BoardRoom
Smart Business Solutions

Malaysia's Commitment to Sustainability: A Call to Action for Listed Companies

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As the world confronts the mounting challenges of climate change, Malaysia is taking decisive steps to strengthen its sustainability framework. This signals a clear direction towards more stringent environmental regulations and ambitious climate commitments. For businesses, especially listed companies in Malaysia, this shift is not just an abstract policy trend—it's a critical area that will directly impact corporate operations, disclosures, and strategy.

Recent governmental actions underscore the urgency of transitioning toward sustainable practices. Specifically, three major developments stand out:

1. The National Sustainability Reporting Framework (**NSRF**)
2. The National Climate Change Policy 2.0
3. The upcoming Climate Change Bill

For Malaysian companies, particularly those listed on the Main and ACE markets, understanding and preparing for these initiatives is no longer optional. It's imperative for securing long-term resilience, attracting investments, and aligning with global sustainability standards. In this report, we delve into these three developments and explore their significance for Malaysian businesses.

National Sustainability Reporting Framework (NSRF)

The National Sustainability Reporting Framework (**NSRF**) represents a significant development in Malaysia's corporate reporting landscape. In alignment with global standards, the NSRF integrates the IFRS Sustainability Disclosure Standards, issued by the International Sustainability Standards Board (ISSB). The focus is on two key standards—IFRS S1 for general sustainability-related financial information and IFRS S2 for climate-related disclosures. These standards provide a baseline for transparent, consistent, and reliable sustainability reporting.

Why is This Important for Malaysian Companies?

The NSRF is not just another reporting guideline; it's a tool designed to enhance Malaysia's attractiveness to global investors by fostering transparency. For businesses, it provides an opportunity to align with international expectations and increase competitiveness. With the NSRF's phased adoption timeline, companies of all sizes are given the opportunity to improve their sustainability practices incrementally. The framework encourages consistent and comparable sustainability disclosures across industries, offering a common language that investors and stakeholders can rely on.

Moreover, the phased approach of the NSRF is crucial for businesses at varying levels of maturity in sustainability reporting. The framework acknowledges the challenges of transitioning and offers several reliefs to ease the process. For instance, smaller companies may initially be allowed to focus their disclosures on principal business segments or omit Scope 3 greenhouse gas (GHG) emissions data, which can be complex to measure. However, as the timeline progresses, these companies are expected to align fully with global best practices.

What Does This Mean for Listed Companies?

For Main Market and ACE Market-listed companies, this framework will have a direct impact on how they report sustainability data. Moving forward, it's not just about ticking boxes—it's about providing detailed, transparent, and actionable information on sustainability and climate risks. These disclosures will help businesses identify and manage risks more effectively, especially in industries most affected by climate change.

Additionally, meeting these standards is likely to become a prerequisite for attracting institutional investors who are increasingly prioritising ESG (Environmental, Social, and Governance) factors in their investment decisions.

National Climate Change Policy 2.0

In tandem with the NSRF, Malaysia's National Climate Change Policy 2.0 represents an evolution of the original policy from 2009, integrating recent global commitments such as the Paris Agreement and the nation's Nationally Determined Contributions (**NDC**). This policy sets the stage for a more coordinated, strategic response to climate change, and serves as the blueprint for future legislative and regulatory measures, including the anticipated National Climate Change Act and the introduction of carbon pricing mechanisms.

Why is This Important for Malaysian Companies?

This new policy introduces a more comprehensive approach to addressing both transition risks—such as regulatory shifts, technological changes, and market dynamics—and physical risks, like extreme weather events. For businesses, especially those in sectors reliant on exports, such changes are critical. The policy touches on new concerns such as just transition, carbon trading, and the trade-sustainability nexus, all of which will have implications for sectors like manufacturing, energy, and commodities.

The emphasis on carbon pricing and market mechanisms is particularly noteworthy. As carbon border tariffs become more prevalent globally, Malaysian companies exporting to regions such as the European Union may face financial penalties if they fail to meet required emissions reductions. The introduction of carbon markets within Malaysia will also shift how companies account for their emissions, potentially leading to increased operational costs if they do not take steps to reduce their carbon footprint.

What Does This Mean for Listed Companies?

For companies operating in Malaysia, this policy signals a stronger regulatory environment focused on emissions reduction. Companies will need to begin preparing for potential regulations around carbon pricing, which could fundamentally change their cost structures. Those that act early—by reducing emissions, investing in clean technology, and aligning their strategies with the policy—will be better positioned to navigate these changes. Furthermore, compliance with these policies will likely become a key factor in maintaining a positive corporate reputation and securing market access internationally.

The Climate Change Bill: A Legislative Framework for Accountability

The third key development in Malaysia's sustainability journey is the anticipated Climate Change Bill. This legislative framework, which is expected to be tabled soon, will establish legal mandates for reducing greenhouse gas (GHG) emissions, promoting climate resilience, and fostering green growth. While Malaysia has historically taken a policy-based approach to sustainability, the introduction of a formal bill signals a shift towards binding obligations and stricter accountability measures for businesses and the government alike.

What Does the Climate Change Bill Entail?

Though details are still emerging, the Climate Change Bill is expected to introduce a comprehensive regulatory framework to ensure that Malaysia meets its net-zero by 2050 target. The bill is expected to include these provisions:

Legally Binding Emissions Reduction Targets
These will be in line with Malaysia's commitments under the Paris Agreement and Nationally Determined Contributions (**NDC**). Companies will likely be required to monitor, report, and reduce their carbon emissions across direct (Scope 1), indirect (Scope 2), and possibly value-chain emissions (Scope 3).

Carbon Pricing Mechanisms
To support Malaysia's transition to a low-carbon economy, the bill may pave the way for carbon taxes or cap-and-trade systems, incentivising companies to reduce emissions and adopt greener technologies.

Mandatory Climate-related Disclosures
Listed companies will be required to incorporate climate risks and mitigation strategies into their annual reports and sustainability disclosures, with penalties for non-compliance.

Just Transition Provisions
Ensuring that as the country shifts towards a low-carbon economy, the process remains inclusive, providing support to industries and workers that are disproportionately affected.

What Does This Mean for Listed Companies?

For listed companies, the Climate Change Bill will introduce a new era of compliance and enforcement. It is not simply about adhering to voluntary frameworks or adopting best practices—it will be about meeting legal obligations with real financial and reputational consequences. Non-compliance may result in hefty fines, investor scrutiny, and potential exclusion from certain markets, especially those with stringent carbon border tariffs.

The bill also provides companies with the opportunity to innovate. By taking early action and investing in sustainable practices, businesses can position themselves as leaders in the low-carbon economy, gaining a competitive edge. Additionally, integrating sustainability into business models will be essential for attracting long-term capital, as investors increasingly prioritise ESG considerations when making decisions.

For companies operating in sectors with high GHG emissions, such as energy, manufacturing, and transportation, the bill will likely require significant operational changes. Those that fail to prepare for these changes could face increased costs, disruptions, and difficulties in securing financing. On the other hand, businesses that embrace this transition will benefit from government incentives, access to green financing, and enhanced brand reputation.

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