

Setting the ESG Agenda to Achieve Sustainable Long-term Value

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MALAYSIA

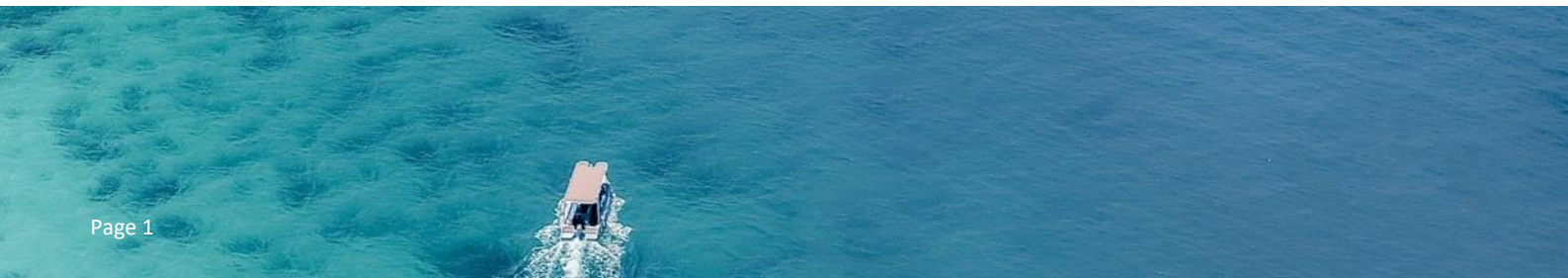

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Introduction

ESG is working its way up the agenda of Boards of Directors as a result of the drive by investors across the globe to incorporate these aspects in their decision-making process. In recent years, business operations have changed radically – economically, socially and environmentally. Climate change and growing inequalities are intensifying. The need for sustainability information has grown in importance. Capital markets are hungry for information linked to long-term value creation and demand evidence-based, market-informed and transparent data in order to deliver long-term value to shareholders and other stakeholders.

The momentum in the international landscape presents an opportunity to the local professional accountants, be it at the C-Suite level or finance function. The profession must be ready to navigate its way in this creation of long-term value through the ESG agenda. In light of this, professional accountants, as trusted advisers to businesses, are expected to embrace the ESG agenda and be cognizant as to how to achieve long-term value creation, including consideration of cost-benefit perspectives, trade-off perspectives as well as the assessment of the implications to businesses. Professional accountants are encouraged to be agile in adapting to this enhanced role and shapes the local sustainability landscape.



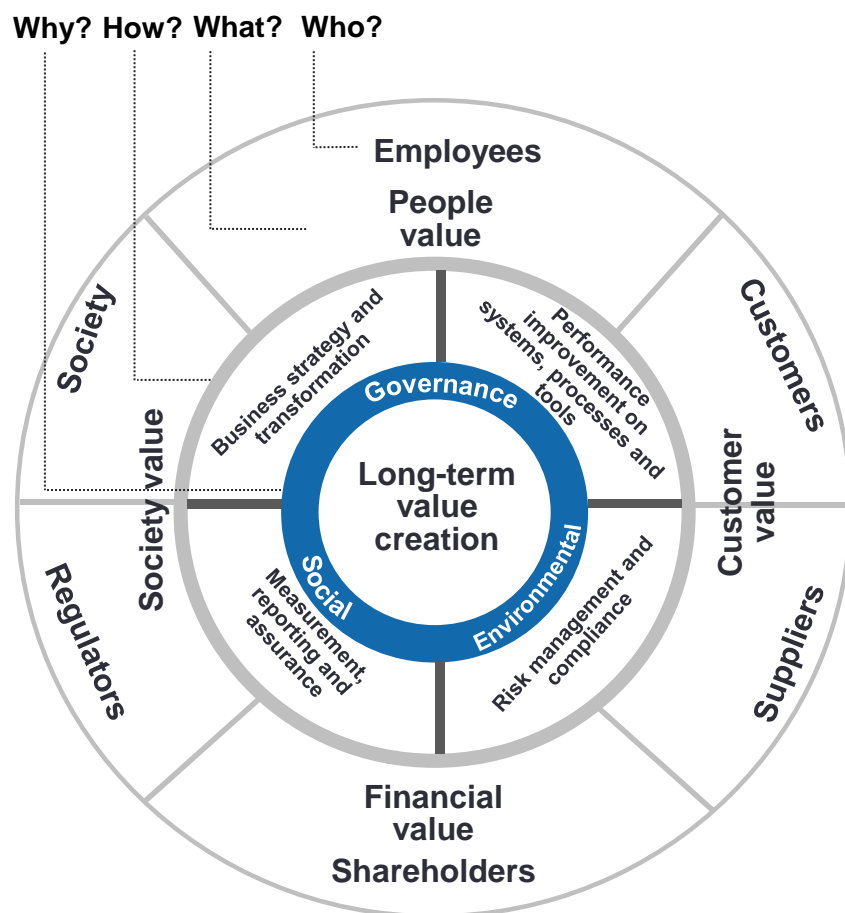
ESG propels long-term value creation

Long-term value creation across stakeholders

Beyond financial value, ESG promotes long-term value creation through an integrated approach which also considers the non-financial value contributed by people, customers and society to an organization's total long-term value creation.

Key measures include:

- ▶ Business strategy and transformation
- ▶ Performance improvement of systems, processes and tools
- ▶ Risk management and compliance
- ▶ Measurement, reporting and assurance



Building resilience and transforming through ESG

Achieving sustainable long term value

COVID-19 and climate change are accelerating the arrival of trends which have already been on the CEO's agenda¹ since 2017. These include digital transformation, changes in consumer behavior, rising stakeholder capitalism and corporate focus on sustainability and long-term value.

In addressing these changes and challenges, some CEOs of larger companies have been swift to re-model their transformation strategies and actions to build resilience and prepare for a post-pandemic world, oriented to long-term value. Among their key actions include breaking down organizational silos, increasing agility, improving innovations and leveraging data to ramp up organizational performance.

This publication attempts to share insights into the “why, what and how” of setting the ESG agenda for organizations to achieve sustainable long-term value.

We explored latest ESG insights in three areas:

- ▶ **Recognizing changes to the ESG agenda**
What are the impacts of COVID-19 and climate change on the new normal? Recognizing market and regulatory shifts, from rising stakeholder capitalism, digital consumerism to increasing regulatory attention on ESG adoption
- ▶ **Researching ESG surveys**
What are C-suite's responses and approaches to organizational transformation, sustainability reporting and assessment of ESG risks and opportunities in EY Global and Malaysia surveys?
- ▶ **Responding with an ESG strategy**
How CEOs are responding with ESG as the pivot strategy to build back better and at the same time create long-term, sustainable value for a broader set of stakeholders

Setting the ESG agenda to achieve sustainable long-term value

The range of issues that are emerging in the ESG agenda include:



Note:

¹ The CEO agenda was derived from the global EY CEO Imperative Study which surveys global CEOs among the Forbes Global 2000.

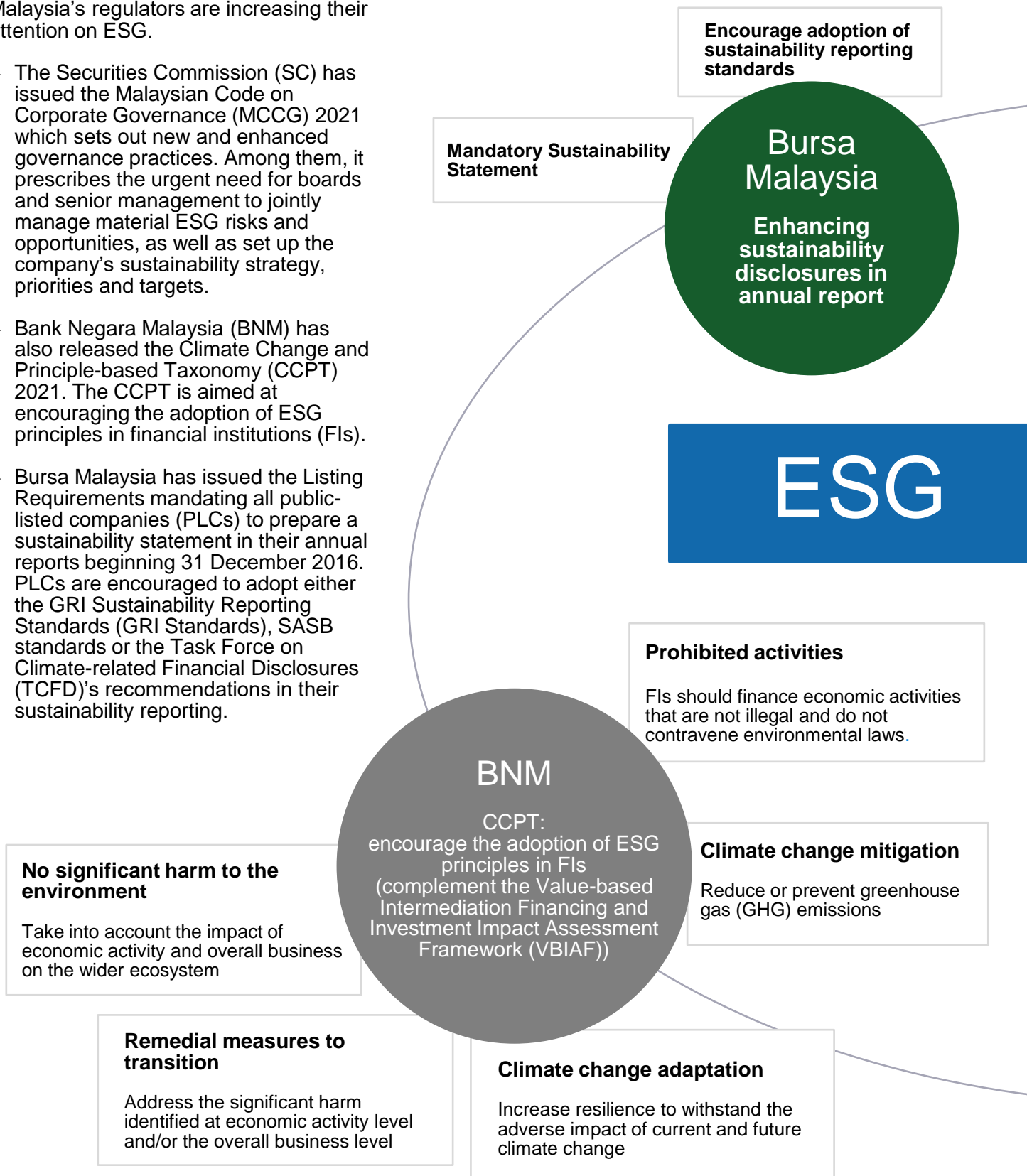
Sources:

- ▶ *How has adversity become the springboard to growth for CEOs?* CEO Imperative Study, EY, March 2021
- ▶ *Take 5: Remodeling strategies with ESG*, EY, June 2021
- ▶ *The ESG potential –how mutual fund boards can manage risks and seize opportunities*, EY, January 2021

Tracking ESG regulatory focus in Malaysia

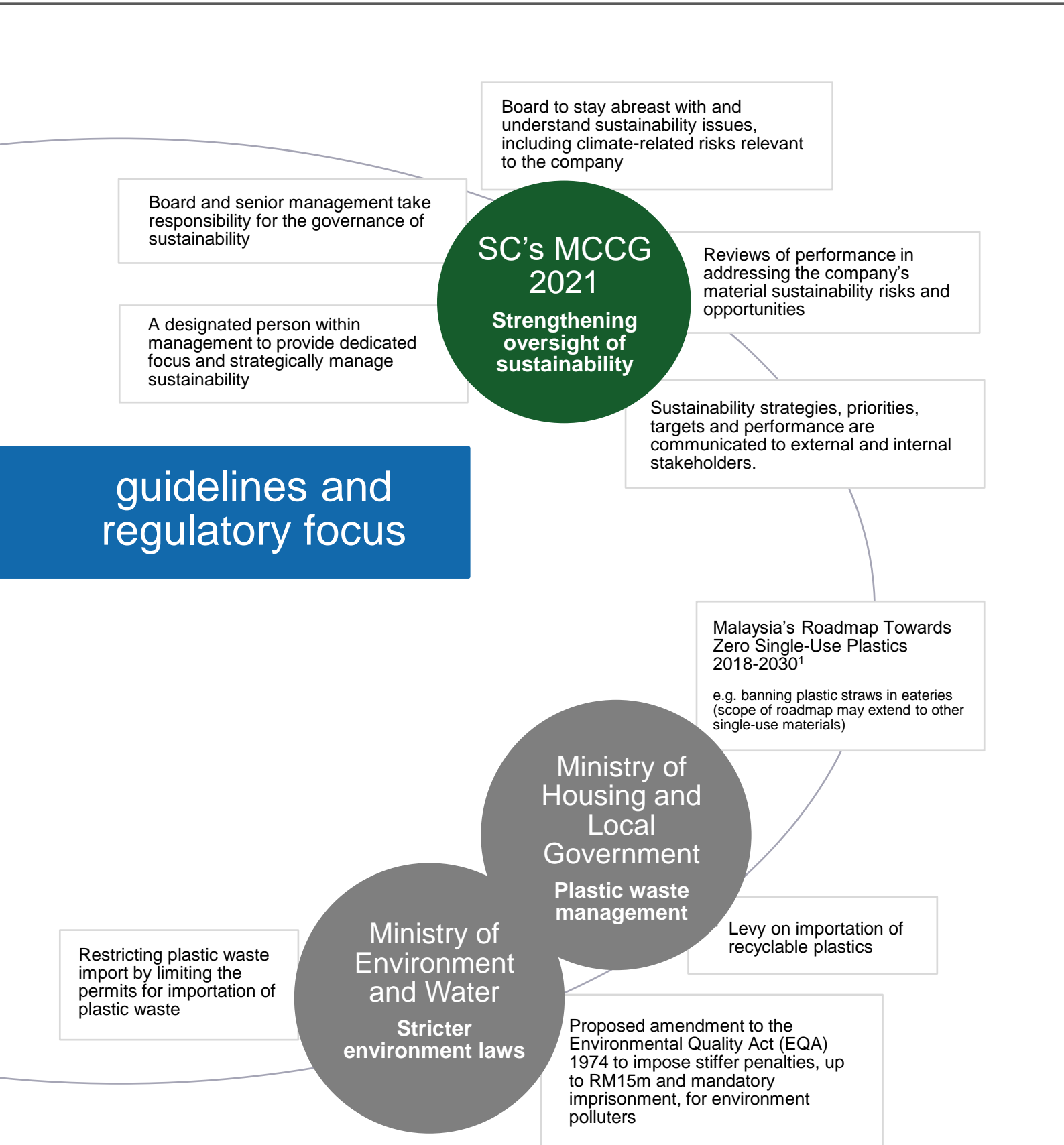
In view of the changing ecosystem, Malaysia's regulators are increasing their attention on ESG.

- ▶ The Securities Commission (SC) has issued the Malaysian Code on Corporate Governance (MCCG) 2021 which sets out new and enhanced governance practices. Among them, it prescribes the urgent need for boards and senior management to jointly manage material ESG risks and opportunities, as well as set up the company's sustainability strategy, priorities and targets.
- ▶ Bank Negara Malaysia (BNM) has also released the Climate Change and Principle-based Taxonomy (CCPT) 2021. The CCPT is aimed at encouraging the adoption of ESG principles in financial institutions (FIs).
- ▶ Bursa Malaysia has issued the Listing Requirements mandating all public-listed companies (PLCs) to prepare a sustainability statement in their annual reports beginning 31 December 2016. PLCs are encouraged to adopt either the GRI Sustainability Reporting Standards (GRI Standards), SASB standards or the Task Force on Climate-related Financial Disclosures (TCFD)'s recommendations in their sustainability reporting.



Sources:

- ▶ *Climate Change and Principle-based Taxonomy*, BNM, 30 April 2021
- ▶ *Malaysian Code on Corporate Governance (2021 Revision) – Media Technical Briefing*, SC, 27 April 2021
- ▶ *Malaysian Code on Corporate Governance*, SC, 28 April 2021
- ▶ *Sustainability Reporting Guide (2nd Edition)*, Bursa Malaysia Securities Berhad, 2018



Note:
¹ The Malaysia's Roadmap Towards Zero Single-Use Plastics 2018 – 2030 was published by the Ministry of Energy, Science, Technology, Environment and Climate Change (MESTECC) in 2018.

- Sources:
- ▶ *Malaysian Code on Corporate Governance (2021 Revision) – Media Technical Briefing*, SC, 27 April 2021
 - ▶ *Malaysian Code on Corporate Governance*, SC, 28 April 2021
 - ▶ *Climate Change and Principle-based Taxonomy*, BNM, 30 April 2021
 - ▶ Media releases
 - ▶ EY research, Malaysia

Research on ESG surveys

Future enterprises to be “ESG-centric”

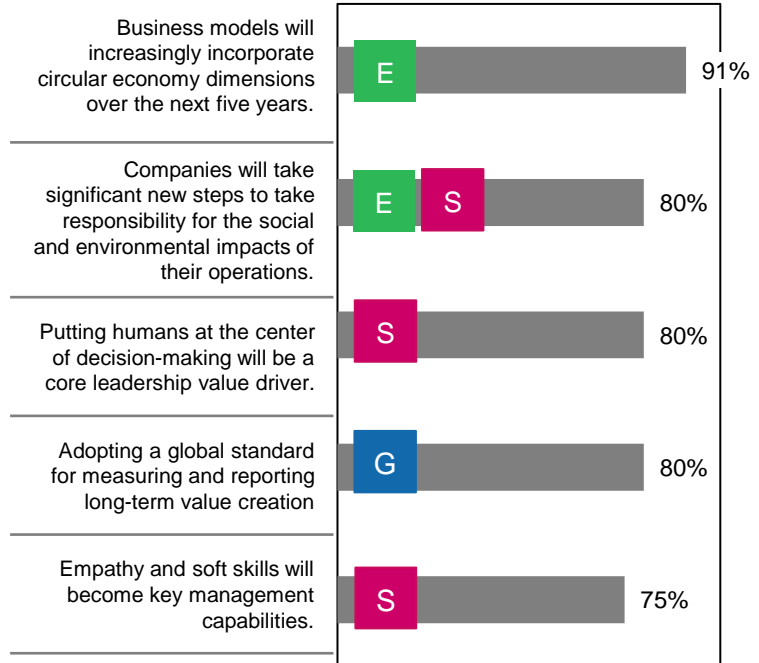
In the medium to long term, most CEOs view ESG-centricity as a vital component of the future enterprise.

Strategic focus on environmental factors can provide new business opportunities and also help identify ESG risks. Business innovations from green technologies and disruptions from climate change can reshape and impact existing business models.

Placing people at the center of decision-making is a core leadership value driver and emotional quotient (EQ) will become a key management attribute.

Furthermore, increasing focus on the adoption of new global standards for measuring and reporting long-term value creation is driving ESG to become the core DNA of the future enterprise.

DNA of the Future Enterprise



Percentage of CEOs who agree with statements describing future enterprises

Environment

The impact of climate change, including environmental risks and business opportunities, to reshape an organization’s business model

Social

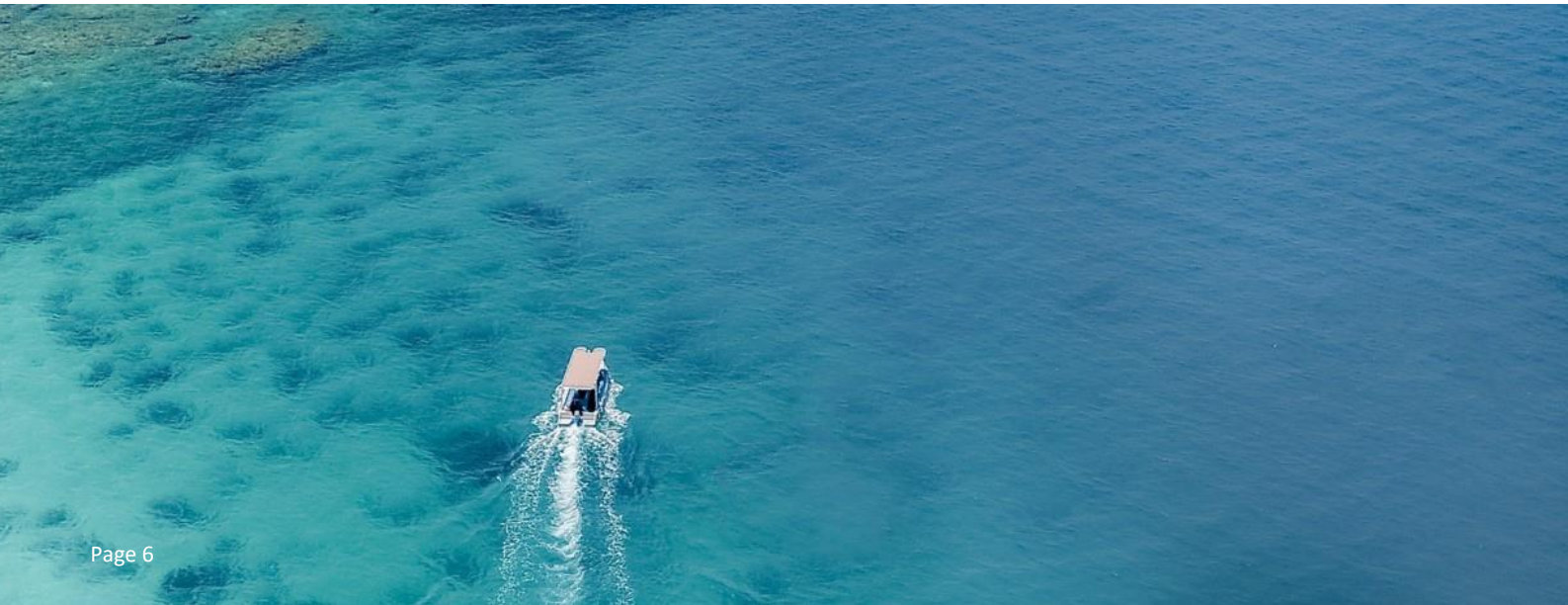
The value that businesses create that potentially impacts investors, employees, customers and communities

Governance

The system by which all core business activities are directed, controlled and monitored as it is critical to create long-term value

Sources:

- ▶ *How can today’s CEO bridge the gaps to realize tomorrow’s opportunities?*, EY, March 2021
- ▶ *Will there be a ‘next’ if corporate governance is focused on the ‘now’?*, EY, February 2021
- ▶ *How will ESG performance shape your future?*, EY, July 2020



Research on ESG surveys

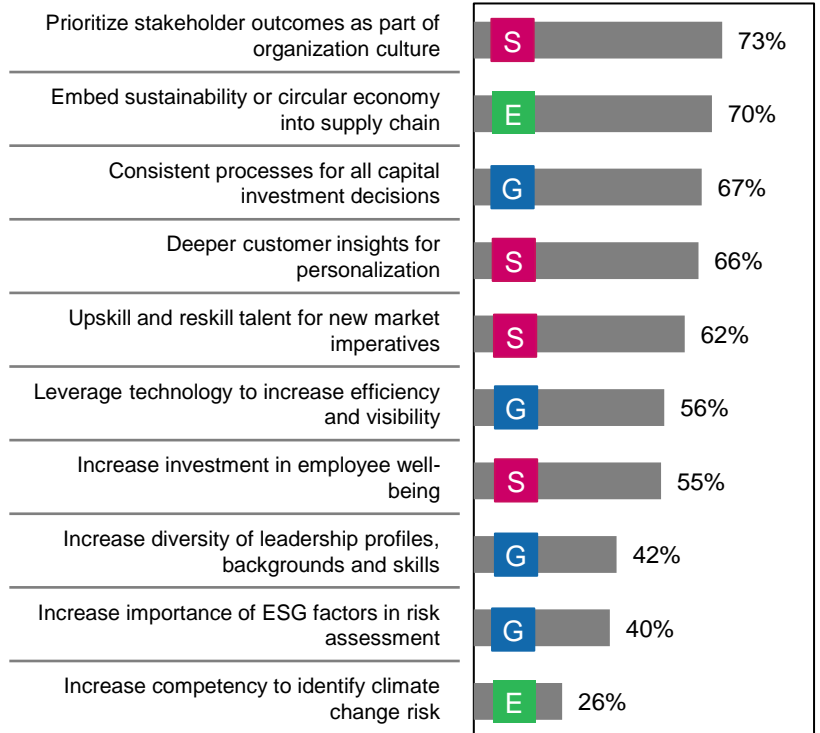
C-suite is serious about ESG

The EY Global 2021 CEO Imperative Survey highlights that a range of ESG factors are well-embedded in the CEO's agenda to drive sustainable long-term growth.

More than half of CEOs surveyed are focusing on social factors such as prioritizing long-term value for stakeholders, deeper customer insights, upskilling talent and investing in employees' well-being as their top transformation priorities.

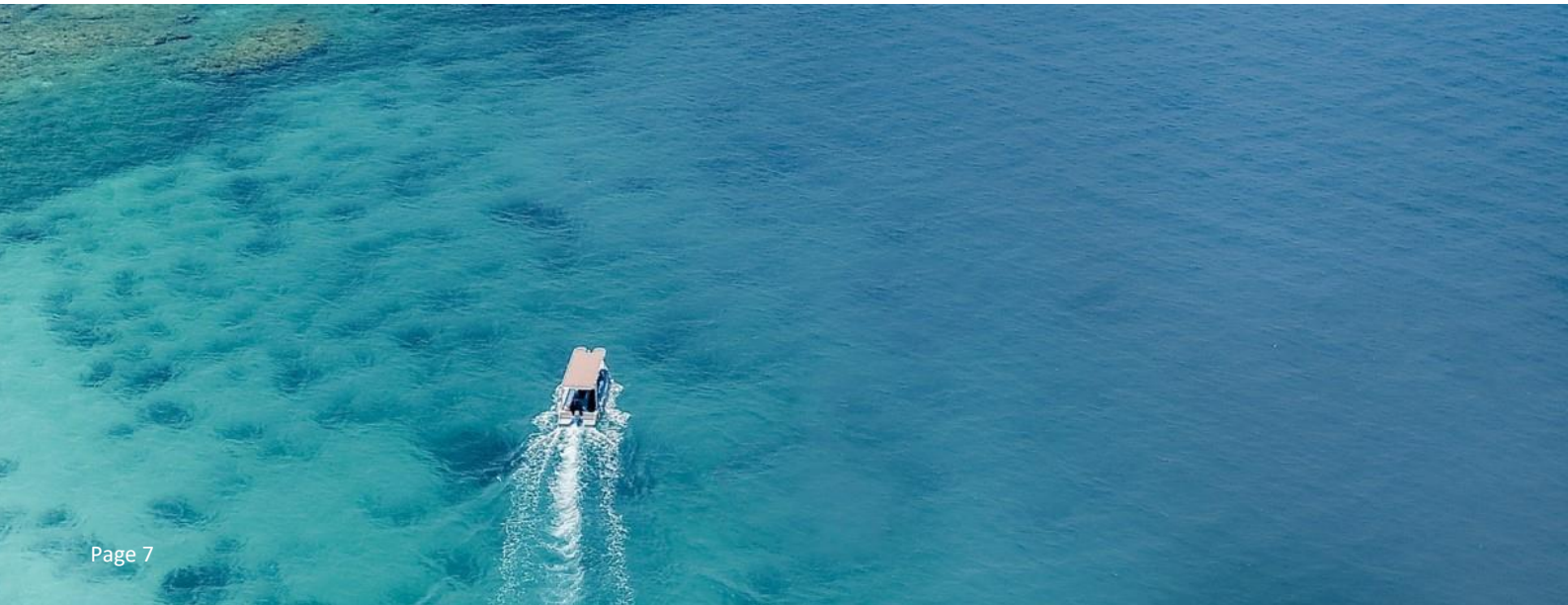
Governance management actions include the application of consistent processes for all capital investment decisions, and the leveraging of technology to increase efficiency and visibility.

CEOs reshaping transformation agenda to include ESG



Percentage of CEOs who selected their top two transformation priorities in the next three years

Source:
How has adversity become the springboard to growth for CEOs? EY, March 2021



Research on ESG surveys

Higher adoption of global climate risk disclosures

The EY Global Climate Risk Disclosure Barometer is a survey that provides a snapshot of the climate risk and opportunity disclosures by over 1,100 companies worldwide.

The latest survey shows that PLCs are taking steps to report and disclose their climate risks and opportunities based on the TCFD recommendations, with an overall coverage¹ score of 70% and quality² score of 42%.

The key drivers of this trend are regulatory pressures, policies and compliance. Policy-makers of key markets, including USA, EU, United Kingdom, Japan and New Zealand, now view climate risk as materially important to their economies and have mandated climate risk assessments and disclosures. As such, more companies are paying closer attention to their disclosures and aligning their annual reports with the TCFD recommendations.

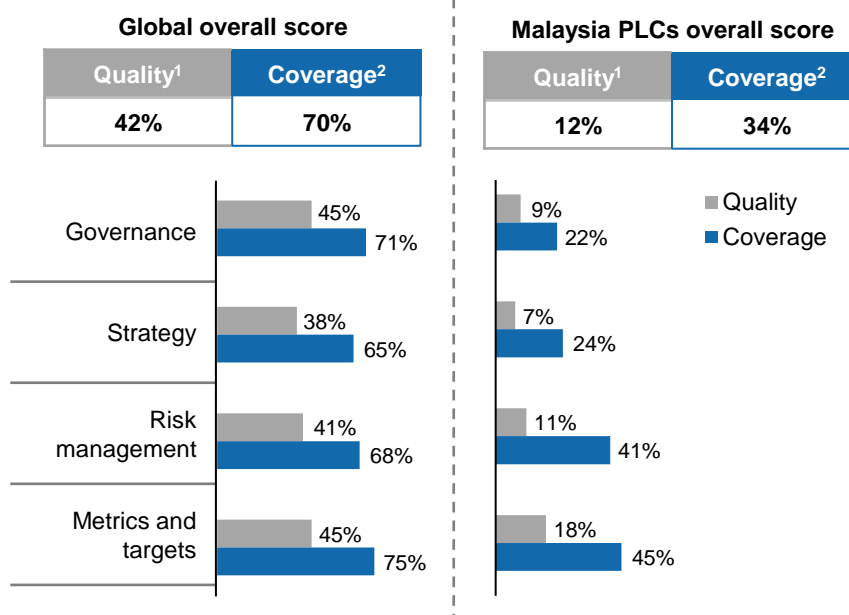
Malaysia, still nascent in climate risk disclosures

The EY Climate Risk Disclosure Barometer 2020 Malaysia survey revealed that most of the top 100 PLCs in Malaysia are still at a nascent stage of climate risk disclosures. While Malaysian regulators have encouraged the adoption of the TCFD recommendations, the PLCs are generally adopting a “check-box” approach to climate risk.

However, it is pertinent to note that over three-fifths of the 100 PLCs surveyed reported their commitment to the United Nation’s SDGs on Climate action, SDG 13³.

Benchmarked against the TCFD recommendations, the survey highlighted that most PLCs lack comprehensive climate risk disclosures, with an overall coverage score of 34% and quality score of 12% only.

Significant gaps in Malaysia’s PLCs climate risk disclosures



Note:

- 1. Quality = companies were rated (out of 5) on the basis of the quality of disclosures and if they met all the requirements of the TCFD
- 2. Coverage = companies were scored on the basis of the percentage of the 11 TCFD recommendations addressed by them
- 3. SDG 13 includes stepping up disclosures on climate-related risks in governance, strategy and risk management.

Sources:

- ▶ *Climate risk disclosure barometer 2020 Malaysia*, EY, December 2020
- ▶ *If climate disclosures are improving, why isn't decarbonization accelerating?* *Global Climate Risk Disclosure Barometer*, EY, June 2021

How to measure long-term value?

Key questions the board and senior management team can raise in strategic discussions on ESG and sustainability and drive the provision of long-term value:

| | | |
|--|---|--|
| Board What can we do to drive commitment to deliver long-term value to stakeholders? | CEO Is the current business model able to create positive value for all stakeholders? | CFO How does integration of ESG into corporate strategy enhance financial performance? |
| COO How can we operate more efficiently considering resources across our operations? | CSO How can sustainability strategies create competitive advantage? | CRO How can we help achieve corporate resilience to challenges caused by environmental and social risks? |

Source:
Why moving ESG up this decade's business sustainability agenda is key, EY, March 2021

How can boards drive sustainable and inclusive growth?

Boards, in their oversight role, are integral in driving strategic discussions with management on ESG risks to ensure organizations are aligned to goals that generate long-term sustainability.

Five areas where boards can step up their governance



Source:
Will there be a 'next' if corporate governance is focused on the 'now'?, EY, March 2021



What are the mandatory and voluntary regulations on ESG practices?

Regulators are encouraging companies to adopt ESG management practices.

2015 – 2019

Targets to achieve Sustainable Development Agenda by 2030

Mandatory

Global

- ▶ Institutions for Occupational Retirement Provision (IORP II) ESG criteria in investment decisions

Malaysia

- ▶ Bursa Malaysia's mandatory disclosure of sustainability statement by PLCs
- ▶ The Malaysian Anti-Corruption Commission (MACC) Act is amended to introduce corporate liability for corruption offences (applies to Malaysian commercial organizations).

Voluntary

Malaysia

- ▶ Malaysia adopts the 2030 Agenda for Sustainable Development.
- ▶ SC launches the Sustainable and Responsible Investment (SRI) roadmap.
- ▶ BNM issues the VBIAF Guidance Document to facilitate impact-based risk management for assessing financing and investment activities of Islamic financial institutions that integrate VBI commitments.

Taskforce/Committee

Malaysia

- ▶ SC forms the Malaysian Green Financing Taskforce (MGFT) to provide recommendations and action plans on how to accelerate the growth of green financing.
- ▶ SC and BNM form the Joint Committee on Climate Change (JC3) to pursue collaborative actions to build climate resilience in the financial sector.

Sources:

- *The ESG potential – how mutual fund boards can manage risks and seize opportunities*, EY, January 2021
- *Climate Risk Disclosure Barometer 2020 Malaysia*, EY, December 2020
- EY research, Malaysia



Carbon
Neutral
by
2050

2020 - 2025

Mandatory

Global

- ▶ Full implementation of EU Action Plan
- ▶ Mandatory TCFD disclosure in the UK

Malaysia

- ▶ Malaysia's commitment to reducing 45% GHG emissions intensity by 2030¹

Voluntary

Malaysia

- ▶ SC issues the revised MCCG 2021 which incorporates ESG areas of focus.
- ▶ SC plans to release public consultation paper on Sustainable Responsible Investment (SRI) Taxonomy.
- ▶ BNM launches Climate Change and Principle-based Taxonomy.
- ▶ The Ministry of Environment and Water (KASA) launches Environmental Sustainability in Malaysia 2020 – 2030 roadmap
- ▶ Capital Markets Malaysia (CMM) launches the Malaysian Sustainable Finance Initiative (MSFI).

Taskforce/Committee

Malaysia

- ▶ The Government forms the Malaysian Climate Change Action Council (MyCAC) to set climate change policies and actions in Malaysia.

Note:

¹ This GHG reduction comprises 35% on an unconditional basis and a further 10% conditional upon receipt of climate finance, technology transfer and capacity-building from developed countries. Malaysia signed and ratified the Paris Agreement in 2016.

An aerial photograph of a tropical ocean scene. In the foreground, a small motorboat with a white canopy is moving away from the viewer, leaving a white wake. The water is clear, showing various shades of blue and green, indicating a coral reef. To the left, a white sand beach is visible, surrounded by shallow water. In the background, there are distant mountains under a blue sky with scattered white clouds.

References

TCFD, GRI and SASB for ESG disclosures

In June 2017, the UK Financial Stability Board released a framework known as the TCFD for companies to develop more effective climate-related disclosures through their existing reporting processes.

The TCFD recommendations provide a reporting framework aimed at improving investors' understanding of the impact of climate risks on different sectors and companies.

Core elements of recommended climate-related financial disclosures



Disclose the organization's governance around climate-related risks and opportunities

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's business, strategy and financial planning

Disclose the processes used by the organization to identify, assess and manage climate-related risks

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities

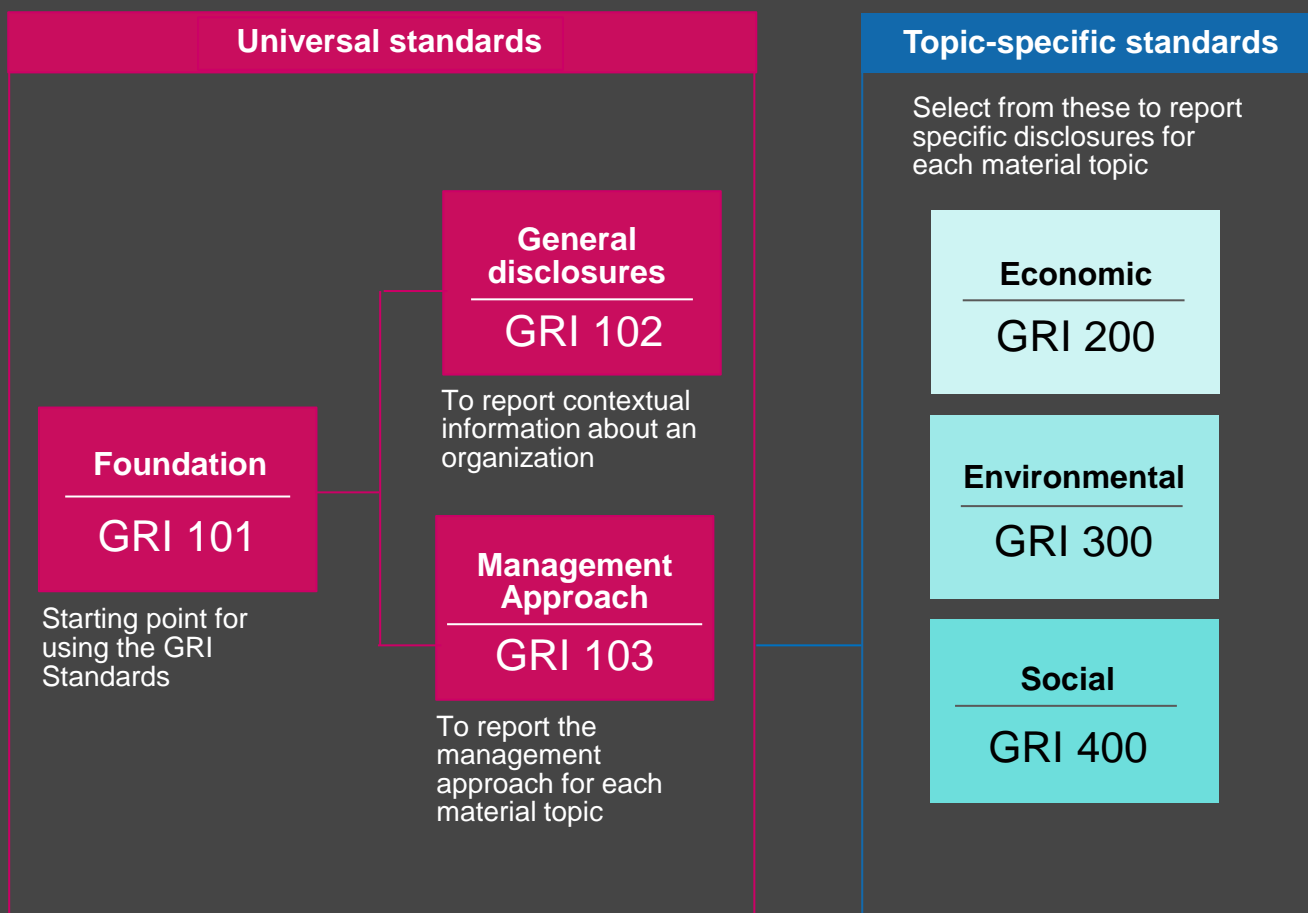
Source:

- *Implementing the recommendations of the TCFD*, TCFD, June 2017

In 2016, GRI developed the GRI Standards to represent global best practices for reporting economic, social and environmental impacts.

These standards can guide organizations in developing their sustainability reporting based on the reporting principles, focusing on material topics.

Overview of the set of GRI Standards



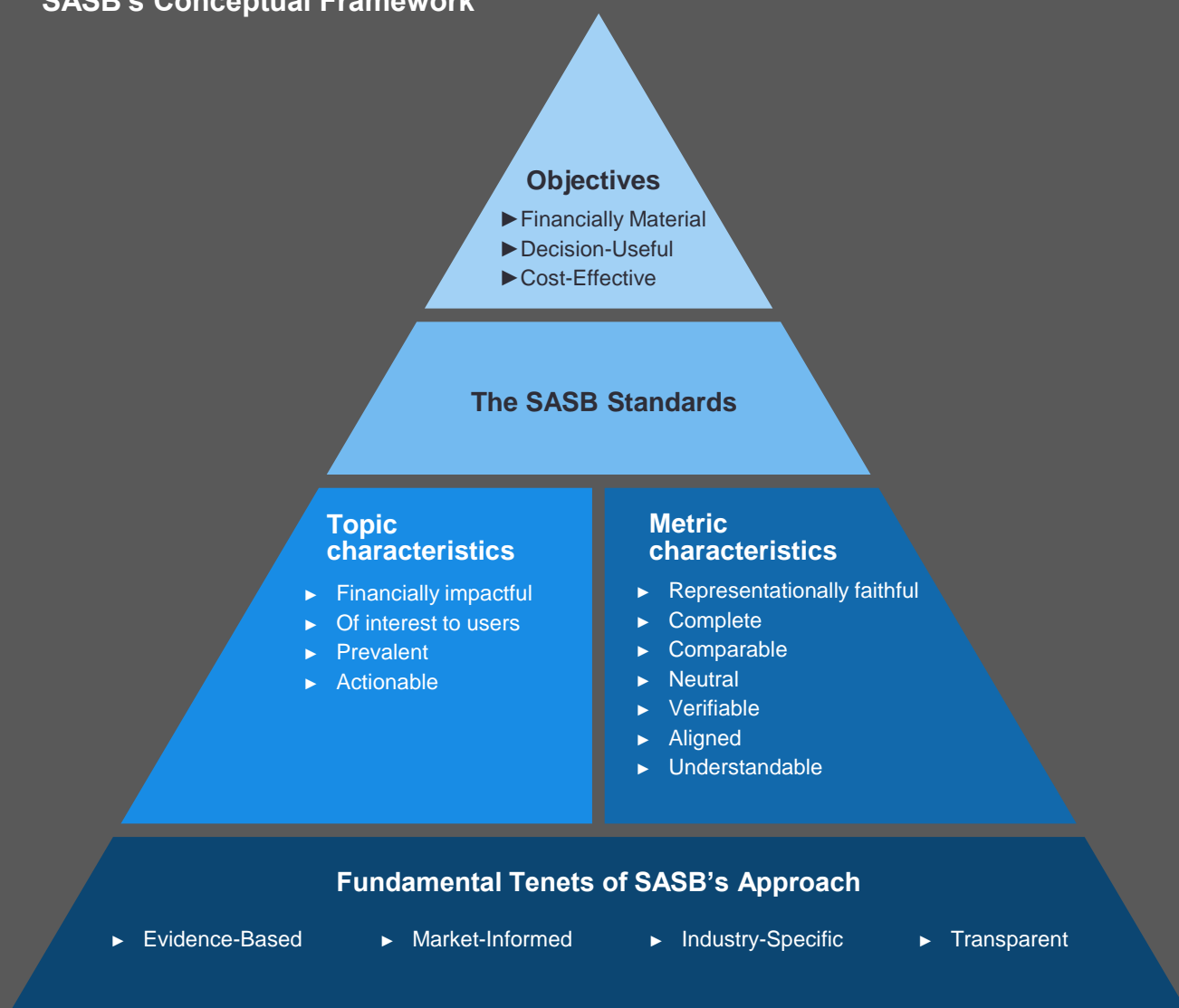
Source:

- Consolidated set of GRI Sustainability Reporting Standards 2020, GRI, 19 May 2020

SASB standards for sustainability accounting

The SASB Conceptual Framework consists of the basic concepts, principles, definitions and objectives that guide the SASB in setting standards for sustainability accounting and provides an overview of sustainability accounting to SASB's external stakeholders.

SASB's Conceptual Framework



Note:
The SASB Conceptual Framework is in the process of being revised and has undergone a public comment period. The Conceptual Framework exposure draft was made available for public comment from 28 August 2020 – 31 December 2020.

Source:
SASB *Conceptual Framework Exposure Draft*, SASB, August 2020. Information retrieved from SASB's official website on 29 June 2021.

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