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A drone view shows vessels at the Strait of Hormuz, as seen from Musandam, Oman. The Iran war effectively shut the Strait of Hormuz, which is the main passageway for the transport of oil and gas.

ESG MOVING INTO A MORE PRAGMATIC PHASE

By Tan Zhai Yun

Since the concept of ESG took off after the Covid-19 pandemic, observers have pondered over its longevity and impact, even as companies began hiring chief sustainability officers and global standards for sustainability reporting, carbon credits and net-zero targets were introduced.

The biggest challenge came when Donald Trump became the US president in 2025 and denounced the sustainability and climate-related agenda, pulling the country out of the Paris Agreement. He also launched a trade war, the effects of which countries and businesses are still grappling with today.

The Iran war that broke out this year and the subsequent energy crisis added to the list of challenges that they must address urgently, most likely ahead of ESG, climate and sustainability issues.

ESG approached various industry players to get their thoughts on future trends, and a few common threads emerged.

One is that as the sustainability reporting standards IFRS S1 and S2 are increasingly being adopted globally — including in Malaysia, through the National Sustainability Reporting Framework (NSRF) — some companies are treating ESG merely as a compliance measure, thus negating the true purpose of the reporting exercise, which is to inform business strategies.

Another trend is that for some companies, ESG is moving out from the sustainability department into other functions, such as finance, risk, procurement, operations, legal and strategy, which one interviewee describes as the "institutionalisation of ESG" instead of the "weakening of ESG".

Thirdly, the regulations are going beyond sustainability reporting into fund labelling, product-level disclosures and nature-related reporting in some jurisdictions.

"Despite some policy pushback, regulatory delays and wider economic headwinds, 2026 has seen continued — if uneven — momentum in the expansion of ESG regulation globally," says Tamara Tisminetzky, director of research at data provider Sustainable Fitch.

"Early 2026 marked another step toward a global baseline, particularly as sustainability reporting converges around the ISSB (International Sustainability Standards Board) standards, but with material differences in timing, scope, and enforcement across markets."

DISTINGUISH BOILERPLATE SUSTAINABILITY REPORTS FROM GENUINE LEADERSHIP

Over 40 jurisdictions around the world now have or are finalising mandatory climate-related disclosure rules, and 70 require some form of ESG reporting, according to Sustainable Fitch.

This reflects the demand by investors and regulators for consistent and comparable data on sustainability risks and opportunities, despite pushback against these policies.

Many are phasing in requirements for large and listed companies first, before extending it to small and medium enterprises (SME), who are already exposed to these requirements by being part of the supply chain.

Most jurisdictions are prioritising mandatory climate-related disclosures — governance, strategy and Scope 1 and 2 greenhouse gas (GHG) emissions — ahead of broader topics such as biodiversity, social and supply chain issues, which are being phased in, left out voluntary or addressed later, according to Sustainable Fitch.

With the expansion of ESG and sustainability regulations, especially in the last two years, compliance with disclosure requirements has become a dominant driver of company action, says Tisminetzky.

While this brings structure, consistency and decision-useful data to markets, there is a risk that sustainability reporting may become a backward-looking box-ticking exercise.



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Tisminetzky, Sustainable Fitch

"Faced with complex and evolving rules, many companies are prioritising compliance — especially for climate-related disclosure, which is maturing more quickly than broader sustainability topics," she says.

Adding to that, the proliferation of artificial intelligence (AI) tools and consultants makes it easier for companies to produce compliant reports. The downside is that it could create a disconnect between disclosures and actual business decision-making.

"In other words, compliance is the floor, not the ceiling. For reporting to drive real impact, companies need to link disclosure to decision-making: integrating ESG insights into risk management, strategy, capital allocation and stakeholder engagement," she says.

"Regulators are responding by gradually tightening assurance requirements and demanding evidence of integration, not just data. Meanwhile, investors and markets are learning to distinguish between boilerplate reporting and genuinely strategic sustainability leadership."

EMBEDDING ESG INTO KEY PROCESSES AND POLICIES ACROSS DEPARTMENTS

Despite less noise around ESG this year, Andrew Chan, partner and sustainability leader at PwC Malaysia, believes that the conversation has moved from headline announcements to a more pragmatic focus.

This means more recognition of ESG as a strategy to reduce risks, lower costs, increase efficiency and unlock new opportunities.

At least, this is the perspective among companies that are sustainability leaders.

"More often than not, we observe the laggards viewing ESG as a compliance requirement and a cost of business, as part of their focus in meeting regulatory requirements. The leaders are moving from the ESG commitment and strategy phase to value creation and implementation," says Chan.

"This phase is defined by embedding ESG into key processes and policies, and ultimately integration into financial management systems. Finance, risk and operations are key functions where ESG needs to be embedded."

He sees this as a maturation of ESG, where the focus is on extending responsibilities for ESG value creation into vital business functions.



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Indonesian firefighters in South Sumatra.

High temperatures and dry conditions this year has resulted in raging wildfires in many countries.

This is echoed by Supun Nigamuni, managing director of Control Union for Malaysia and Papua New Guinea, which specialises in testing, inspection and certification services.

Malaysia is an open and trade-dependent economy embedded in global supply chains, which means it must answer to the needs of foreign regulations, multinational customers, banks and investors.

As such, larger listed and internationally exposed companies in Malaysia have integrated sustainability into their enterprise risk management, capital allocation and strategic planning, Supun observes.

Another group of companies are primarily compliance-driven and are strengthening their reporting systems to adhere to the NSRF.

"The third group still treats ESG as branding: awards, volunteering, tree planting and attractive sustainability reports, with limited connection to business decisions," says Supun.

He believes that the real transition in Malaysia will be from "promotional ESG to operational ESG", and there might be less use of the term "ESG". Rather, the conversation would revolve around specific topics, such as the management of energy and operating costs, climate and supply chain risk and circularity and resource efficiency.

"These are ESG issues, even when the ESG label is removed. ESG in Malaysia is becoming less theatrical and more transactional," says Supun.

MORE 'DISCLOSURE-USEFUL' INFORMATION

The shift in the narrative is also driven by the IFRS S1 and S2 standards, which have to be implemented by large Main Market-listed companies under the NSRF this year, with full adoption expected by 2027.

It is aimed at presenting sustainability-related information that is useful for investors, demanding companies to disclose sustainability-related financial risks.

"This is already changing internal ownership of reporting. Finance teams, boards, risk functions, audit committees and internal auditors are becoming more involved because sustainability disclosures must ultimately connect with financial reporting, enterprise risk and corporate governance," says Supun.

This helps create clearer linkages between sustainability matters and financial outcomes, adds Chan, which would help management and boards make better decisions.

"One of the long-standing challenges in sustainability reporting has been the availability of reliable, comparable and meaningful ESG data, making it difficult to clearly demonstrate the connection between sustainability performance and business value," says Chan.



CONTROL UNION

"The principle should be straightforward: if a company is systemically or economically significant, its sustainability-related risks should not remain invisible merely because it is privately owned."

Supun, Control Union

The reporting standards also have a forward-looking element, requiring a company to assess how it is positioned to manage sustainability-related risks and opportunities. AI is helpful, in this case, to gather large amounts of information and provide useful analyses.

But this is only possible if the data input is credible and validated, with controls in place to protect sensitive information.

Supun cautions, however, that AI can contribute to weak reporting if the underlying data is unreliable. He

returns to the point that companies need to have ownership of the process, instead of merely outsourcing it to AI and third parties.

"It cannot determine management's risk appetite, approve assumptions or accept responsibility for disclosures," says Supun.

"The same applies to consultants. Consultants can support methodology, systems and drafting. They cannot become the de facto owner of the company's sustainability strategy."

UPCOMING TOPICS OF ASSURANCE, NON-LISTED COMPANIES AND NATURE REPORTING

Earlier this year, the Companies Commission of Malaysia started a public consultation to amend the Companies Act 2016 and compel large non-listed companies (NLC) to begin sustainability reporting. Under the NSRF, they are supposed to begin reporting by 2027.

Supun suggests that the same reporting burden for public-listed companies (PLCs) should not be imposed on NLCs, with clear sector-specific guidance, capacity building and proportionality for less complex companies.

"The principle should be straightforward: if a company is systemically or economically significant, its sustainability-related risks should not remain invisible merely because it is privately owned," says Supun.

Another public consultation was issued this year by the Advisory Committee on Sustainability Reporting for the proposed Sustainability Assurance Framework, which would align with the international ISSA 5000 standard.

This addresses a common criticism of sustainability reporting: without assurance, there is little confidence that the information reported is reliable and true.

While lauding this as a good move, Supun observes that the proposed oversight model creates a de facto preference for traditional financial audit firms, although the international standard is explicitly profession-agnostic.

"For example, the proposed oversight model places sustainability assurance providers under the Audit Oversight Board, whose mandate and institutional expertise have historically focused on financial audit firms," says Supun.

The competency pathways, he adds, place emphasis on audit experience, ISSB reporting, assurance methodology and financial reporting connectivity, "while giving comparatively less attention to technical competence in sustainability disciplines such as climate science, greenhouse gas accounting, biodiversity, environmental management, engineering, forestry, life-cycle assessment and supply-chain due diligence".



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Chan, PwC Malaysia

Such a move would reduce competition in the market and underutilise competent sustainability assurance bodies already accredited under international standards such as ISO/IEC 17029, ISO 14064, ISO/IEC 17065 and ISO/IEC 17020, increase assurance costs and constrain market capacity just as Malaysia moves towards mandatory assurance, he adds.

Another global trend that is developing is the expansion of sustainability reporting to nature-related topics, which is now included in IFRS S1 rather than the originally proposed standalone S3.

Nature-related reporting is highly relevant to Malaysia. Chan points to research by PwC and the Asia Investor Group on Climate Change that found 54% of Bursa Malaysia's market capitalisation moderately or highly dependent on nature.

Nature-related risks could be financially material to sectors such as plantations, agriculture, mining, property development, infrastructure, tourism and banks that finance these activities.

"However, the nature topic is more complex than GHG emissions disclosures. This includes needing to consider the greater subjectivity on value resulting from the different nature impacts and services," says Chan.

"As such, there will be greater variability in measurement approaches and disclosures, which will require regular engagement between key data users and preparers to refine the information reported and improve its relevance over time."

Supun echoes Chan's thoughts, adding that nature reporting will require stronger geospatial, asset-level and supply chain information.

"My expectation is that initial adoption in Malaysia will be led by financial institutions, plantations, extractive industries, food businesses and companies exposed to international supply-chain requirements," says Supun.

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