

Changing Sustainability Disclosure Requirements in Malaysia

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Joint Committee
on Climate Change

Agenda

- The Evolving ESG Landscape: Practices & Reporting
- Bursa Malaysia's Sustainability Reporting Framework
- Sustainability Disclosure Review
- Climate Change
- JC3 Sub Committee 2

The Evolving ESG Landscape: Practices & Reporting

Why ESG?

For Investors:



BlackRock Larry Fink’s 2021 letter to CEOs

“...It’s not just that broad-market ESG indexes are *outperforming* counterparts. It’s that within industries - from automobiles to banks to oil and gas companies - we are seeing another divergence: companies with better ESG profiles are *performing better* than their peers, enjoying a “sustainability premium.”

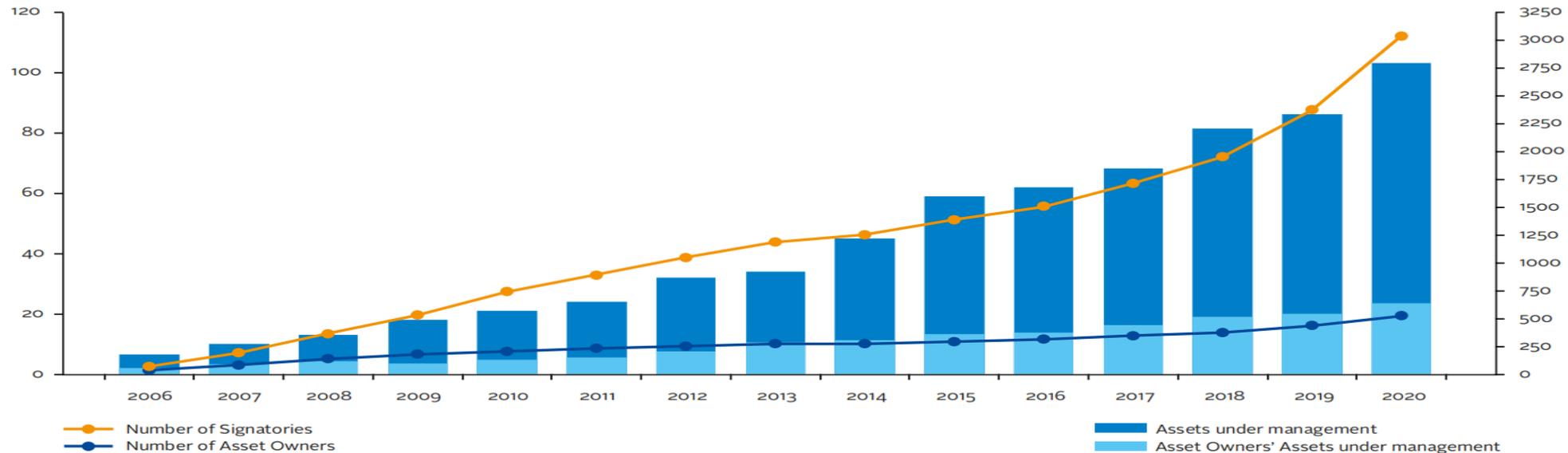


“...We know that climate risk is investment risk. But we also believe the climate transition presents a *historic investment opportunity*...”

Employees Provident Fund (EPF) launched its sustainable investment policy in Feb 2021 and announced it aims to have a fully ESG-compliant portfolio by 2030.

Assets under management (US\$ trillion)

N° Signatories



The Evolving ESG Landscape: Practices & Reporting

Why ESG?

For Businesses:

1. Better management of ESG-related risks resulting in enhanced business resilience & performance - **for FIs, effective management of overall exposure of lending portfolio to ESG-related risks**
2. Anticipating & addressing increasing regulatory requirements & expectations
3. Better access to financing - **for FIs, able to capitalise on unfolding financing opportunities/growth areas**

Example: Climate Change

April 2021: NZ to launch world-first climate change rules.

NZ is to become the world's first country to bring in a law forcing its financial firms to report on the effects of climate change. The country wants to be carbon neutral by 2050 and says the financial sector needs to play its part.

“Banks, insurers and fund managers can do this by knowing the environmental effect of their investments... This law will bring climate risks and resilience into the heart of financial and business decision making...”

NZ Climate Change Minister James Shaw.

“While some businesses have started publishing reports about how climate change may affect their business, strategies and financial position, there is still a long way to go”

April 2021: BNM issued its Climate Change and Principle-based Taxonomy Guidance Document.

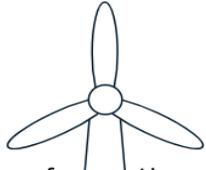
Aim: To facilitate financial institutions in assessing and classifying economic activities that contribute to climate change mitigation and adaptation.

May 2021: HSBC has partnered with World Resources Institute (WRI) and WWF to launch a \$100m partnership to tackle climate change.

The Climate Solutions Partnership will focus on start-ups addressing biodiversity and transitioning energy growth to renewables in Asia

Climate change creates opportunities and challenges for the banking industry.

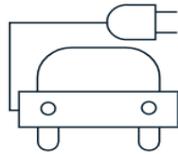
Opportunity: Financing a green agenda



Transformation of energy production toward renewables



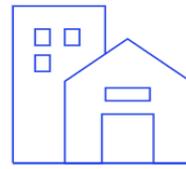
Plant refurbishments to avoid or capture and store carbon emissions



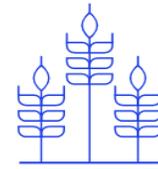
Electrification of transport and automation of mobility

Up to \$500 billion in annual adaptation costs¹

Challenge: Protecting balance sheets from uncertainty



Real-estate market collapse in low-lying areas



Increased risk of major crop failures with implications for meat and dairy producers



Closures of coal-powered power plants before end of useful life

For banks in the European Union, up to 15% of the balance sheet is at risk²

¹ Costs until 2050, according to the UN *Adaptation Gap Report* (2018).

² Based on analysis of 46 sample EU banks and their portfolio composition in industries and geographies likely affected by physical and transition risks.

International Sustainability Reporting Frameworks



Bursa Malaysia Sustainability Reporting Framework

PLCs TO PRODUCE	Sustainability Statement in Annual Report OR Standalone Sustainability Report	Narrative should include: <ol style="list-style-type: none"> Governance Structure put in place Scope & basis of Sustainability Statement Materiality - how sustainability matters are identified & prioritized Management - how sustainability matters are managed including policies, measures, indicators, etc. 	Effective Dates
	FOCUS		How PLCs are managing material EES risks & opportunities
RM1 - <2b mkt cap 31 Dec 2017			
			<RM1b mkt cap 31 Dec 2018

Sustainability matters are considered material if they:

- Reflect PLC's significant economic, environmental and social impacts; or
- Substantively influence the assessments and decisions of stakeholders.

Sustainability Disclosure Guide
2nd Edition



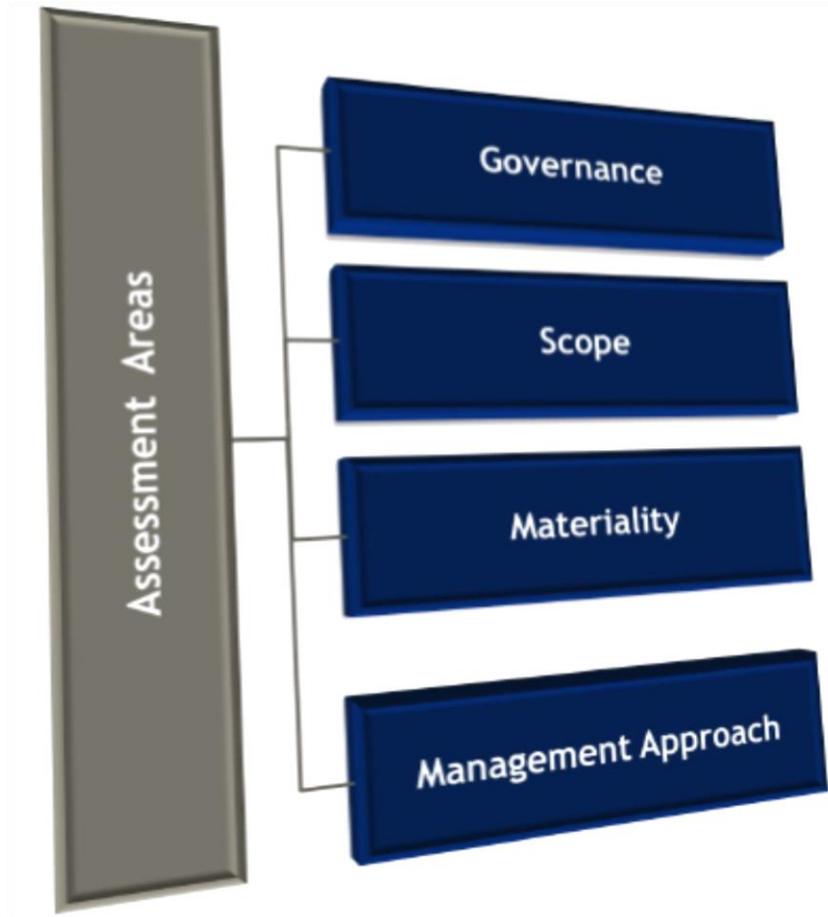
Sustainability Toolkits



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From 2017 to 2019, Bursa undertook annual reviews of PLCs' Sustainability Statements to assess compliance & quality of disclosures made.

Disclosures scored based on a set of pre-defined criteria across 4 key areas.

2017-2019 KEY FINDINGS / TRENDS

1. **Average Compliance level** - Approx. **90%** across the 4 assessment areas.
2. **Average Quality** - Approx. **49%-73%** across the 4 assessment areas.

Bursa Malaysia Sustainability Disclosure Review 2020: Key Observations & Recommendations



Average
Compliance
Levels



Average
Quality
Scores

Key areas for improvement

1. **Prioritisation of material matters**
2. Disclosure of performance **indicators**
3. **Setting targets** for management of sustainability matters
4. Linking sustainability performance to **remuneration**
5. **Integration of sustainability strategy** into business

Priority for 2021: Review of Bursa's Sustainability Reporting Framework to enhance availability, quality & comparability of sustainability-related disclosures.

The Evolving ESG Landscape: Practices & Reporting

International Sustainability Reporting Frameworks



Climate-first



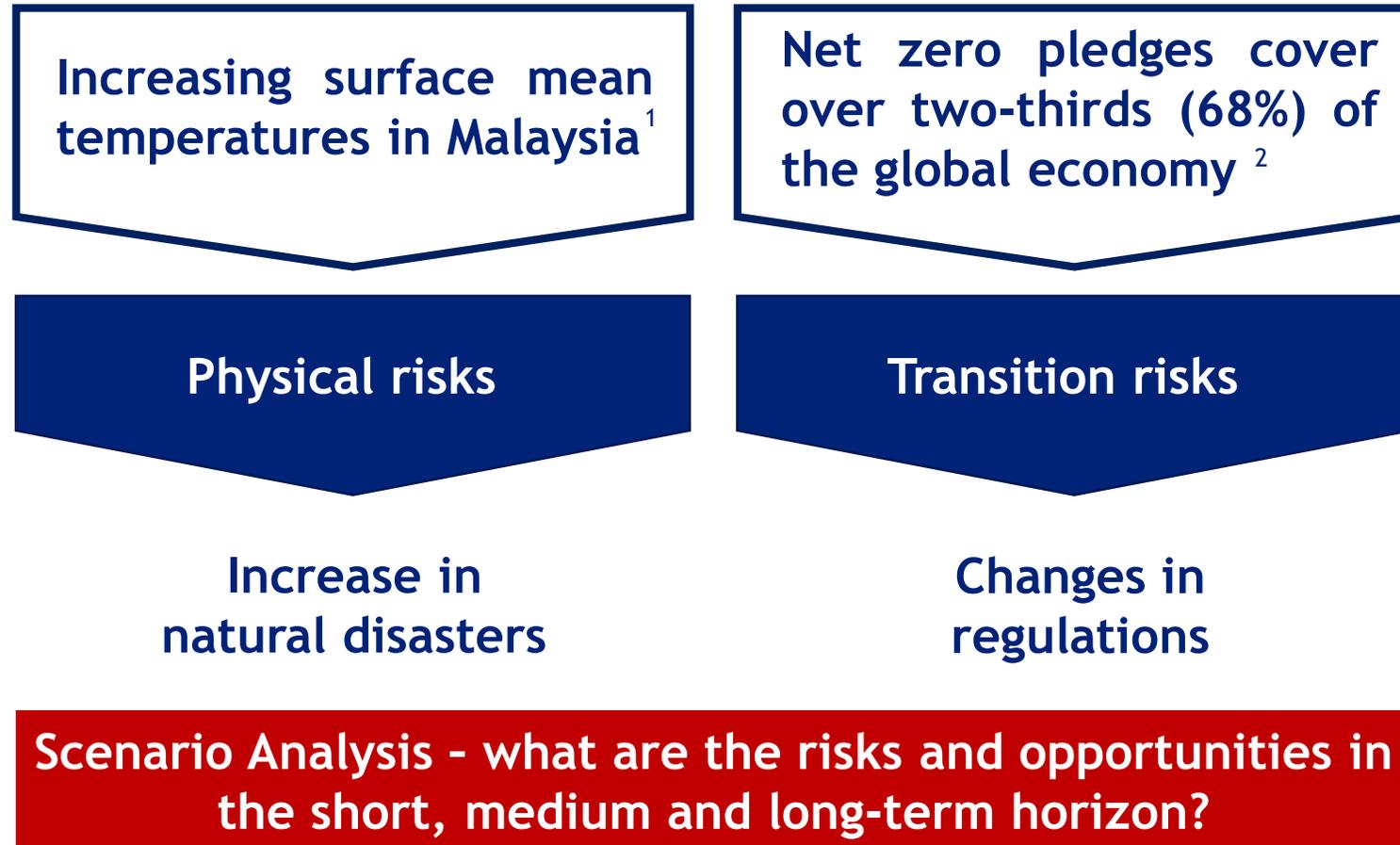
Climate-specific

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES



Increasing Focus on Climate Change

Demand For Greater Climate Action/Reporting



¹ IPCC. (2014). Fifth Assessment Report and IPCC (2018) Special Report: Global Warming of 1.5 °C.

² Black, R., Cullen, K., Fay, B., Hale, T., Lang, J., Mahmood, S., Smith, S.M. (2021). Taking Stock: A global assessment of net zero targets, Energy & Climate Intelligence Unit and Oxford Net Zero



In 2019, JC3 was formed to:

- build capacity via sharing of knowledge/expertise/best practices in assessing & managing climate-related risks;
- identifying issues, challenges & priorities facing the financial sector in managing the transition towards a low carbon economy; and
- facilitating stakeholder collaboration in advancing coordinated solutions

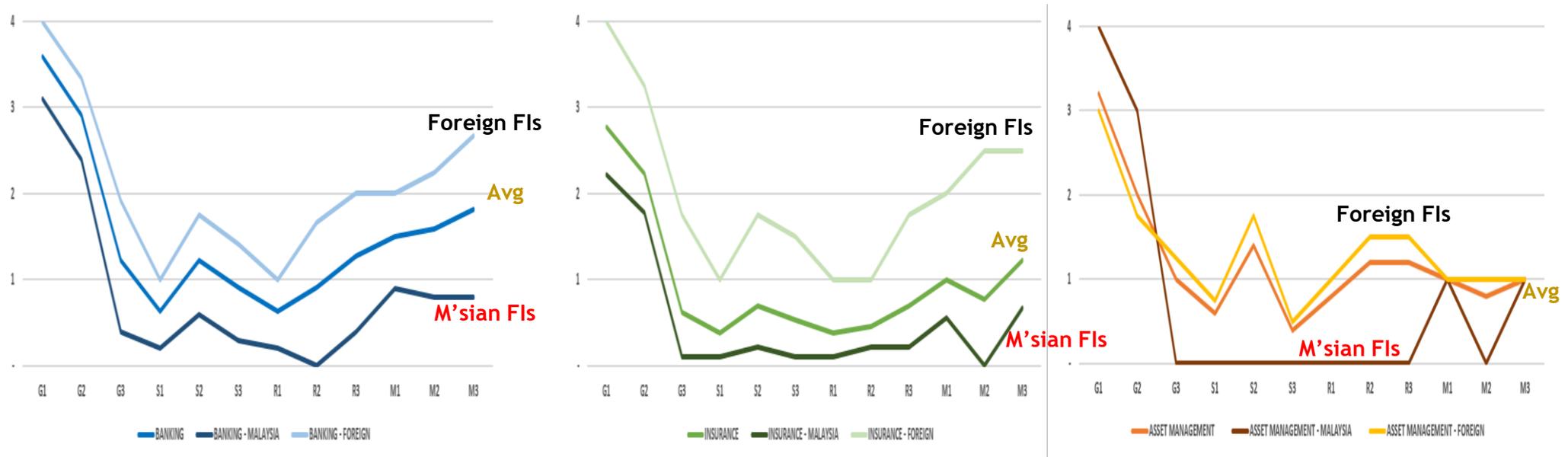
JC3 Sub Committee 2 (SC2)

- focuses on the Governance - & Disclosure-related aspects within the context of FIs' climate-related practices.
- Currently, SC2 comprises of 12 members a majority of which are financial institutions (i.e. banks, insurers and asset managers) that are operating in Malaysia (both local & foreign)

In 2020, SC2 completed a stock-take on the disclosure practices of:

- Selected FIs in Malaysia
- Selected foreign FIs (i.e. leading peers in the area of climate change) against recommendations of the TCFD.

Summary of findings (Overall Trends across Governance, Strategy, Risk Management, Metrics/Targets):





For 2021, SC2 is focusing on:

- Supporting the voluntary but proactive implementation of climate-related disclosures that are aligned with TCFD recommendations.
- The development of an **Application Guide** is underway:
 - the initiative is practitioner-driven (i.e. developed by FIs that are members of SC2).
 - recommendations are contextualized to the Malaysian setting.
 - expected to be completed by the end of 2021.

Thank you

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