

OVERVIEW OF THE ENHANCED SUSTAINABILITY FRAMEWORK

Introduction of the Sustainability Framework

Bursa Malaysia Securities Berhad ("**the Exchange**") had launched a sustainability reporting framework for listed issuers in October 2015 as part of its mission to improve sustainability in the capital market, consisting of the Sustainability Statement, the Guide and Toolkits (the "**Sustainability Framework**").

Over the years, the Exchange has observed that listed issuers are now more committed to integrating sustainability into their business and have demonstrated encouraging improvements in the quality of disclosures provided in recent years through the Exchange's annual sustainability disclosure review exercises along with various engagements and advocacy programmes for directors and sustainability practitioners.

Enhanced Sustainability Framework

On 26 September 2022, the Exchange has announced a phased approach in implementing the enhanced reporting requirements ("**Enhanced Sustainability Framework**")^[1] in the Main Market Listing Requirements and also to the ACE Market Listing Requirements, consisting of: -

1. The requirement for a listed issuer to provide a narrative statement on the management of material economic, environmental and social risks and opportunities in their annual reports ("**Sustainability Statement**");
2. The updated Sustainability Reporting Guide ("**Guide**") and updated six Toolkits ("**Toolkits**").

The implementation of Enhanced Sustainability Framework is to elevate the sustainability practices and disclosures of listed issuers ("**Enhanced Sustainability Disclosures**") and to strengthen disclosures in Sustainability Statements through the Enhanced Sustainability Disclosures, which aims to ensure the reporting requirements continue to serve their intended purpose and more effectively meet the needs of stakeholders[2].

With the addition of climate change reporting into the Enhanced Sustainability Framework, the Task Force on Climate-related Financial Disclosures ("**TCFD**") Recommendations which is a widely applicable climate disclosure framework for businesses globally is now a requirement for public listed companies.

Aims of the Enhanced Sustainability Disclosures

The Exchange believes that the Enhanced Sustainability Disclosures would[3]: -

- (i) Improve the sustainability practices and quality of disclosures of listed issuers;
- (ii) Enhance comparability across listed issuers to enable benchmarking by stakeholders who are seeking meaningful sustainability information or data;
- (iii) Serve as a springboard to propel listed issuers to adopt international best practices and to realise our national aspiration to be a leading capital market for sustainability in the region; and
- (iv) Increase the inflow of funds or investments with a sustainability focus into the Malaysian capital market.

The more proactive and ESG-conscious organisations are also rapidly shifting away from "tick box" compliance-driven tactics in favour of a more proactive and strategic model as discussions on sustainability and ESG continue to grow. From tactical projects, sustainability is becoming a company-wide strategy. The listed organisations must in the first place adopt a broad perspective on sustainability disclosure items as discussed above in order to make this transformation. Each component should be evaluated in the context of the whole environmental, social, and corporate strategy and landscape rather than being appraised in isolation. In turn, this will result in comprehensive and coherent plans that maximize corporate value. Hence, the implementation of the Enhanced Sustainability Framework will expedite the transition of the listed companies to reach this objective.

ACE Market Listing Requirements

In order to better address the unique conditions of listed corporations, the Exchange recognises the necessity to retain a separate approach to climate-related disclosures for ACE Market listed companies as opposed to Main Market listed issuers. With regards to

climate change reporting – instead of TCFD-aligned disclosures which are a requirement of Main Market listed companies under the Enhanced Sustainability Framework, ACE Market listed corporations are now required to disclose a basic plan to transition towards a low carbon economy with regards to climate change reporting[4]. This not only makes it easier for companies listed on the ACE Market to think about the opportunities and risks associated with climate change, but also takes into consideration how sophisticated such companies are in this particular scope of sustainability[5].

Timeline of Implementation

The Exchange took into account the varied suggestions and comments received in response to the public consultation paper released on 23 March 2022[6] when it came time to finalise the Enhanced Sustainability Disclosures. The Exchange is aware that listed issuers may need some time to undertake the necessary preparations, including putting in place the relevant practises, policies, and procedures to embrace the additional requirements of the Enhanced Sustainability Disclosures in an effective manner. With the above consideration, a phased approach will be used in implementing the adjustments. A reasonable grace period will be given to listed issuers for compliance, beginning with the disclosure of the common sustainability matters for financial year ending (“FYE”) on or after 31 December 2023, and culminating with the TCFD-aligned disclosures for FYE on or after 31 December 2025[7]. ACE Listing Requirements will similarly adopt the enhanced sustainability disclosures on a staggered basis, with disclosures of the prescribed sustainability information taking effect for FYE 31 December 2024, and concluding with the disclosures of the basic transition plan for FYE on or after 31 December 2026[8].

The Enhanced Sustainability Reporting Guide and Toolkits

The new Guide and Toolkits, which will offer instructions on how to comply with the Enhanced Sustainability Disclosures, have also been released by the Exchange. Listed issuers should also take into account additional best practises if they want to implement more sophisticated sustainability practises and reporting to differentiate themselves in the market[9].

The Guide consists of Disclosure Guidance, aiding the listed issuers in addressing the Enhanced Sustainability Disclosures, as it is supplemented with key questions which listed issuers should address in preparing their Sustainability Statement, measurement methodologies for indicators in respect of the prescribed indicators associated with the Common Sustainability Matters, not to mention updated definitions, case studies and additional resources for listed issuers[10]. The Toolkits on the other hand complements the Guide, through its topical information and best practice approaches for listed issuers to enhance the sustainability practices within their organisation.[11]

Remarks

The Exchange plays a pivotal role in enhancing corporate transparency on environmental, social and corporate governance-related issues among companies in Malaysia. In the past sustainability was perceived and implemented by the Malaysian companies as philanthropic initiatives with very little link to the business core or strategy. But since the implementation of Sustainability Framework, things have taken a big turn and investors are increasingly looking at sustainable business practices when investing. And now with the Enhanced Sustainability Framework in its implementation phase, we will definitely see a step up from listed companies as sustainability reporting is the best method to assess where the company stands compared to its competitors, to measure the effectiveness of its management and to ascertain stakeholders' attitudes.

1. Bursa Malaysia, Media Release on Bursa Malaysia Enhances Sustainability Reporting Framework with New Climate Change Reporting dated 26 September 2022, pg 1 <https://www.bursamalaysia.com/sites/5bb54be15f36ca0af339077a/content_entry5c11a9db758f8d31544574c6/63312a2439fba20d86ba8e16/files/26Sept_2022_Bursa_Malaysia_Enhances_Sustainability_Reporting_Framework_With_New_Climate_Change_Reporting.pdf?1664169009>. Accessed 28 April 2023.
2. Bursa Malaysia, Circular on Enhanced Sustainability Disclosures dated 26 September 2022, pg 2 <https://www.bursamalaysia.com/sites/5bb54be15f36ca0af339077a/content_entry5ce3b50239fba2627b2864be/63311a7a5b711a4e20c5340a/files/Circular_to_Main_PLC_EnhancedSustainability.pdf?1668067484> Accessed 28 April 2023.
3. Bursa Malaysia, Media Release, pg 2.
4. Ibid, pg 2.
5. Ibid.
6. Bursa Malaysia, Consultation Paper No. 1/2022: Review of the Sustainability Reporting Requirements under the Main Market and ACE Market Listing Requirements <https://www.bursamalaysia.com/sites/5bb54be15f36ca0af339077a/assets/623a9d3639fba24405b9b892/CP_SustainabilityReporting_23Mar2022__clean-final_.pdf>. Accessed 30 April 2023.
7. The Sun, Bursa enhances sustainability reporting framework with new climate change reporting <<https://www.thesundaily.my/business/bursa-enhances-sustainability-reporting-framework-with-newclimate-change-reportingDH9876126>> Accessed 2 May 2023.
8. Ibid.
9. Bursa Malaysia, Circular pg 8.
10. Ibid.
11. Ibid.

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