

LATEST UPDATES ON ESG RULES AND REGULATIONS FOR LISTED COMPANIES IN MALAYSIA

Environmental, Social, and Governance (“**ESG**”) considerations are becoming a crucial focus for businesses, investors, and regulatory bodies globally. In Malaysia, government and corporate entities starting to adopt a proactive stance on ESG practices, recognizing their importance for sustainable development. Key regulators such as the *Securities Commission Malaysia* (“**SC**”), *Bursa Malaysia Securities Berhad* (“**Bursa**”), and other institutions have updated rules and guidelines on ESG to ensure listed companies contribute meaningfully to the country’s sustainability goals[1]. This article explores the latest updates on ESG rules and regulations for listed companies in Malaysia as of 2024.

Regulatory Framework for ESG in Malaysia

Securities Commission Malaysia

The Malaysian Code on Corporate Governance (MCCG) was updated by the Securities Commission Malaysia in 2021, enhancing the incorporation of sustainability and transparency into corporate governance[2]. The changes placed a strong emphasis on the board’s responsibility to handle social and environmental risks within company strategies[3]. Additionally, businesses were pushed to include sustainability risks in their larger risk management frameworks, paying special attention to social responsibility and the effects on the environment. The rules also improved stakeholder engagement by requiring businesses to take into account the legitimate interests of important stakeholders, including communities, employees, and the environment, when making decisions[4].

Bursa Malaysia Securities Berhad

Bursa’s initial introduction of its updated Sustainability Reporting Framework in 2015 has strengthened the accountability and transparency of ESG for listed companies. Significant amendments include an enhanced sustainability framework that requires

reporting on ESG indicators for three years, mandatory disclosure on issues like waste management and anti-corruption with compliance deadlines in 2025 for Main Market issuers and 2026 for ACE Market companies, and disclosures on climate change that are in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)[5]. Moreover, sector-specific ESG metrics for high-impact industries and mandatory third-party audits increase ESG data credibility[6]. Complementing these efforts, the Sustainability Reporting Guide aligns with international standards like the Global Reporting Initiative (GRI) and ISSB Standards. This alignment ensures that Malaysia's ESG reporting meets global best practices, building investor confidence and strengthening corporate governance[7]. Finally, the 2023 amendments to the Main Market Listing Requirements (MMLR), ACE Market Listing Requirements (ACE LR), and LEAP Market Listing Requirements (LEAP LR) further enhanced governance through improved transparency in management and mandatory sustainability training for directors.

Key ESG Regulatory Updates for 2024

As the global emphasis on sustainability intensifies, ESG considerations have become paramount for businesses worldwide[8]. Malaysia in 2024 is still experiencing ESG regulations' development progress, especially in terms of rules for the listed companies. These updates show more concern towards sustainability and corporate social responsibility to pressuring from local as well as global: -

(i) Enhanced ESG Disclosure Requirements:

All listed companies in Malaysia are required to disclose their Sustainability Statements as mandated by Bursa. This change in regulation has the aim of harmonising the ESG reporting, which means making them similar to other countries' rules to increase comparability[9]:

- Through this regulation, the Malaysian government seeks to ensure that all listed companies post the same ESG disclosures hence allowing a comparison of the various industries.
- The level of disclosures assists investors and shareholders to make informed decisions hence creating confidence in corporate leadership.
- This disclosure requirement put Malaysia in par with the current global trend whereby ESG reporting is moving towards mandatory status to attract foreign direct investment that focuses on sustainable business practices.

(ii) Introduction of the i-ESG Framework:

Currently, the Malaysian government has developed the National Industry Environmental, Social, and Governance Framework (i-ESG Framework) to support industries especially manufacturing companies to integrate ESG standards. The provision of the framework is still optional but is planned to be a legal requirement by 2030. The

first of three years between 2024-2026 speaks to supporting organisations in operationalising ESG concerns successfully. The pillared framework with four principal components is divided into two phases[10]:

- **Phase 1 (2024-2026):** Just Transition, focusing on helping companies integrate ESG practices into their operations.
- **Phase 2 (2027-2030):** Accelerate ESG Practices, which will introduce more stringent compliance requirements and promote advanced ESG strategies.

For the four key pillars:

- **Standards:** Establishing clear guidelines for ESG practices.
- **Financing:** Providing financial support for companies transitioning to sustainable practices.
- **Capacity Building:** Offering training and resources to enhance understanding and implementation of ESG principles.
- **Market Mechanisms:** Creating incentives for companies to adopt sustainable practices.

(iii) Green Financing:

The concept of green finance is swiftly acquiring momentum in the financial sector as companies give greater importance to investments that are ecologically conscious. Companies are using green bonds and ESG-focused funds to raise money for environmentally beneficial projects because Malaysia is placing an increasing emphasis on sustainability reporting. These financial products provide a workable answer to the requirement for significant investments in environmental projects by lining up investor interests with more general global sustainability aims[11].

Companies in Malaysia have access to up to RM200 billion in green funding to help them make the switch to low-carbon operations. Tax discounts for ESG-related expenses and exemptions for managing Socially Responsible Investment (SRI) funds till 2027 are two more incentives. Tax exemptions are another advantage of carbon offsetting programs, which encourages company participation in environmentally friendly initiatives and climate-related activities[12].

(iv) The Assistance of AI:

AI is assisting businesses in handling and processing large, complicated ESG data sets. It is increasing the accuracy of reports and judgments and streamlining data management. Additionally, fintech is emerging as a significant ESG trend in Malaysia, particularly in the areas of resource optimization and energy efficiency enhancement to improve the sustainability of business operations. By enhancing automation and enabling more informed decision-making based on data, these technologies enable businesses to take on more sustainable projects[13].

(v) International Contexts

Higher sustainability standards are being pushed by international markets, and Malaysian businesses need to adjust fast to stay competitive. This involves getting ready for future regulations, which are already becoming common in places like the EU and Hong Kong, such as independent assurance for sustainability statements[14].

Conclusion

Several local and international ESG regulations are being developed and implemented signifies that Malaysia is on par with the growing trend for sustainability. The introduction of the new MCCG, Bursa Malaysia's sustainability framework together with the release of the i-ESG Frameworks are paving way for ESG approaches aimed at integrating local players to the international standards. These initiatives emphasize the importance of standardized and transparent ESG reporting, as well as sector-specific approaches to sustainability.

As Malaysia moves towards mandatory compliance by 2030, listed companies including non-listed companies need to adopt and integrate ESG principles into their operations and governance structures to meet both local regulatory expectations and international investor demands. The latest ESG rules and regulations in Malaysia will help in improving the nation's business governance and branding itself as a pioneer of sustainable business operations in the Southeast Asia region.

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