

## AN OVERVIEW OF ESG IN MALAYSIA IN 2025

### **Introduction**

Malaysia has seen a consistent and regular advancement in its ESG reporting requirements throughout the last few years. The Ministry of International Trade and Investment (“**MITI**”) has played its role by developing the i-ESGStart as a guide for manufacturing entities; Bursa Malaysia has developed various guides and toolkits on both ESG and sustainability reporting; the Securities Commission has consistently led in the development of rules and requirements for such reporting.

In September 2024, the National Sustainability Reporting Guide (“**NSRF**”) was issued by the Securities Commission. The NSRF saw the formal adoption of the International Financial Reporting Standards IFRS S1 and IFRS S2 (also known as the ISSB standards) as the applicable reporting tools for Malaysian listed companies.

### **Overview of IFRS in Malaysia**

IFRS S1 and IFRS S2 aim to provide a global baseline for sustainability disclosures, helping investors better assess company performance in terms of sustainability risks and opportunities. IFRS S1 is intended to ensure that sustainability reporting becomes as integral as financial reporting.

IFRS S2 is focused specifically on climate-related disclosures and aims to build on the existing frameworks, such as the Task Force on Climate-related Financial Disclosures (“**TCFD**”). In fact the four (4) essential elements of the TCFD framework are the bedrock of the IFRS S standards.



Source: TCFD, 2022

### Some points on IFRS S1:

- Materiality is a fundamental concept for reporting purposes. In this context, materiality is determined from an investor's perspective. Thus, disclosures must be based on materiality with companies focusing on disclosing information that is material to investors.
- IFRS S1 encourages alignment between sustainability disclosures and financial statements to provide a holistic view of the company's performance.
- Further standards are envisaged to be applied across various industries, enabling comparability for investors in different sectors.

### Some points on IFRS S2:

IFRS S1 states that a Climate First approach is to be undertaken. This has been accepted in the NSRF. In this respect, IFRS S2 provides a clear set of guidelines on how businesses should disclose their exposure to climate-related risks and opportunities. This includes:

- **Physical Risks:** Specific requirements attend different risks. Physical risks refer to disclosures related to the physical impacts of climate change (e.g., extreme weather events).
- **Transition Risks:** The management of these risks will explain how a company is adapting to policies and regulations geared towards a low-carbon economy.

Companies need to disclose the metrics they use to measure climate-related risks and their progress towards reducing greenhouse gas emissions.

By focusing specifically on climate risk, IFRS S2 ensures that organisations provide detailed, transparent information on how they are preparing for the transition to a more sustainable and resilient economy.

On 20 January 2025, the Securities Commission released a simplified guide "**Navigating the Transition: A Guide for Boards**" to support directors of companies in adopting the NSRF. This guide provides boards of directors with simplified and actionable steps in key

areas such as governance, sustainability, data boundaries, financial impact assessments, and integration with enterprise risk management systems.

Large companies (market capitalisation of RM2 billion and above) listed on Bursa Malaysia's Main Market start NSRF implementation this year. This guide can help board members (who are explicitly made responsible for sustainability matters under the Malaysian Code of Corporate Governance) ensure that companies under their stewardship undertake the necessary data collection, analysis, and reporting effectively. Notably, the Chairman of the Securities Commission in issuing this guide noted that, "*the NSRF is not a compliance tool, but a blueprint for embedding sustainability in corporate decision-making.*"[1]

Furthermore, the Advisory Committee on Sustainability Reporting ("**ACSR**"), has introduced PACE (Policy, Assumptions, Calculators, Education) — an initiative offering training, tools, and resources to meet NSRF requirements in adopting the ISSB standards.

2025 will be the start of the usage of the IFRS S standards when reporting on ESG. The NSRF explicitly acknowledges that different companies are at different phases of ESG reporting. They have varying levels of ESG implementation including data collection and verification. This also means the maturity of the reporting system is also varied.

To accommodate this difference in levels of maturity, the Securities Commission intends to continue issuing guides to the market to cover, amongst others, an Interoperability Module between the Global Reporting Initiative ("**GRI**") and IFRS Sustainability Disclosure Standards, Illustrative Sustainability Reports to provide companies with illustrative references to guide their disclosures and an NSRF Preparers' Programme to build capacity.

Interoperability guides will be of particular importance, given that the focus of the NSRF is the investor. However, widely used standards — such as the GRI — have a multi stakeholder approach. Thus, the scope of "materiality" will need to be dealt with appropriately.

### **Issues Relating to European Union**

Further, as the European Union ("**EU**") is a major trade partner of Malaysia, developments in the EU concerning sustainability will be of great relevance to companies that export goods to the EU as part of the supply chain of EU entities. In particular, the Corporate Sustainability Reporting Directive ("**CSRD**") will be of importance as companies subjected to the CSRD will have to report according to the European Sustainability Reporting Standards ("**ESRS**").

Negotiations for a Free Trade Agreement ("**FTA**") between the EU and Malaysia were launched in 2010, but had been put on hold after seven (7) rounds in 2012 at the request of Malaysia. In 2023, both parties began a stocktaking exercise to determine their positions regarding a possible resumption of the negotiations. On 20 January 2025, the EU and Malaysia announced the resumption of negotiations for a comprehensive and modern FTA.

Bilateral trade between the EU and Malaysia is dominated by industrial products, which account for over 90% of trade flows, and in particular by machinery and appliances, which account for 62% of all EU imports and over 46% of EU exports (based on 2023 figures). Besides machinery and appliances, the EU mainly imports animal and vegetable fats and oils, chemical products and optical and photographic instruments, and mainly exports chemical products.[2]

## **Conclusion**

In view of these developments, Malaysian companies that have dealings with EU counterparts that are subject to the CSRD may find themselves obligated to comply with the relevant parts of the CSRD (based on their contractual arrangements with their counterparts). This would require an understanding of the CSRD and in particular, the notion of double materiality (rather than the single materiality) i.e., the investor-focused concept of materiality as stressed in the NSRF.

Double materiality means that you need to consider what is material (i.e., relevant) to your business from both the (i) financial perspective, i.e., how sustainability issues affect the business, and (ii) the impact perspective, i.e., how the business affects society and the environment.

It is hoped that the Securities Commission, in issuing its interoperability guide will cover not just the GRI but also the CSRD. Thus, as the NSRF is of general application, Malaysia needs to be mindful of ESG developments in other parts of the world.

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1. Securities Commission Malaysia, SC Releases NSRF Guidance to Help Companies' Board of Directors Drive Sustainability Reporting (Media Release, 2023) <https://www.sc.com.my/resources/media/media-release/sc-release-nstrf-guidance-to-help-companies-board-of-directors-drive-sustainability-reporting> accessed 19 February 2025.
  2. European Commission, Malaysia - Trade (2023) [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/malaysia\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/malaysia_en) accessed 19 February 2025.

**Written by:**



**Pushpa SK Nair**  
Senior Associate/Director  
pushpanair@azmilaw.com

**Corporate Communications**

**Azmi & Associates**

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