee, where a committee also has other responsibilities, such as risk, strategy, or even customer experience and technology. Often, the mandate of an existing committee is expanded to include responsibilities relating to sustainability. Such a structure is more common in Singaporean companies compared to Australian and Malaysian companies.

Some companies may prefer such a model because they believe that sustainability considerations, while important, do not warrant establishing a dedicated committee to help oversee them. Alternatively, companies may adopt such a model as they believe this may provide a more integrated approach to considering sustainability – such as better ensuring that sustainability-related risks are considered with other business risks.

Figure 20 shows an example of a company with a hybrid board sustainability committee.

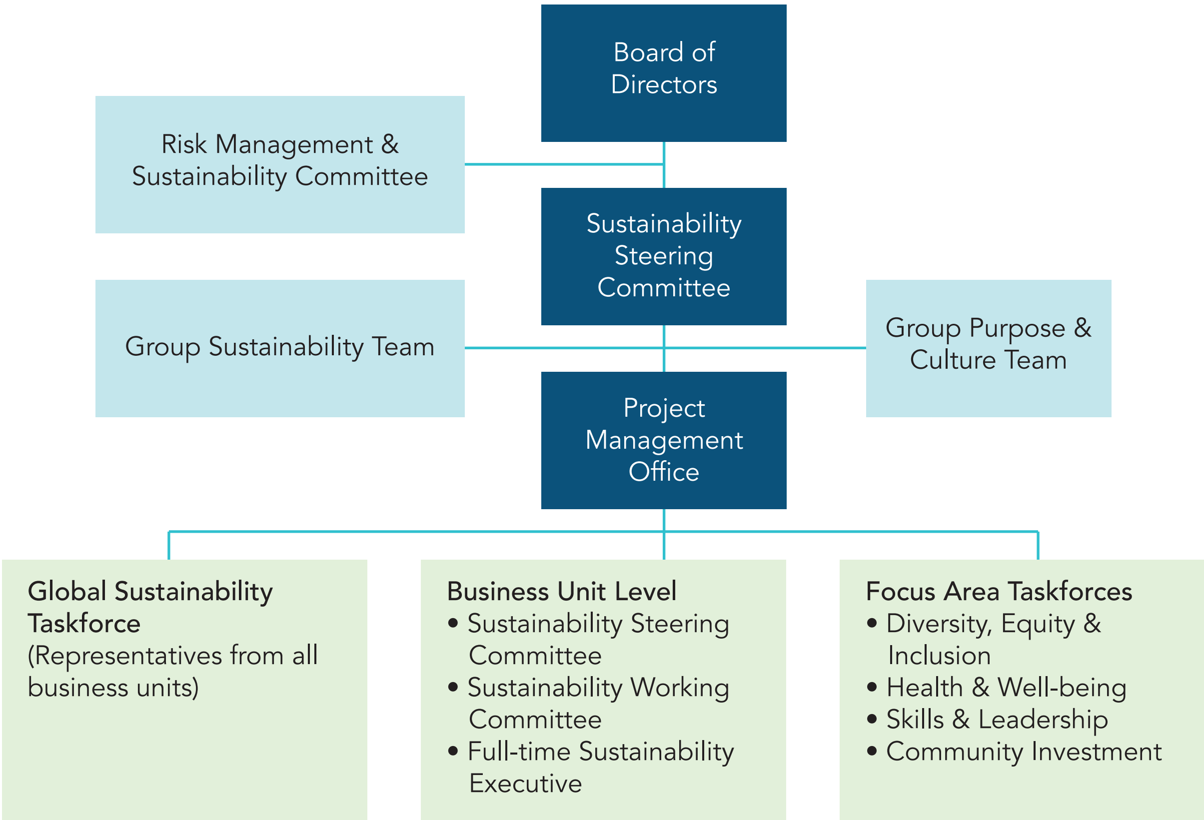


Figure 20: Example of company with a hybrid board sustainability committee

Issues to consider under Model 3(b)

- Does the hybrid board sustainability committee have the appropriate leadership and composition?
- Are all material ESG factors identified and does the hybrid board sustainability committee have oversight over them?
- Does the hybrid board sustainability committee review and approve the sustainability governance structure/model?
- Are the responsibilities of the hybrid board sustainability committee compatible with its other responsibilities, with no conflicts?
- Is the hybrid board sustainability committee paying sufficient attention to sustainability risks and opportunities given its other responsibilities?
- Is the hybrid board sustainability committee achieving the right outcomes or does it instead reflect a narrow perspective of sustainability (such as viewing sustainability purely in terms of risks rather than opportunities)?
- Does the hybrid board sustainability committee interact and communicate with other board committees on sustainability matters?

Model 4: Single existing committee

Ten percent of companies across the three countries task an existing board committee, most commonly the risk committee or audit committee, to help oversee sustainability, without changing the name of the committee. Malaysian companies are most likely to do so, with 18% of companies opting for such a sustainability governance model, compared to 6% for both Australian and Singaporean companies. Such a structure can help ensure that sustainability risks are integrated with the work of an existing committee and considered in areas such as risk management, internal controls and internal audit.

However, where sustainability responsibilities are allocated to an audit or risk committee, it may raise the question of whether sustainability is viewed purely as risk mitigation or compliance, rather than also providing opportunities to increase enterprise value.

Boards also need to ensure that the committee is spending enough time on sustainability matters given its existing responsibilities, and that it has the necessary competencies to oversee sustainability matters. Another issue to consider is whether the impact of sustainability in other areas such as board composition, succession planning, performance assessment and remuneration policies, is adequately considered.

An example of a company that has adopted such a structure is shown in Figure 21 below.

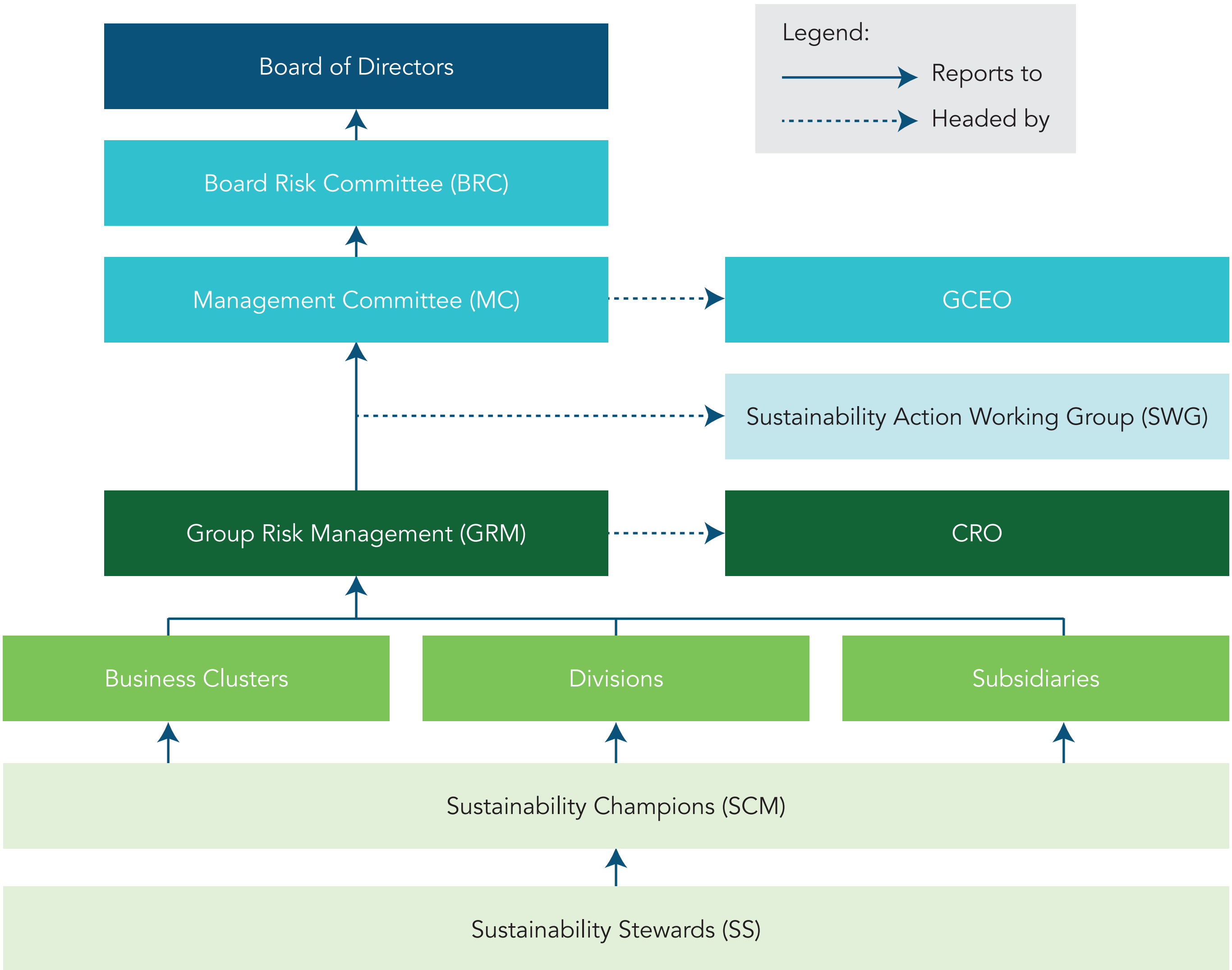


Figure 21: Example of company using a single existing committee to help oversee sustainability

Issues to consider under Model 4

- Does the existing committee have the appropriate composition to help oversee sustainability risks and opportunities?
- Is the existing committee paying sufficient attention to sustainability risks and opportunities given its existing responsibilities and nomenclature?
- Is the existing committee achieving the right outcomes or does it instead reflect a narrow perspective of sustainability?
- Where sustainability responsibilities are tasked to a risk or audit committee, does it reflect and convey a mindset that sustainability is only about risk mitigation and compliance, rather than also about opportunities?
- Does the existing committee interact and communicate with other board committees on sustainability matters?

Model 5: Multiple existing committees

Some companies have incorporated sustainability responsibilities into several existing committees. In our study, 15% of companies across the three countries have this model, with Australian companies (34%) far more likely to have it compared to Malaysian companies (8%) and Singaporean companies (4%). According to Ron Soonieus, this may be the preferable stepping stone to the ideal long-term model of full integration of sustainability responsibilities into the board.

Companies adopting such a structure should ensure that each committee has given appropriate consideration to sustainability issues and there is a coherent and consistent approach to addressing sustainability issues. For example, material ESG factors identified through the materiality assessment should be considered by the nominating and remuneration committees in identifying relevant competencies for board and senior management or for linking ESG factors to remuneration; by the risk committee in overseeing risk management policies and enterprise risk management; and by the audit committee in its oversight of key policies, controls and audit.

An example of a company which has adopted such a model is shown in Figure 22.

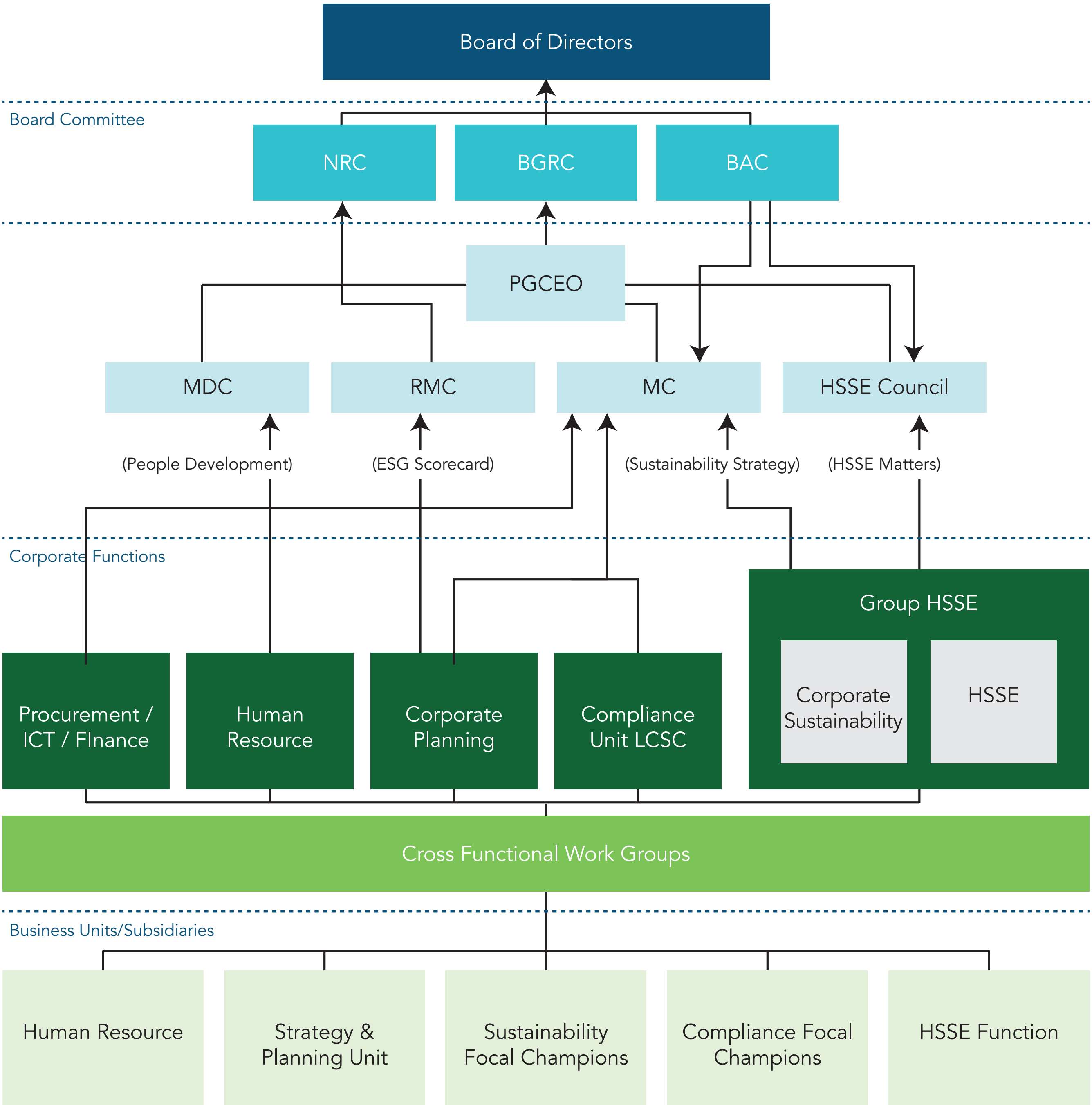


Figure 22: Example of company using multiple existing committees to help oversee sustainability

Issues to consider under Model 5

- Do the existing committees have the appropriate composition to help oversee sustainability issues related to their responsibilities?
- Are the existing committees paying sufficient attention to sustainability risks and opportunities given their existing responsibilities and nomenclature?
- Do the existing committees interact and communicate with other board committees on sustainability matters such that there is an integrated approach?

Model 6: Board sustainability committee plus other board committees

Companies may also adopt a structure whereby sustainability governance responsibilities are shared by a board sustainability committee (or equivalent) and other existing board committees. In our study, 8% of companies across the three countries have adopted this model , with 18% of Australian companies, 4% of Malaysian companies and 2% of Singaporean companies doing so.

An example of a company with such a structure is shown in Figure 23.

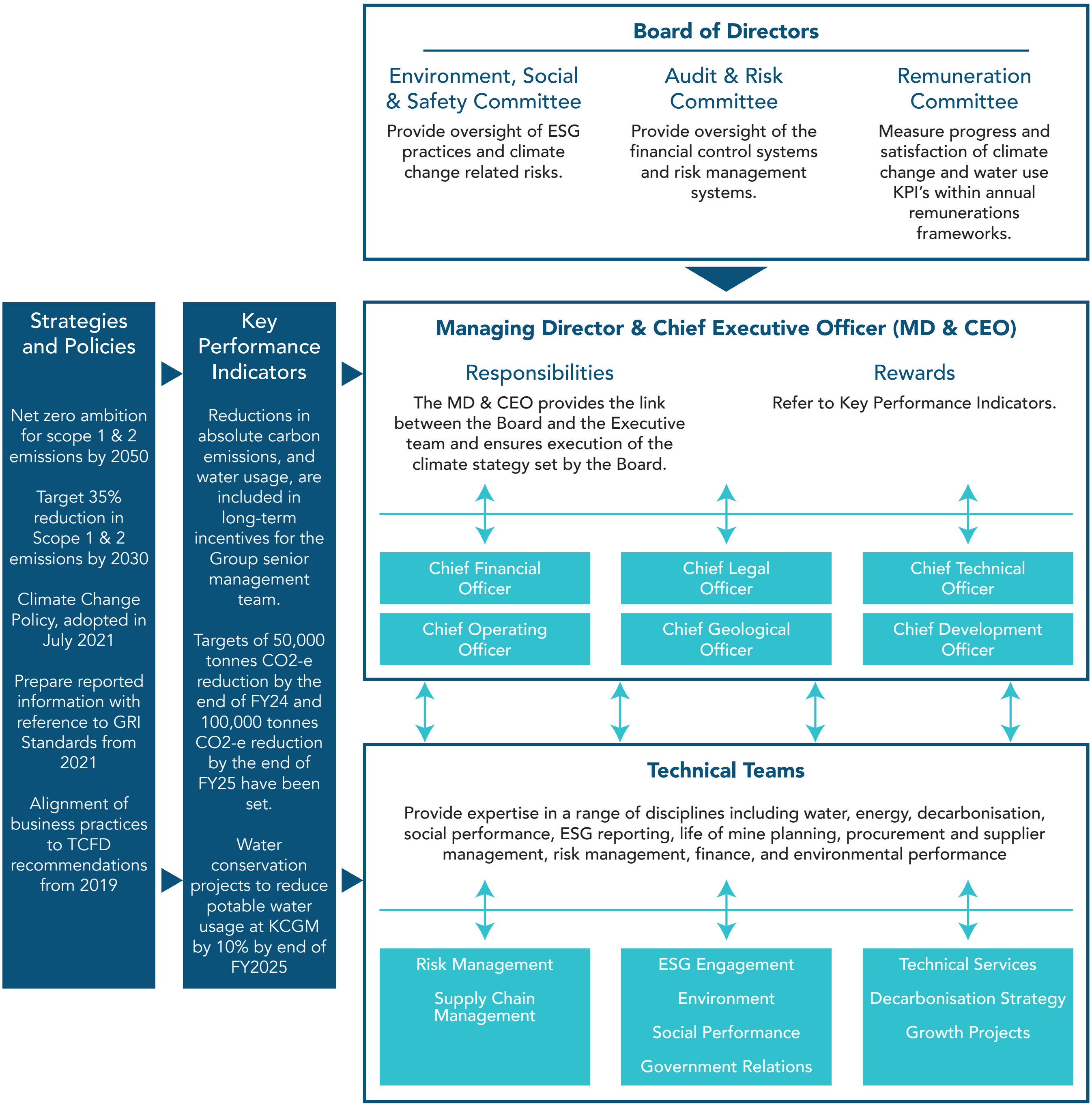


Figure 23: Example of a company using dedicated board sustainability committee and multiple existing committees to help oversee sustainability

Companies that adopt such a structure may see having a dedicated board sustainability committee as important to ensure that all material sustainability factors are adequately considered and addressed, but they also believe that sustainability considerations are also relevant to the other key committees. In such a structure, it is important that there is clarity in responsibilities for the different committees where they may overlap, and for the board sustainability committee to have regular communications and interactions with other committees to ensure that relevant sustainability matters are considered by these committees.

Another company which has such a structure is Rio Tinto, listed on ASX and the London Stock Exchange.

Rio Tinto's terms of reference for the board sustainability committee includes a comprehensive list of sustainability responsibilities of this committee, grouped under safety, health, environment, and communities and social performance. This committee also approves the sustainable development governance model. The terms of reference also discloses how the committee's responsibilities are linked to other board committees.

In some cases, the responsibilities of the board sustainability committee are closely related to the responsibilities of other committees. For example, at Rio Tinto, the appointment and dismissal of the Global Head of Health, Safety, Environment and Security (HSES) and the Global Head of Communities & Social Performance, are approved by the board sustainability committee. The audit committee has a similar responsibility with respect to the Head of Group Internal Audit. The nominations committee meanwhile has the responsibility "to lead the process for appointments to both the Board and senior management positions". The nominations committee should ensure that the same robust process is followed for the senior management appointments that are approved by other committees.

In the area of risk management, the board sustainability committee at Rio Tinto advises and assists the board in overseeing risk management within the committee's scope. This is linked to the responsibilities of the audit committee, which is responsible for overseeing the systems of risk management and internal control at Rio Tinto (Rio Tinto does not have a board risk committee). Audit and assurance, and reporting and external disclosures, relevant to the scope of the board sustainability committee are reviewed and/or approved by the board sustainability committee. Therefore, the sustainability reporting and independent assurance relating to sustainability reports are reviewed and approved by the board sustainability committee, while the financial statements, other components of the annual report, and the external financial audit are reviewed and approved by the audit committee.

The terms of reference of the board sustainability committee also states: "In relation to those components of incentive plans for the executive team which, as determined by the Remuneration Committee, relate to: (a) safety; and (b) other applicable sustainable development matters with the Committee's Scope; make recommendations to the Remuneration Committee in relation to: (i) the appropriate metrics for those components; (ii) the targets against which performance should be measured; and (iii) the annual performance against those targets." Again, there should be interactions and communications between the sustainability committee and remuneration committee.

Issues to consider under Model 6

- Does the board sustainability committee review and approve the sustainability governance structure/model?
- Are all material ESG factors identified and does the board sustainability committee have oversight over them?
- Are the responsibilities of the sustainability committee and other existing committees clearly defined, with particular attention paid to areas where responsibilities may overlap?
- Does the board sustainability committee have adequate interactions and communications with other board committees on sustainability matters that impact the work of these other committees?

Involvement of existing board committees in sustainability governance

Figure 24 shows the extent to which different existing board committees are involved in sustainability governance for the 150 companies covered in the three countries, excluding sustainability-related committees. These include companies with or without a separate board sustainability committee. The existing committees most commonly disclosed as being involved in sustainability governance are those responsible for risk and audit, followed by remuneration and nomination.

Existing Committees (excluding Sustainability-Related Committees)	
Audit & Risk	17
Risk	17
Audit	8
Audit, Risk & Compliance	2
Risk & Compliance	2
Risk & Capital	1
Risk & Safety	1
Risk & Governance	1
Remuneration/ Compensation	4
Nomination & Remuneration	3
People & Remuneration	3
Governance, Remuneration & Nomination	1
Nomination	4
Governance & Nomination	1
Governance & Compliance	1
People & Culture	4
Investment & Finance	2
Investment & Capital	1
Customer	1
Executive Committee	1
Procurement	1
Strategy	1

Figure 24: Involvement of existing board committees in sustainability governance based on sustainability governance disclosures by companies

A "Best Practice" Sustainability Governance Structure?

While there is no single "best practice" sustainability governance structure that is applicable to all companies, two sustainability governance structures can be considered for most companies at this point of their sustainability journey.

One is to integrate sustainability responsibilities into multiple existing committees – Model 5 from the above discussion. Under this approach, it is important for the board to review the terms of reference of these committees to ensure that they incorporate these responsibilities and that the committees have a sufficient focus on sustainability issues. This structure may be particularly useful for companies where sustainability factors, whilst important, are not of such materiality that they may cause significant reputational or financial harm to the company.

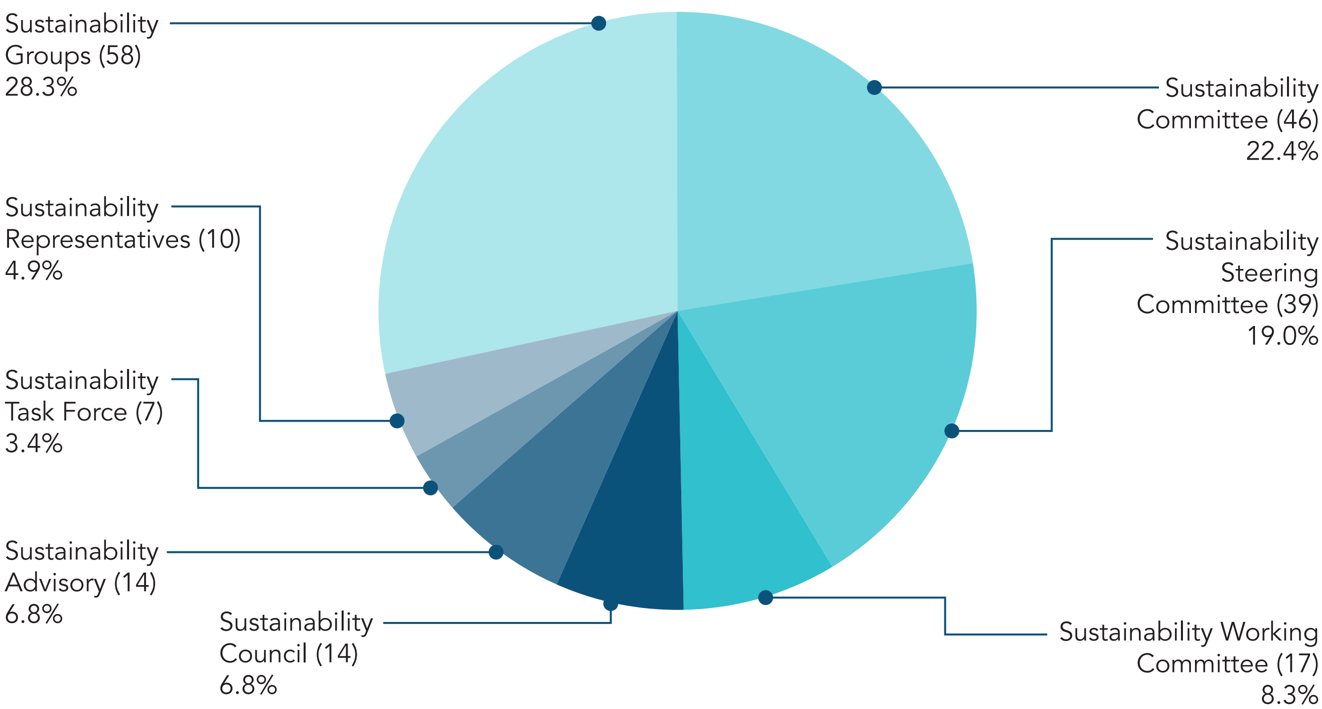
The second option, particularly for companies where certain ESG factors are critical to the business or provide potential opportunities for growth, is to form a separate board sustainability committee. The board sustainability committee should work with other existing board committees which are expected to embed ESG considerations into their responsibilities. This is Model 6 based on the above discussion.

OTHER SUSTAINABILITY BODIES

Companies have also constituted a variety of other sustainability-related bodies outside of the formal board and board committee structure to help oversee and/or manage sustainability-related opportunities and risks.

Figure 25 shows such bodies are more common in Malaysian companies (76 spread over the companies covered), followed by Singaporean Companies (69), and then Australian companies (56). They have a variety of names, the most common being Sustainability Group, followed by Sustainability Committee, and then Sustainability Steering Committee.

Figure 25: Sustainability bodies at the management level formed by the 150 companies

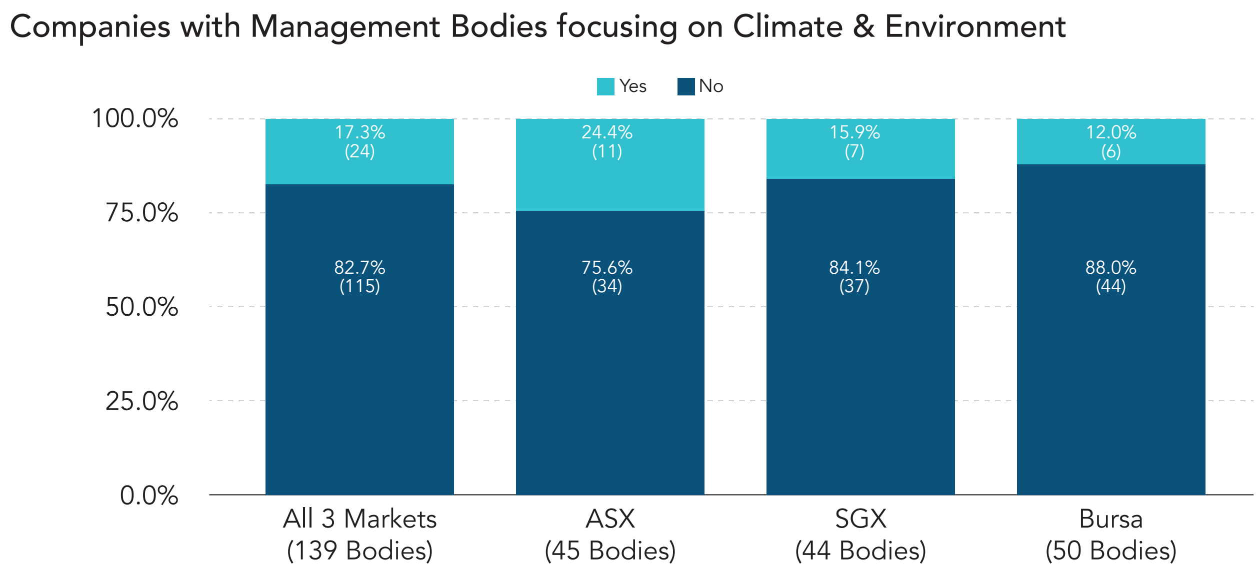


Note: "Sustainability Representatives" include chief sustainability officers, sustainability managers/directors, sustainability representatives and sustainability stewards. "Sustainability Advisory" includes sustainability advisory panels, sustainability centre of expertise and sustainability forums.

Fourteen companies have formed sustainability advisory panels. Of these, six advisory panels have only internal members appointed from among management and employees. The other eight advisory panels either have only external members or a combination of external and internal members. For the latter eight advisory panels, four advise the board, three advise management and one advises both the board and management.

Some companies have established management bodies that are specifically focused on climate and the environment, with the Australian companies more likely to do so, as shown in Figure 26.

Figure 26: Establishment of management bodies focused on climate and the environment



Companies often do not disclose the composition of the sustainability bodies and it is often not easy to understand their roles and responsibilities. These are areas where disclosures can be improved upon.

Inari Amertron Berhad, listed on Bursa, provides a good example of a company with clear disclosure of its sustainability governance, including composition, roles, responsibilities and reporting relationships of different bodies and individuals involved. This is shown in Figure 27.

Setting Tone from the Top

Sustainability Governance

To embed sustainability throughout our organisation, we believe in adopting a tone from the top approach. Inari's sustainability governance is led by our Board of Directors who are responsible for considering economic, environmental, social and governance matters in the Group's business strategies.

Our Board of Directors is supported by the Sustainability and Risk Management Committee ("SRMC") in overseeing the sustainability matters of the Group, identifying principal risks and business sustainability strategies alongside the Senior Management, and ensuring their adherence to appropriate risk mitigation and sustainability efforts within the Group. The SRMC is assisted by the Group Chief Executive Officer ("CEO") and Group Chief Financial Officer ("CFO"), to provide the overall direction, lead strategic decision making and review sustainability implementation, and performance & risk management in an integrated manner.

Sustainability Governance

Chairman	Datuk Phang Ah Tong *Chairman, Independent Non-Executive Director*
Committee Members	Foo Kok Siew *Independent Non-Executive Director* Dato' Dr. Tan Seng Chuan *Executive Vice Chairman*

The Sustainability and Integrity Working Group ("SIWG") will continue to be led by the Group CEO and comprises the management team and representatives from various departments. The SIWG is responsible to undertake the process of materiality assessment, as well as, executing and implementing sustainability initiatives and monitoring its progress. We have further strengthened our sustainability governance structure by the development and enhancement of the Sustainability Reporting Handbook and Framework, Corporate Liability and Corruption Risk Management Framework.

In April 2021, the Malaysian Code on Corporate Governance ("MCCG") has released an update with an emphasis on sustainability management including climate change. MCCG Practice 4.3 states that the Board of Directors is required to take appropriate action to ensure they stay abreast with and understand the sustainability issues relevant to the company and its business, including climate-related risks and opportunities. Against this backdrop, our Board of Directors is committed to further enhance our sustainability management to be aligned with the latest requirements.

Setting Tone from the Top

Sustainability Governance

The diagram below illustrates our sustainability governance structures along with their roles and responsiblities.

Governance Structure	Roles & Responsibilities
Board of Directors	Oversight on corporate sustainability strategy and performance
Sustainability and Risk Management Committee	Responsible for monitoring the implementation of sustainability strategy and performance, and risk management in an integrated manner
Group Chief Executive Officer	Reviews sustainability matters with the SIWG with the support of Group CFO Reports to the SRMC on sustainability matters
Group Chief Financial Officer	Supports Group CEO in Sustainability Matters
Sustainability and Integrity Working Group	Comprises management team and representatives from operations, business development, health, safety & environment, human resource, finance and accounts departments Responsible for materiality assessment, identification and monitoring of initiatives/actions, execution of initiatives/actions and reporting Reports to Group CEO on sustainability matters

Issues to consider about other sustainability-related bodies

- Which bodies or individuals, if any, have been tasked with managing the implementation of sustainability-related initiatives?
- Do the bodies or individuals have the appropriate competencies, resources and support to discharge their sustainability responsibilities?
- Are there terms of reference for these bodies or individuals which clearly set out their responsibilities?
- Do these bodies or individuals have clear reporting relationships and accountability?

CHIEF SUSTAINABILITY OFFICERS

In this part of the report, we look at the appointment of chief sustainability officers (CSOs) by companies.

Strategy&, a consulting firm, found that around 30% of the 1,640 sample companies around the world covered in their study had a formalised CSO role, and another 50% had a CSO with a limited remit – they referred to the two groups of CSOs as "active CSOs" and "light CSOs".[1] "Light CSOs" have a limited sustainability mandate, "based on their role or overall standing in the corporate hierarchy". They found that active CSOs are most prevalent in the following industry sectors: consumer products, chemicals, and oil and gas, as shown in Figure 28. Further, companies with a CSO and those with "active CSOs" tend to have better ESG scores.

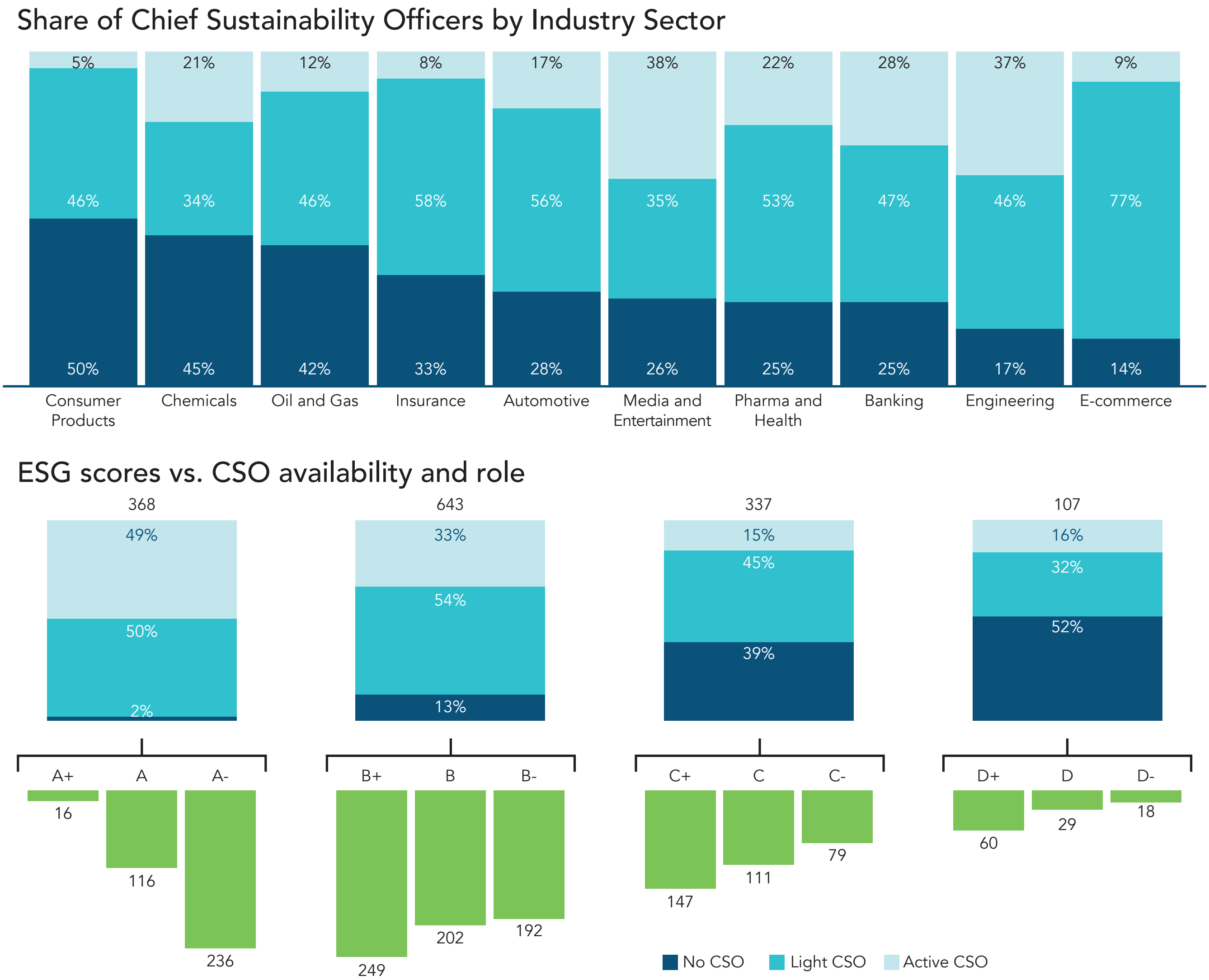


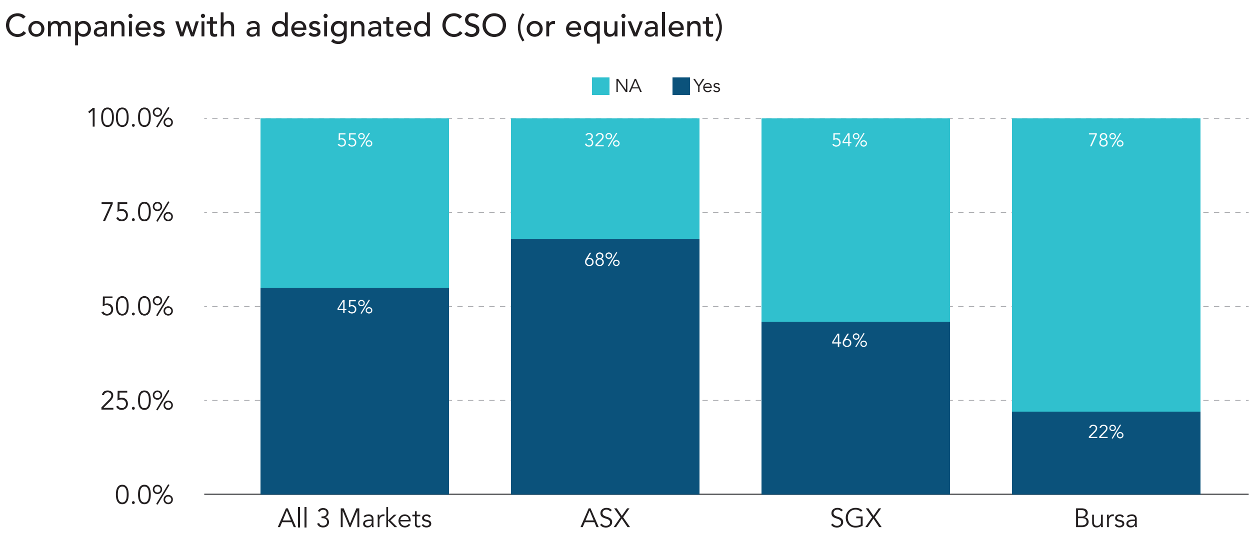
Figure 28: Share of different types of CSOs by industry and ESG scores (Source: Strategy&, Empowered Chief Sustainability Officers, 2022)

1 Strategy&, Empowered Chief Sustainability Officers, 2022.

In our study, we examine the appointment, reporting relationship and attributes of CSOs for the 150 companies in the three countries. Note that much of the analysis in this section is based only on companies which have appointed a CSO or equivalent.

APPOINTMENT OF CSO

The companies in Australia are more likely to appoint a CSO, with 68% having done so, compared to 46% of companies in Singapore and 22% of the companies in Malaysia (see Figure 29). The other companies did not identify any CSO in their sustainability governance disclosures, annual report or sustainability report, and none can be found based on online searches.



Note: In some cases, companies did not disclose the presence of a CSO but searches of other external sources, such as LinkedIn, indicate that they have a CSO. "NA" indicates those companies where no CSO could be found either through the company's disclosures or other external sources.

Figure 29: Appointment of CSOs across the three countries

There are companies that have appointed management staff who are responsible for sustainability and such staff may not necessarily hold the title of CSO. Some may be relatively junior positions in the company. It is often not possible to determine the seniority of the CSO as the reporting relationship of the CSO is often not disclosed. In this study, we include the following as being equivalent to a CSO: Head of Sustainability, President, Vice-President and others such Director or Principal. In practice, some of these positions may be several levels below the C-suite. Figure 30 shows the designations used where a CSO or equivalent was appointed. Australian companies are less likely to use a CSO designation compared to Malaysian and Singaporean companies.

Different CSO Titles

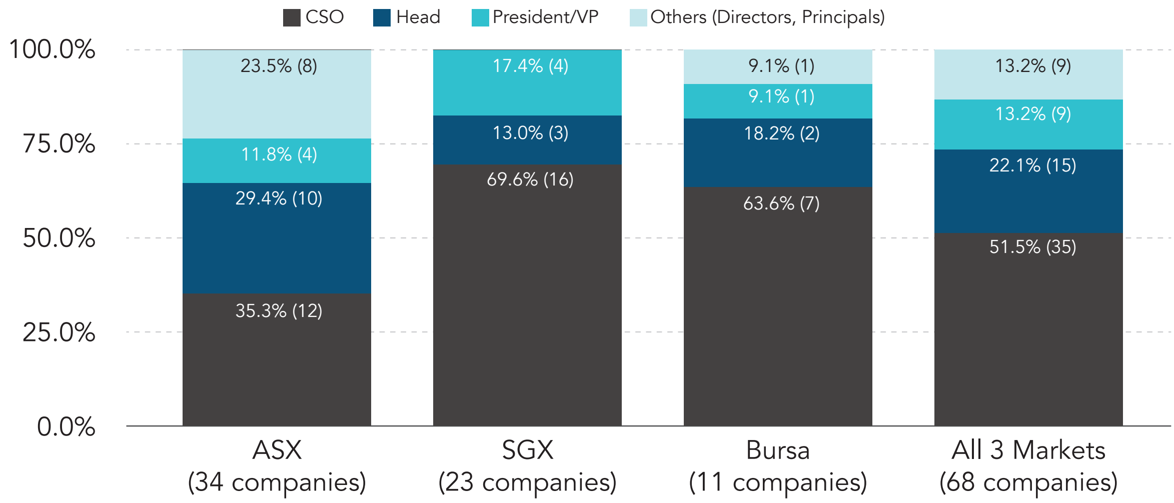


Figure 30: Designations used for CSO position

GENDER OF CSO

Unlike most other senior corporate roles, women are well represented among CSOs (Figure 31). Across the three countries, 62% of CSOs are women, with the percentage highest in Australia at 71%.

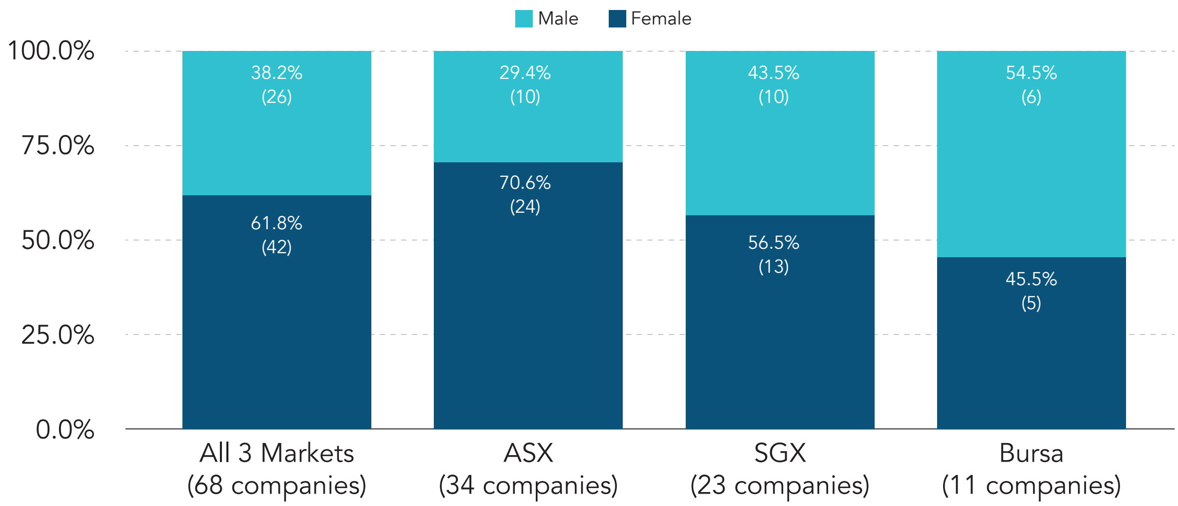


Figure 31: Gender of CSOs

REPORTING RELATIONSHIP OF CSO

It is not only a question of whether a company has appointed a CSO but how senior and substantive that role is. The reporting relationship of the CSO can give an indication of whether a CSO is an "active CSO" or a "light CSO", to use the terminology in the Strategy& report.

Unfortunately, 58% companies that have appointed a CSO in the three countries do not indicate who they report to, as shown in Figure 32, with 69% of Australian companies, 45% of Malaysian companies and 48% of Singaporean companies not disclosing the reporting relationship. For the minority of companies that disclose the reporting relationship, the CSO most commonly reports to the CEO or equivalent.

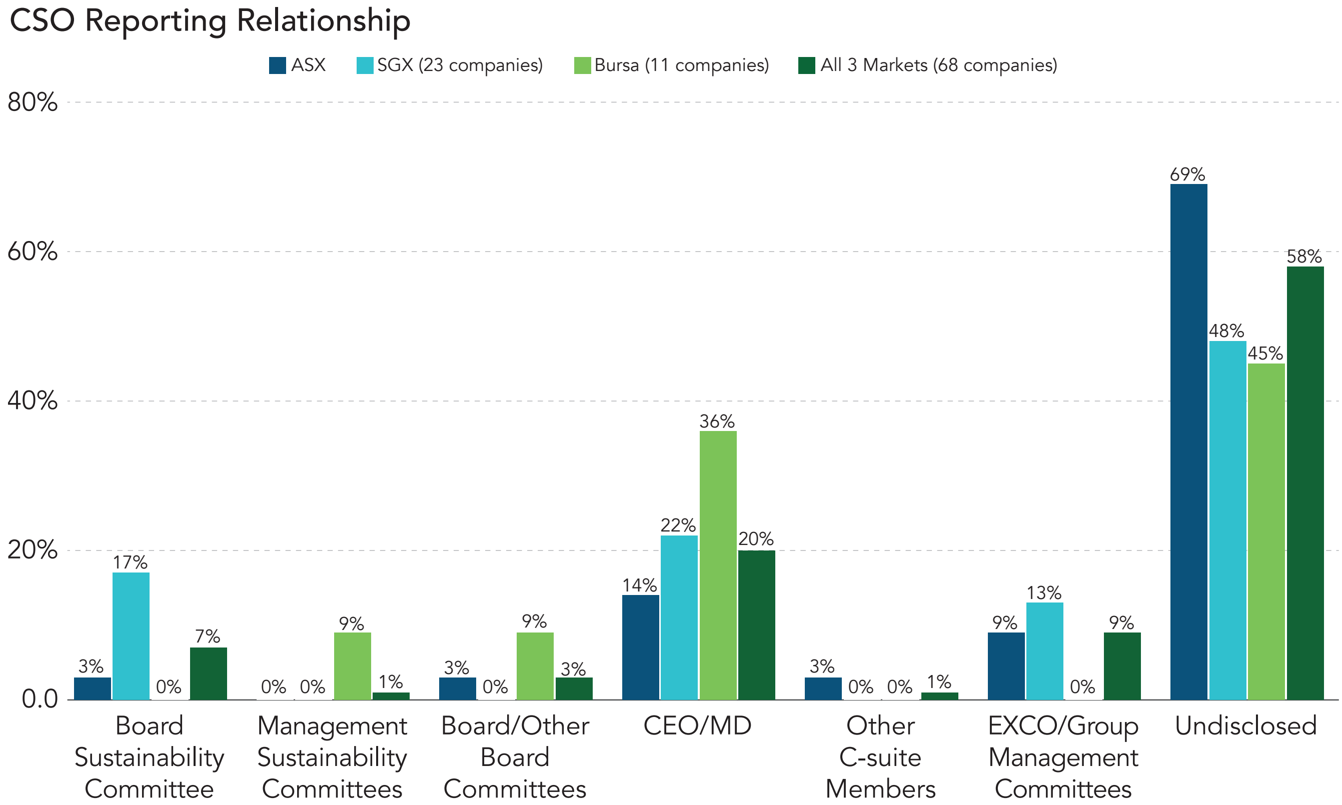


Figure 32: Reporting relationship of the CSO

A comment that is sometimes heard is that the CSO is not part of the executive committee and not involved in discussions of strategies and key business decisions, and does not have input or influence in such decisions. Since the CSO role is not an assurance role, primary reporting to the CEO is arguably appropriate, with a "dotted line" reporting relationship to the board sustainability committee (if it exists) or other key committee with responsibility for overseeing sustainability, or to the full board.

DEDICATED CSO ROLE

Another indication of whether the CSO is an "active CSO" is whether the role is a dedicated one, or the CSO holds multiple roles. For those companies that have appointed a CSO, the majority of the CSOs have a dedicated role in all three countries (see Figure 33).

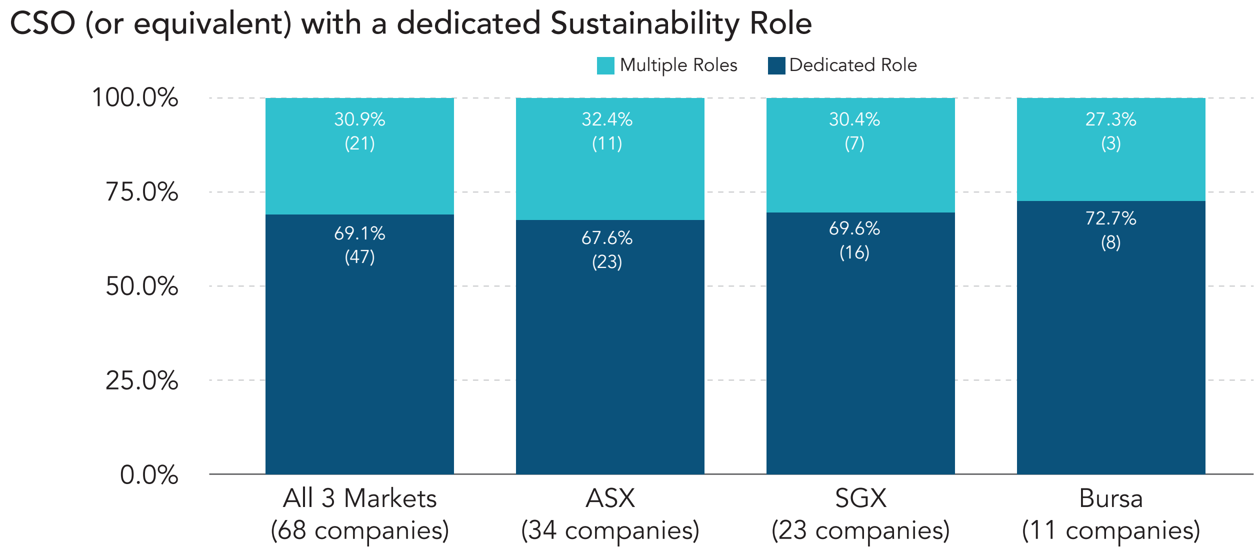


Figure 33: Dedicated CSO role

C.5. INTERNAL VERSUS EXTERNAL CSO

Next, we look at whether the CSO is an internal appointment or an external appointment. The study by Strategy& found that of the 858 CSOs in their study, 52% are internally appointed and 41% externally appointed (the rest did not have information available). They found that those who were internally appointed tended be higher up in the corporate hierarchy. An internal CSO has greater familiarity with the business and being higher up in the corporate hierarchy, may also have more influence. However, internal candidates who are moved from one corporate role to a CSO role may not necessarily have the expertise required for the CSO role.

In our study, we found that the percentages of internally and externally appointed CSOs are comparable for companies in the three countries, with internally ranging from 61% to 65% (Figure 34).

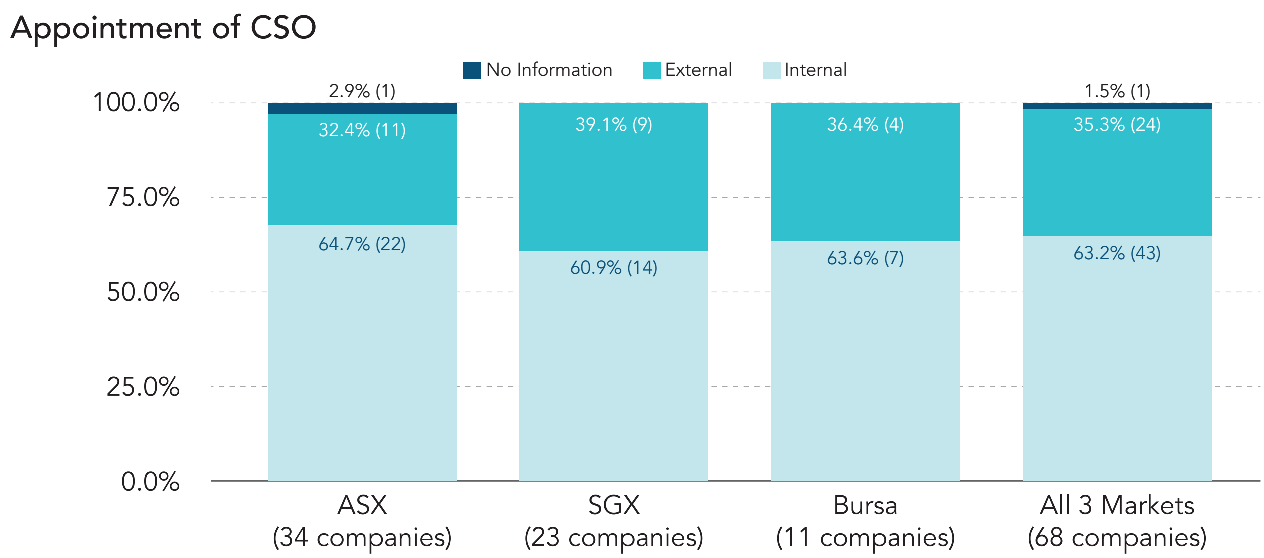


Figure 34: Internal versus external CSO appointment

EXPERIENCE AND QUALIFICATIONS

Whether internal or external, companies need to ensure that the CSO has the approriate competencies relevant to their business.

We next examine the past professional experience and academic/professional qualifications of the CSO. For past professional experience, we looked at whether they have held ESG-related roles prior to their current role. As Figure 35 shows, 63% of CSOs have such experience. For those without such prior experience, prior experience in strategy & innovation, operations and investor relations/communications were the most common.

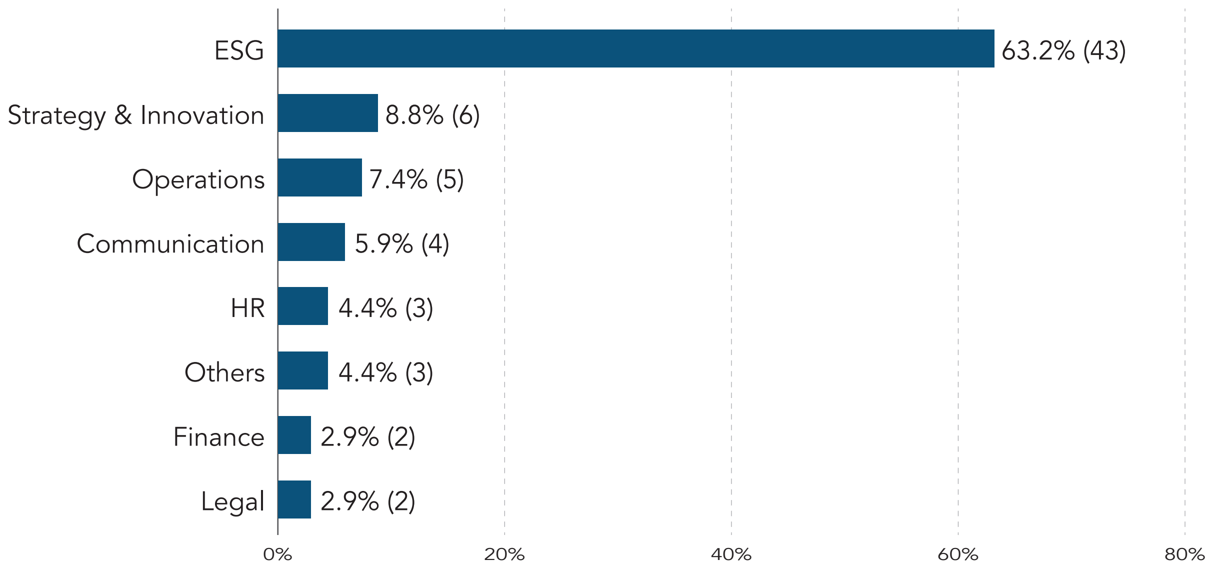


Figure 35: Prior professional experience of CSOs (n=68)

Across the three countries, CSOs of Australian companies are more likely to have prior ESG experience (77%), compared to those in Malaysian companies (46%) and Singaporean companies (52%). Figures 36 to 38 show the prior working experience of the CSOs in each country.

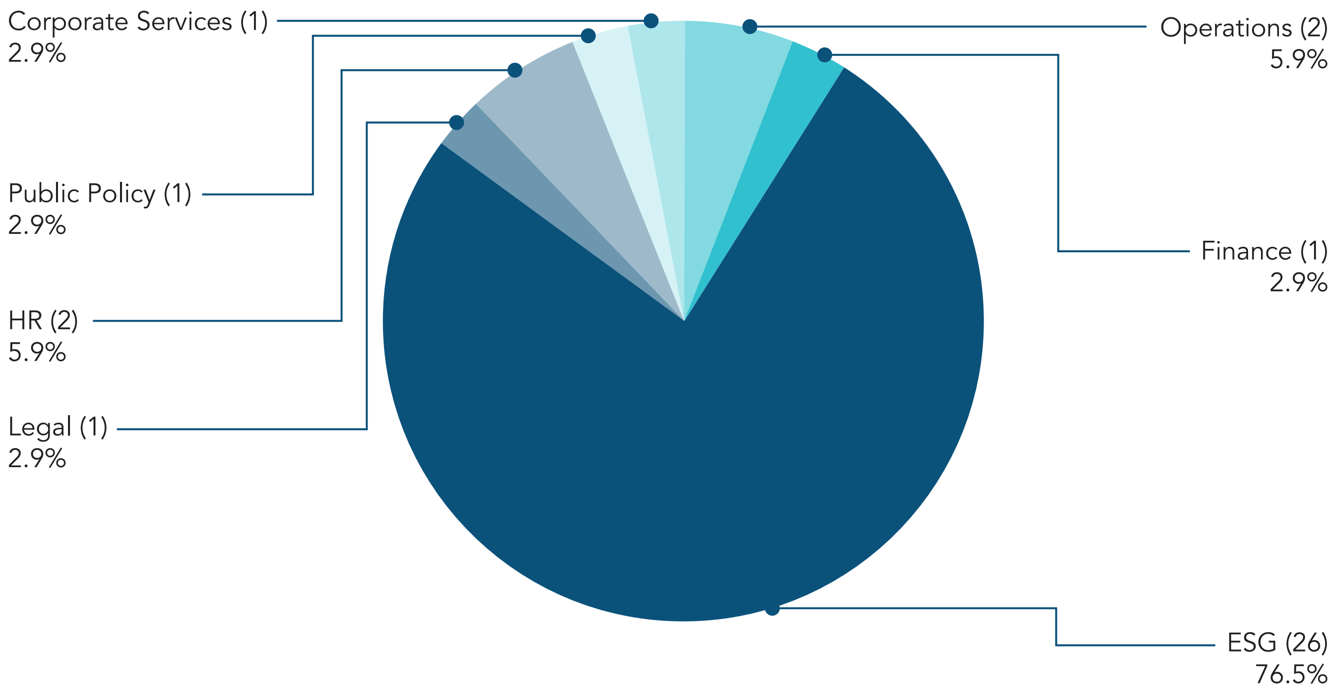


Figure 36: Prior working experience of CSOs in Australian companies (n=34)

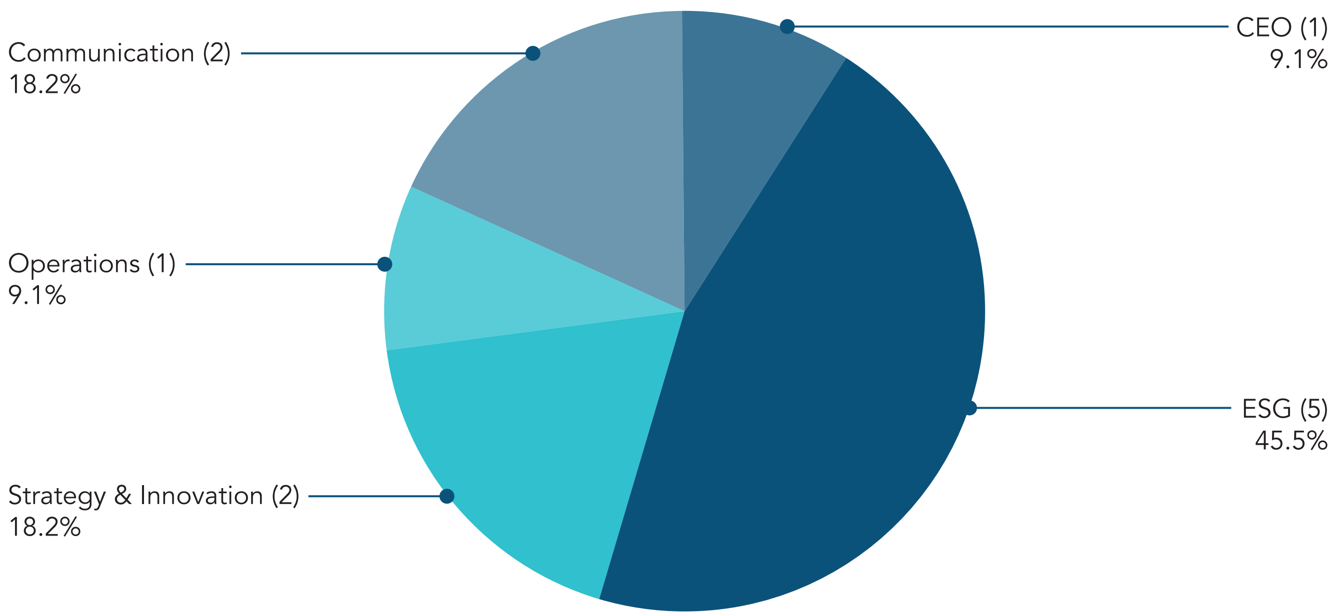


Figure 37: Prior working experience of CSOs in Malaysian companies (n=11)

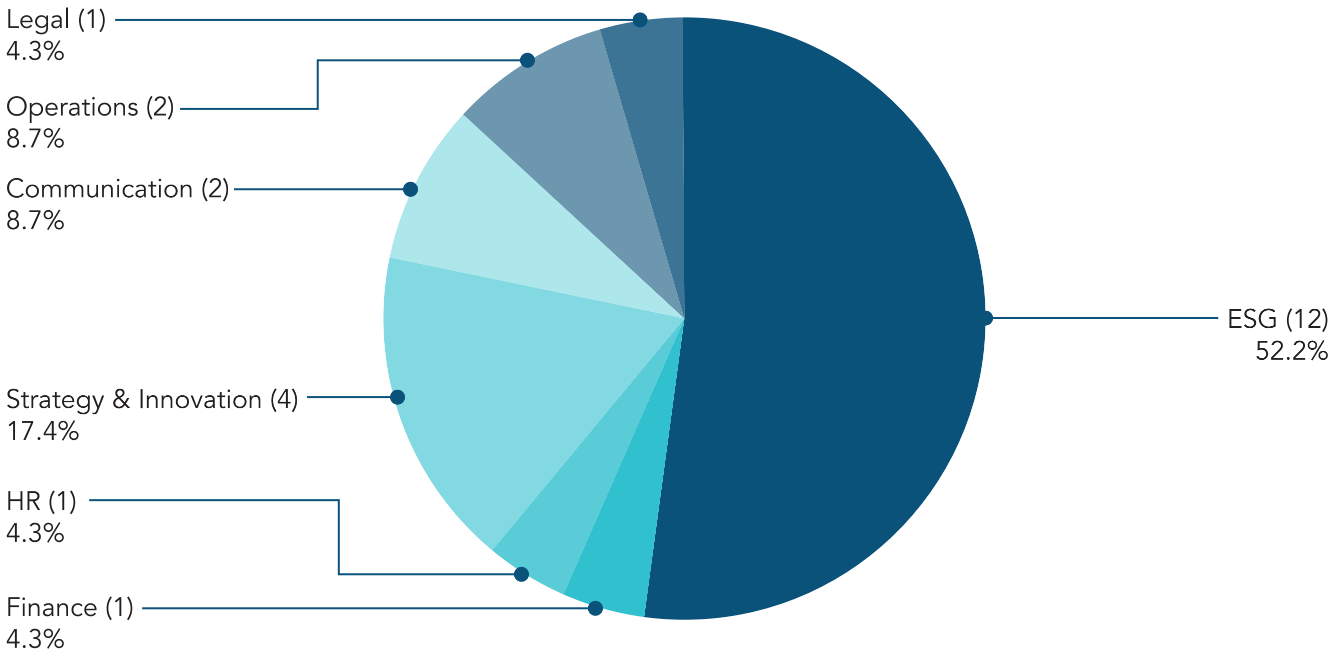


Figure 38: Prior working experience of CSOs in Singaporean companies (n=23)

For prior ESG experience, we did not differentiate between whether it was experience in a corporate sustainability role, consultant role, or some other role. Companies should ensure that the CSO has the experience suitable for their role. For example, appointing an ESG consultant into a CSO role may not necessarily be the best option as they may lack the industry and business perspective, or experience in evaluation or implementation of sustainability initiatives and projects.

Figure 39 provides a further analysis of the nature of the CSO's background by also considering whether the CSO has relevant academic and/or professional qualifications in ESG-related disciplines. For the purpose of our study, we include the following as relevant academic and professional qualifications: accredited certifications and undergraduate, masters or other postgraduate degrees in sustainability, ESG, urban planning, environmental engineering, ecology, botany, zoology and marine.

Overall, 31% of CSOs have both qualifications (academic and/or professional) and prior ESG-related working experience. Australian CSOs (41%) are more likely than Malaysian CSOs (27%) and Singaporean CSOs (17%) to have both relevant qualifications and work experience. However, it should be emphasised that the number of CSOs in Malaysia in particular is small.

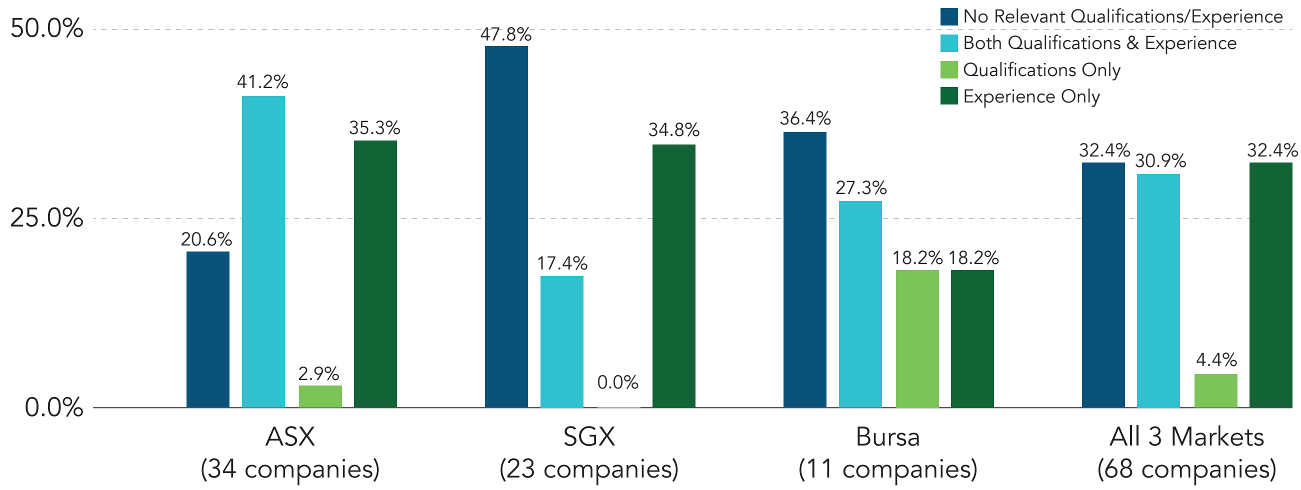


Figure 39: Prior professional experience, academic and professional qualifications of CSOs

Figure 40 shows the number and percentage of CSOs with climate or environment-related qualifications. Relatively few CSOs have such qualifications, with CSOs in the Australian companies more likely to do so.

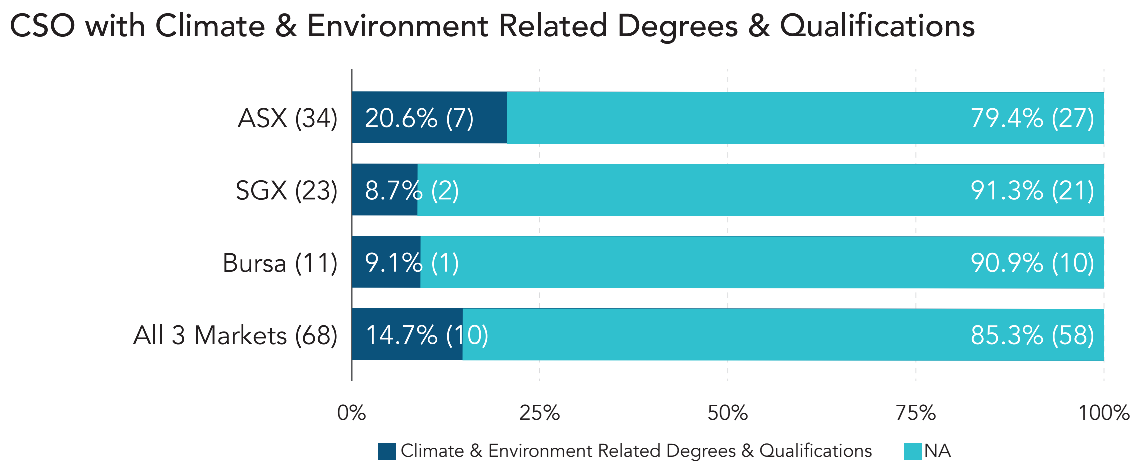


Figure 40: CSOs with climate/environment-related academic and professional qualifications

Issues to consider on the chief sustainability officer (CSO)

- Should the company appoint a CSO?
- Who should the CSO report to?
- Should the CSO be a dedicated role?
- Should the company appoint an internal or external candidate for the CSO role?
- What are the desired qualifications and experience for the CSO?

CONCLUSION

This report examines two key areas in sustainability governance and practices for 150 of the largest listed companies in Australia, Malaysia and Singapore – sustainability governance structures adopted by these companies and the appointment, role, reporting relationship and attributes of chief sustainability officers (CSOs). These large companies are likely to be more mature in their sustainability journey and the findings from this report may not apply to other companies.

The key findings for the 150 companies are:

- 93% of the companies disclosed their sustainability governance structure, with all the Malaysian companies doing so.
- 66% of companies included a chart showing their sustainability governance structure, with the Australian companies less likely to do so.
- 38 of the 150 companies have formed a board sustainability committee or equivalent committee, or expanded the scope of an existing committee and include sustainability responsibilities in the name of the committee.
- All the Australian companies with a board sustainability committee have a non-executive director chairing this committee, with 83% of these chairmen being independent directors. In contrast, only 55% of the Malaysian companies and 54% of the Singaporean companies with a board sustainability committee have an independent chairman for the committee, with 9% and 15% respectively having an executive director as chairman.
- Two-thirds of members of the board sustainability committees of Australian the companies are independent directors, with executive directors making up only 3% of members. For the Malaysian and Singaporean companies, the percentage of independent directors is less than 60%, while there is a higher percentage of executive directors as members. There are also some rare cases of non-board members co-opted into the board sustainability committees of Malaysian and Singaporean companies.
- Overall, two types of sustainability governance structure emerged as most common: the entire board overseeing sustainability without any committee being tasked with it, or multiple existing committees taking on that responsibility. The next most common sustainability governance structure overall involves sustainability governance responsibilities not being formally embedded into the board or any board committee.
- The three existing committees most commonly involved in sustainability governance are the risk committee, audit committee and remuneration committee.
- The companies in the study have constituted a variety of other sustainability-related bodies outside of the formal board and board committee structure to help oversee and/or manage sustainability-related opportunities and risks. They have a variety of names, the most common being Sustainability Group, followed by Sustainability Committee, and then Sustainability Steering Committee.
- Fourteen companies have formed sustainability advisory panels. Of these, six advisory panels have only internal members appointed from among management and employees. The other eight advisory panels either have only external members or a combination of external and internal members. For the latter eight advisory panels, four advise the board, three advise management and one advises both the board and management.

- The companies in Australia were more likely to appoint a CSO, with 68% having done so, compared to 46% of the companies in Singapore and 22% of companies in Malaysia.
- Across the three countries, 62% of the CSOs are women, with the percentage highest in Australia at 71%.
- 58% of the companies that have appointed a CSO in the three countries do not indicate who they report to, with 69% of the Australian companies, 45% of the Malaysian companies and 48% of the Singaporean companies not doing so. For the minority of companies that disclose the reporting relationship, the CSO most commonly reports to the CEO or equivalent.
- For those companies that have appointed a CSO in the three countries, 69% have a dedicated role.
- The percentages of internally and externally appointed CSOs are comparable for the companies in the three countries, with internally ranging from 61% to 65%.
- About 62% of the CSOs have held ESG-related roles prior to their current role. For those without such prior experience, prior experience in strategy & innovation, investor relations/communications, and operations were the most common.
- CSOs of the Australian companies are more likely to have prior ESG-related work experience (77%), compared to those in the Malaysian companies (46%) and Singaporean companies (52%).
- Overall, 31% of CSOs have both qualifications (academic and/or professional) and prior ESG-related working experience. Australian CSOs (41%) are more likely than Malaysian CSOs (27%) and Singaporean CSOs (17%) to have both relevant qualifications and work experience.

This report is not intended to propose "one size fits all" practices for all companies. It suggests a list of questions for boards to consider when reviewing their existing sustainability governance structures and practices.

Future reports will cover topics such as materiality assessment of ESG factors and sustainability assurance.

ABOUT THE AUTHOR

Mak Yuen Teen is Professor (Practice) of Accounting at the NUS Business School, National University of Singapore (NUS). He was a former Vice Dean of the School and the founder of the first corporate governance centre in Singapore at NUS. He holds first class honours, master and PhD degrees in accounting and finance, and is a fellow of CPA Australia.

Prof Mak has served on three of the four corporate governance committees set up by the Singapore authorities to develop and revise the code of corporate governance for listed companies, including the first committee in 2000 and the most recent committee which released the 2018 Singapore Code. He currently serves on the Corporate Governance Advisory Committee under the Monetary Authority of Singapore aimed at continually raising corporate governance standards for listed companies in Singapore.

He edited 11 volumes of Asia-Pacific and global corporate governance case studies and a financial services edition published by CPA Australia, containing nearly 250 cases. In May 2022, he released a report on integrating ESG factors into executive remuneration published by SFIA and CPA Australia, and he has published many other reports on a wide range of corporate governance issues.

Prof Mak regularly conducts training for directors, regulators and other professionals. He has taught in the mandatory accreditation programme for first-time directors in Malaysia, and other programmes on nominating committees, remuneration committees, governance in company groups, and the board's value creation and compliance roles.

Prof Mak developed the first corporate governance rating for Singapore companies and the first Singapore governance rating for REITs and business trusts. He was nominated by MAS as the Singapore representative in the development of the ASEAN CG Scorecard.

Prof Mak is one of only two individuals in Singapore to have received the Corporate Governance Excellence Award from the Securities Investors Association (Singapore) for his contributions to improving corporate governance in Singapore. The Singapore Institute of Directors has also recognised him as a CG Pioneer. He also received the corporate governance excellence award from the Minority Shareholders Watchdog Group in Malaysia for his contributions to corporate governance in the region.