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Climate change is a board level-issue. It is increasingly acknowledged as one of the most significant financial risks confronting businesses, with the potential to fundamentally reshape business models in the long run. Consequently, it is inherently linked to long-term business strategy and board governance, necessitating a cultural shift within the boardroom. The National Climate Change Policy 2.0 ("**NCCP 2.0**") and the forthcoming Climate Change Bill in 2025 are set to fundamentally reshape corporate governance in Malaysia. As the business landscape becomes increasingly aligned with climate goals, companies and boards of directors will need to adapt, enhance their sustainability strategies, and strengthen their risk management frameworks to comply with emerging regulations and market expectations. But what exactly does this mean for boards and business?

Overview of National Climate Change Policy 2.0 and Climate Change Bill

As Malaysia ramps up its climate action, two key developments have emerged: the NCCP 2.0 and the upcoming Climate Change Bill.

The first National Policy on Climate Change, introduced in 2009, was a significant step in introducing climate considerations into Malaysia's institutional framework. However, over the past decade, global developments, most notably the Paris Agreement—have elevated expectations for climate action. In response, Malaysia has committed to reducing carbon intensity by 45% by 2030 (compared to 2005 levels) and achieving net-zero emissions by 2050. The NCCP 2.0 builds on these commitments, outlining 5 strategic thrusts, 15 strategies, and 92 key actions, setting a clear pathway for Malaysia's transition to a low-carbon economy and climate-resilient development.

NCCP 2.0 will also serve as the foundation for drafting the Climate Change Bill which is expected to be tabled in 2025. This Bill aimed at, amongst others, introducing legal frameworks designed to enforce climate action and includes critical mechanisms for companies such as:

- Carbon pricing and emissions regulations, requiring companies to monitor and report their carbon footprint.
- Mandatory climate-related disclosures to ensure transparency.
- Incentives and penalties to drive corporate compliance with climate goals.

Climate Change Bill - Impact on Corporate Governance for Boards and Companies

The upcoming Climate Change Bill will introduce significant changes to corporate governance, particularly in how boards approach their fiduciary duties and responsibilities. Traditionally, climate risks were viewed as external factors and often sidelined in boardroom decisions. However, under the new regulatory framework, these risks must be fully integrated into decision-making structures, just like any other financial, legal, or operational risk.

A key aspect that is expected from the forthcoming Climate Change Bill is to achieve two key objectives:

(i) the **requirement** for enhanced climate-related **disclosures**; and

(ii) the **standardization** of climate **reporting**.

This trend is evident as regulatory bodies are gradually mandating companies to align with the standards set by the International Sustainability Standards Board (ISSB), specifically ISSB S1 and S2. Recently on 24 September 2024, the Securities Commission of Malaysia has published the National Sustainability Reporting Framework ("**NSRF**") which addresses the use of the standards issued by the International Sustainability Standards Board as the baseline for sustainability reporting in Malaysia.

Following the launch of the NFRS, Bursa Malaysia has issued a consultation paper seeking public feedback on the proposed sustainability reporting enhancements to the Main Market and ACE Market Listing Requirements in line with the envisioned adoption of the NSRF. This framework aims to align the reporting of public listed companies in Malaysia with global benchmarks and to meet investor and stakeholder demands for transparency in climate-related practices.

Although the implementation will be made in stages to allow companies time to adapt to the new requirements, boards will need to be prepared to ensure that companies have the necessary system and mechanism in place to effectively report on carbon footprints, greenhouse gas emissions, and other relevant environmental impacts in accordance with these new standards. This shift not only fosters transparency but also equips stakeholders—investors, regulators, and the public—with essential insights into how companies are managing climate-related risks.

Currently, strict disclosure requirements apply only to public listed companies; however, these obligations may eventually extend to all types of companies and organizations, especially with the upcoming Climate Change Bill. With this bill expected to be tabled next year, a pressing question arises: Are boards and businesses prepared? Failure to comply with these new frameworks could have significant consequences. Beyond potential financial penalties, companies that do not adequately address climate risks may suffer reputational damage and lose the trust of institutional investors, employees, and other stakeholders. In a market that is increasingly valuing environmental responsibility, companies that lag could also lose market share to competitors who have adopted more sustainable practices.

National Climate Change Policy 2.0: Integrating Climate Responsibility into Corporate Governance for Boards and Business

***Note**: Out of the five strategic thrusts under NCCP 2.0, only Strategic Thrusts 1 and 4 are relevant to this discussion.*

1. Strategic Thrust 1: To strengthen climate governance and institutional capacity for effective planning, regulation and implementation of climate action

This Strategic Thrust focuses on reinforcing climate governance and institutional capacity. This involves three key strategies:

(1) creating a comprehensive legal framework to regulate climate action;

(2) establishing an effective institutional framework and governance structure to enhance management of climate action; and

(3) enhancing institutional capacity and data systems for informed decision-making process.

The identified catalyst for these changes is the upcoming Climate Change Bill, which will enhance accountability and streamline responsibilities, in order to ensure that all stakeholders are engaged and held accountable for their climate contributions or climate inactions.

Key responsibilities for boards and business under Strategic Thrust 1 include the following:

(a) Climate Risk Integration:

- Boards must ensure that climate risks are embedded within corporate risk assessments, alongside traditional financial and operational risks.
- Boards should also manage climate-related risks in a manner that is proportionate to the materiality of climate-related risks, taking into consideration the size, nature and complexity of the companies' business model.
- Internally, companies should ensure that the board and senior management have an adequate understanding of climate-related financial risks and are equipped with the appropriate skills and experience to manage these risks.
- Where gaps exist, the companies should invest in building capacity, providing targeted training through internal workshops or partnerships with climate experts.

- Effectively managing climate risks necessitates embedding climate considerations at all levels of the company's policies, processes, and controls across relevant departments and business units.

(b) Climate-Related Disclosures:

- Mandatory disclosures regarding climate impacts and adaptation strategies are imminent, requiring companies to prepare for more enhanced reporting obligations.
- Regulatory bodies, such as the Securities Commission Malaysia, Bursa Malaysia, and Bank Negara Malaysia, are introducing mandates on ESG disclosures to facilitate corporate transitions toward a low-carbon economy.
- Notably, the EY Global Corporate Reporting and Institutional Investor Survey 2022 reveals that 99% of institutional investors rely on these ESG disclosures in their decision-making processes.[1]
- As a result of the above, financial reports are increasingly incorporating ESG-related metrics to provide a holistic view of corporate performance.
- This shift requires boards and businesses to make significant investments in data systems and tools to accurately monitor emissions, assess climate risks, and track progress toward sustainability targets.

(c) Accountability and Governance:

- When the Bill is enforced, Boards are accountable for overseeing climate action across their organizations.
- The creation of sustainability committees, reporting to the board, may become necessary for overseeing climate-related initiatives. This committee should include members with expertise in sustainability and climate issues.
- Boards should pay particular attention to how responsibilities for climate-related risks and opportunities are reflected in such sustainability committee terms of reference, policies, mandates, role descriptions and other related policies applicable to that committee.

2. Strategic Thrust 4: Scale up blended financing and enable a sustainable market to increase involvement of private sectors

This Strategic Thrust focuses on expanding domestic green financing through two primary strategies:

(1) stimulating a green economy via market enablers; and

(2) increasing both domestic and foreign investments to address climate change.

This thrust outlines two key initiatives: first, to foster a green economy through the implementation of market-enabling instruments such as carbon pricing and carbon markets; second, to scale up investments that combat climate change. The identified catalytic initiatives include the implementation of carbon pricing mechanisms and the formulation of a comprehensive carbon market policy.

Implications of Strategic Thrust 4 for Boards and Business:

(a) Carbon Pricing and Emissions Trading:

- As carbon pricing mechanisms are implemented, companies that emit greenhouse gases will face new financial liabilities, which could manifest as carbon taxes, cap-and-trade systems, or hybrid approaches.
- Boards must then assess how the costs associated with carbon pricing (such as carbon credit, taxes, or penalties on emissions) will impact on their company's overall expenses and its position in the market compared to its competitors.
- Boards should also consider and implement strategies to lower emissions, which could help mitigate these costs and improve their competitive standing in the market.
- Boards should remain aware of shifts in government policies, such as new carbon taxes, emissions regulations, and subsidies for green tech, all of which are reshaping production and consumption patterns and driving significant capital investment into sustainable infrastructure and innovations.

(b) Investment in Low-Carbon Technologies:

- Investing in cleaner technologies can mitigate potential costs associated with the carbon pricing and compliance-driven carbon market.
- With the growth of the green economy, companies should seize opportunities to invest in low-carbon technologies. This may involve diversifying into renewable energy sources like solar, and geothermal power; adopting energy-efficient processes that reduce operational emissions; or implementing nature-based solutions, such as reforestation and habitat restoration projects, which can serve as valuable carbon offset programs.
- Boards should evaluate these investments not only for their financial returns but also for their environmental impact, considering how structural shifts in the low-carbon economy—driven by technological advances, consumer and investor preferences for sustainable products, and evolving government policies—are reshaping markets and attracting significant capital investment.

(c) Access to Climate Finance:

- Green finance, or climate finance, encompasses financial resources and instruments dedicated to addressing climate change. It is regarded as a way of meeting the needs of environmentalism and capitalism simultaneously.
- Through instruments like green bonds, sustainability-linked loans, and specialized mortgages, boards have actionable pathways to fund sustainable projects and enhance corporate resilience.

- In Malaysia, the Malaysian Green Financing Taskforce (MGFT), led by the Securities Commission, drives growth in green finance, with a particular focus on renewable energy.
- Boards must take an active role in embedding these climate finance tools directly into their corporate strategies and prioritize green finance and secure funding for sustainable initiatives.

In conclusion, the National Climate Change Policy 2.0 and the Climate Change Bill represent a significant shift in how companies approach climate action and sustainability. These frameworks require boards to rethink traditional governance structures, integrating climate-related risks into their core strategies. Companies that adapt will not only meet regulatory requirements but also enhance their competitiveness in the emerging green economy.

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1. https://www.micpa.com.my/v2/wp-content/uploads/2023/11/Adopting-ESG_EYCCaSS_MICPA_27Nov2023.pdf

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