

Take 5

for business

Volume 13 Issue 1 - 15 March 2024

Aligning to the IFRS sustainability disclosure standards: IFRS S1 and S2

Malaysia's National Sustainability
Reporting Framework (NSRF)

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. Above the 'Y' is a yellow chevron shape pointing to the right.

Building a better
working world

Malaysia commits to sustainability reporting

Addressing climate change requires collaborative efforts on a global scale, including standardizing the reporting of environmental impacts and initiatives. In alignment with the new global sustainability reporting standards, the Securities Commission Malaysia (SC)'s Advisory Committee on Sustainability Reporting (ACSR) has released a Consultation Paper and is seeking public feedback to incorporate the sustainability and climate-related International Financial Reporting Standards (IFRS) S1 and S2 standards by the International Sustainability Standards Board (ISSB) into Malaysia's National Sustainability Reporting Framework (NSRF).

The ACSR was formed in May 2023, with the endorsement of the Ministry of Finance to assess the use and application of the standards issued by the ISSB, specifically IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information and IFRS: S2 Climate-related Disclosures, collectively referred to as the ISSB Standards, and a sustainability assurance framework in Malaysia.

The consultation paper proposes that the reporting requirements for IFRS S1 and S2 shall apply to public listed companies (PLCs) and large non-listed companies (NLCos), with annual revenues of RM2b and above. The ACSR also encourages participation from mid-tier companies, and small and medium-sized enterprises (SMEs). The public consultation process is scheduled from 15 February to 21 March 2024.

Malaysia: Disclosure of sustainability and climate-related risks and opportunities

2023

- ▶ In June 2023, the ISSB introduced its initial sustainability standards, IFRS S1 and S2, with the objective of standardizing the disclosure of sustainability and climate-related risks and opportunities.
- ▶ ACSR was formed - comprising SC, Audit Oversight Board (AOB), Bursa, Bank Negara Malaysia (BNM), Suruhanjaya Syarikat Malaysia (SSM), Financial Reporting Foundation (FRF).
- ▶ The ACSR also established a Consultative Group comprising representatives from key stakeholders including preparers, investors and assurance providers to gather feedback in preparation for the public consultation paper.

February 2024

2025-2030

- ▶ ACSR published a consultation paper to propose the NSRF.
- ▶ Proposed implementation of Malaysia's National Sustainability Reporting Framework.
- ▶ Potential amendment to Bursa Malaysia's listing requirements.
- ▶ Potential amendment to relevant legislation(s).

Sources:

- ▶ Securities Commission Malaysia, Advisory Committee On Sustainability Reporting (ACSR) Public Consultation Paper No. 1/2024
- ▶ Proposed National Sustainability Reporting Framework, 15 February 2024

Global trend toward adopting sustainability reporting

In Malaysia, the current climate reporting requirements, specifically the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) for listed companies and financial institutions, affirm Malaysia's ongoing commitment to transparent and comprehensive reporting on climate-related disclosures. To remain competitive in the global supply chain and to continue to attract foreign direct investments, Malaysia's alignment with international reporting standards is integral.

ACSR's proposed approach for Malaysia's adoption of the standards is on an "as-is" basis to facilitate companies' compliance with the IFRS Sustainability Disclosure Standards, and ensure Malaysia's global competitiveness.

In fact, at the recent Conference of Parties, COP28 conference in Dubai, various regulatory bodies from ASEAN, the European Union, Hong Kong, Japan, the Philippines, Singapore, and the United Kingdom expressed support for the IFRS S1 and S2 sustainability standards and are exploring ways to integrate these standards into their respective regulatory frameworks.

IFRS S1 and S2 adoption status

In Asia Pacific, jurisdictions which have commenced alignment to the IFRS S1 and S2 standards include:

▶ **Singapore**

Listed companies are to adopt S2 for reporting, beginning on or after 1 January 2025

▶ **Australia**

In-scope entities are to adopt S2 for annual reporting periods beginning on or after 1 July 2024

▶ **Philippines**

Public listed companies are to submit Sustainability Report Forms that are aligned to IFRS S1 and S2 covering the reporting year starting 2024

▶ **Indonesia**

Established the:

- ▶ Sustainability Standards Monitoring Board (*Dewan Pemantau Standar Keberlanjutan*)
- ▶ Sustainability Standards Board (*Dewan Standar Keberlanjutan*)

Notes:

- ▶ Adoption plans may be subject to further changes in view of ongoing consultations.
- ▶ Australia and Singapore are applying IFRS S1 only insofar where it applies to climate-related disclosures.



Malaysia: Current sustainability reporting requirements

Malaysian regulators are continuing efforts to bolster the sustainability reporting ecosystem, guided by internationally recognized standards and frameworks for sustainability reporting. The existing sustainability reporting requirements for Bursa-listed issuers set the foundation for the adoption of the ISSB standards, namely IFRS S1 and IFRS S2. These standards are developed on the recommendations of the TCFD.

The Malaysia's current sustainability reporting landscape is as follows:

No.	Existing sustainability reporting requirements	Existing	FYE 31 Dec 2023	FYE 31 Dec 2024	FYE 31 Dec 2025	FYE 31 Dec 2026
1	Prescribed general disclosures including sustainability governance, scope and basis, and the materiality and management of material sustainability matters.	●		●		
2	Eleven common material sustainability matters 1. Anti-corruption 7. Supply chain management 2. Community / society 8. Data privacy and security 3. Diversity 9. Water 4. Energy management 10. Waste management 5. Health and safety 11. Emissions 6. Labor practices and standards		●	●*	●	●*
3	For every material sustainability matter, three years' data (on a rolling basis) for each reported indicator and the performance target (if any) as well as a summary in a prescribed format.		●		●	
4	Statement of assurance		●		●	
5	Climate-related disclosure aligned with the recommendations of the TCFD			●	●	
6	Basic transition plan towards a low carbon economy					●

● Financial institutions ● Bursa Main Market listed issuer ● Bursa ACE Market listed issuer

Notes:

- ▶ FYE 31 December 202X: Annual reports issued for the financial year ending on or after 31 December 202X.
- ▶ *10 waste management and *11 emissions.

What's next in sustainability reporting?

Proposed NSRF: Climate-first approach

The proposed reporting framework for Malaysia's National Sustainability Reporting Framework is as follows:

<u>Adoption scope</u>	IFRS S1 and S2		
<u>Applicable entities</u>	Main Market listed issuers	ACE Market listed issuers	Non-listed companies with revenue RM2b and above
<u>Timelines</u>	<ul style="list-style-type: none"> ▶ FYE on or after 31 December 2025: IFRS S2 with reliefs¹ ▶ FYE on or after 31 December 2026: IFRS S1 with reliefs ▶ FYE on or after 31 December 2027: Full adoption of IFRS S1 and S2 	<ul style="list-style-type: none"> ▶ FYE on or after 31 December 2027: IFRS S2 with reliefs¹ ▶ FYE on or after 31 December 2028: IFRS S1 with reliefs ▶ FYE on or after 31 December 2029: Full adoption of IFRS S1 and S2 	<ul style="list-style-type: none"> ▶ FYE on or after 31 December 2027: IFRS S2 with reliefs¹ ▶ FYE on or after 31 December 2028: IFRS S1 with reliefs ▶ FYE on or after 31 December 2029: Full adoption of IFRS S1 and S2
<u>Additional reliefs</u>	<p>In addition to the proportionality and scalability mechanisms, and transition reliefs granted by the ISSB in IFRS S1 and IFRS S2, additional transition reliefs under consideration include:</p> <ul style="list-style-type: none"> ▶ Two years' relief: Sustainability-related financial disclosures specifically for principal business segments (to address IFRS S1 Para 20 where disclosures shall be for the same reporting entity as consolidated financial statements). ▶ Two years' relief: The effects of sustainability-related and climate-related risks and opportunities on strategy and decision-making. ▶ One year relief: Permissible for the company to use a boundary for other than outlined in IFRS S2 Para 29(iv) for Scope 1 and Scope 2 greenhouse gas (GHG) emissions - disaggregated emissions between the consolidated accounting group and other investees (including associates, joint ventures and unconsolidated subsidiaries). ▶ Two years relief: Option to not disclose Scope 3 GHG emissions (other than business travel (Category 6) and employee commuting (Category 7) that are currently required under Bursa Malaysia's Enhanced Sustainability Reporting Framework). 		
<u>Proposed mandatory assurance</u>	An external limited assurance GHG emissions metrics two years after the mandatory reporting requirements of IFRS S2 take effect.		

Note:

¹Adopt IFRS with reliefs and consequently apply IFRS S1 only insofar as it relates to the disclosures of information on climate-related risks and opportunities.

It is anticipated that **legislative amendments** may be required to enable adoption by both listed-issuers and non-listed companies.

Where necessary, relevant notice in terms of changes to the reporting requirements will be communicated **at least six months** prior to the effective date.

What's next in sustainability reporting? (cont'd)

The core contents of the IFRS S1 and S2 disclosure standards are built on the four TCFD pillars. Companies that are preparing for or have started providing the TCFD-aligned climate disclosures have a reasonable foundation to begin adopting the standards.

	Governance	Strategy	Risk management	Metrics and targets
	Information on the governance processes, controls and procedures that a reporting entity uses to monitor and manage sustainability-related risks and opportunities.	Information on an entity's strategy for managing sustainability-related risks and opportunities.	Information on how sustainability-related risks and opportunities are identified, assessed, managed and mitigated.	Information used to manage and monitor the entity's performance in relation to sustainability-related risks and opportunities over time.
IFRS S1	<p><u>Sustainability-related:</u></p> <ul style="list-style-type: none"> ▶ Board governance, including oversight of targets ▶ Management's role in governance 	<ul style="list-style-type: none"> ▶ Identification of sustainability-related risks and opportunities ▶ Current and anticipated effects on the entity's business model and value chain ▶ Strategy and decision making ● ▶ Current and anticipated effects on the entity's financial position, financial performance and cash flows ● ▶ Resilience of its strategy and business model 	Processes and policies used to identify, assess, prioritize and monitor sustainability-related risks and opportunities	<ul style="list-style-type: none"> ▶ Metrics required by an applicable IFRS Sustainability Disclosure Standard ▶ Metrics the entity uses to measure and monitor the sustainability-related risks and opportunities, and its performance
IFRS S2	<p><u>Climate-related</u></p> <ul style="list-style-type: none"> ▶ Board governance, including oversight of targets ▶ Management's role in governance 	<ul style="list-style-type: none"> ▶ Identification of climate related risks and opportunities ● ▶ Current and anticipated effects on the entity's business model and value chain ▶ Strategy and decision making, including Information on the entity's transition plans (if any) ● ▶ Current and anticipated effects on the entity's financial position, financial performance and cash flows ● ▶ Climate resilience and scenario analysis ● 	<ul style="list-style-type: none"> ▶ Processes and policies used to identify, assess, prioritise and monitor climate-related risks and opportunities ▶ Assessment of the entity's overall risk profile and risk management process 	<ul style="list-style-type: none"> ▶ Climate-related metrics <ul style="list-style-type: none"> ▶ Scope 1, 2 and 3 GHG emissions ● ● ▶ Value or percentage of assets or business activities vulnerable to climate-related risks and opportunities ● ▶ Capital deployment ▶ Internal carbon prices ▶ Remuneration ▶ Industry-based metrics ▶ Climate-related targets set with supporting information on approach, scope, progress

- Available ISSB proportionality and scalability mechanism reliefs
- Proposed additional transition reliefs by the ACSR

What's next in sustainability reporting? (cont'd)

Proposed mandatory independent assurance: Climate-first approach

With sustainable practices influencing capital allocation, companies are incentivized to publish meaningful and impactful sustainability information. However, this trend brings about the risk of greenwashing, leading to a growing skepticism about the reliability of such information. In response to these challenges, external assurance plays a crucial role to address the reporting trust deficit, thereby maintaining confidence in capital markets.

ACSR's proposed approach

The ACSR proposes a climate-first approach for entities in obtaining independent assurance. The potential approach discussed indicate that the assurance requirements will commence with limited assurance of Scope 1 and Scope 2 GHG emissions, two years after the mandatory adoption of IFRS S2.

Current assurance standards

Bursa Main Market and ACE Market listed issuers must disclose whether their Sustainability Statements have been subjected to an internal or external assurance, in accordance with the recognized assurance standards. The recognized assurance standards are referred to as the International Standard on Assurance Engagements (ISAE) 3000 (revised) *Assurance engagements other than audits or reviews of historical financial information* and the International Organisation for Standardisation (ISO).

In the horizon


The International Auditing and Assurance Standards Board is also developing an enhanced assurance standard for sustainability assurance engagements, i.e., the International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*. ISSA 5000 is expected to be finalized in 2024 and will provide a comprehensive, stand-alone standard suitable for limited and reasonable sustainability assurance engagements.

Assurance standards for GHG

For assurance engagements to report on GHG statement, the relevant assurance standards include but are not limited to the:

- ▶ ISAE 3410 Assurance Engagements on Greenhouse Gas Statements
- ▶ ISO 14064-3 Greenhouse gases - Part 3: Specification with guidance for the verification and validation of greenhouse gas statements

What are the GHG disclosure requirements in IFRS S2?

Scope 1	For Scope 1 and Scope 2 GHG emissions, a consolidated accounting group (e.g., the parent and its consolidated subsidiaries) must disclose emissions by other investees (e.g., associates and joint ventures) separately from those by the consolidated accounting group.	 An entity must disclose its location-based Scope 2 GHG emissions and provide information on any contractual instruments relating to the source of those emissions.
Scope 2		
Scope 3	<ul style="list-style-type: none">▶ An entity must disclose the categories included within its measurement of Scope 3 GHG emissions, so that users can understand which emissions have been included in, or excluded from, the reported Scope 3 GHG emissions.▶ Scope 3 GHG emissions categories can be disaggregated, if they are material.	

Source: EY analysis

Next steps

A vertical garden wall with concrete steps in the foreground. The wall is covered in dense green foliage, including various leafy plants and small yellow flowers. The steps are made of light-colored concrete and lead up from the bottom left towards the center of the frame.

To prepare for the adoption of the new sustainability standards and related reporting developments, companies can consider the following actions:

1

Gap assessment and action plan

- ▶ Identify gaps against the upcoming requirements in both internal processes and external disclosures across governance, strategy, risk management, and metrics and targets.
- ▶ Develop an action plan to address the gaps, considering the responsibilities and time horizons for reporting.

2

Cross collaboration

Support cross collaboration within the organization to integrate both climate and financial information.

3

Roles and responsibilities

Assess and establish roles and responsibilities for sustainability reporting within the organization.

4

Capacity building

Build capabilities within the sustainability and financial functions to assure the organization's readiness to deliver the new standards.

5

Reporting processes

Enhance the financial reporting process to incorporate sustainability and climate risks and opportunities.

6

Controls

Expand and include climate aspects in existing control frameworks and processes, e.g., the internal audit rotation plan and risk control matrix.

7

Data governance

- ▶ Understand the availability of data and information for sustainability and explore ways to implement or improve IT systems.
- ▶ Enhance data governance by reducing manual intervention and providing opportunities for audit trails and automated controls.

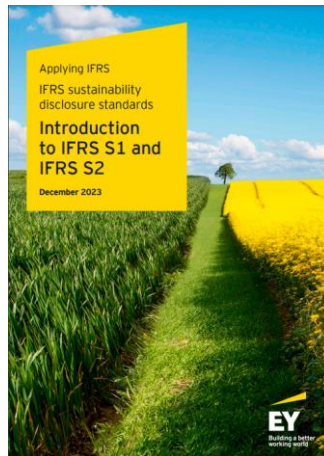
Source: *Mandatory climate-related financial disclosures update*, EY, January 2024

Aligning to the IFRS sustainability disclosure standards: IFRS S1 and S2

EY thought leadership



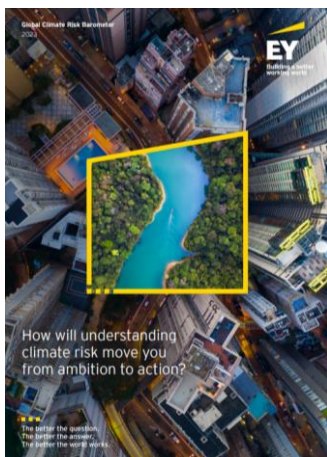
International Sustainability Standards Board (ISSB) climate-related disclosure checklist
February 2024



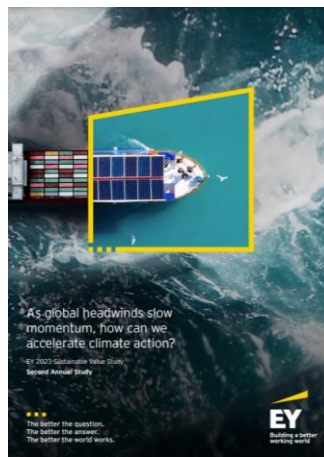
Introduction to IFRS S1 and IFRS S2
February 2024



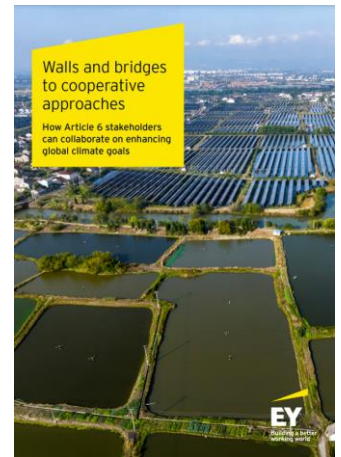
Accounting for climate change
August 2023



How will understanding climate risk move you from ambition to action?
November 2023



As global headwinds slow momentum, how can we accelerate climate action?
November 2023



How to build cooperative approaches to meet global climate goals
November 2023



Artificial intelligence ESG stakes
October 2023



Trending: Sustainable responsible investment in Malaysia and the Region
February 2022



The green transition
December 2023

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