PLCs will be subject to higher sustainability reporting standards soon

BY **ADELINE PAUL RAJ**

Two upcoming developments are expected to have an impact on Malaysian public listed companies' (PLCs) sustainability disclosures and will ultimately help investors make more informed investment decisions, experts say.

One is a move by the International Sustainability Standards Board (ISSB), which had on March 31 released its first two proposals outlining the sustainability disclosure standards of its parent body, the International Financial Reporting Standards (IFRS) Foundation. Another is a development by Bursa Malaysia that will have an impact on how and what companies disclose.

ISSB's first proposal, known as IFRS S1, would require companies to disclose information about all of their significant sustainability-related risks and opportunities. The second, IFRS S2, focuses on climate-related risks and opportunities.

Both proposals are open for consultation until July 29, after which the ISSB aims to issue the new standards by the end of the year, subject to feedback.

Once the ISSB proposals are finalised, they will form a comprehensive global baseline of sustainability disclosures designed to meet the information needs of investors when assessing enterprise value, notes consulting group PwC.

But whether countries and territories end up adopting this proposed unified approach to sustainability reporting remains to be seen. "That is a space to watch," PwC Malaysia partner Herbert Chua, who leads the sustainability reporting and assurance practice, tells *The Edge* in an interview.

The IFRS — which sets global accounting standards — had set up the ISSB in response to growing calls for transparent, reliable and comparable reporting by companies on environmental, social and governance (ESG) matters.

According to global legal firm Herbert Smith Freehills (HSF), the proposed ISSB standards mark an important step in reaching a unified approach to ESG reporting. At present, there is a myriad of international, national, voluntary and mandatory standards.

"These varying levels of application and enforcement create a globally fragmented view of ESG reporting. This is a challenge for corporates in terms of their reporting and which standards they can and should adopt, in addition to mandatory requirements. It also creates a challenge for investors and other capital market participants in ensuring they obtain relevant information about corporates to discharge the increasing number of ESG-related obligations being imposed on asset owners," HSF said in a report last month.

In Malaysia, sustainability reporting has been mandatory for all PLCs since 2016.

Bursa requires listed firms to disclose narrative statements of the management of material economic, environmental and social risks and opportunities in their annual report.

Currently, there is no one consistent sustainability reporting framework mandated by Bursa, but this is about to change, says Chua.

"There is an 'alphabet soup' of standards out there. There's the GRI (Global Reporting Initiative), the TCFD (Task Force on Climate-related Financial Disclosures) and the IR (Integrated Reporting), among many others, that companies can choose from. One company may opt for GRI, while another in the same industry may opt for TCFD, so you can see [how comparability can be an issue for investors]," he adds.

A study by PwC Malaysia of Bursa's top 100 companies by market capitalisation showed that the GRI was the most adopted standard, while TCFD was becoming more popular, Chua notes.

"But, if you look at the rest of the Bursa-listed companies — just based on a random perusal of annual reports — a lot of them just tell their sustainability story without referencing any particular standard or framework. Nothing wrong [with that] as Bursa has never mandated that you must apply a particular one.

CONTINUES NEXT PAGE

PWC

Sustainability reporting requirements in Malaysia

PRESENT

- Under listing rules, companies must disclose narrative statements of the management of material economic, environmental and social risks and opportunities in annual reports.
- No one consistent ESG framework mandated by Bursa Malaysia, although GRI (Global Reporting Initiative) remains the most popular. Bursa issued a Sustainability Reporting Guide in 2015 and a second edition in 2018 to help embed sustainability in reporting. Compliance with the guide is voluntary.
- The Malaysian Code on Corporate Governance was updated in 2021, with more granular corporate disclosures, e.g. target setting, gap analysis, and actions to close the gaps are expected.

UPCOMING

- In March, Bursa released a consultation paper on key proposals, e.g. requiring disclosure of prescribed sustainability matters and indicators aligned with TCFD recommendations.
- Securities Commission Malaysia five-year Capital Market Masterplan 3 (2021) reinforces its commitment to climate action e.g., promoting greater transparency in the market through disclosures.

TCFD currently most popular standard

FROM PREVIOUS PAGE

"But, that is going to change because Bursa recently issued a public consultation paper that basically seeks to mandate a certain form of reporting for PLCs in Malaysia," he adds.

Bursa's proposed amendments

The consultation paper, which was issued on March 23, is the other development that will have an impact on how and what companies disclose. The deadline for public feedback ended recently, on May 18.

One of the key things Bursa proposed in the paper was to require all Main Market-listed companies to provide climate change-related disclosures that are aligned with TCFD recommendations.

"It plans to incorporate TCFD as one of the standards for Malaysian companies to comply with in the future. This is likely to take place probably two to three years down the road. The standard implementation date is 2024, but again this is subject to [feedback] and whether or not they have the willpower to push through this particular regulation in the near future," says Chua.

He points out that the "hot" standard at the moment seems to be TCFD. Even the ISSB's proposals are crafted along the lines of TCFD as a starting point, which the body will later expand and build on, he says.

On April 30 last year, Bank Negara Malaysia issued a guidance document on climate change and principle-based taxonomy. This will see financial institutions having to work towards adopting stretch recommendations that are fully aligned with TCFD disclosures by 2024.

"In a sense, because of Bursa and Bank Negara's push on gradual advancement in sustainability [disclosures], the IFRS requirement is not something that is totally new for our listed companies. They would already have a foundational background on materiality concepts and they would already have baseline disclosure. However, the necessary step up would be to measure the impact of material sustainability matters to enterprise value," Arina Kok, director of climate change and sustainability services at Ernst & Young Advisory Services, tells *The Edge*.

The efforts by the regulators are ultimately aimed at elevating the sustainability practices and disclosures of Bursa-listed companies.

"It's a case of two different worlds that I see among the PLCs in Malaysia in terms of disclosures. The ones that are really serious are on a par with the global companies, while the rest, the majority, are just doing it for the sake of doing it," PwC's Chua says. Nevertheless, he opines that within Asia, Malaysia, Singapore and Hong Kong are "broadly quite good" in terms of sustainability reporting.