BlackRock

08 October 2021

Singapore Exchange Regulation Pte. Ltd.
11 North Buona Vista Driver
#06-07, The Metropolis Tower 2
Singapore 138589
(Attention: Listing Policy & Product Admission)

Re: Our response to the SGX's consultation paper on "Climate and Diversity: The Way Forward"

Dear Sir/Madam,

BlackRock [1] is pleased to have the opportunity to respond to the "Consultation Paper on Climate and Diversity: The Way Forward", issued by Singapore Exchange Regulation (SGX).

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing regulatory benefits versus implementation costs.

We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to contribute to the thinking of SGX any issues that may assist in the final outcome.

Executive Summary

BlackRock welcomes the SGX's proposed roadmap towards mandatory climate-related disclosure, consistent with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. We recognize the merits of the phased approach suggested by SGX and support prioritizing mandatory reporting for issuers in the five non-financial sectors identified by TCFD as most affected by climate change. However, given that climate risk ultimately affects all companies, we would also suggest SGX to consider broadening the universe of mandatory reporters by including companies above a certain market capitalization threshold in the prioritization model.

Considering the current harmonization trend of reporting standards, we agree that SGX should not, at this current juncture, prescribe a specific sustainability reporting framework and ESG indicators against which issuers should report. Until a global set of standards is established, we suggest SGX to recommend the TCFD framework as a guide for corporate disclosure on the broader range of ESG factors, requiring sustainability reporting that describes how ESG risks and opportunities are governed, reflected in strategy, integrated into risk management practices and measured.

On mandatory director training, given the rapid development in regulation, technology and shifting consumer trends, we believe that a one-time training may not sufficiently equip

[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

directors with the necessary skills or knowledge required to discharge their responsibilities effectively. We believe that, at the very least, directors directly responsible for the oversight of sustainability issues (such as members of the sustainability committee) should undergo regular refresher training of sustainability-related knowledge and skills to stay abreast of trends.

Lastly, we believe that diversity and the inclusion of different perspectives for board discussion and decision-making play a vital role in enabling quality leadership and financial performance in a company. We therefore agree that companies must set and disclose their board diversity policy. It must include the board's own approach and definition of the different aspects to diversity – of which, we agree that gender should be an aspect that is being considered. Furthermore, we believe that there are multiple dimensions to diversity that should be disclosed, including professional factors such as industry background, area of expertise and geographic location of said expertise, as well as factors such as ethnicity and age. We also expect companies to disclose the relevant targets, plans and timeline for achieving the stipulated diversity targets.

However, we do not believe in being overly prescriptive on the format or medium that the issuer chooses to disclose its board diversity policy, as long as they are regularly updated and readily accessible for stakeholders.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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RESPONSE TO CONSULTATION PAPER ON CLIMATE AND DIVERSITY: THE WAY FORWARD

<u>Consultation Questions</u>

Question 1: Roadmap towards Mandatory Climate-related Disclosures

Do you agree with the proposed roadmap towards mandatory climate-related disclosures, consistent with the recommendations made by the Task Force on Climate-related Financial Disclosures ("**TCFD**", and the recommendations, "**TCFD Recommendations**")? You may also provide suggestions on the roadmap.

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

We agree with the roadmap towards mandatory climate-related disclosures proposed by SGX, consistent with the recommendations made by TCFD.

At BlackRock, we believe that climate risk is investment risk, and that integrating assessments of climate-related considerations into our investment process will result in better long-term risk-adjusted returns for our clients. We recognize the difficulties of gathering comparable and consistent climate-related disclosures due to fragmented and inconsistent reporting to different frameworks across and within industries and jurisdictions.

As such, we believe that it is essential to work towards a single, globally applicable mandatory disclosure framework and set of standards. We recognize SGX's efforts to enhance transparency and accountability on sustainability issues and believe that the requirement of mandatory disclosures in accordance with the TCFD framework would also be aligned to similar initiatives by other exchanges globally.

We endorse global efforts to move, over time, to a uniform set of sustainability reporting standards under the International Financial Reporting Standards (IFRS) Foundation which, as the SGX noted in the consultation paper, has already gathered strong momentum. We, therefore, encourage the SGX to build in a mechanism for the SR Regime to evolve along with international developments in this regard.

Question 2: Prioritisation of Industry Sectors

(a) Do you agree that the prioritisation of issuers for mandatory climate-related disclosures should be based on their industry classification? If so, please suggest the industries (for example, those identified by the TCFD or the Green Finance Industry Taskforce).

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

We appreciate that issuers are not all impacted by climate-related risks equally, as such we agree with the phased approach suggested by SGX to require mandatory reporting for industry sectors that are considered most affected by climate change and the transition to a low carbon economy first.

We are supportive of prioritising mandatory reporting from issuers in the five non-financial sectors identified by TCFD. However, the usage of widely used classification codes for industry segmentation like GICS would provide greater clarity for both the issuers and the investors as to which companies would fall under the priority sectors.

We also recognize that large conglomerates may operate across different sectors – with some business lines falling under the priority sectors whilst others not. Conglomerates should be required to provide clear disclosure around their reporting boundaries and the process used to determine them.

While we are supportive of a prioritization based on sectors, ideally, we would like to see a broader set of issuers captured in the universe of mandatory reporters, as discussed in (2b) below.

(b) If you disagree with a prioritisation based on industry classification, please suggest alternatives (for example, based on size, which may be pegged to the issuer's listing board (i.e. Mainboard or Catalist), market capitalisation or other thresholds).

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

As discussed in (2a) above, we agree with SGX's prioritization model of mandating sectors most affected by climate-related risk to provide TCFD-aligned disclosure first. However, we believe that climate risk ultimately affects all companies, and it is to the benefit of not only the companies and investors, but SGX as an exchange, to have more of its issuers adopt an effective framework to report on how this systemic risk is being managed.

Therefore, we would urge SGX to provide more clarity on how it plans to expand the universe of mandatory reporters in FY2024. We are supportive of the market cap threshold approach suggested in this question, irrespective of the issuer's listing board.

Question 3: Amendments to Incorporate TCFD Recommendations

Do you agree with the proposed amendments to incorporate the TCFD Recommendations in the sustainability reporting regime in the Listing Rules?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

We agree that TCFD should be incorporated into the existing primary components stipulated in the SR Regime (Listing Rule 711B). We believe that the TCFD framework is a helpful tool that guides companies in providing financially material and investment decision-useful information around a) the governance, b) strategy, c) risk management, as well as d) the key metrics and targets to manage climate-related risks and opportunities most material to the business. As noted in our answer to Q1, we believe that the TCFD framework with these four pillars covering 11 recommendations are helpful guidance to companies in meeting investors' informational needs on sustainability risk and opportunity, including that related to climate.

However, BlackRock recognizes that the data and methodologies that TCFD recommends, such as the disclosure of Scope 3 emissions or the conducting of scenario analysis, are still being developed and hence more difficult to mandate. We recommend a phased approach be adopted for mandating disclosures around Scope 3 and any other quantitative disclosures where data and methodologies are still developing. It would be important for such quantitative disclosures to be accompanied by clear explanations of the associated limitations to which the data is subject, including challenges the issuer faced in preparing the disclosure as well as the steps taken (or intended to be taken) to address them. We suggest that this is an area on which the SGX could provide more guidance to issuers.

Furthermore, given that the data and methodologies associated with full TCFD-aligned reporting are still evolving, we recommend that reporting of the suggested metrics should be paired with a 'safe harbour' for issuers (i.e. relief from strict liability for its accuracy). This will likely encourage issuers to disclose more, without worrying about penalty for problems or limitations that are beyond the issuer's control and which proper due diligence could not prevent.

Lastly, we would suggest SGX to establish a formal feedback mechanism for both companies and investors so that their collective experience as reporters and users of the report can feed into any refinements SGX might make in the future.

Question 4: Sustainability Reporting Frameworks and ESG Indicators

Do you agree that SGX should not, at this current juncture, prescribe specific sustainability reporting frameworks and environmental, social and governance indicators against which issuers should report?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

We agree that SGX should not, at this current juncture, prescribe specific sustainability reporting frameworks that issuers should report their ESG performance against, given the current harmonization trend of reporting standards that are underway.

Until a global set of standards for ESG indicators is established, we suggest SGX to recommend the TCFD framework as a guide for corporate disclosure on the broader range of ESG factors, requiring sustainability reporting that describes how ESG risks and opportunities are governed, reflected in strategy, integrated into risk management practices and measured (i.e. metrics and targets).

In addition, we believe that it is important to highlight to issuers that investors are looking for disclosure that is supported with metrics that are sector-specific, financially material, and relevant to the investment decision-making in that they help explain how a company creates value and manages risk, such as those developed by the Sustainability Accounting Standards Board (SASB).

Question 5: Guideline on Materiality

Do you agree that the working guideline on materiality, as stated in the Sustainability Reporting Guide, should be retained?

Please select one option:
☒ Yes

☐ No

(http://rulebook.sgx.com/rulebook/practice-note-76-sustainability-reporting-guide)

Please give reasons for your view:

Yes, at this stage, we support retention of the Working Guideline on Materiality in its current form as it focuses on the business and investors' decisions. The Working Guideline is relevant to issuers, especially those who are new to sustainability reporting, to report on the most material ESG risks and opportunities that will act as barriers or enablers to achieving business goals across a range of time horizons.

However, we recognize that materiality could change over time based on facts and circumstances, local regulations, and an increased understanding of the drivers of risk and value in a company's business model.

As such, we recommend the Working Guideline on Materiality to encourage issuers to review the materiality-related guidance by the GRI, TCFD and SASB (as well as other widely accepted sustainability standards and frameworks), which would include a broad range of financial and non-financial factors that reflect the organization's wider impacts on the economy, environment and people.

Question 6: Assurance

(a) Do you agree that issuers should be required to subject their sustainability reports to internal assurance? If so, do you agree that the scope should minimally include assurance on whether data being reported is accurate and complete?

Please select one option:
☐ Yes
☒ No

Please give reasons for your view:

We recognize that some companies get their sustainability reports assured. It is important that companies clearly disclose what components of the report have been assured, against what standards, and why. Until we have a standardized assurance framework, we are cautious on mandating internal and/or external assurance of sustainability disclosures, as this could provide an unnecessary burden for companies currently navigating a potentially confusing space of evolving standards. An unintended outcome of that could be companies being incentivized to report less, than more. Similarly, unexplained claims of assurance may give investors and other users a misplaced sense of confidence in a company's sustainability reporting.

However, even if assurance is not mandatory, we believe companies should produce their sustainability reports with the same standard of rigor and controls as they observe in producing financial reporting.

Therefore, we believe that SGX could provide useful guidance around the role of the audit committee in ensuring the accuracy and integrity of the sustainability information being disclosed.

(b) Are there any aspects of the sustainability report that should be subject to external assurance?

Please select one option:
☐ Yes
☒ No

Please give reasons for your view:

Please refer to the answer above

(c) Should issuers be required to disclose in the sustainability report that internal assurance or external assurance has been conducted? If so, please suggest the content of such disclosures.

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

Should companies decide to get their sustainability reports assured, we agree that issuers should be required to disclose this information in their sustainability report. The disclosure should include:

- The scope of assurance (including the data points used to prevent blanket assurances of sustainability reports)
- Name of employees/board committees or members responsible for oversight and signing off/approval of the report (for internal assurance),
- Name of external assurer employed, if any
- Any alignment with recognized assurance standards (such as ISAE 3000, SSAE 3000, AA 1000, the ISO, or the GRI)

Question 7: Training for Directors

(a) Do you agree that the mandatory training for directors that have no prior experience as a director of an issuer listed on the SGX-ST ("**First-time Directors**") should include a specific component on sustainability? If so, please provide your views on the specific topics relating to sustainability that should be covered?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

We agree that First-Time Directors should undergo training on sustainability-related issues, including but not limited to the key concepts in sustainability and climate change, TCFD Recommendations, directors' duties and responsibilities to stakeholders, the details and implications of Singapore's Corporate Governance Code, as well as materiality of ESG issues relevant to the company and its sector.

(b) Do you agree that all directors (regardless of whether they are First-time Directors) must undergo a prescribed one-time training on sustainability?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

Given how fluid and rapidly evolving regulatory changes, disruptive innovative technologies and shifting consumer trends can be, we believe that a one-time training may not equip directors with the necessary skills or knowledge required for them to discharge their responsibilities effectively. We believe that, at the very least, directors directly responsible for the oversight of sustainability issues, including members of dedicated sustainability committees, should undergo regular refresher trainings of sustainability-related knowledge and skills to stay abreast of trends. Furthermore, the type and nature of trainings that the directors undergo should be publicly disclosed in the company's sustainability report.

Question 8: Reporting Timeframe

(a) Do you agree that the sustainability report should be issued together with the annual report?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

We welcome the proposal that issuers should publish their sustainability report together with their annual report (at least 14 days before their Annual General Meetings). Shareholders look specifically at companies' sustainability reports to gain an understanding of the company's sustainability initiatives, as well as its management of a broad range of material issues traditionally defined as 'non-financial' risks. Increasingly, for investors, the materiality of sector-specific sustainability risks to long-term investment returns, the assumptions underlying a company's financial reports are of paramount importance. As such, having companies provide timely, accurate and comprehensive reporting on both financial statements and sustainability risks together increases the usability and relevance of both data sets, which in turn enhances shareholders' ability to understand and assess these relevant risks and opportunities in conjunction with companies' financial information.

Furthermore, on a practical front, having companies align their sustainability reporting cycle to the existing annual financial reporting regime is simply more efficient for both the company and users of the report. As part of their fiduciary duty to discharge their stewardship and voting responsibilities, investors are increasingly monitoring companies' disclosure and management of sustainability-related issues to determine whether or not to support the re-election of directors at the company's AGM. Having the sustainability published at least 14 days before the AGM would mitigate instances where shareholders would have to base their analysis on outdated information.

(b) Do you agree that issuers who conduct external assurance should be allowed to follow the existing reporting timeline (i.e. option of issuing a full standalone sustainability report within five months of the end of the financial year, with a summary included in the annual report)?

Please select one option:
☐ Yes
☒ No

Please give reasons for your view:

We do not believe that there should be a disclosure lag of a month for issuers who have conducted external assurance for their sustainability reports. Timely information to material sustainability data is crucial for investors prior to the company's annual general meeting.

Furthermore, we believe that sustainability assurance can be planned accordingly ahead of time for simultaneous publication with the Annual Report, similar to how interim audits are conducted for financial reporting (done on a quarterly basis).

Question 9: Board Diversity

(a) Do you agree that issuers must set and disclose their board diversity policy in their annual reports?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

BlackRock believes that diversity and the inclusion of different perspectives for board discussion and decision-making play a vital role in enabling quality leadership and financial performance in a company. As such, we expect boards to disclose their board diversity policy including their approach, actions, and progress towards achieving diverse representation, including the demographic profile of the incumbent board. This allows investors and other stakeholders to assess whether they consider the approach taken by the company to be appropriate given the business and the broader context in which it operates.

However, we do not believe in being overly prescriptive on the format or medium that the issuer chooses to disclose its board diversity policy, as long as they are regularly updated and readily accessible for stakeholders. For instance, we have seen Singaporean issuers address board diversity-related issues in standalone Sustainability Reports, Corporate Governance Reports or on their website, in addition to annual reports.

(b) Do you agree that gender should be an aspect of diversity encapsulated within issuers' board diversity policy? What other aspects, if any, must be mentioned?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

We believe that the board's own approach and definition of the different aspects to diversity should be disclosed within its board diversity policy – of which, we agree that gender should be an aspect that is being considered. This is in line with significant strides in the last five years advancing gender diversity in the boardroom, following voluntary initiatives and mandatory quotas in markets such as the US, Canada, Australia, the UK, and the European Union. Locally in Singapore, BlackRock is also a partner to the Council for Board Diversity (CBD), which encourages an increase in the number of women on boards of listed companies, statutory boards and non-profit boards. The CBD has targets for companies to achieve 20% women on board in 2020, 25% by 2025 and 30% by 2030. As such, in response to both global and local trends and increasing scrutiny, we believe that gender diversity should be an aspect of diversity explicitly encapsulated within issuers' board diversity policy.

However, we believe that there are multiple dimensions to diversity which should also be considered, and this includes, but is not limited to, professional characteristics such as a director's industry background, area of expertise and geographic location of said expertise, as well as personal factors such as ethnicity and age.

(c) Do you agree that issuers' disclosure in their annual reports on their board diversity policy must contain targets for achieving the stipulated diversity, accompanying plans, and timeline for achieving the targets?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

We agree that targets for achieving stipulated diversity, accompanying plans and timeline for achieving the targets should be embedded within issuers' board diversity policy as it allows shareholders and other stakeholders to consider the company's commitment to diversity. For instance, the disclosure of time-bound targets would allow us to assess the issuer's alignment with market-level expectations (for example, alignment to the CBD targets for Singaporean-listed issuers) to determine if the approach taken by the company to be appropriate given the business and broader context in which the company operates.

(d) Apart from targets, accompanying plans and timeline for achieving the targets, what other component, if any, must be part of the issuers' disclosure on their board diversity policy?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

On top of targets, accompanying plans and timeline, we suggest that issuers should include disclosure on:

- The board's approach to refreshment and the extent to which diversity is a consideration
- Disclosure on the steps the Nominating Committee (or equivalent) is taking to enhance board diversity; for example, having a slate that includes diverse candidates
- The director appointment or nomination process and how unconscious biases may be addressed
- If search firms or recruitment consultants are used to identify candidates, whether the Nominating Committee (or equivalent) assessed the consultant's networks and expertise in finding and placing diverse directors, especially first-time directors
- How the board integrates the variety of perspectives its members bring to facilitate inclusive leadership

(e) Do you agree that issuers should be required to disclose in their annual reports as part of the board diversity policy, how the combination of skills, talents, experience and diversity of directors on the boards serve their needs and plans?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

We believe that issuers should conduct regular assessments and disclose a skills-set matrix identifying gaps in skills or experiences amongst board members. Boards should utilize this matrix and take into consideration the diversity of experience, expertise and perspectives of the current directors and how that might be augmented by incoming directors.

Question 10: Implementation

Do you agree with the implementation timeline? If not, please elaborate and propose alternatives.

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

We believe that the phased implementation provides sufficient time for issuers to prepare for enhanced disclosure, assurance, and training requirements. However, it is important to note the evolving nature of sustainability reporting, and that amendments/updates from SGX should be expected given the many sustainability reporting initiatives globally, including the International Sustainability Standards Board (ISSB)'s project to set the IFRS sustainability standards. Furthermore, it is important that the SGX should also adopt a pragmatic approach to the enforcement of the rules that recognises and does not penalise genuine efforts to comply with the rules.