Deloitte.

Malaysian Communications and Multimedia Commission Digital Outlook Series 2023
ESG, Climate & Trust: The Board's Role

17 October 2023

ESG – A clarion call for corporates to step up

Research shows that ESG has indeed morphed into a linchpin within wider corporate strategy in line with rising investor, consumer and societal expectations on the corporate sector.

Getting your ESG proposition right is linked to greater trust, higher value creation and is essential to maintain competitiveness

- Corporate performance is inherently linked to ESG matters.
- Paying attention to ESG matters does not compromise returns – rather, it is a tool for value creation and informed decision making to ensure sustainable operations well into the future.

An informed ESG approach is linked to increased cash flow in at least four important ways

- **Drives top-line growth** by penetrating new consumer markets
- **Facilitates bottom-line savings** by ensuring lean, efficient operations
- **Minimises regulatory and legal interventions** by signalling organisational proactivity
- **Unlocks access to external funding** by riding on greater ESG consciousness amongst fund managers

(McKinsey, 2019)

Drives top-line growth	**Gain fresh consumer market access to developing/developed markets with heightened ESG expectations.**
Facilitates bottom-line savings	**Lowers carbon footprint and overall energy consumption.**
Minimises regulatory and legal interventions	**Achieve greater strategic freedom through signalling organisational focus and proactivity on ESG matters.**
Unlocks access to external funding	**Staying ahead of increasingly stringent ESG screening conducted by global fund managers and investment houses.**

The Growth of ESG-linked funds

Bloomberg Intelligence has forecasted the value of exchange-traded funds to increase to USD50 trillion by 2025, representing a third of projected total global assets under management.

The role of the board in ESG

ESG oversight ultimately starts with the board, being the "apex" of corporate leadership.

Tone at the top

The board's actions and decisions should reflect a commitment to the highest standards of ESG proactivity. The board should also demonstrate personal commitment and issue clarion calls, serving as role models for the organisation.

Understanding

The board, with the support of the Company Secretarial team should commit to continuous upskilling and "staying ahead of the curve" on rapidly changing ESG expectations. Topics that Directors should be informed on include ESG governance, enhanced sustainability reporting requirements, ESG-linked KPIs and carbon pricing.

Stakeholder engagement

The board must ensure their companies effectively pull stakeholder views, with a focus on these views ultimately cascading down to the identification of material ESG matters, contextualised to the company's unique market positioning.

Oversight and governance

The board are responsible for overseeing the effectiveness of policies, procedures and systems in place for ESG monitoring and reporting.

Incorporation to purpose and strategy

The board should ensure their management teams effectively embed ESG is not undertaken in isolation. Instead, ESG should be at the core of how a company identifies its challenges, risks and opportunities.

ESG stress testing

The board should ensure that ESG systems, processes and policies are subject to rigorous stress testing. This should also include an effective climate stress testing programme (e.g.: forecasts on increase in costs from carbon pricing and disruption from climate-related damage to property, plant and equipment).

Perspectives on ESG and Climate Trends

ESG, Climate & Trust need to be "front and center" with focus on the Technology, Media and Telecommunications (TMT) sector.

Perspective #1

Enhanced ESG disclosure requirements are rapidly approaching

A 2022 Deloitte survey found that 91% of TMT leaders said their company is preparing for increased ESG disclosure requirements – with 61% preparing extensively. 9 in 10 TMT leaders said they've enhanced their internal goal setting mechanisms in recent months.

In September 2022, **Bursa Malaysia released enhanced sustainability reporting requirements** calling for Main Market listed issuers to disclose common sustainability matters, **Task Force on Climate-related Financial Disclosures (TCFD)**, enhanced quantitative information and statements of assurance. Having a seal of validation (i.e., statement of assurance) is integral in building stakeholder trust.

The **G20/OECD Principles 2023** have called for "greater disclosure of sustainability-related information, clarification of board responsibilities and dialogue between companies and their shareholders and stakeholders on sustainability".

Perspective #2

The board needs to lead the way in climate change oversight

Bursa Malaysia's enhanced sustainability reporting requirements have called for boards to adequately consider material sustainability risks and opportunities when reviewing, monitoring and guiding governance practices, disclosure, strategy, risk management and internal control systems, including with respect to climate-related physical and transition risks.

As an example of leading market practice, the board of a multinational beverage company has set a quarterly review cycle on overall sustainable performance. The company has also embedded climate risk in its overarching risk register and ESG-linked KPIs into variable compensation plans of senior management personnel.

The company's cross-functional leaders often hold regular "cadence sessions" to identify sustainable risks and opportunities.

Perspective #3

Unlocking funding opportunities will increasingly factor in ESG screening

Responsible and sustainable financing is increasingly gaining traction, backed by the **UNPRI Principles for Responsible Investment**.

Leading institutional investors and fund managers have called for a "reallocation of capital" in line with the shift to a low-carbon global economy.

An increasing number of financial institutions have also began offering loans at preferential rates for companies that display strong sustainable performance.

Our Perspectives on ESG and Climate Trends

ESG, Climate & Trust need to be "front and center" for TMT companies.

Perspective #4

Sustainability decision-making should be data-backed to maintain trust

"What is not measured does not get managed".

Rigorous sustainability data should form the bedrock of a company's practices, lending confidence to making informed decisions, driving transformational change and maintaining credibility and trust with stakeholders.

TCFD standards have stressed the importance in undertaking further research and develop understanding on standardised metrics that are clear, comparable and consistent, in line with stakeholder expectations.

Companies are also increasingly utilising climate science-based targets (e.g.: **Science-Based Targets Initiative** or SBTi).

Perspective #5

Stakeholder engagement will be key to encourage greater buy-in

A key challenge for boards and companies is convincing stakeholders on the business case for ESG. In developing economies with multifarious economic considerations, stakeholders are often prioritising shorter-term gains over longer-term sustainable growth.

Engagement is key to communicate ESG importance and rally ESG action organisation-wide. Integrating ESG matters within wider corporate strategy should be prioritised for effective change management.

As espoused in the **Global Reporting Initiative (GRI) Standards** and **AA1000 Stakeholder Engagement Standards**, companies should encourage active co-operation with shareholders and stakeholders in creating value and sustainable companies.

Perspective #6

Challenges remain in measuring and mitigating Scope 3 emissions for TMT companies

It is estimated that Scope 3 emissions (i.e., emissions indirectly produced through the value chain) account for almost 60% of telecommunication TMT companies' carbon footprint.

The scarcity and fragmented nature of data is proving to be a challenge. Scope 3 emissions tracking requires boardroom attention with the management team holding the responsibility to engage with value chain players.

In situations where direct information from suppliers are inaccessible, the **Greenhouse Gas Protocol standards** allows companies to use industry averages, proxies and other sources to calculate their Scope 3 emissions.

Latest development: G20/OECD Principles of Corporate Governance 2023

The G20/OECD recently launched the Principles of Corporate Governance, highlighting "best-in-class" governance expectations from stakeholders that TMT companies need to stay cognisant of.

- *The G20/OECD Principles 2023* are the international standard for corporate governance which aims to aid policy makers in evaluating and improving the legal, regulatory and institutional framework for corporate governance.
- The 2023 edition reflects recent evolutions in capital markets and corporate governance policies and practices.
- Topics in focus include **shareholder rights**, **the role of institutional investors**, **corporate disclosure and reporting**, **the responsibilities of boards**, **sustainability and resilience to help companies manage climate-related and other sustainability risks and opportunities**.
- The Principles are broken down into six interconnected chapters - (1) Ensuring the basis for an effective corporate governance framework, (2) The rights and equitable treatment of shareholders and key ownership functions, (3) Institutional investors, stock markets, and other intermediaries, (4) Disclosure and transparency, (5) The responsibilities of the board and (6) Sustainability and resilience.

(OECD, 2023)

""The Revised G20/OECD Principles is a key milestone, **encapsulating renewed global consensus on governance expectations**, including **the role of governance in supporting sustainability and resilience.**"
– Dato' Seri Dr. Awang Adek Hussin *(Chairman, Securities Commission Malaysia) remarks at the recently held 2023 OECD-Asia Roundtable on Corporate Governance.*

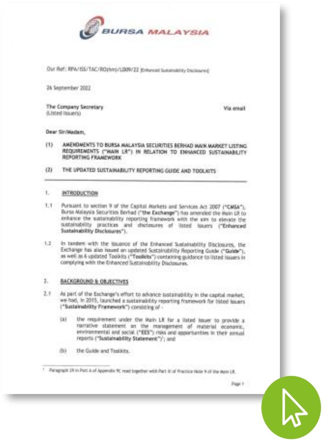
Investors Incorporating the Principles into their ESG Screening Process

Global investors are likely to heighten expectations in line with those embedded within the Principles, accelerating the imperative for corporates to stay ahead of the Principles to ensure costs of capital remain competitive.

Staying Ahead on Sustainability Reporting

TMT players need to understand their sustainability reporting obligations to embrace related opportunities.

In September 2022, Bursa Malaysia issued its enhanced sustainability reporting requirements for publicly listed companies with the aim to elevate sustainability practices and disclosures.



#	Requirement	Main Market	ACE Market
1	Disclosure of Prescribed General Disclosures (e.g., narrative statement of issuer's management of economic, environmental and social risks and opportunities; materiality assessment, etc.)	Existing requirement	December 2024
2	Disclosure of the following Common Sustainability Matters (together with accompanying indicators) and management of such matters: • Anti Corruption • Community / Society • Diversity • Energy Management • Health and Safety • Labour Practices and Standards • Supply Chain Management • Data Privacy and Security • Water	December 2023	December 2025
3	Disclosure of quantitative information for every material sustainability matter (i.e., 3 financial years data, performance targets and summary of performance)	December 2023	December 2025
4	Disclosure of the Statement of Assurance	December 2023	December 2025
5	Disclosure of remaining Common Sustainability Matters, including relevant quantitative information: • Waste Management • Emissions	December 2024	December 2026
6	Disclosure of TCFD-aligned disclosures	December 2025	Not applicable
7	Disclosure of the Transition Plan Disclosures (i.e., basic plan to transition towards a low carbon economy)	Not applicable	December 2026

Staying Ahead on Sustainability Reporting

International Sustainability Standards Board (ISSB) Sustainability Disclosure Standards (IFRS S1 and IFRS S2).

In June 2023, the ISSB released its first two International Sustainability Disclosure Standards (IFRS S1 and IFRS S2) that become effective for periods beginning on or after 1 January 2024. The Standards issued by the ISSB will help combat the challenges of companies 'greenwashing', meaning stakeholders will be able to make better-informed decisions with confidence.

Operationalising the refreshed standards as part of your sustainability reporting approach:

1. **Lay the groundwork** – Prepare for increased pressure on year-end reporting with the possibility of reporting on 2024 information.
2. **Gap analysis on current reporting practice** – Evaluate your current sustainability governance structure and overall sustainability strategy to ensure it is fit for purpose to enable compliance with the Standards. Consider leveraging on external expertise.
3. **Craft a roadmap** – Following findings from the gap analysis, craft a timeline of key action items as well as key "sustainability owners" within your company.
4. **Ensure rigorous datasets** – Ensure the controls architecture is in place to ensure reliance is placed on informed data.
5. **Prioritise upskilling** – Ensure sound organisational understanding on the importance of sustainability to help drive, grow and implement your sustainability strategy, ensuring there is top-level buy-in cascading down to functional levels.

IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information

Provides the basic requirements for sustainability disclosures, which should be used with IFRS S2 as well as the future Standards the ISSB releases.

- Requires disclosure of material information about sustainability-related risks and opportunities with the financial statements.
- Requires industry specific disclosures and refers to the industry-based SASB standards for guidance when identifying disclosures about sustainability-related risks or opportunities
- Refers to sources to help companies identify sustainability-related risks and opportunities and information (for everything other than in the scope of IFRS S2)
- Requires disclosures that enable investors to understand the connections between the sustainability-related risks and opportunities and the sustainability-related financial disclosures and financial statements

IFRS S2: Climate-related Disclosures

The two Standards are designed to be applied together.

- Strategy disclosures that distinguish between physical and transitional risks
- Disclosure of their plans to respond to climate-related risks and opportunities, including how climate-related targets are set and any targets it is required to meet by law or regulation
- Climate-related metrics and target disclosures should include:
  Cross-industry metrics that are relevant to all companies e.g. greenhouse gas emissions
  Industry-based metrics relevant to companies within the related industries; and
  Company specific metrics considered by the board or management when measuring progress towards set targets.
- Companies should perform scenario analysis to explain how various climate-related events may impact the business in the future

Global Professional Services Firm, 2023

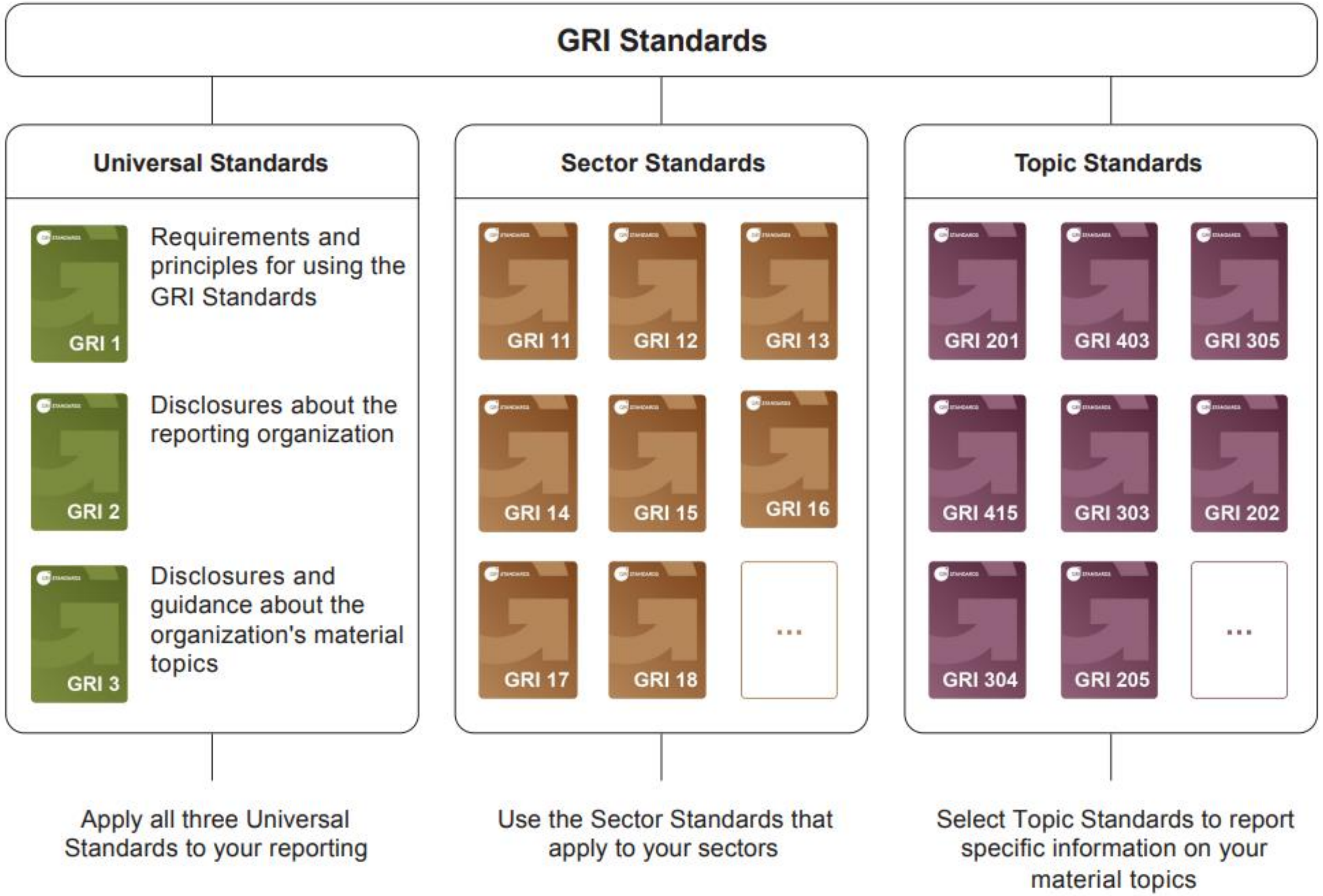
Most Widely Used Sustainability Reporting Standard

The GRI Standards.

The GRI released the first standards of sustainability reporting in 2016 and underwent a major update of standards in 2021 with new Universal Standards (2021) to strengthen the GRI reporting foundations and to incorporate expectations on sustainability due diligence (including human rights).

The GRI Standards are structured as a set of interrelated standards.

They have been developed primarily to be used together to help an organisation prepare a sustainability report which is based on the Reporting Principles and focuses on material topics.



Leading Disclosure Standard on Climate-related Risks

Companies should fully embrace the 11 disclosure recommendations on climate-related risks and opportunities to fully embrace TCFD recommendations and unlock implementation benefits.

Governance	Strategy	Risk Management	Metrics & Targets
Disclose the organisation's governance around climate-related risks and opportunities.	**Disclose the actual and potential impacts of climate-related risks and opportunities** on the organisation's businesses, strategy, and financial planning where such information is available.	**Disclose how the organisation identifies, assesses, and manages climate-related risks.**	**Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities** where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the Board's oversight of climate-related risks and opportunities	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	a) Describe the organisation's processes for identifying and assessing climate-related risks	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and RM process
b) Describe management's role in assessing and managing climate-related risks and opportunities	b) Describe the impact of climate -related risks and opportunities on businesses, strategy, and financial planning	b) Describe the organisation's processes for managing climate-related risks	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas emissions, and the *related risks*
	c) Describe the potential impact of different scenarios (ex: 2° scenario, on businesses, strategy, and financial planning	c) Describe how these processes are integrated into the organisation's overall risk management	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets

Note: The four recommendations are supported by 11 recommended disclosures.

Cross-Border Requirements on Sustainability Reporting

European Sustainability Reporting Standards (ESRS).

On 31 July 2023, the European Commission (EC) adopted the first set of ESRS by delegated regulation.

European Commission

Key takeaways:

- As part of the European Green Deal, **the Corporate Sustainability Reporting Directive (CSRD) requires to report sustainability information under the reporting framework of the ESRS** as adopted in the European Union (EU).
- The ESRSs will be applicable to all large and most listed EU companies, **large EU-based subsidiaries of non-EU parent companies** and **non-EU companies with a turnover in the EU of more than EUR 150 million**.
- This first set of ESRS, comprising 12 standards and cover environmental, social and governance matters.
- Timeline for application: Adoption will start for **years beginning on or after 1 January 2024**.

Reporting areas

- Governance
- Strategy
- Impact, risk and opportunity
- Metrics and targets

Disclosure layers

- Sector-agnostic
- Sector-specific
- Entity-specific

Key features of the twelve ESRSs

Two cross-cutting standards provide general reporting concepts and include overarching disclosure requirements including multiple datapoints. Ten topical standards complement these with detailed disclosure requirements across environmental, social and governance topics.

Double materiality principles

- *Double materiality refers to two dimensions of materiality – 'financial' and 'impact'.*
- *Companies will need to perform materiality assessments for both dimensions and report matters that are material in either dimension for all sustainability-related topics.*

Governance

- *Companies need to clearly set out their governance of how they address sustainability-related topics, including how sustainability KPIs affect remuneration.*

Reporting on impacts, risks and opportunities across the value chain

- *The standards require companies to identify and report on impacts, risks and opportunities from across the value chain.*
- *Companies need to understand how this feature will impact their reporting and data gathering, even though the extent of data required from the value chain has reduced since the original drafts, and phase-in reliefs are available*

Assurance

- *Companies need to be prepared for disclosures to be subject to assurance.*
- *This will require a clear audit trail and documentation of processes and controls to support the disclosures provided.*

Reporting across a broad range of topics

- *ESRSs require disclosures on material impacts, risks and opportunities across a broad range of environmental, social and governance topics.*
- *Following a materiality assessment, companies need to ensure they have the data, processes and expertise to report on topics that may be new to them, such as biodiversity or the circular economy.*

Reporting at the same time as the financial statements

- *Companies in scope will prepare a sustainability statement including the disclosures required by the ESRSs as part of their management report, published at the same time as the financial statements.*
- *It will be challenging for many companies to gather data in time.*

Reporting on policies, action plans and targets

- *Companies need to be ready for the transparency of providing granular disclosures about their policies, action plans and targets across all material topics.*
- *While the standards themselves do not require companies to put in place new targets or implement new policies, the standards will bring greater visibility and scrutiny of their plans. Undertaking an implementation project therefore represents an opportunity to identify and address areas where companies are less mature than they would want to be.*

Global Professional Services Firm, 2022

Convergence of ESG Disclosure Standards

The global ESG disclosure landscape is rapidly taking shape. IFRS S1 and IFRS S2 are intended to improve the alignment and interoperability of global ESG standards, reducing the reporting burden for preparers and enhancing the usefulness of sustainability disclosures for investors in making decisions. In line with this trend, there has also been indications that the GRI standards may potentially be subsumed under the ISSB standards, further consolidating current reporting standards.

Role of IFRS S1 and IFRS S2 in converging various disclosure standards

- Asks for disclosure of material information about a company's sustainability-related risks and opportunities, using the same definition of materiality that is used in **IFRS Accounting Standards**.
- Requires that companies consider the **SASB/GRI Standards** to identify sustainability topics and metrics to disclose in the absence of a specific ISSB Standard.
- Includes concepts from **Integrated Reporting Framework.**
- Fully incorporates the **TCFD Recommendations** and includes **SASB Standards'** climate-related industry-specific topics and metrics as illustrative guidance.

Considerations for Companies Navigating the Global ESG Regulatory Landscape

Begin Where You Are With Consideration Of:	Understand What You Are Missing:	Assess Governance, Data Management and Assurance:	Educate, Upskill and Take Action:
• Climate-specific disclosures (e.g., TCFD, ISSB S2, GHG emissions). • Industry-specific disclosures (e.g., SASB). • General sustainability and other dislcosures (e.g., GRI, annual report/website disclosures, policies).	• Perform a sustainability materiality assessment refresh that includes both impact & financial materiality considerations. • Clarify reporting requirements, priorities, timelines and stakeholder expectations. • Identy and assess reporting gaps compared with ISSB requirements. • Communicate data requirements with relevant internal stakeholders and process owners.	Evaluate current systems of internal control and data governance; define data owners' roles and responsibilities. Establish board oversight and top-down accountability mechanisms to support a robust control environment and establish a plan to prepare for regulation. Consider the role of assurance as one of the tools to improve transparency and accountability to external stakeholders.	Build organisational capacity, enhance operating models and strategic change management initiatives and upskill board and management around strategic ESG priorities. Connect relevant stakeholders, including financial reporting and sustainability teams.

Deloitte, 2023

Implications for the board

The board's role in advancing ESG practices and achieving ESG integration.

To help boards prepare to address what is on the horizon and stay ahead of the rapidly evolving ESG environment, these are leading practices that boards should consider implementing. Each of these areas will become increasingly important as corporates embark on or expand their governance and oversight responsibilities in response to today's unique demands. (Deloitte and NACD, 2021)

1.0 Define the board's governance infrastructure

- Boards should **define ESG oversight responsibilities** across the board itself and its committees, and **identify steps needed to operationalise them**.
- To **set a proper structure**, directors should **understand how sustainability is linked to strategy, opportunities and risks**.
- The board should consider the need for setting up a **dedicated Sustainability Committee** to oversee ESG matters.
- **Coordination between board committees** is critical, given the broad scope of ESG measures.

3.0 Integrating ESG into the company's strategic fabric

- Directors should **rigorously evaluate** whether ESG considerations form part-and-parcel of strategic initiatives.
- To effectively incentivise executives to consider ESG matters, boards should **tie ESG-linked KPIs to overall KPI frameworks** of their company's leaders.

5.0 Understand the current level of ESG maturity

- To what degree are ESG efforts **embedded in strategic decision making**?
- How robust is the current **ESG materiality assessment** in **incorporating stakeholder views**?
- Is the current ESG program **aligned with recognised standards**?
- Has the company engaged **external expertise** for sustainability advisory or sought sustainability assurance?

2.0 Understanding the ESG management structure

- The management team plays a critical delegated role in **setting the tone** of the company and underscoring the importance of the ESG program.
- Management teams should consider **developing formal ESG executive committees** made up of cross-functional leaders from various teams with assigned responsibility and accountability.

4.0 Align risk and ESG oversight

- **Organisational clarity** on ESG risks being business risks is key.
- The board should lead efforts to understand **how ESG risks fit within risk registers** including how these risks are **identified, measured and reported** on.

6.0 Overseeing the adoption of an ESG framework

- The board should be engaged in any **standards selection process** and should be **mindful of alignment** that may be necessary based on the selection.

7.0 Assure, disclose and communicate

- The board should understand the value and need for **third party assurance** on sustainability information.
- Directors should also oversee an **effective disclosure strategy** that integrates ESG performance into multiple avenues.

Continually adapting ESG risk and opportunities to stay ahead

The board should ensure ESG risks and opportunities identified consider emergent risks and trends i.e., carbon tax regulations, energy transition risks and incentives, etc.

Contact us for more information

Kasturi Nathan
Leader, Governance, Regulatory & Sustainability Services, Deloitte
kasturinathan@deloitte.com | +60 3 7650 6218