

FinancialQuotient

What is sustainability reporting?

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WHAT DOES IT MEAN?

Sustainability reporting refers to the public disclosure of a company's practices in environmental, social and governance (ESG) areas.

Annual sustainability reporting

has become mandatory on a "comply or explain" basis for companies on the Singapore Exchange since June 2016.

The critical components in the report include: material ESG factors; policies, practices and performance with these factors; next year's targets for each material fac-

tor identified; the reporting framework used; and the board statement on the sustainability issues.

WHY IS IT IMPORTANT?

Unlike financial reporting, which is more quantitative, sustainability reporting is more descriptive and qualitative. It explains how the busi-

ness is conducted sustainably and responsibly at present and going forward. Such information has been increasingly demanded by investors who care about these issues.

More importantly, sustainability reporting might reveal essential risk factors as well as opportunities

that affect future returns. As such, it helps in thoroughly evaluating the prospects of the company.

For example, a company's responsible environmental practices in reducing greenhouse gas emissions and carbon usage would help save the operational costs or taxes as the Singapore Government is imposing a carbon tax on all corporates from this year.

To have a good gauge of the report's potential impact on the valuation of a company's stocks, textual analysis or benchmarking against some industry or country averages has to be conducted. There are more than a dozen leading sustain-

ability benchmarks and indexes used to capture the most sustainable companies around the world, such as Dow Jones Sustainability indices, FTSE4Good Index Series and MSCI ESG Leaders Indexes.

IF YOU WANT TO USE THE TERM, JUST SAY:

"Sustainability reports are useful in evaluating the risk and expected return of investments."

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