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Governance & Sustainability Structures

Professor Mak Yuen Teen, PhD, FCPA (Aus.)

NUS Business School

National University of Singapore

Email: bizmakyt@nus.edu.sg

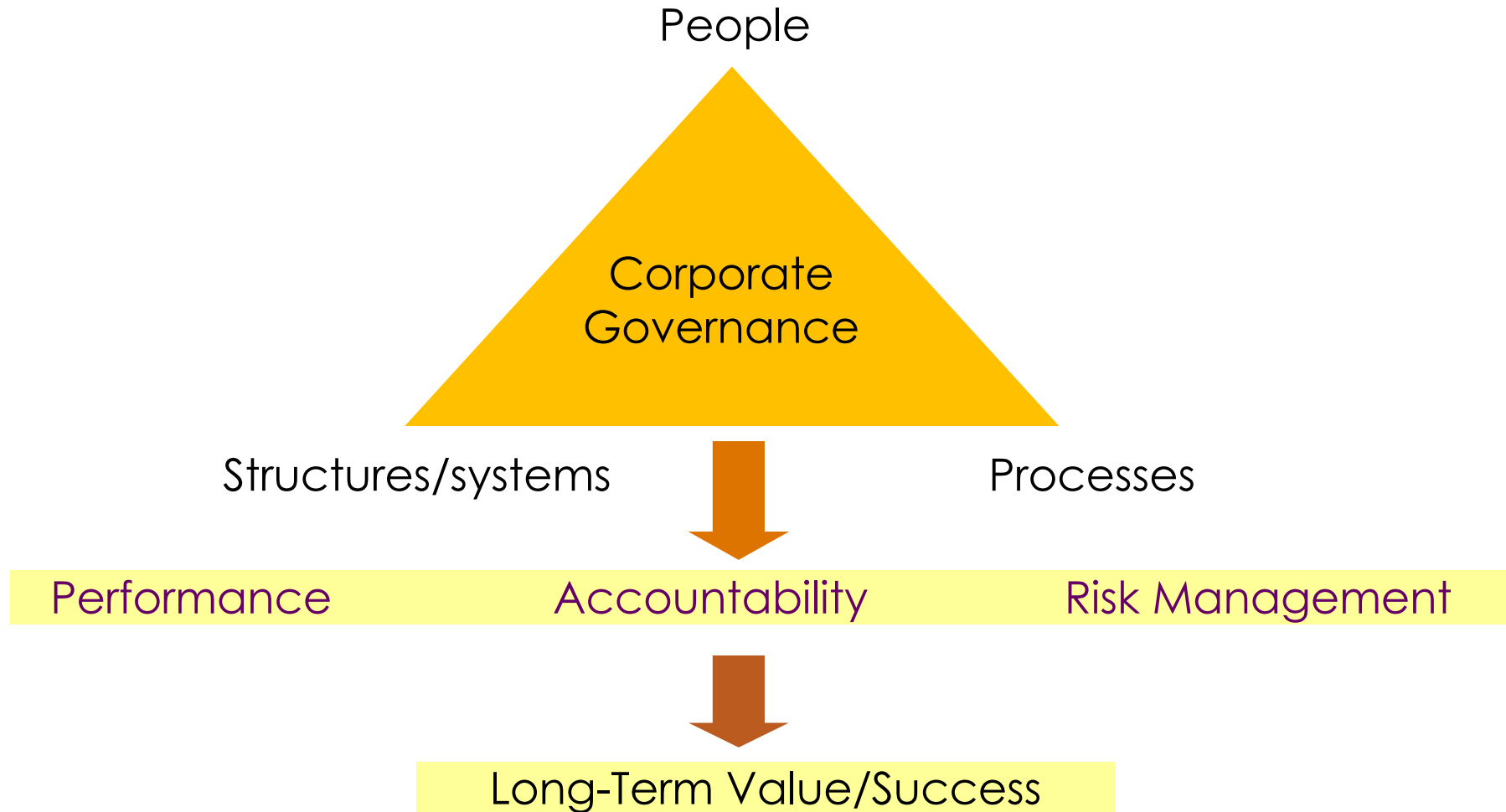
Website: governanceforstakeholders.com

Agenda

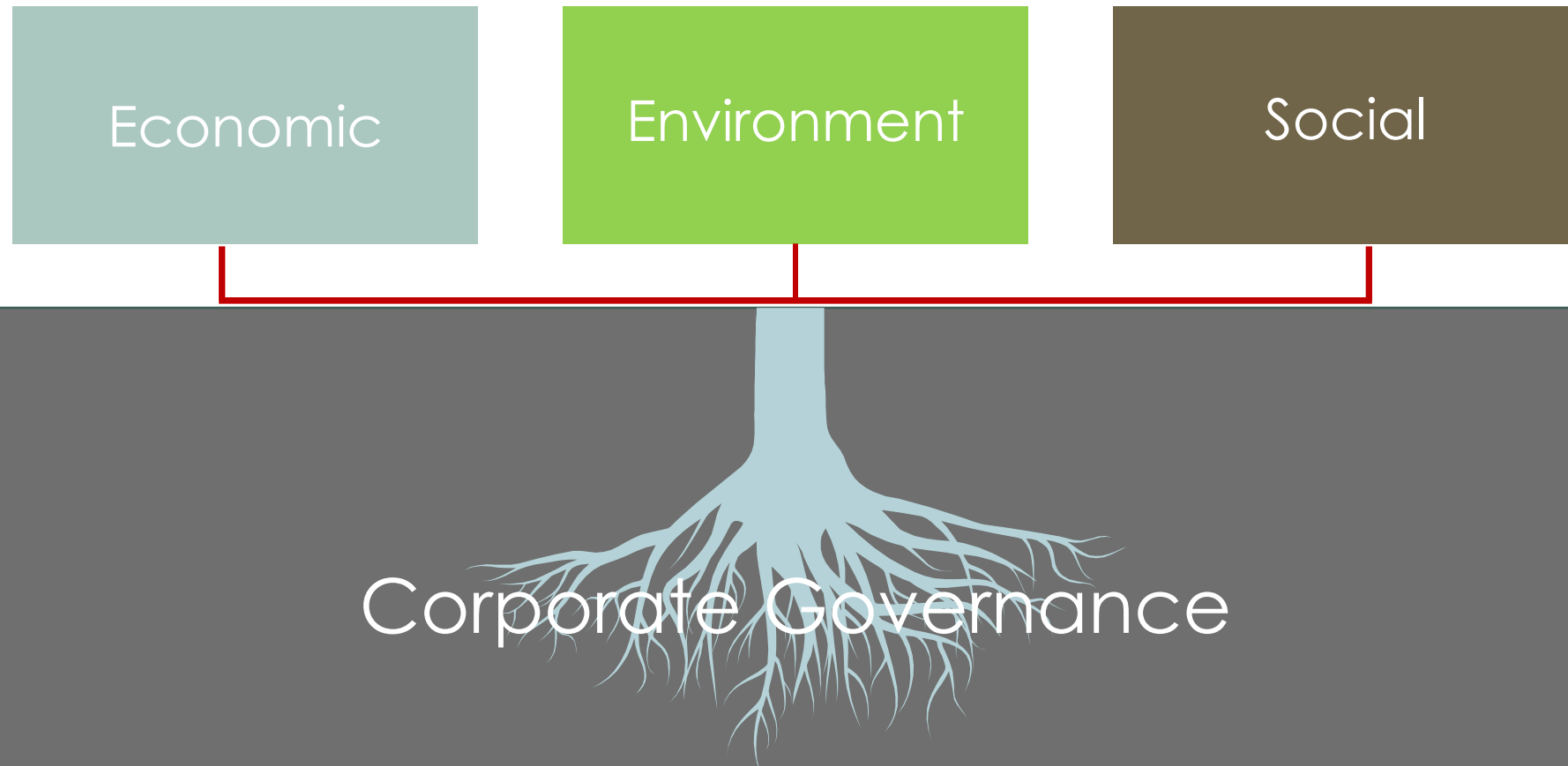
- Corporate governance as the foundation of sustainability
- What sustainability governance structures do companies adopt and what are the pros and cons?
- Other sustainability governance and management issues:
 - Materiality assessment of sustainability/ESG factors
 - Sustainability assurance
 - ESG ratings
 - Greenwashing



Corporate Governance and its Purpose



Corporate Governance: Foundation for Managing EES Risks and Opportunities



ESG vs CG - FTSE-Russell ESG Rating



- ESG ratings often understate the importance of Corporate Governance, which should provide the foundation of overseeing and managing sustainability
- However, regulators and companies need to consider whether their current corporate governance practices address the interests of stakeholders beyond just shareholders

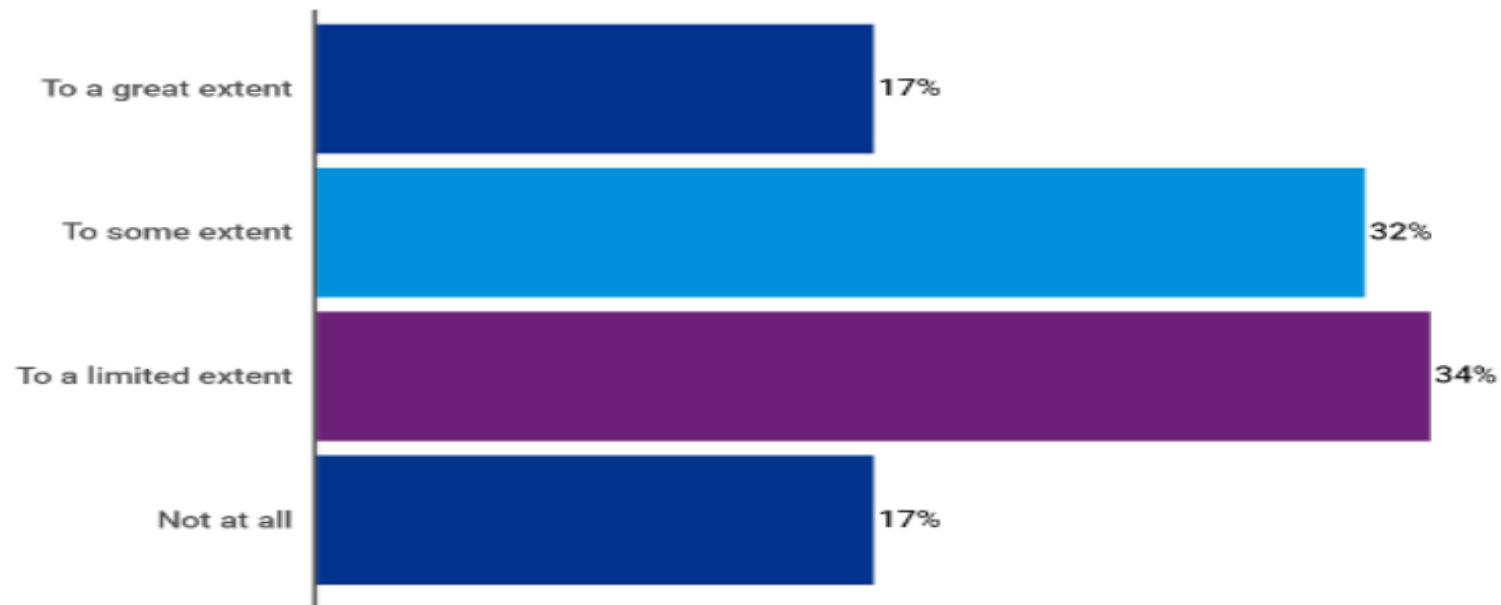
Some Steps Companies Can Take....



Integrating ESG Into Corporate Governance Practices

- Boards take responsibility for overseeing ESG risks and opportunities:
 - many boards are still not sufficiently engaged on ESG issues

To what extent does your board of directors consider the impact of climate change in its oversight of strategy?*



The extent to which Board of Directors consider ESG as an integral part of strategy. Image: KPMG

Source: <https://www.weforum.org/agenda/2022/05/is-your-board-an-esg-leader-or-follower/>



Integrating ESG Into Corporate Governance Practices

- Board need to ensure adequate processes in place to understand the views of diverse stakeholders
 - traditionally, boards and management usually only engage with shareholders, particularly institutional shareholders, not other stakeholders such as employees, NGOs, etc.



Tier 1 stakeholders: They hold significant influence and interest in the organisation's sustainability operations. This group should be high-touch and high-priority, with one-on-one or small group meetings and frequent communication.

Tier 2 stakeholders: This group's opinions and guidance matter, but they don't have as heavy an impact. Their feedback should be given great consideration, but they don't require the same amount of time and attention as Tier 1 stakeholders.

Tier 3 stakeholders: These stakeholders are interested in your organisation and efforts but hold less influence. While their opinions should be taken into consideration, they don't significantly impact the prioritisation of your operations.

Tier 4 stakeholders: This group has moderate influence and moderate interest. They simply require updates and information about the ESG process along the way.

Rolls Royce's "Employee Champion" Independent Directors

UK Corporate Governance Code (July 2018)

The board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making.² The board should keep engagement mechanisms under review so that they remain effective.

For engagement with the workforce,³ one or a combination of the following methods should be used:

- a director appointed from the workforce;
- a formal workforce advisory panel;
- a designated non-executive director.

If the board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.

Irene Dorner

Independent Non-Executive Director

Chair of the Remuneration Committee
Member of the Nominations & Governance and Safety, Ethics & Sustainability Committees
Employee Champion

Beverly Goulet

Independent Non-Executive Director

Member of the Nominations & Governance, Audit and Remuneration Committees
Rolls-Royce North America Holdings, Inc., board member
Employee Champion, North America

Lee Hsien Yang

Independent Non-Executive Director

Member of the Nominations & Governance, Audit and Safety, Ethics & Sustainability Committees
Employee Champion, Asia Pacific



Integrating ESG Into Corporate Governance Practices

- Mix of skills, knowledge and experience on the board should be expanded to include experience in ESG issues
 - a study of 1 188 Fortune 100 board directors in 2019 found that 29% had relevant ESG credentials, but mostly under “S” category

S Categories	% With Relevant Credentials	E Categories	% With Relevant Credentials	G Categories	% With Relevant credentials
Workplace Diversity	5.0% (60)	Energy	1.2% (14)	Accounting oversight/experts	2.6% (31)
Health Care (physicians, hospital, clinic boards, etc.)	3.5% (41)	Conservation/ Nature	1.2% (14)	Regulatory body (SEC, FCC)	1.0% (12)
Health challenges/advocacy	1.9% (22)	Sustainable Business	.8% (10)	Cyber/telecom security	.6% (8)
CSR/ESG	1.5% (18)	Sustainable Development	.8% (10)	Risk	.4% (5)
Civil/human rights	1.5% (18)	Environmental law	.5% (6)	Ethics/corruption/ corporate responsibility	.3% (4)
Youth education, health, safety	1.2% (14)	Environmental protection	.5% (6)	Fiduciary/director responsibility	.3% (4)
Economic/community development	1.1% (13)	ESG investing	.3% (4)	Governance	.1% (2)
Human Resources	.8% (10)	Climate	.2% (3)		
Adult education	.7% (9)	Water	.1% (2)		
Nonprofit CEO	.7% (9)				
Philanthropy	.7% (9)				
Sustainable development	.5% (6)				
Media/arts	.3% (4)				
Public policy	.3% (4)				
Affordable housing	.2% (3)				
Workplace benefits	.1% (2)				
Nutrition	.1% (2)				
Workplace safety	.08% (1)				
ESG Investing	.08% (1)				

Source: <https://www.stern.nyu.edu/sites/default/files/assets/documents/U.S.%20Corporate%20Boards%20Suffer%20From%20Inadeq%20%20Expertise%20in%20Financially%20Material%20ESG%20Matters.docx%20%282.13.21%29.pdf>



Getting an Accurate Assessment of the Skills/Experience Gap

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 3: Company C

Skills and experience		Relevance to bank
Leadership 10	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	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	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	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	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	Experience in technology and innovation and the impact on customer experience.	Supporting the Bank's digital strategy.
Enhanced customer outcomes 5	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	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	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	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



Integrating ESG Into Corporate Governance Practices

- Board ensures there is an appropriate sustainability governance structure in place:
 - sustainability governance structures are still evolving – companies should determine what is suitable for them and be mindful of the pros and cons of the structure they choose
- Remuneration committee considers whether and how to link ESG factors to executive remuneration:
 - most companies link financial and non-financial KPIs to executive remuneration but linking ESG factors to remuneration is still evolving for many companies



Integrating ESG Into Corporate Governance Practices

- Remuneration committee reviews framework of remuneration and appropriateness of remuneration throughout the company to ensure pay equity and that remuneration policies are encouraging the right behaviours:
 - the UK Code recommends that the RC reviews workforce remuneration
33. The remuneration committee should have delegated responsibility for determining the policy for executive director remuneration and setting remuneration for the chair, executive directors and senior management.¹² It should review workforce¹³ remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration.

Integrating ESG Into Corporate Governance Practices

- Remuneration committee monitors gender pay gaps and ratio of CEO remuneration to average employee remuneration:
 - diversity and inclusion implies horizontal and vertical pay equity



Source: Mak Yuen Teen and Chris Bennett, Guardians of the Capital Market, 2016.



Integrating ESG Into Corporate Governance Practices

- Risk management, internal control and internal audit to cover policies and controls relating to ESG factors:
 - ESG should be integrated into all areas of the business, including risk management and controls

Figure 1: The Institute of Internal Auditors Three Lines Model

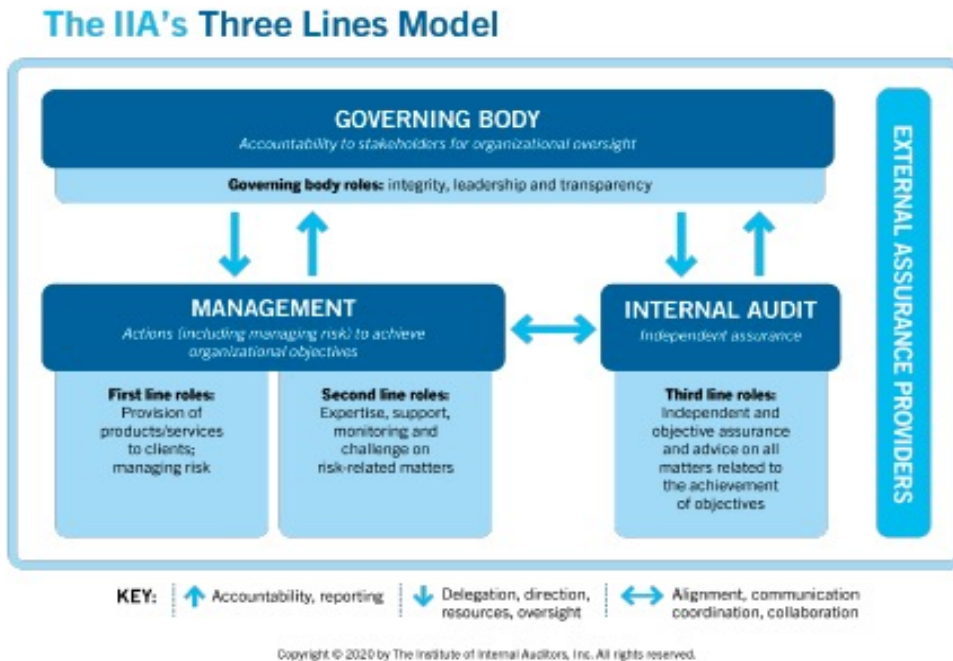
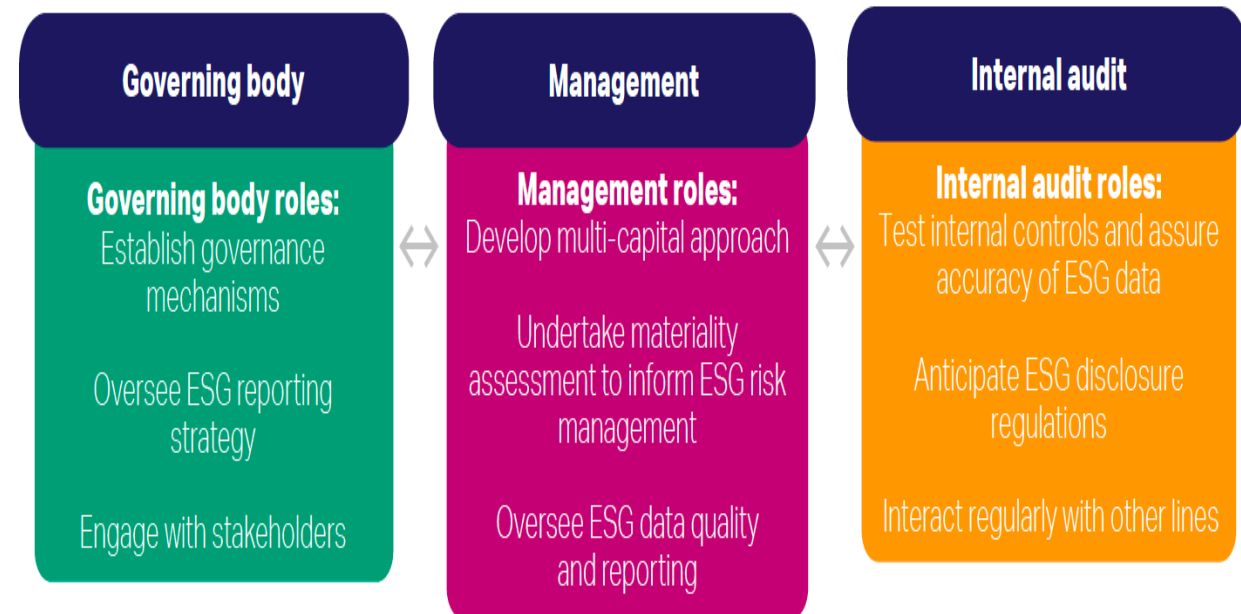


Figure 4: Key actions for the Three Lines Model roles in sustainability and ESG considerations



Integrating ESG Into Corporate Governance Practices

- Whistleblowing policies cover material ESG breaches:
 - whistleblowing policies often cover accounting irregularities, financial fraud, bribery and corruption, and other serious misconduct, and they should be extended to cover material ESG breaches

The Board's Sustainability Responsibilities

The Board's Key Sustainability Responsibilities

1. Ensure that the board and management have the appropriate competencies, including competencies relevant to ESG
2. Ensure that there is an appropriate Sustainability Governance Structure in place
3. Ensure that the materiality assessment of ESG factors is robust
4. Ensure that material ESG factors are incorporated into strategies, business plans, risk management framework and policies; actionable and appropriate goals, metrics and targets are set; there are appropriate company policies and practices related to ESG in place and that they are implemented; and adequate resources to address ESG risks and opportunities
5. Consider whether and how to link ESG factors to executive remuneration
6. Oversee preparation of Sustainability Report and internal/external assurance for sustainability report

Sustainability Governance Structures

Sustainability Governance Structures

- Disclosure of sustainability governance structure:
“...an entity shall disclose information about 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.” **Draft IFRS S1**
- Findings in following slides on sustainability governance structures are based on report “Who’s Governing Sustainability?” published by Governance for Stakeholders and Sustainable Finance Institute Asia in February 2023, which looked at largest 50 listed companies in each of Australia, Malaysia and Singapore



Sustainability Governance Structures

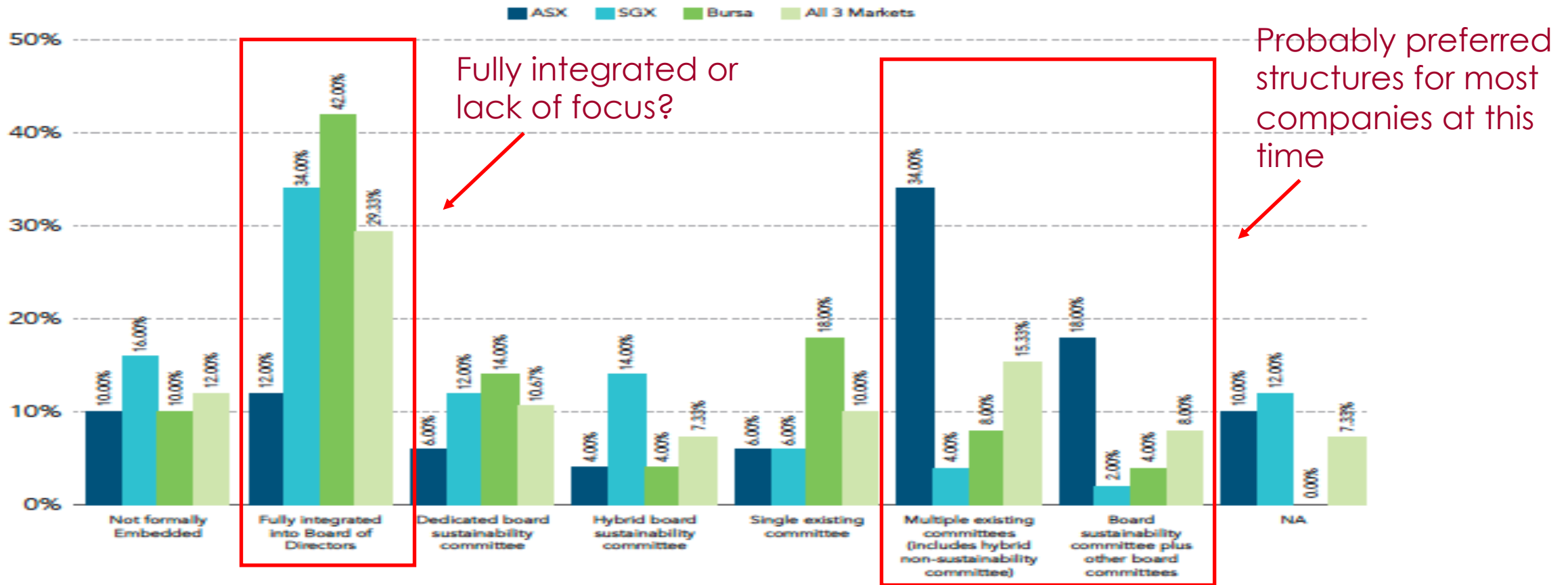


Figure 16: Models of sustainability governance adopted by sample companies

Source: Mak Yuen Teen. (February 2023). **Who Governs Sustainability? Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies**. Published by Governance for Stakeholders and Sustainability Finance Institute Asia.



Board Sustainability Committee

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.

Sectors – Board Sustainability Committees (Separate and Merged)
Across all 3 markets (38 Companies)

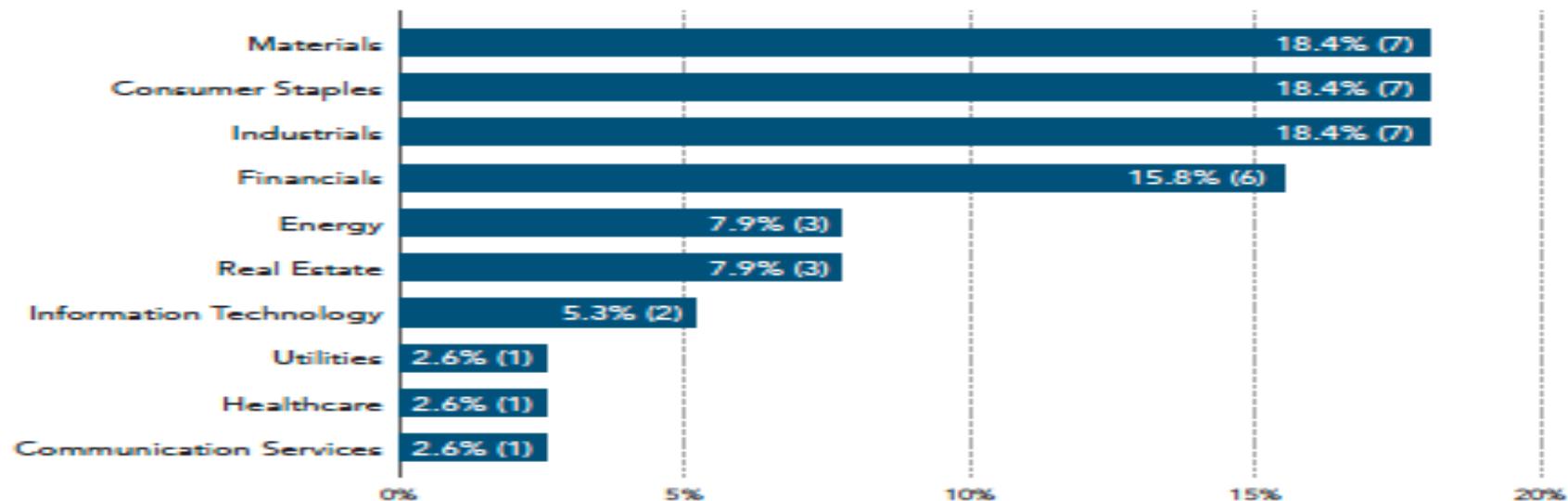


Figure 8: Establishment of board sustainability committees

Source: Mak Yuen Teen. (February 2023). **Who Governs Sustainability? Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies**. Published by Governance for Stakeholders and Sustainability Finance Institute Asia.



Board Sustainability Committee

Chairman of Sustainability Committee (Single & Merged)

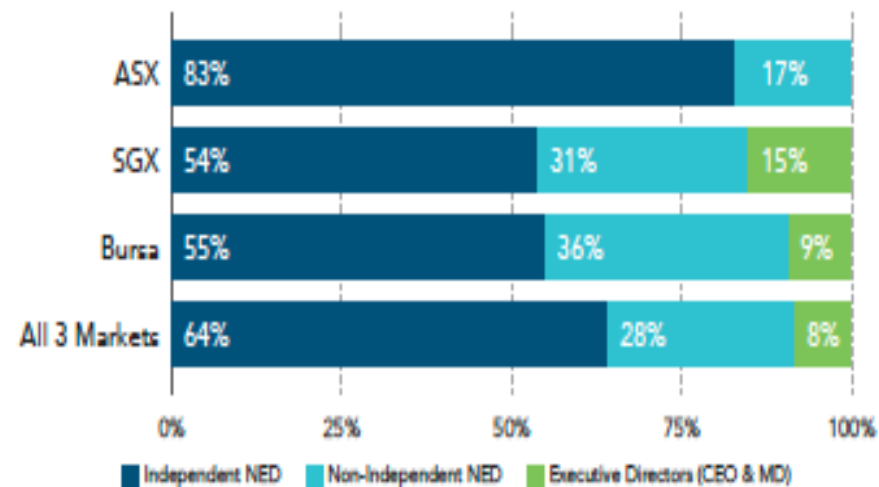


Figure 12: Chairman of board sustainability committees

Board Sustainability-Related Committees Composition

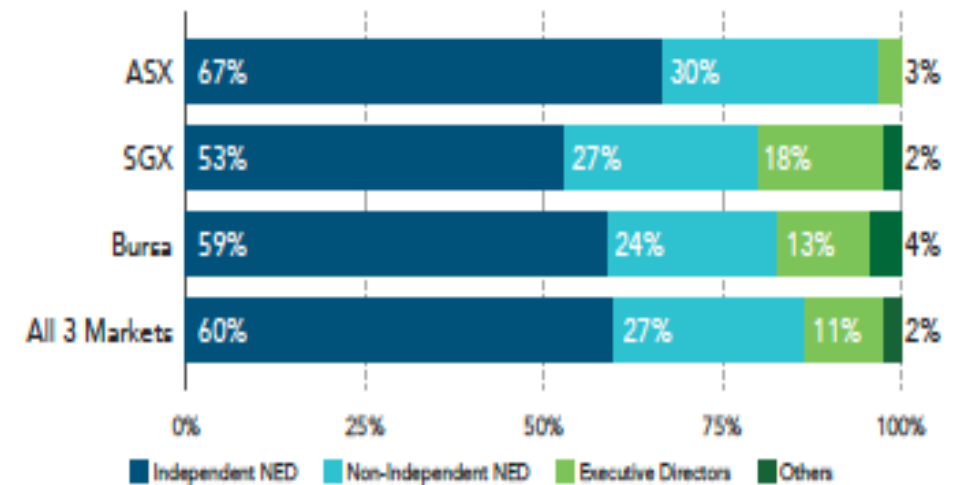


Figure 13: Independence of board sustainability committees

Source: Mak Yuen Teen. (February 2023). **Who Governs Sustainability? Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies**. Published by Governance for Stakeholders and Sustainability Finance Institute Asia.



Board Sustainability Committee

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?

Model 1

Sustainability Governance Structure

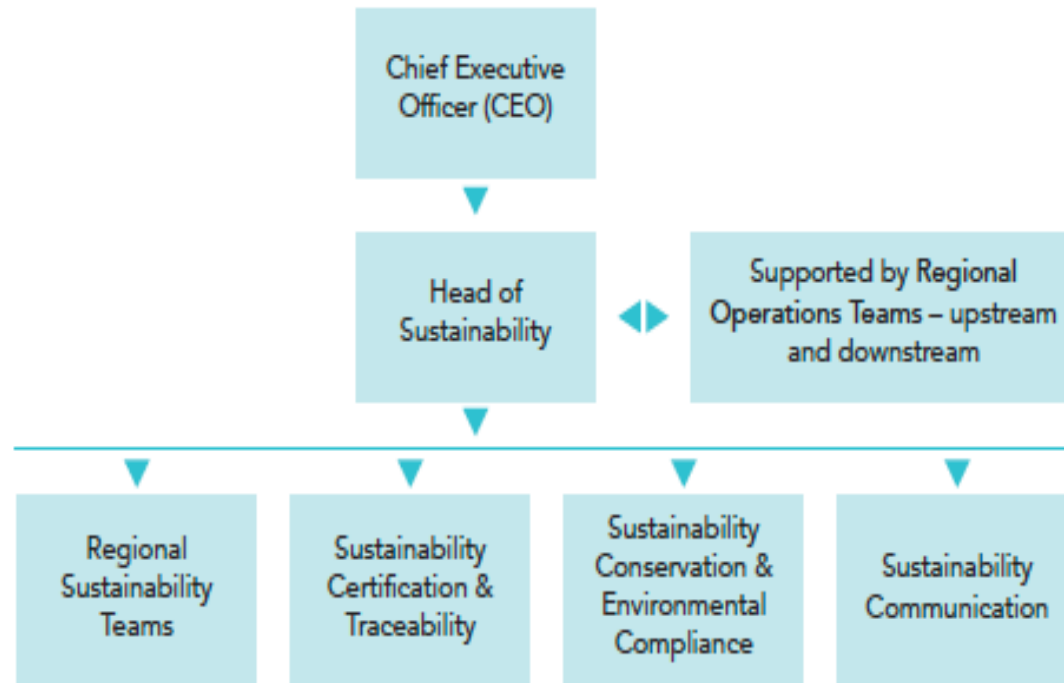


Figure 17: Example of company without board or board committee involvement in sustainability governance

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

Our Sustainability Governance Structure



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(a)

Governance Structure



The structure outlines how our sustainability governance operates across the Board, Board Committee, the Management, and specialised functions. It builds upon the respective areas of responsibilities and expertise to enhance the oversight on our sustainability agenda.

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)

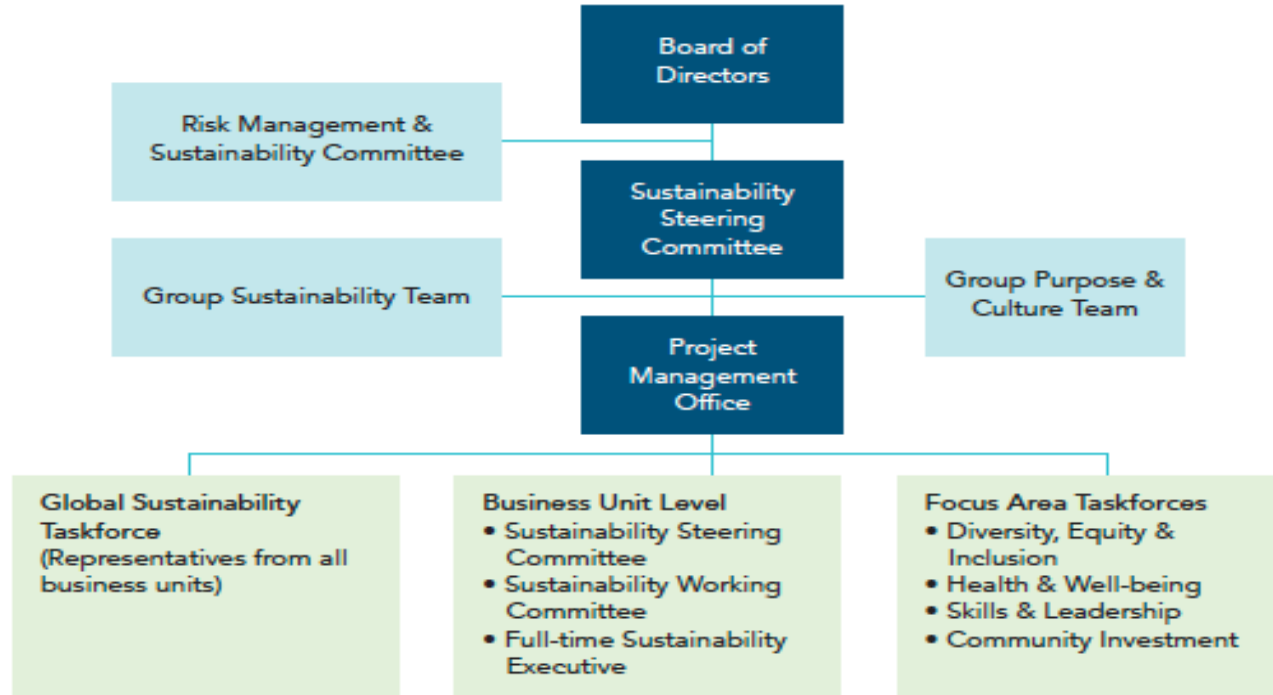


Figure 20: Example of company with a hybrid board sustainability committee

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

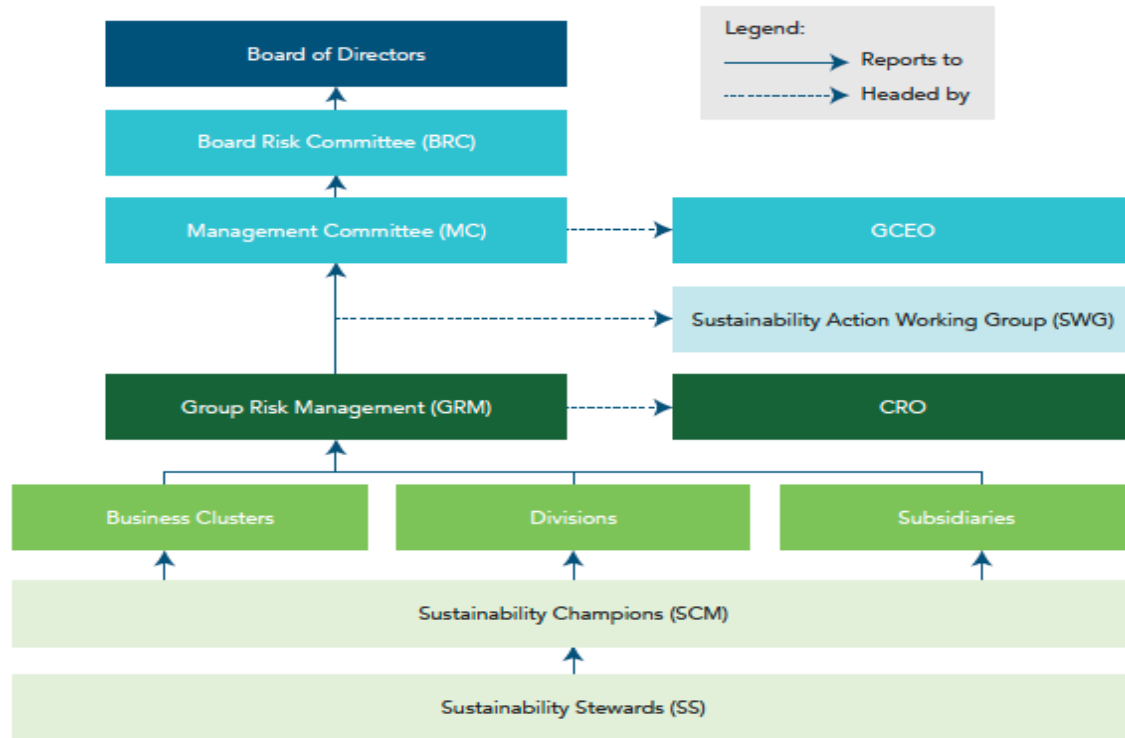


Figure 21: Example of company using a single existing committee to help oversee sustainability

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

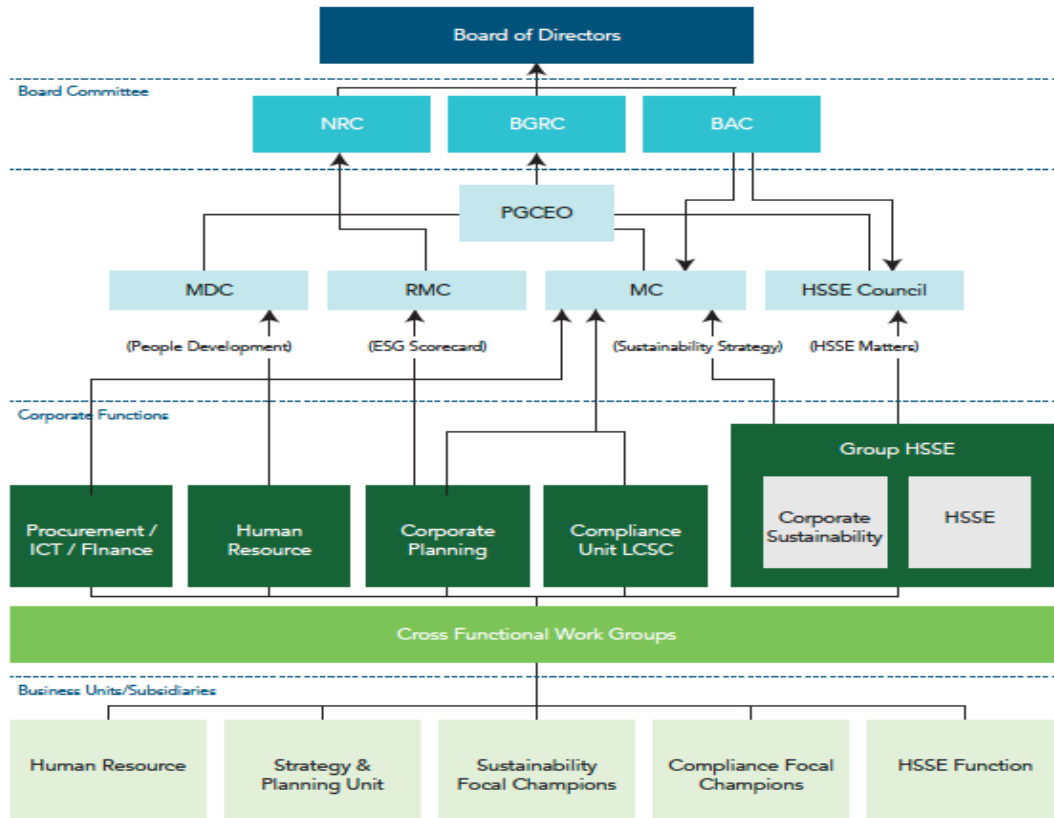


Figure 22: Example of company using multiple existing committees to help oversee sustainability

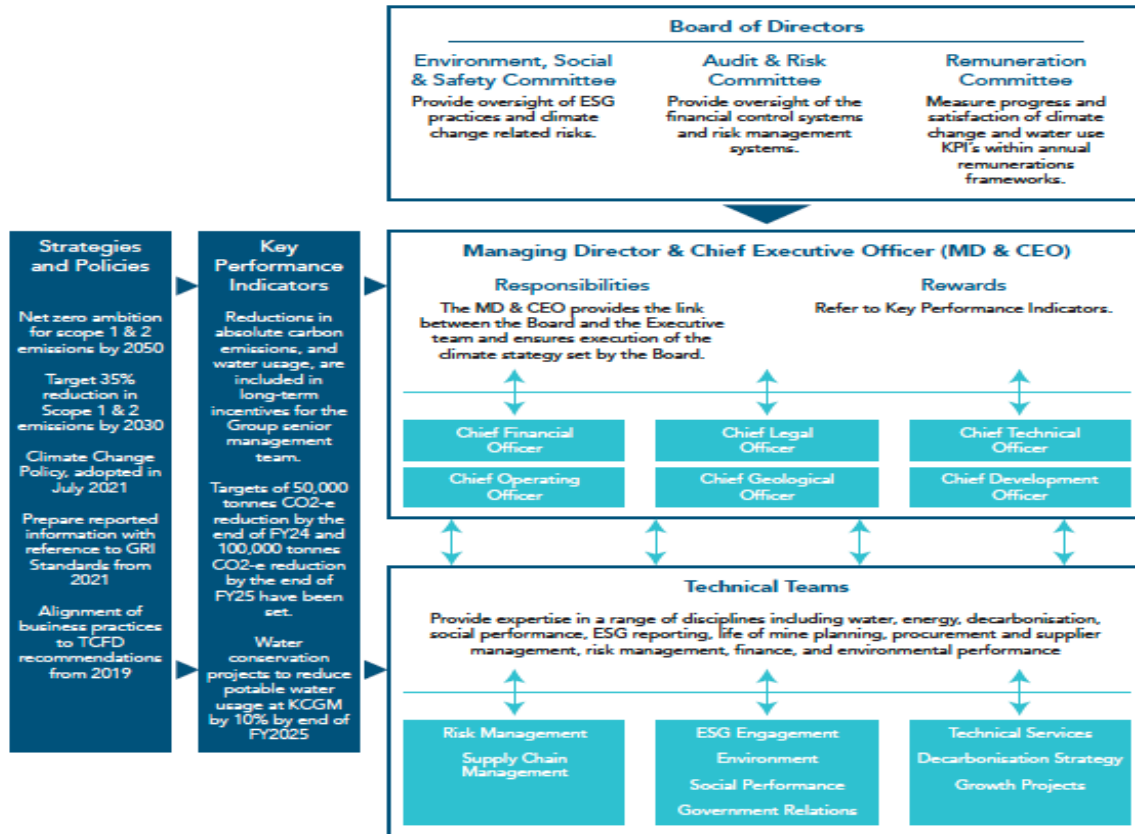
Issues to consider under Model 5

- 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?

Source: Mak Yuen Teen. (February 2023). **Who Governs Sustainability? Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies**. Published by Governance for Stakeholders and Sustainability Finance Institute Asia.



Model 6



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?

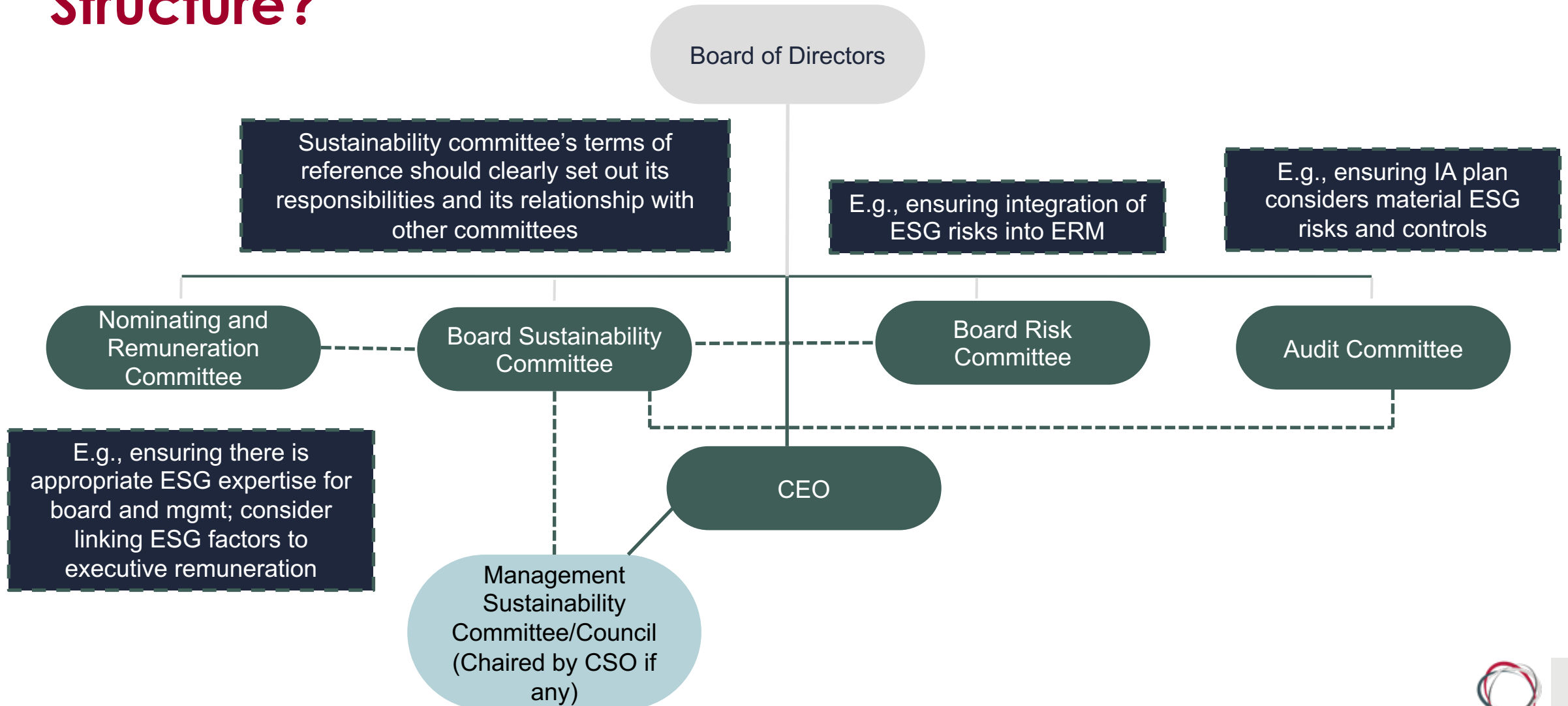
An example of a company with such a structure is shown in Figure 23.

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

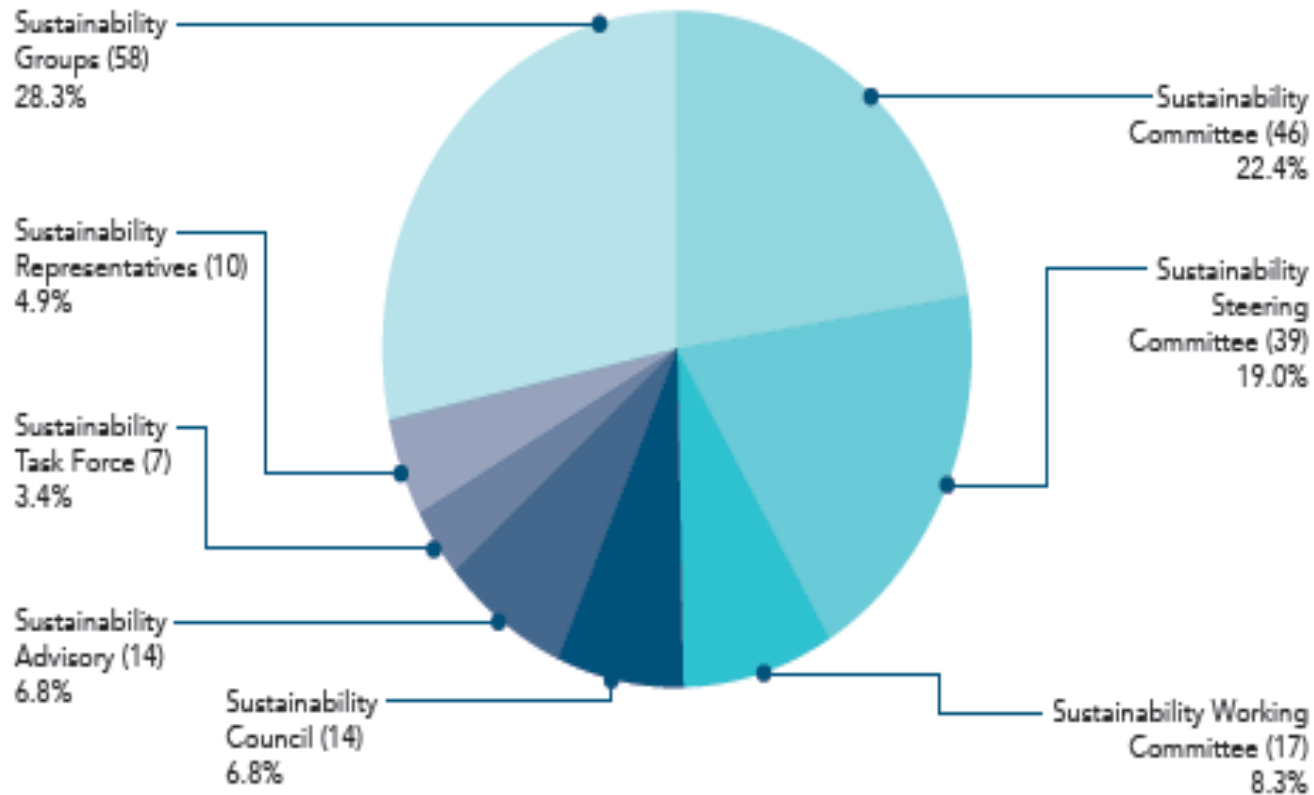
Source: Mak Yuen Teen. (February 2023). **Who Governs Sustainability? Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies**. Published by Governance for Stakeholders and Sustainability Finance Institute Asia.



A Possible “Best Practice” Sustainability Governance Structure?



Other Sustainability-Related Bodies



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.

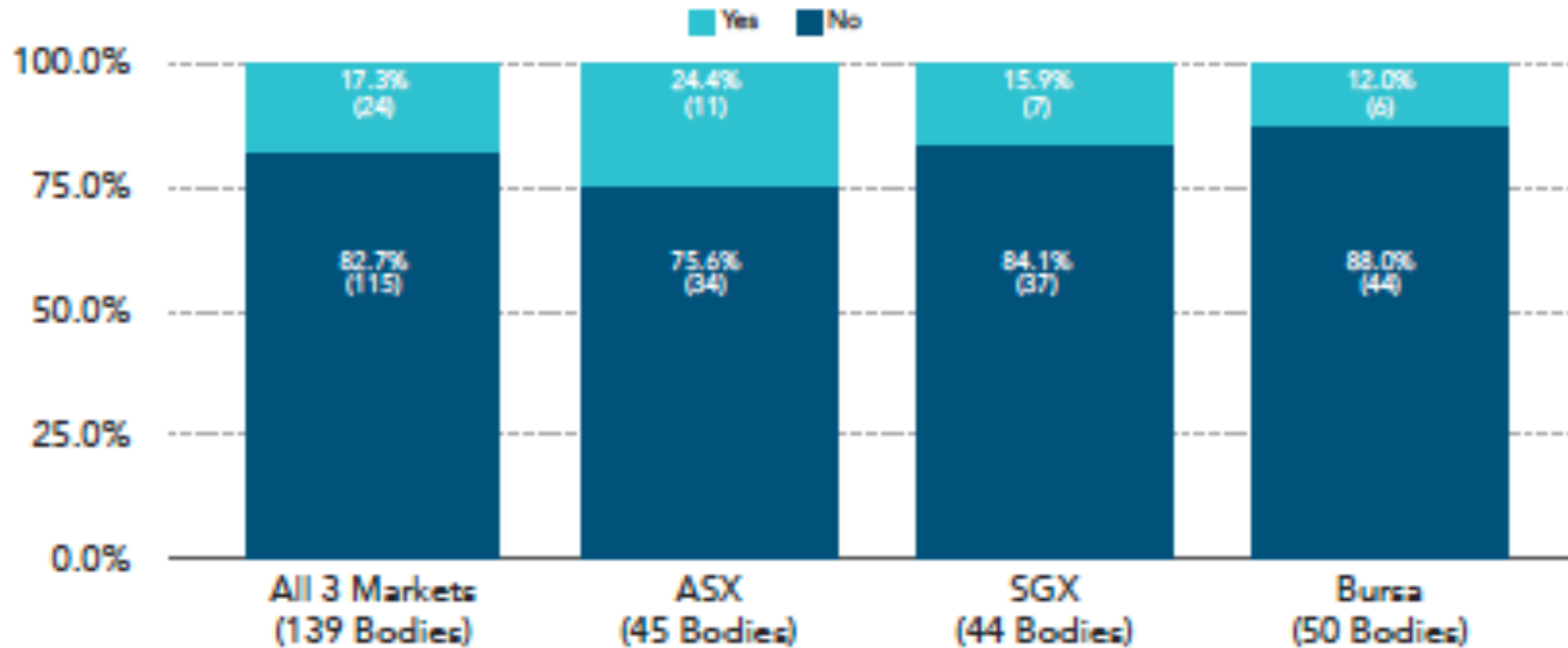
- Most common among Malaysian companies
- Companies often do not disclose the composition of these sustainability bodies and their roles and responsibilities are often unclear
- 14 companies have formed sustainability advisory panels, 6 with only management and employees, 8 with either only external members or a combination of external and internal members – with 4 advising the board, 3 advising management and 1 advising both

Source: Mak Yuen Teen. (February 2023). **Who Governs Sustainability? Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies**. Published by Governance for Stakeholders and Sustainability Finance Institute Asia.



Other Sustainability-Related Bodies

Companies with Management Bodies focusing on Climate & Environment



Source: Mak Yuen Teen. (February 2023). *Who Governs Sustainability? Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies*. Published by Governance for Stakeholders and Sustainability Finance Institute Asia.



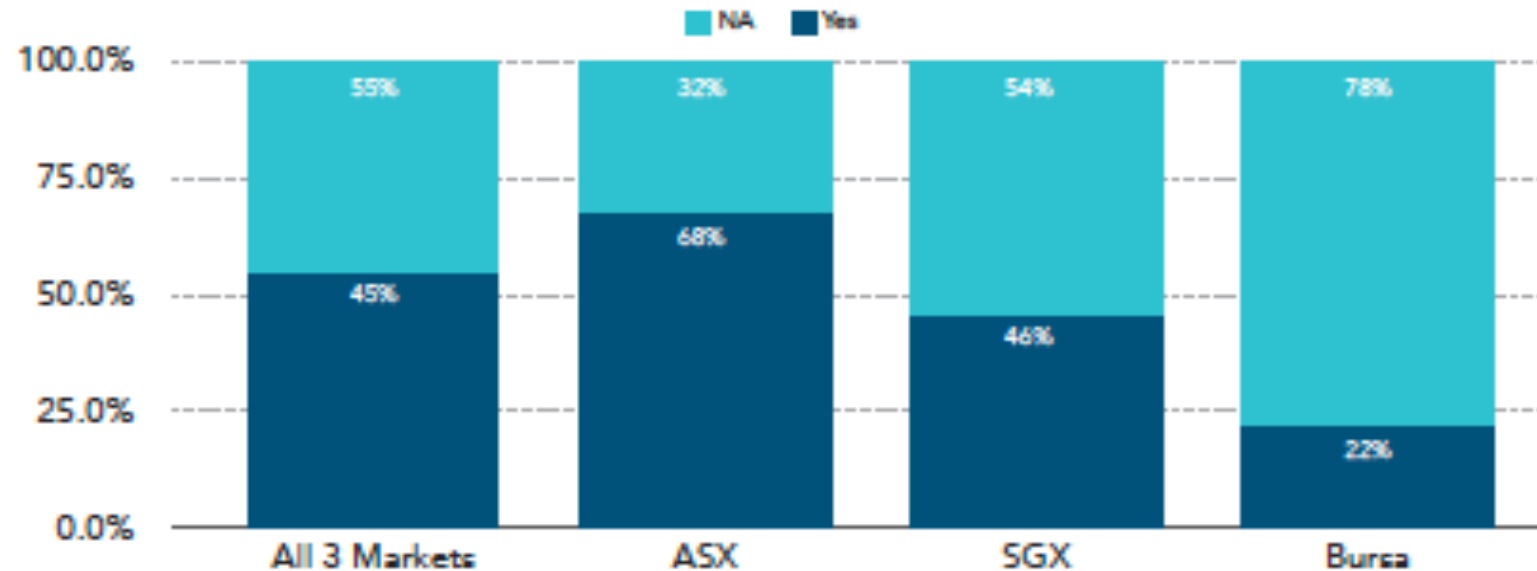
Chief Sustainability Officers

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?

Chief Sustainability Officers

Companies with a designated CSO (or equivalent)



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

Source: Mak Yuen Teen. (February 2023). **Who Governs Sustainability? Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies**. Published by Governance for Stakeholders and Sustainability Finance Institute Asia.



Chief Sustainability Officers

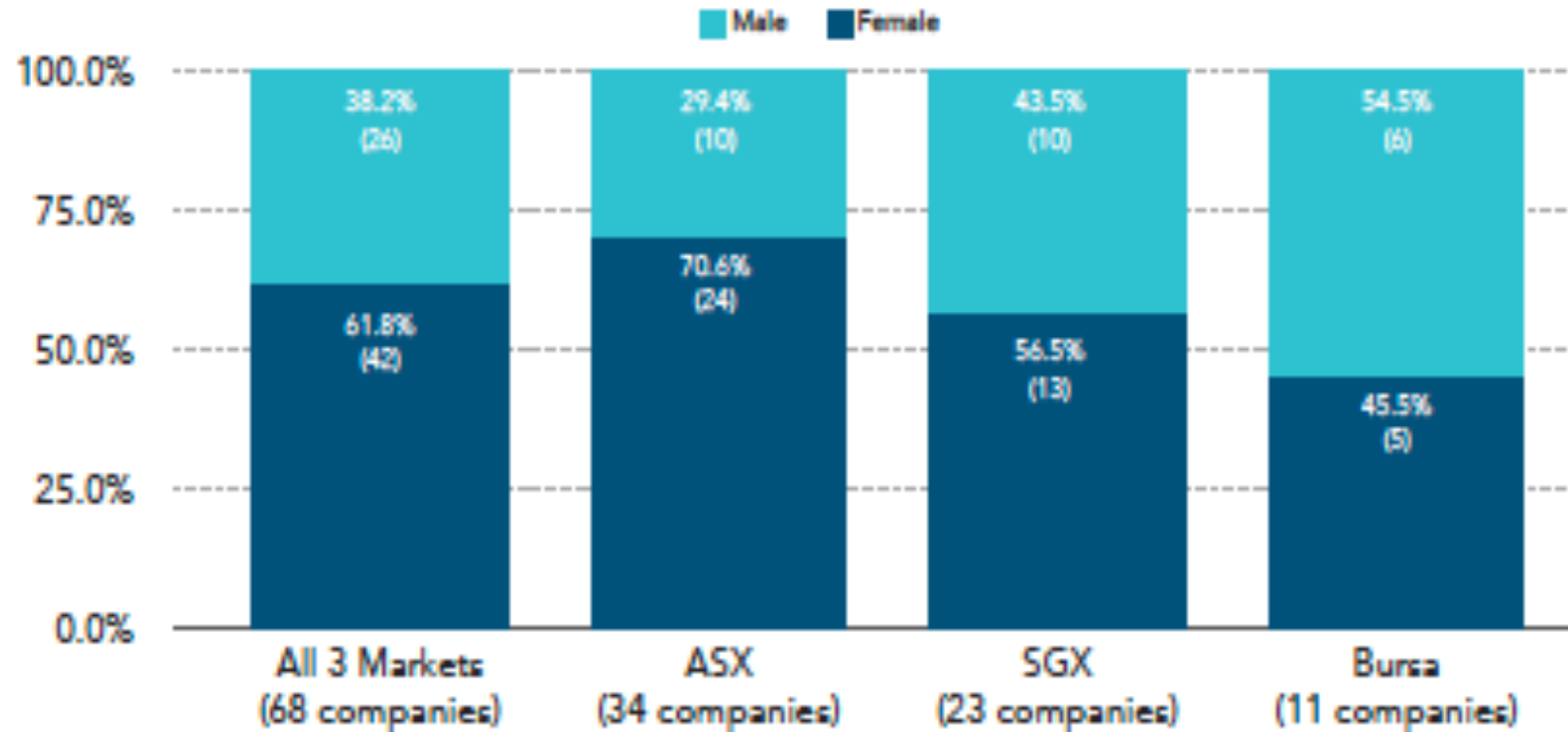


Figure 31: Gender of CSOs

Source: Mak Yuen Teen. (February 2023). *Who Governs Sustainability? Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies*. Published by Governance for Stakeholders and Sustainability Finance Institute Asia.



Chief Sustainability Officers

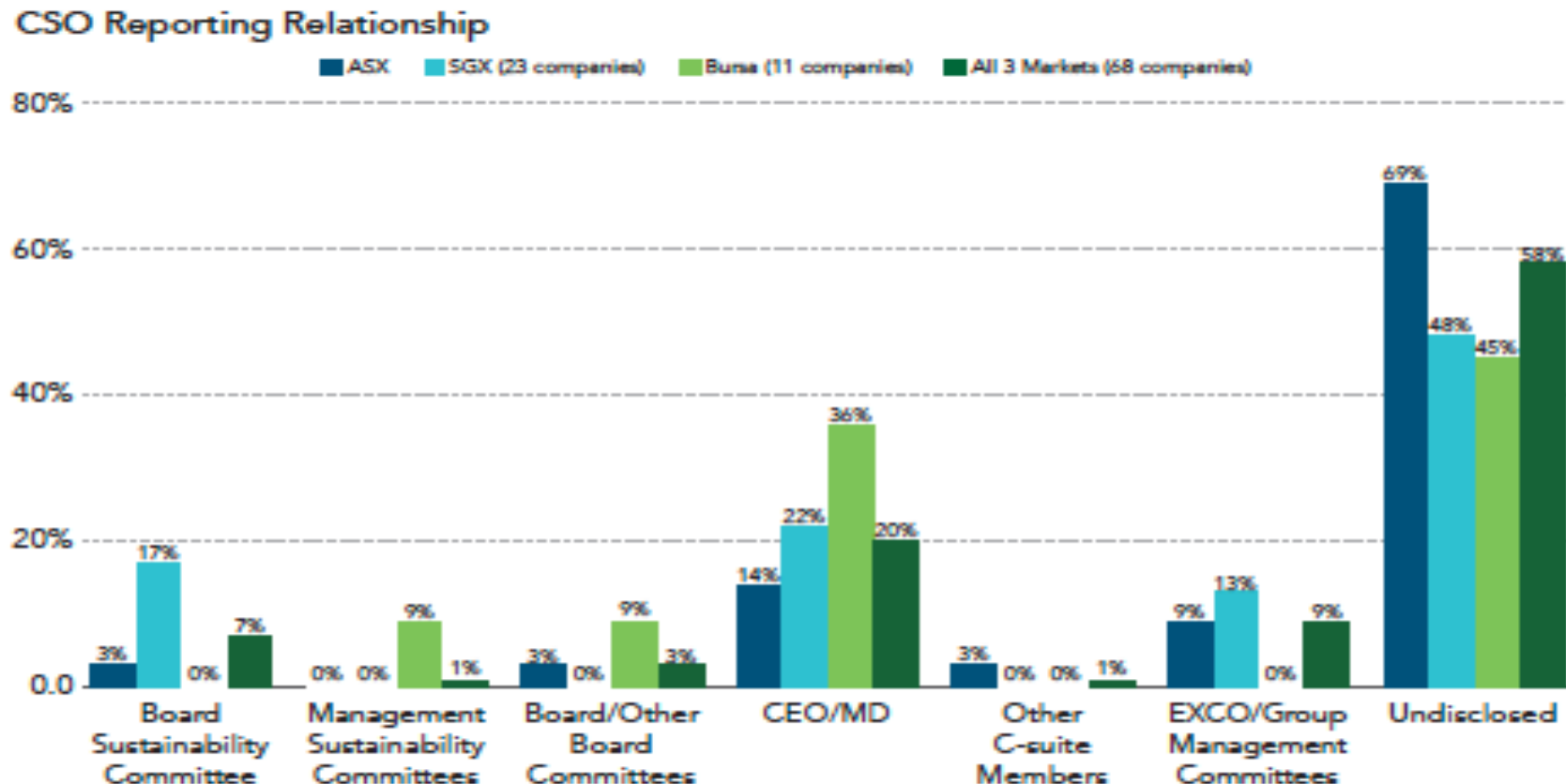


Figure 32: Reporting relationship of the CSO

Source: Mak Yuen Teen. (February 2023). **Who Governs Sustainability? Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies**. Published by Governance for Stakeholders and Sustainability Finance Institute Asia.



Chief Sustainability Officers

CSO (or equivalent) with a dedicated Sustainability Role

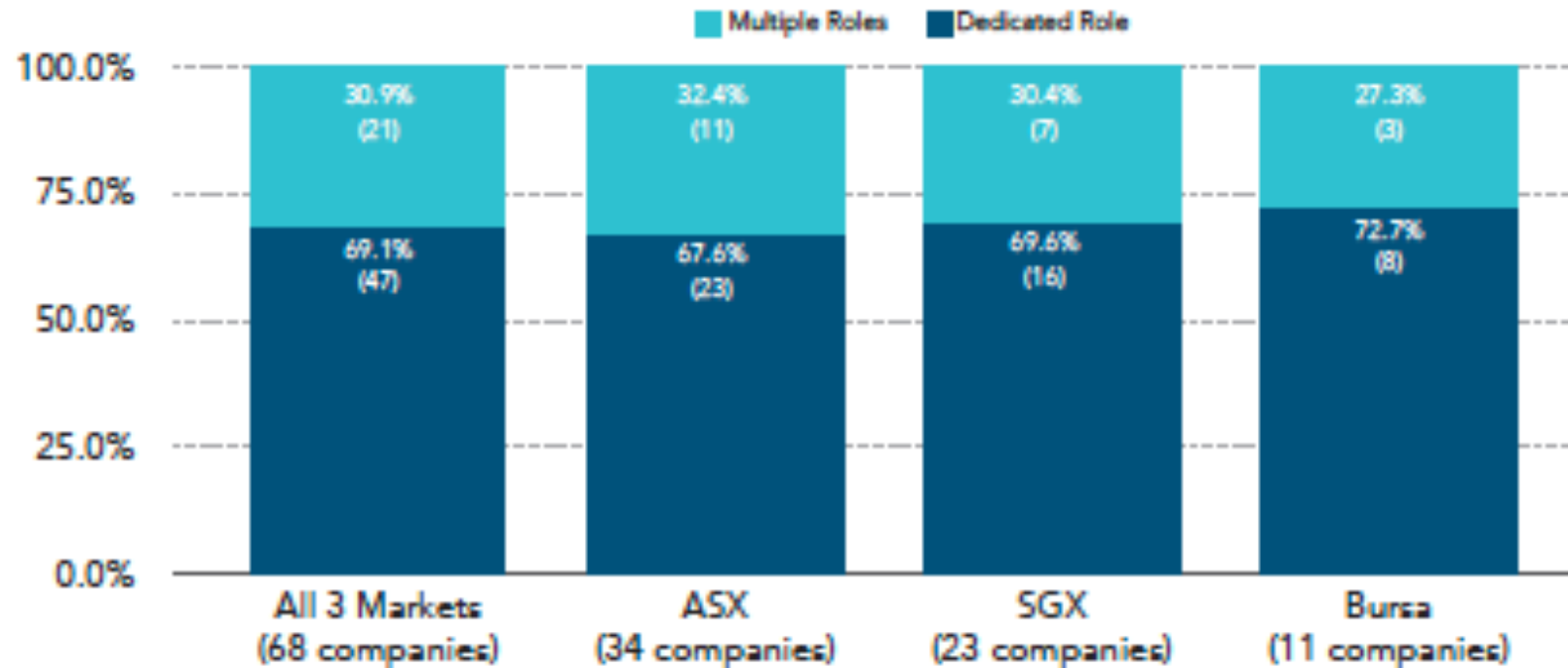


Figure 33: Dedicated CSO role

Source: Mak Yuen Teen. (February 2023). **Who Governs Sustainability? Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies**. Published by Governance for Stakeholders and Sustainability Finance Institute Asia.



Chief Sustainability Officers

Appointment of CSO

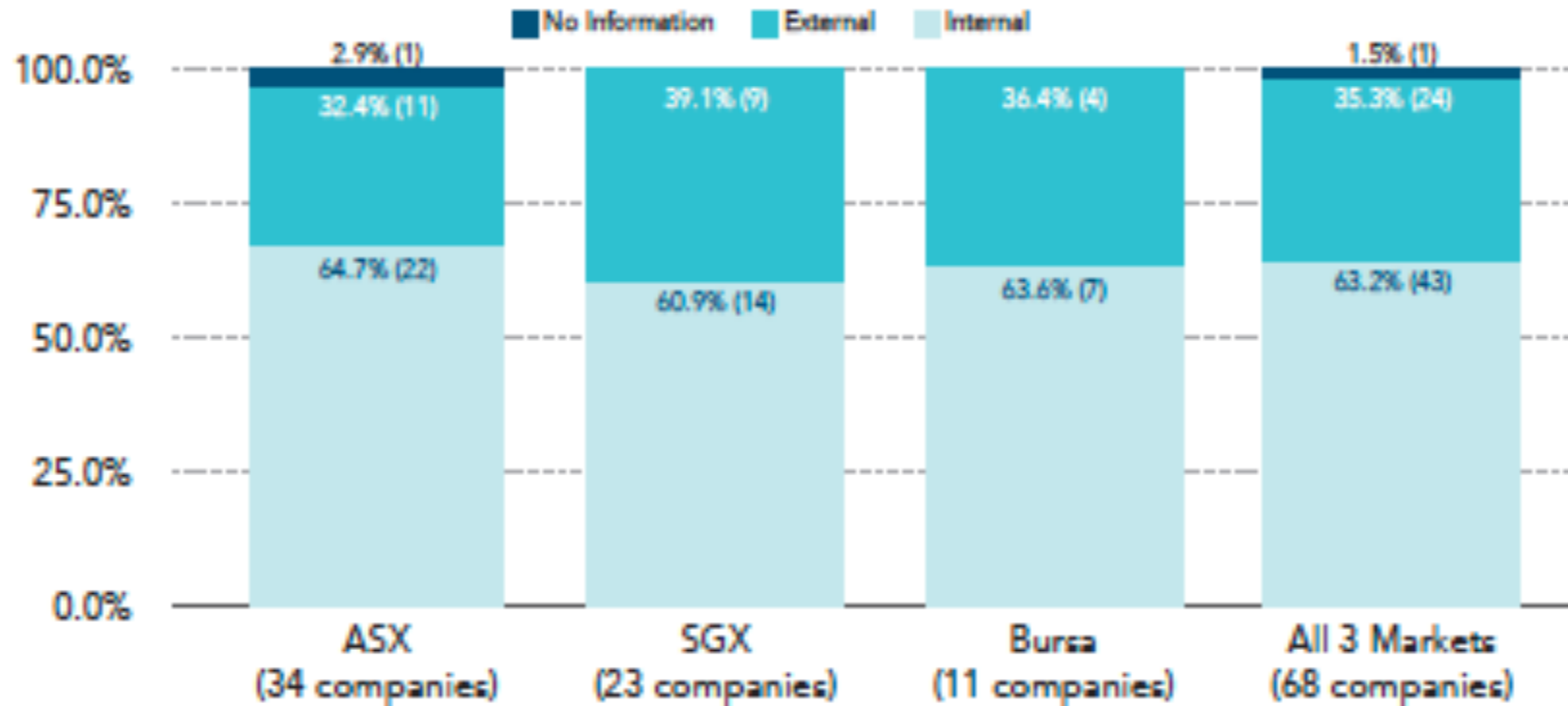


Figure 34: Internal versus external CSO appointment

Source: Mak Yuen Teen. (February 2023). **Who Governs Sustainability? Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies**. Published by Governance for Stakeholders and Sustainability Finance Institute Asia.



Chief Sustainability Officers

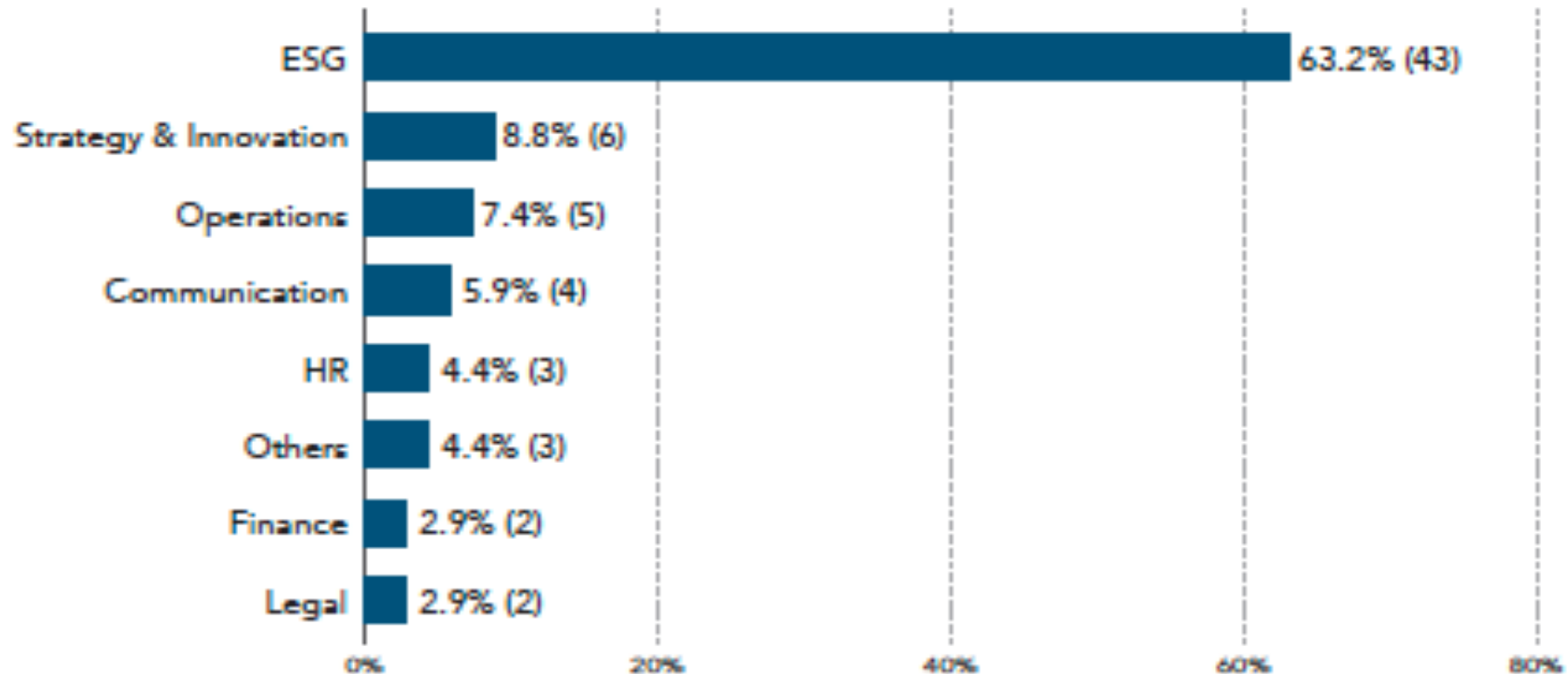


Figure 35: Prior professional experience of CSOs (n=68)

Source: Mak Yuen Teen. (February 2023). *Who Governs Sustainability? Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies*. Published by Governance for Stakeholders and Sustainability Finance Institute Asia.



Chief Sustainability Officers

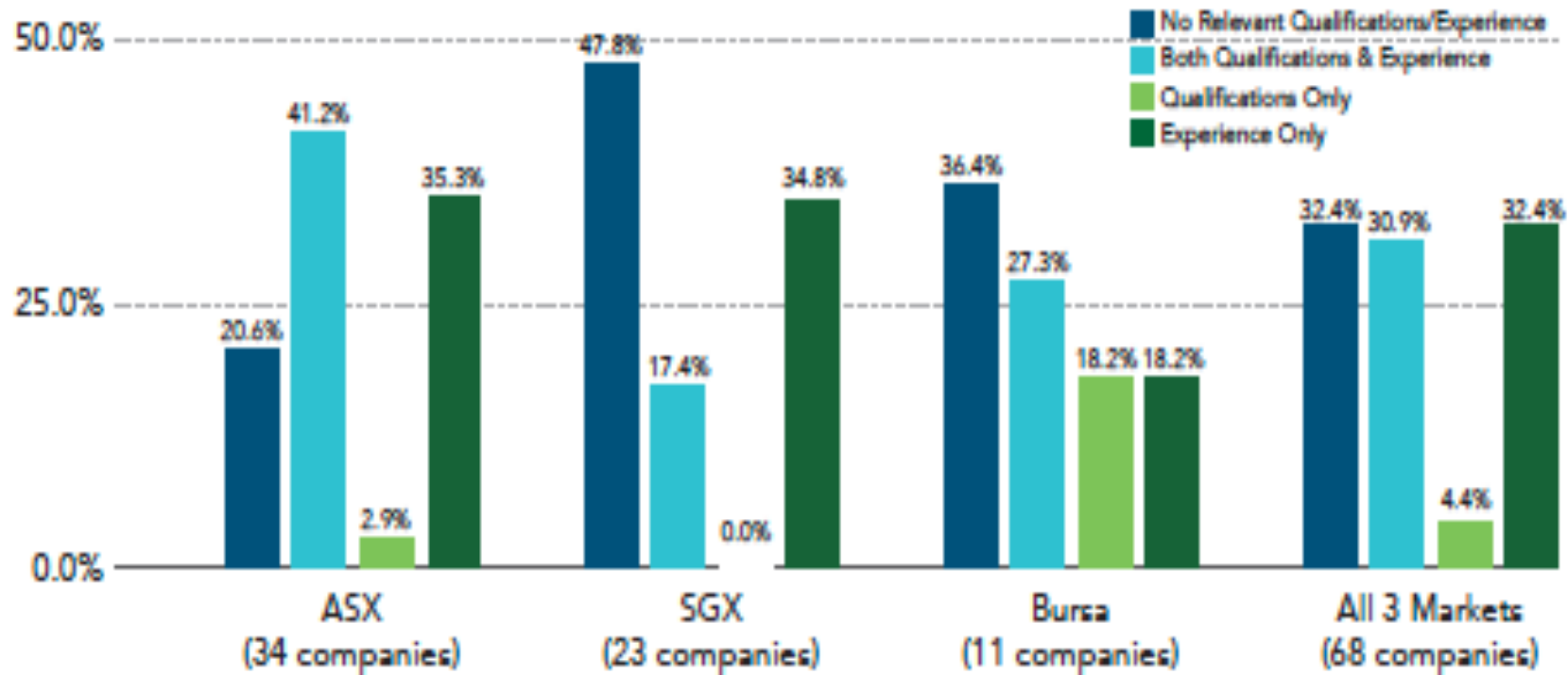


Figure 39: Prior professional experience, academic and professional qualifications of CSOs

Source: Mak Yuen Teen. (February 2023). **Who Governs Sustainability? Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies**. Published by Governance for Stakeholders and Sustainability Finance Institute Asia.



Chief Sustainability Officers

CSO with Climate & Environment Related Degrees & Qualifications

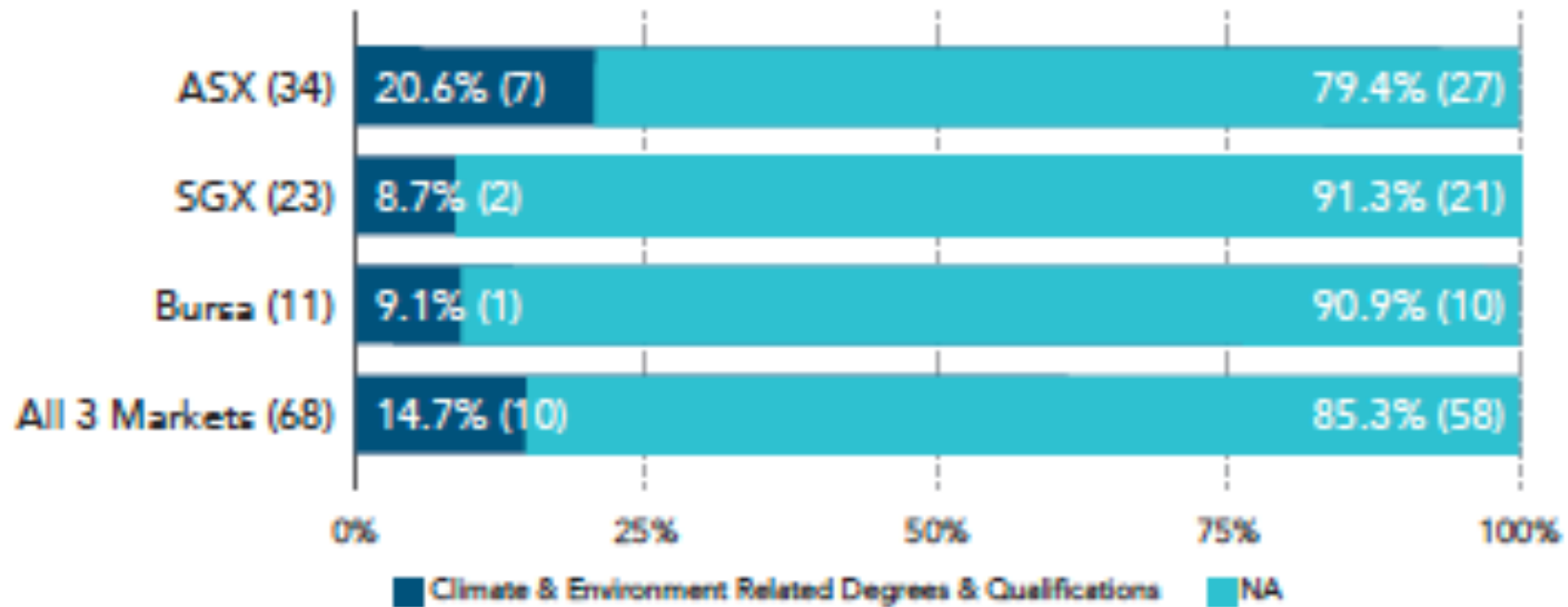


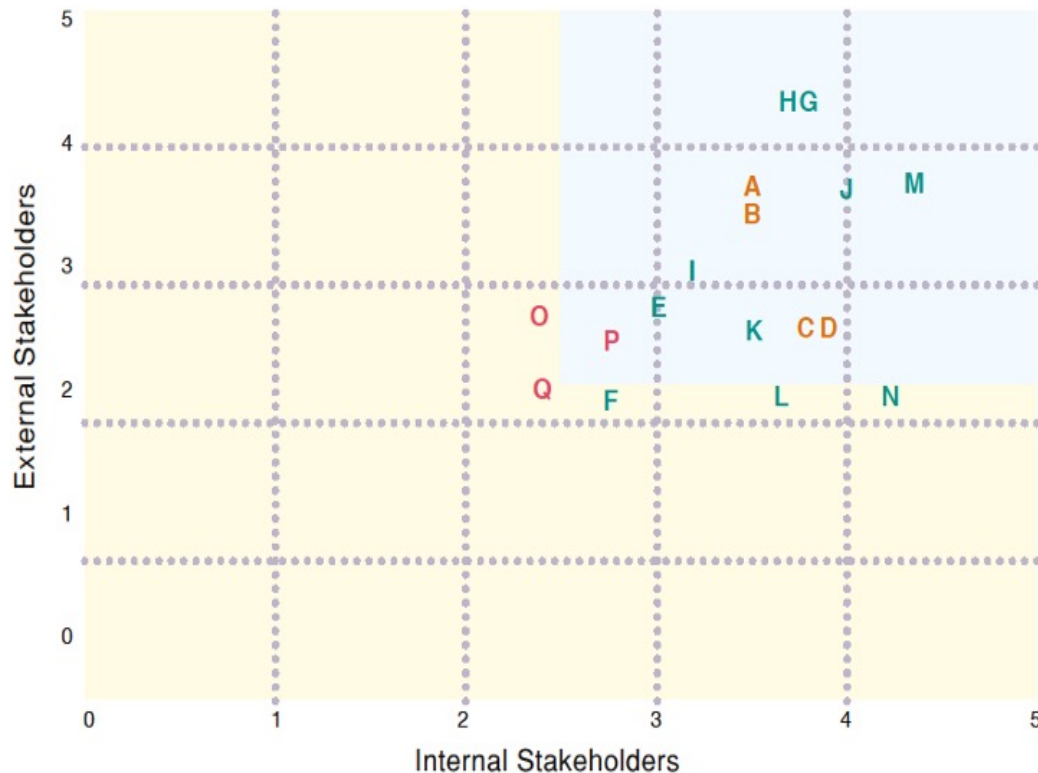
Figure 40: CSOs with climate/environment-related academic and professional qualifications

Source: Mak Yuen Teen. (February 2023). *Who Governs Sustainability? Sustainability Governance Structures and Practices of Large Australian, Malaysian and Singaporean Companies*. Published by Governance for Stakeholders and Sustainability Finance Institute Asia.



Materiality Assessment of ESG Factors

An Example: Materiality Assessment by Company A (2019)



Environmental

- A Emissions
- B Waste & Effluent
- C Water Management
- D Energy Efficiency

Social

- E Supply Chain
- F Diversity
- G Compliance
- H Labour Practices
- I Human Rights
- J Anti-corruption
- K Product Services Responsibility
- L Security Management
- M Occupational Health & Safety
- N Talent Management

Economical

- O Procurement Practices
- P Community Investment
- Q Indirect Economic Impact

- Were the views of the appropriate stakeholders considered in the materiality assessment?
- Was there any validation of the materiality assessment?
- Were the most material ESG factors considered in reviewing strategies, priorities, policies, etc.?



An Example: Materiality Assessment by Company A (2019)

Materiality Analysis

Through the materiality review, labour practices emerged as key material issue with impacts on the Group's business. Hence, the level of materiality for labour practices' was increased to be on par with that of Compliance.

The shift in prioritisation of labour practices was warranted as it has come to be an area of concern for our stakeholders, especially our customers and investors. More details on our labour practices will be disclosed under the EMPLOYEES section in this report. These materiality findings have been integrated into our business strategies, with our 12 key material issues as follows:

No.	Key material issues	Definition	Risks associated	Page reference
1.	Labour practices	Fair labour practices in accordance to the local labour standards set out by the government of employees in regards to the terms & conditions of employment.	Low employee morale and engagement	66

It claimed to have addressed issues of forced labour and forced overtime; passport confiscation; recruitment fees; restricted freedom of movement; and poor accommodation/working environment, but it turned out that at least some of the issues were not addressed.



An Example: Materiality Assessment by Company A (2022)

Material Matrix

○ Top 10 Material Issues



Environmental

- A** Energy Consumption
- B** Water Management
- C** Waste & Effluent
- D** Environmental Compliance
- E** Physical Impacts on Climate Change

Social

- G** Local Communities
- I** Labour Management Relations
- J** Human Rights
- K** Occupational Health & Safety
- L** Diversity & Inclusion
- M** Security Management
- N** Infectious Diseases
- P** Indirect Economic Impacts

Governance

- F** Supply Chain Management
- H** Customer Experience
- O** Product Quality & Safety
- Q** Ethics, Integrity & Governance

Is the company under-estimating the importance of environmental factors?



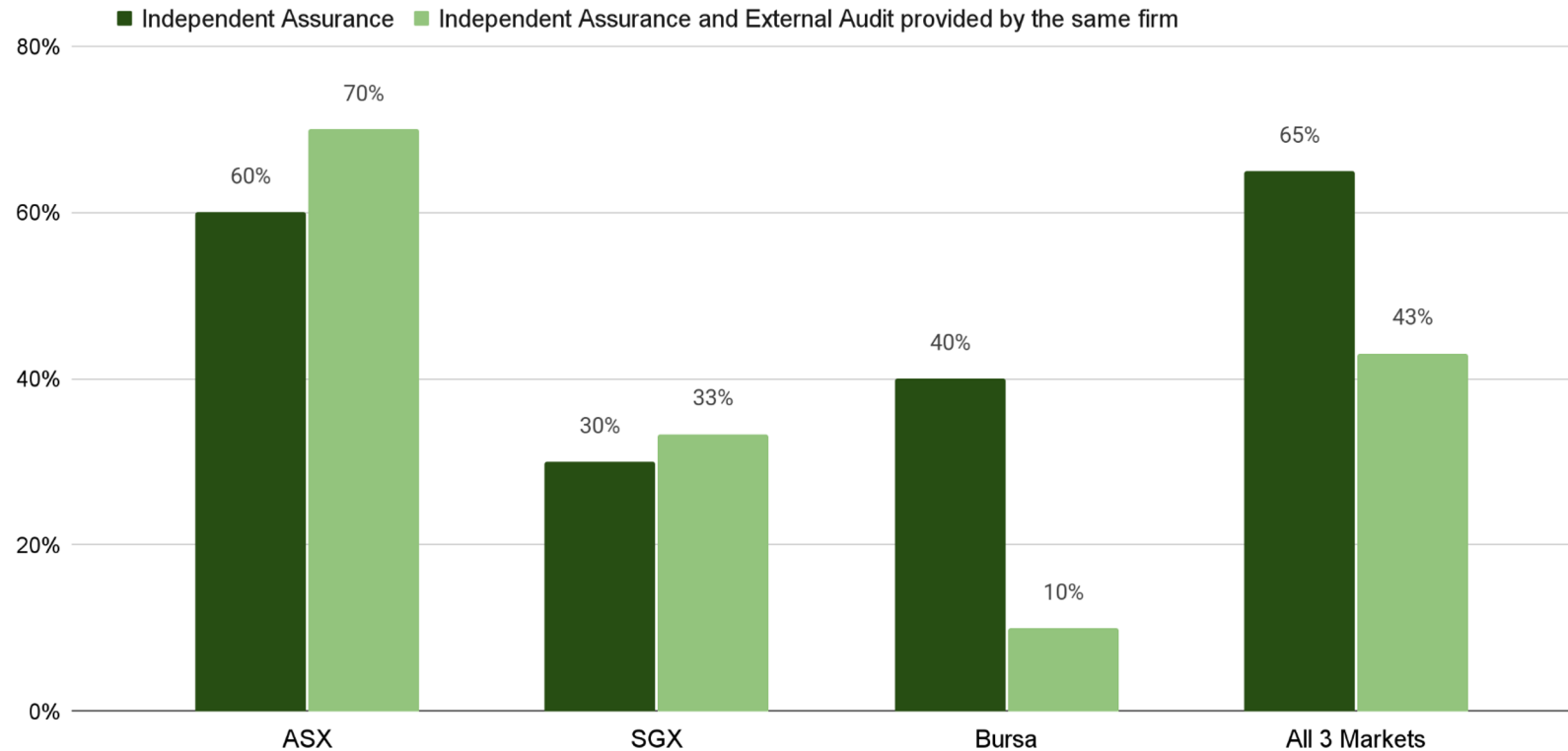
Sustainability Assurance

The findings in following slides on sustainability assurance are preliminary and based on the largest 50 listed companies in each of Australia, Malaysia and Singapore.

Percentage of companies that used Independent Sustainability Assurance

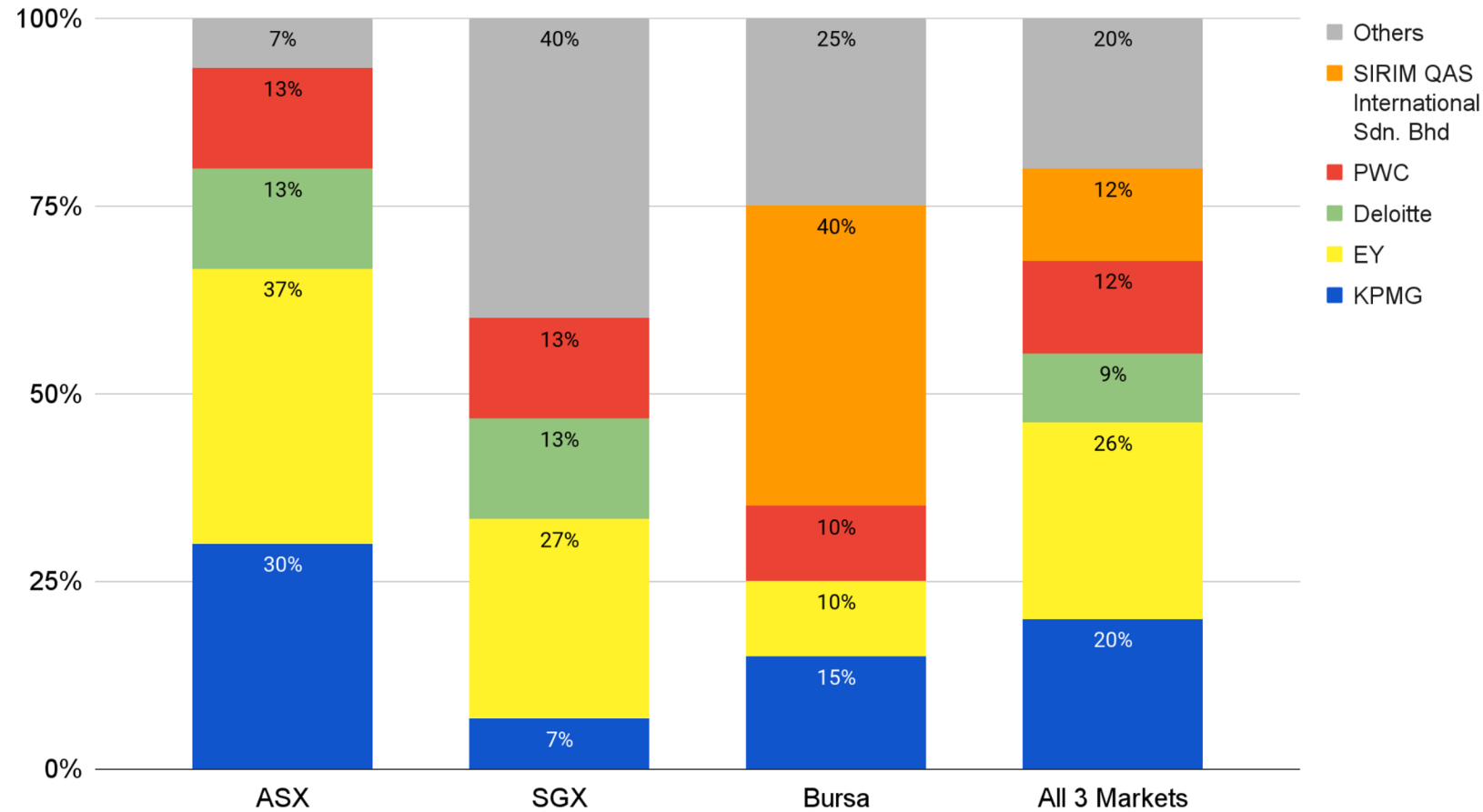
Engagement of Sustainability Independent Assurance

* % for Independent Assurance and External Audit provided by the same firm is calculated against No. of Companies with Independent Assurance



- 1) % Independent Assurance is calculated = (Co. with Independent Assurance) / Total No. of Co. (50 or 150)
- 2) % Same firm for Independent Assurance & Audit is calculated = (Companies with Same firms) / Companies with Independent Assurance

Independent Sustainability Assurance Firms



- Others:**
- BDO
 - DNV
 - Lloyds Register (LRQA)
 - Ere-S Pte Ltd
 - ERM CVS
 - Rapid Genesis Sdn Bhd



CDL: Multiple Assurance Statements

Pg. 136 – 153 (EY Assurance Statement)



Independent Reasonable Assurance Statement in connection with the Subject Matter included in the 2022 Integrated Sustainability Report of City Developments Limited ('CDL')

In connection with our engagement letter dated 7 September 2020 and addendums dated March 2021, December 2021 and March 2022, we have been engaged by CDL to perform a 'reasonable assurance engagement,' as defined by International Standards on Assurance Engagements, here after referred to as the engagement, to report on CDL's selected sustainability information as detailed below (the "Subject Matter") contained in CDL's Integrated Sustainability Report 2022 covering the period from 1 January 2021 to 31 December 2021 (the "Report").

Pg. 134 – 135 (LRQA Assurance Statement)

ISO 14064 REASONABLE ASSURANCE STATEMENT

**RELATING TO THE GHG REPORT
PREPARED BY CITY DEVELOPMENTS
LIMITED FOR CALENDAR YEAR 2021**

Terms of Engagement

This Assurance Statement has been prepared for City Developments Limited.

LRQA Limited (Singapore Branch) (LRQA) was commissioned by City Developments Limited (CDL) to assure its GHG Emissions Inventory declared in the GHG Report for the calendar year 2021 (hereafter referred to as "the GHG report") for its Singapore Operations.

CDL: LRQA was engaged to provide assurance only on GHG Emissions Inventory while EY provided assurance for all ESG metrics disclosed in CDL's sustainability report.

https://www.cdsustainability.com/pdf/CDL_ISR_2022.pdf



Other Issues with Sustainability Assurance

1) The lack of standardisation in report formats

- In contrast with the very standardised & familiar audit statements, sustainability assurance statements differ greatly in format & content. This complicates the comparison and benchmarking process.



ASX Commonwealth Bank; PWC

To: The Board of Directors of the Commonwealth Bank of Australia

Independent assurance report on sustainability performance metrics

for the year ended 30 June 2022

Scope

In accordance with the terms of the engagement letter dated 2 June 2022, we were engaged by the Commonwealth Bank of Australia (the Group) to perform an independent limited assurance engagement in respect of the Sustainability Performance metrics (Environmental, Social and Governance metrics) (the Performance Metrics) for the Group for the year ended 30 June 2022, presented on pages 42 to 47 of the 2022 Annual Report. The definitions (the Criteria) against which we assessed the Performance Metrics are established by management and are presented on pages 295 to 304 of the 2022 Annual Report.

Our responsibilities

Our responsibility is to express a limited assurance conclusion based on the procedures we have performed and the evidence we have obtained.

Our engagement has been conducted in accordance with the Australian Standard on Assurance Engagements (ASAE 3000) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. That standard requires that we plan and perform this engagement to obtain limited assurance about whether anything has come to our attention to indicate that the Performance Metrics have not been prepared, in all material respects, in accordance with the Criteria, for the year ended 30 June 2022. The procedures we performed were based on our professional judgement and included:

- Enquiries of relevant staff responsible for preparing the Performance Metrics;
- Enquiries about the design of the internal controls and systems used to collect and process the Performance Metrics;
- Where applicable, enquiries of third parties responsible for the preparation of data included in the Performance Metrics;
- Enquiries about the design of the systems used by third parties to collect and process the Performance Metrics;
- Comparing the Performance Metrics to relevant underlying sources on a sample basis; and
- Reading the Performance Metrics to determine whether they are in line with our overall knowledge of, and experience with, the Sustainability performance.

2) The lack of standardisation in reporting standards & scope

- There's a myriad of governing principles/framework for sustainability and across different industries e.g. International Council on Mining and Metals (ICMM)

3) Limited assurance versus reasonable assurance

ASX BHP Group (Metals & Mining); EY

What we assured

Ernst & Young (EY) was engaged by BHP to provide limited assurance over certain sustainability data and disclosures in BHP's Annual Report and ESG Standards and Databook and online for the year ended 30 June 2022 in accordance with the noted Criteria, as defined in the following table:

What we assured (Limited Assurance Subject Matter)	What we assured it against (Criteria)
BHP's qualitative disclosures in sections 6 and 7 of the Operating and Financial Review within BHP's Annual Report 2022	– Management's own publicly disclosed criteria
BHP's sustainability policies and standards as disclosed in the ICMM tab in BHP's ESG Standards and Databook at bhp.com/sustainability	– International Council on Mining and Metals (ICMM) Mining Principles and relevant Performance Expectations (PE) (2020) and mandatory Position Statements (Subject Matter 1)
BHP's identification and reporting of its material sustainability issues, risks and opportunities described within the BHP Annual Report 2022 and online at bhp.com/sustainability/approach	– ICMM Subject Matter 2 – Global Reporting Initiative (GRI) Principles for defining report content
BHP's implementation of systems and approaches to manage its material sustainability risks and opportunities	– ICMM Subject Matter 3
BHP's reported performance of its material sustainability issues, risks and opportunities in sections 6 and 7 of the Operating and Financial Review within BHP's Annual Report 2022 and ESG Standards and Databook, referenced above.	– ICMM Subject Matter 4 – Management's own publicly disclosed criteria including GRI Topic Specific Standards and Sustainability Accounting Standards Board (SASB) Mining and Metals Standard – World Resource Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Standard – BHP Scope 1, 2, and 3 GHG emissions calculation methodology 2022
Water stewardship reporting, at an operated asset level, in the BHP Annual Report 2022, ESG Standards and Databook, referenced above, and supporting disclosures included online at bhp.com/sustainability/environment/water	– ICMM guidance and minimum disclosure Standards: Water Reporting: Good practice guide (2nd edition), 2021

In addition, we were engaged by BHP to provide reasonable assurance over the following information (Reasonable Assurance Subject Matter) in accordance with the noted criteria:

What we assured (Reasonable Assurance Subject Matter)	What we assured it against (Criteria)
Scope 1 and Scope 2 greenhouse gas emissions as reported in section 7 of the Operating and Financial Review within BHP's Annual Report 2022 and ESG Standards and Databook, referenced above.	– World Resource Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol – BHP's Scope 1, 2 and 3 GHG emissions calculation methodology 2022



ESG Ratings

Major ESG Ratings



MSCI ESG Ratings

About MSCI:

MSCI ESG Ratings aims to measure a company's management of financially relevant ESG risks and opportunities. They employ a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. The products rated range from equity and fixed income securities, to loans, mutual funds, ETFs as well as countries on a whole.

Score System



<p>LAGGARD</p> <p>A company lagging its industry based on its high exposure and failure to manage significant ESG risks</p>	<p>AVERAGE</p> <p>A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers</p>	<p>LEADER</p> <p>A company leading its industry in managing the most significant ESG risks and opportunities</p>
------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------

An overall score is generated based on the firm's exposure to the ESG factors as represented by the example on the right. The Governance pillar is floored at a minimum value of 33%.

Framework:

MSCI ESG Score									
Environment Pillar				Social Pillar				Governance Pillar	
Climate Change	Natural Capital	Pollution & Waste	Env. Opportunities	Human Capital	Product Liability	Stakeholder Opposition	Social Opportunities	Corporate Governance	Corporate Behavior
Carbon Emissions	Water Stress	Toxic Emissions & Waste	Clean Tech	Labor Management	Product Safety & Quality	Controversial Sourcing	Access to Communication	Board	Business Ethics
Product Carbon Footprint	Biodiversity & Land Use	Packaging Material & Waste	Green Building	Health & Safety	Chemical Safety	Community Relations	Access to Finance	Pay	Tax Transparency
Financing Environmental Impact	Raw Material Sourcing	Electronic Waste	Renewable Energy	Human Capital Development	Consumer Financial Protection		Access to Health Care	Ownership	
Climate Change Vulnerability				Supply Chain Labor Standards	Privacy & Data Security		Opportunities in Nutrition & Health	Accounting	
					Responsible Investment				
					Insuring Health & Demographic Risk				

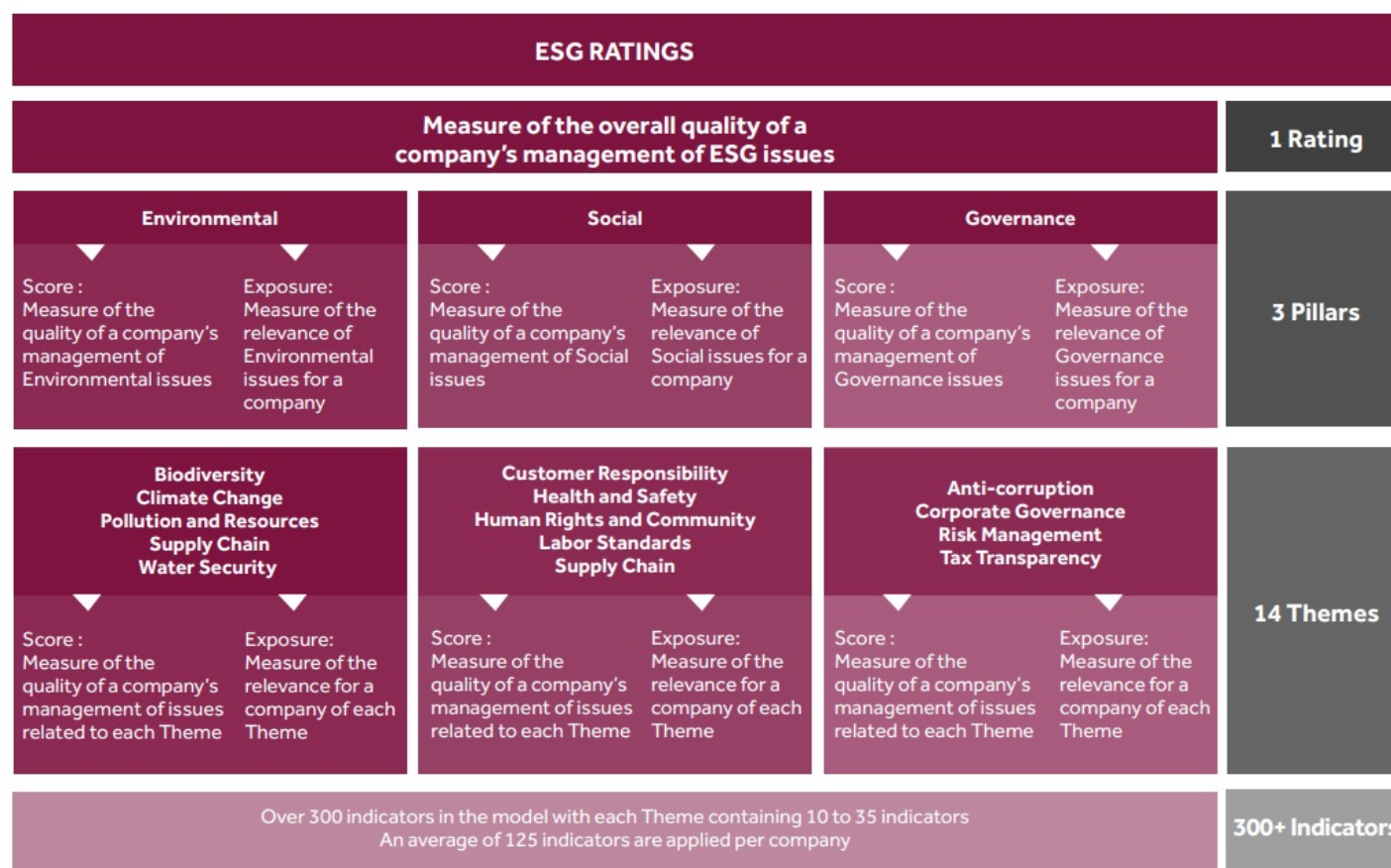
● Key Issues selected for the Soft Drinks Sub Industry (e.g. Coca Cola)
● Universal Key Issues applicable to all industries

Source: (MSCI, 2022)

FTSE Russell ESG Ratings

About FTSE Russell:

FTSE Russell's ESG Ratings and data model allows investors to understand a company's exposure to, and management of, ESG issues in multiple dimensions. The ESG Ratings are comprised of an overall Rating that breaks down into underlying Pillar and Theme Exposures and Scores. The Pillars and Themes are built on over 300 individual indicator assessments that are applied to each company's unique circumstances.



5 step scoring system:

- (1) Determining theme exposures
- (2) Indicator assessment and scoring
- (3) Calculating theme scores
- (4) Calculating pillar exposures and pillar scores
- (5) Calculating the overall rating

Score range is 0-5



Source: (FTSE Russell, 2022)



S&P Global Ratings

About S&P Global Ratings:

The S&P Global Corporate Sustainability Assessment (CSA) enables companies to benchmark their performance on a wide range of industry specific economic, environmental and social criteria that are relevant to the growing number of sustainability focused investors and financially relevant to your corporate success. It uses 61 industry-specific questionnaires.

Social Dimension Criteria Topics

Addressing Cost Burden
Asset Closure Management
Corporate Citizenship and Philanthropy
Financial Inclusion
Health Outcome Contribution
Human Capital Development
Human Rights
Labor Practice Indicators
Local Impact of Business Operations
Occupational Health and Safety
Partnerships Towards Sustainable Healthcare
Passenger Safety
Responsibility of Content
Social Impacts on Communities
Social Integration & Regeneration
Social Reporting
Stakeholder Engagement
Strategy to Improve Access to Drugs or Products
Talent Attraction & Retention

Environmental Dimension Criteria Topics

Biodiversity
Building Materials
Climate Strategy
Co-Processing
Electricity Generation
Environmental Policy & Management Systems
Environmental Reporting
Fuel Efficiency
Genetically Modified Organisms
Low Carbon Strategy
Mineral Waste Management
Operational Eco-Efficiency
Packaging
Product Stewardship
Raw Material Sourcing
Recycling Strategy
Resource Conservation and Resource Efficiency
Sustainable Forestry Practices
Transmission & Distribution
Water Operations
Water Related Risks

Governance & Economic Criteria Topics

Anti-crime Policy & Measures
Brand Management
Codes of Business Conduct
Compliance with Applicable Export Control Regimes
Corporate Governance
Customer Relationship Management
Efficiency
Energy Mix
Financial Stability and Systemic Risk
Fleet Management
Health & Nutrition
Information Security / Cybersecurity & System Availability
Innovation Management
Market Opportunities
Marketing Practices
Materiality
Network Reliability
Policy Influence
Principles for Sustainable Insurance
Privacy Protection
Product Quality and Recall Management
Reliability
Risk & Crisis Management
Strategy for Emerging Markets
Supply Chain Management
Sustainable Construction
Sustainable Finance
Water Related Risks

Scoring Methodology:

Scale of 0 – 100 (best)

Score Weighting & Aggregation

Once CSA questions have been received points, they are progressively weighted and summed at the Question-, Criteria- and Dimension-levels to reach a final aggregated score, the S&P Global ESG Score. Scores are also produced at each of the levels of aggregation (Question, Criteria and Dimension). The formula utilized to create S&P Global ESG Scores is:

$$SP_{ESG} = \sum (((SP_{QP} * SP_{QW}) * SP_{CW}) * SP_{DW})$$

Where:

$$SP_{ESG} = \text{S\&P Global ESG Score}$$

$$SP_{QP} = \text{Question Points}$$

$$SP_{QW} = \text{Question Weight}$$

$$SP_{CW} = \text{Criteria Weight}$$

$$SP_{DW} = \text{Dimension Weight}$$

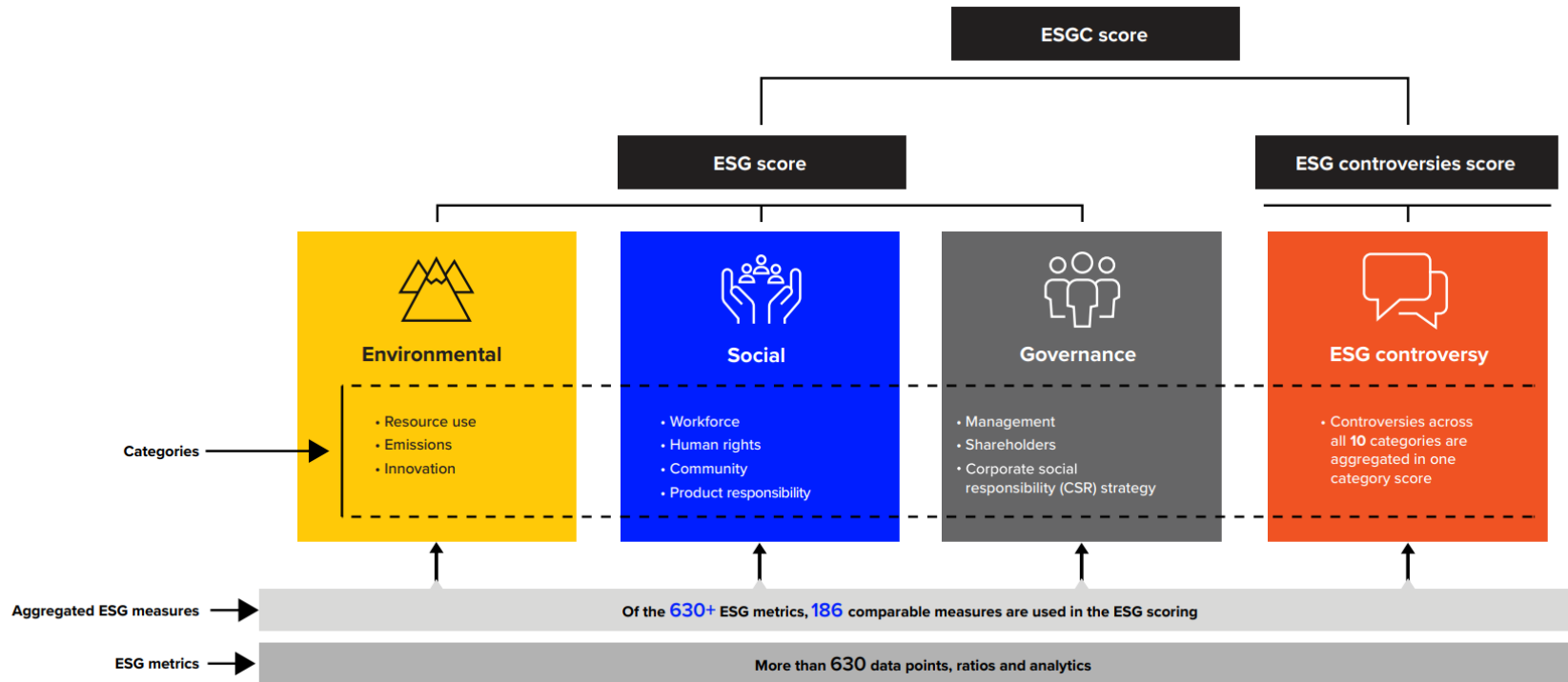
Source: (S&P Global, 2022)



Refinitiv ESG Scores

About Refinitiv:

ESG scores from Refinitiv are designed to transparently and objectively measure a company's relative ESG performance, commitment and effectiveness, based on company-reported data. This covers 10 main themes including emissions, environmental product innovation, human rights, shareholders and so on. Furthermore, an overall ESG combined (ESGC) score, which is discounted for significant ESG controversies impacting the corporations covered.



Scoring Methodology:

Scale of 0 – 100 (best)

5 Step Scoring System:

- (1) ESG Category Scores
- (2) Materiality Matrix
- (3) Overall ESG Score Calculation and Pillar Score
- (4) Controversies Scores Calculation
- (5) ESGC Score

Source: (Refinitiv, 2022)

Correlation between ESG Ratings

- CFA Institute (2021) found correlations between major ratings to range from 0.74 (S&P and Bloomberg) to 0.07 (ISS and CDP). Not only do overall ratings differ, individual ESG components vary between agencies.

	MSCI	S&P	Sustainalytics	CDP	ISS	Bloomberg
MSCI	x	36%	35%	16%	33%	37%
S&P	36%	x	65%	35%	14%	74%
Sustainalytics	35%	65%	x	29%	22%	58%
CDP	16%	35%	29%	x	7%	44%
ISS	33%	14%	22%	7%	x	21%
Bloomberg	37%	74%	58%	44%	21%	x

Note: CDP is the Carbon Disclosure Project Score



Examples of Divergence Between ESG Ratings

Example: Keppel Corp (Code: BN4)

- Keppel Corp is an investment holding and management company, and a key player in the offshore & marine engineering and construction industry. It specialises in 4 key areas: (1) Energy & Environment, (2) Urban development, (3) Connectivity, (4) Asset Management (Nikkei Asia, 2022) (Keppel Corporation, 2022a)
- ESG initiatives:** Environmental Stewardship (Halve the Group's Scope 1 and 2 carbon emissions by 2030), Responsible Business (Working with stakeholders to incorporate ESG), People and Community (Up to 1% for worthy causes) (Keppel Corporation, 2022b)

Keppel Corporation

MSCI	Sustainalytics
AAA	High risk

Example: Raffles Medical (Code: BSL)

- Raffles Medical is a private healthcare provider, providing services which range from 24-hour emergency services, health screening and the operation of multi-disciplinary specialist clinics. (Raffles Medical Group, 2022)
- ESG initiatives:** Raffles Hospital Food Waste Initiatives, Supporting Government-Led Covid-19 Projects, Asian Medical Foundation (AMF) Silver Care Fund (Raffles Medical Group, 2021)

RafflesMedical

Your Trusted Partner for Health

MSCI	Sustainalytics
AA	High risk

Example: ST Engineering (Code: S63)

- Singapore Technologies Engineering Ltd (ST Engineering) is an integrated engineering group specialising in innovative solutions and services in the aerospace, electronics, land systems and marine sectors. (SPH, n.d.)
- ESG initiatives:** Set targets for reduction of Scope 1 & 2 GHG emissions, Corporate Community Contributions through charitable gifts, education and engineering as their forte, Independent whistleblowing channel (ST Engineering, 2021)

ST Engineering

MSCI	Sustainalytics
A	High risk



Examples of Divergence Between ESG Ratings

Example: BP Plc. (BP)

- BP Plc. is one of the largest players in the oil and gas industry, with 3 main business groups: (1) Production & operations, (2) Customers & products, (3) Gas & low carbon energy (BP, 2022)
- **ESG initiatives:** In the realm of sustainability, BP has 5 key aims: (1) Net zero operations, (2) Net zero production, (3) Net zero sales, (4) Reducing methane, (5) More money for new energies, which governs its overall net zero ambition. In addition to integrating sustainability into E, S and G aspects, they also engage and rope in stakeholders in this journey of sustainability. (BP, 2021)

MSCI	Sustainalytics
A	High risk

Example: Tesla Inc. (TSLA)

- Tesla is one of the leading electric vehicle manufacturers and clean energy companies. In addition to the sale of its plug-in electric vehicles, they also supply solar panels, battery energy storage systems and solar energy generation systems through its subsidiary, Tesla Energy. (Fortune, 2022)
- **ESG initiatives:** Building more efficient factories and leveraging on renewable energy throughout its operations, Supporting Ukraine by designing mini power plants to ensure continued energy access (Tesla, 2021)

MSCI	Sustainalytics
A	Medium risk

Example: Unilever Plc. (UL)

- One of the world's largest consumer goods companies with 5 main business groups: (1) Beauty & Wellbeing, (2) Personal Care, (3) Home Care, (4) Nutrition, (5) Ice Cream (Unilever, 2022a)
- **ESG initiatives:** Looks at various aspects of ESG, from climate action, to raising living standards and responsible business, some examples include: 100% sustainable sourcing of key agricultural crops, increasing representation of diverse groups in advertising and ensuring 70% of their portfolio meets WHO-aligned nutritional standards by 2022 (Unilever, 2022b)

MSCI	Sustainalytics
AA	Medium risk



Greenwashing Risks

Sembcorp sends wrong signals with SLB

Rashmi Kumar, Jon Hay November 15, 2022 10:09 PM



Top Glove's 'negative' emissions come under fire; issue underscores minefield in emissions reporting

Top Glove says it's 'restudying' its carbon emissions calculations

WED, JUL 06, 2022 - 03:47 PM | UPDATED WED, JUL 06, 2022 - 4:12 PM

THE BUSINESS TIMES

NEWS ANALYSIS

UOB loan to coal-miner's unit spotlights complexities of defining just transition



JANICE LIM
janicelim@sph.com.sg

UNITED Overseas Bank (UOB) has got itself in a bit of a pickle after reports emerged that it is part of a consortium of banks that refinanced a US\$350 million loan to a subsidiary of coal miner Adaro Energy Indonesia.

The Straits Times recently re-

ported that the capital raised would be used to construct a green labelled aluminium smelter for an industrial park in the Indonesian province of North Kalimantan.

Even though the smelter would be relying on coal power in its initial phase, the green credentials come from Adaro's aim to eventually power the smelter and the park via solar and hydropower.

The deal has sent some green groups up in arms. Tata Mustaya, Greenpeace's regional climate campaigner based in Indonesia, told *The Business Times* the refinancing is "clearly greenwashing" and will undermine the accelera-

tion of energy transition in South-east Asia and globally. The concern is that the financing can be used to indirectly support a thermal coal business.

Non-profit organisations focused on promoting sustainable finance have raised questions about whether UOB is going against its 2019 policy to exit the financing of new coal power plants and thermal coal mines, as well as the expansion of existing coal mines.

Cedric Rimaud from the Anthropocene Fixed Income Institute told BT that even though UOB's commitment to exit coal financing was set with a target of 2039, this deal still sends a wrong signal to the

market and will hurt the bank's environmental, social and governance credentials and deter investors from providing it capital.

South-east Asia's third-largest lender has always maintained it prefers to continue working with clients transitioning from highly emissive business models, instead of cutting off their financing totally.

Specific to this deal, UOB's chief executive Wee Ee Cheong said during its latest earnings briefing that the bank doesn't finance coal as a general rule, but Adaro is an existing customer and "we are helping some good customers to transition".

But interpreting what qualifies as acceptable financing for transition activities is "complex and nuanced," the Asia Investor Group on Climate Change (AIGCC), a voluntary bloc of fund managers and institutional investors, told BT.

Clearly, there is a disagreement on whether this deal could be considered transition financing.

Part of the problem lies in the difficulties coming up with definitions of what economic activities are in need of transition.

This has resulted in the lack of widely accepted taxonomies on transition financing, unlike green

Continued on Page 3



Concluding Remarks

ASIAN
#SUSTAIN-ABLERS
IN ACTION



LESA 2023

LEADERSHIP FOR ENTERPRISE
SUSTAINABILITY ASIA

Thank you

Email: lesa@asb.edu.my | Website: lesa2023.asb.edu.my