

Ms Yeo Lian Sim / Mr Richard Ooi / Mr Michael Tang
Singapore Exchange Limited
11 North Buona Vista Drive
#06-07, The Metropolis Tower 2
Singapore 138589

By email: sustainability.reporting@sgx.com

4th February 2016

Dear Ms Yeo, Mr Ooi and Mr Tang,

Response to Consultation on Sustainability Reporting: Comply or Explain

We are pleased to have the opportunity to comment on the Singapore Exchange's consultation on sustainability reporting.

By way of background, Hermes is one of the largest asset managers in the City of London, and is wholly owned by the BTPS, the UK's largest corporate pension scheme. As part of our Equity Ownership Service (Hermes EOS) we also respond to consultations on behalf of many clients from around Europe and the world, including Environment Agency Pension Fund (Only those clients which have expressly given their support to this response are listed here). In all, Hermes advises over 40 clients with regard to assets worth a total of over £154.7 billion (as at 31 December 2015).

We believe that sustainability reporting is increasingly important for investors worldwide as well as other stakeholders, as there is significant evidence that effective management of environmental, social and governance (ESG) risks and opportunities can contribute to long-term success of businesses. We therefore firmly endorse the proposal to move sustainability reporting from voluntary to a 'comply or explain' basis as well as the emphasis on materiality in reporting. We would however question the rationale for prioritising anti-corruption and diversity over other ESG factors in reporting. We would also like to see active oversight of the board of the management and reporting on ESG issues, rather than merely approving material ESG factors.

We answer and comment on some of the questions below. Our answers to the other questions are all positive and we do not need to add specific comments on them. Should you have any questions, please do not hesitate to contact me at Sachi.suzuki@hermes-investment.com or +44(0)20 7680 2196.

Yours sincerely,



Sachi Suzuki
Manager – Engagement

Question 1: 'Comply or explain' basis

Having previously supported the introduction of the Policy Statement on Sustainability Reporting and voluntary reporting in 2010, we believe it is the right time for SGX to move on to a more demanding framework. The use of a 'comply or explain' approach, rather than a legal requirement is appropriate as it will provide companies the flexibility as well as the opportunity to demonstrate individuality in reporting. We would like to emphasise that in case a company chooses to explain rather than comply, it should do so providing details specific to its circumstances and not use boilerplate statements. We would encourage SGX to ensure meaningful reporting by companies through ongoing monitoring and education.

Question 3: Primary components

We generally agree with the suggested points and believe that many companies will benefit from using a sustainability reporting framework as a guide. We feel however that it may not be necessary to explicitly require companies to select such a framework because those which already have substantial experience in sustainability reporting may not need to rely on a specific framework for guiding their reporting. Companies that choose to report in their own style – as long as material issues are adequately addressed – should not be penalised for not complying with a standardised model.

Question 4: Stakeholder engagement

Although we agree with the statement that stakeholders should be engaged, we believe that their role should go beyond determining or verifying material ESG factors. We think it would be helpful if it was made clearer that where material ESG issues are identified, relevant stakeholders – particularly those directly affected – should be involved in the progress made in resolving the issues. The reporting therefore should include details of these processes and most importantly the outcome of such engagement.

Question 6: Anti-corruption and diversity

While we agree that issues of anti-corruption and diversity are important issues globally, we are unclear as to why these issues should be given priority over other ESG issues. In particular, corruption does not seem to be a major concern in Singapore. We do not see the need for particular emphasis on these issues and think that highlighting them could risk diverting attention from other material issues. We believe it is best to leave individual companies to decide which issues are most material for them in the context of their business operations and industries they are in.

Question 7: Responsibility of the Board

We strongly agree that the boards are collectively responsible for the long term success of companies. We expect them to take active roles in leading sustainability discussions and addressing specific ESG challenges and opportunities, rather than merely 'consider' or 'approve' them, as proposed in the consultation paper. We therefore suggest a clearer requirement as to their leading role in this area. hans