

GCFIite

**The Europe and Asia Parallel:
A deep dive into AI and ESG**

Foreword

In today's fast-evolving business landscape, two forces are rapidly reshaping industries and economies – environmental, social, and governance (ESG) practices, and artificial intelligence (AI). Companies and governments are recognizing the need to adapt to these forces to not just comply with evolving regulations but also drive innovation, enhance competitiveness, and build sustainable futures.

This trend was highlighted in the [KPMG 2024 CEO Outlook](#), which surveyed over 1,300 global leaders. For the next three years, the top operational priorities identified from the survey are advancing business digitization and connectivity, understanding and implementing generative AI and upskilling their workforce, and executing ESG initiatives.

Global leaders continue to invest and bet big on AI, and despite debates on potential redundancies due to AI, a significant majority believes that it will not reduce jobs, with overall headcount expected to increase. Regarding ESG, 66% of CEOs feel unprepared to withstand the potential scrutiny and expectations of stakeholders, suggesting they will take action to mitigate this.

In our GCElite series, we had the opportunity to bring together our European AI and ESG experts to the ASEAN region to share their insights on the challenges of ESG and AI adoption. James Thomas, our Global Head of Legal Technology, and Maria Pilar Galán Gavilá, our Global Law Lead for KPMG ESG, visited Jakarta, Singapore and Malaysia to discuss these issues with clients and general counsels.

This publication summarizes the key discussions from the sessions and aims to spark further dialogue on ESG and AI adoption in this region.



Hanim Hamzah

Asia Pacific Regional Leader
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KPMG Law

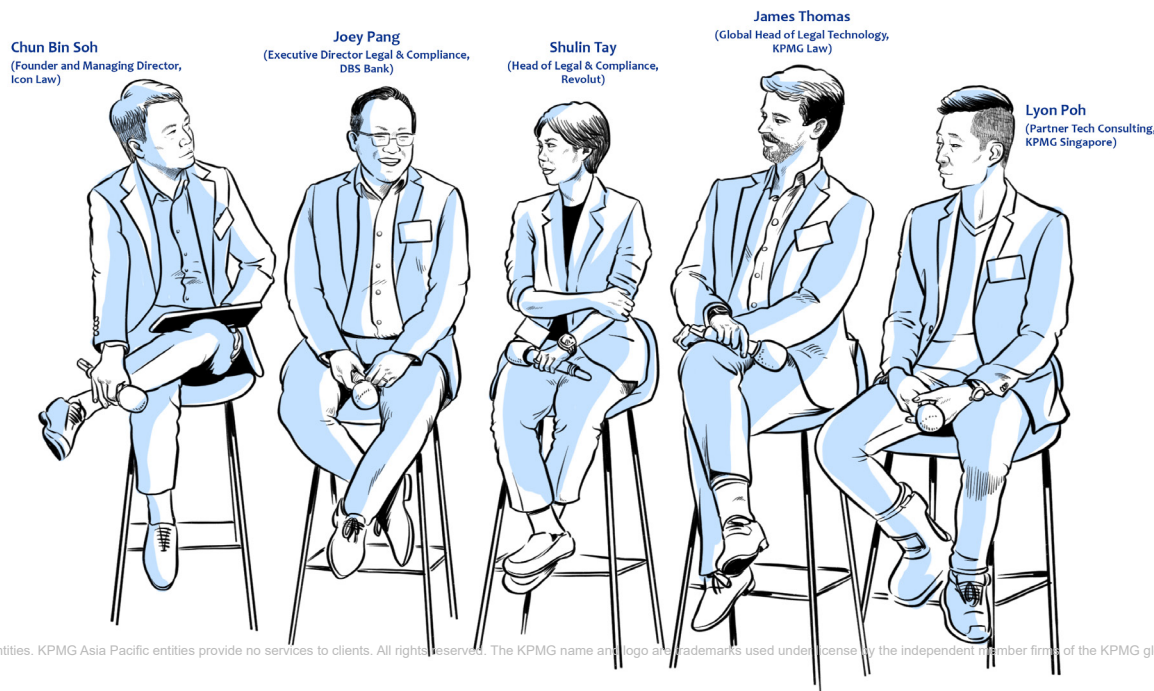
Artificial Intelligence

Technological innovation has been the single most disruptive force over the past 10 years. Based on the KPMG 2024 CEO Outlook, 64% of global CEOs indicated that they would invest in AI regardless of economic conditions in 2024.

With the rapid growth of AI and generative AI, their impact on all industries have become a hot topic. Analysts predict that there will be significant impact on the global workforce, business practices and job automation. Generative AI models are built on general purpose models, mainly large language models




that generate text based on statistical patterns learnt from vast amounts of data. Context is crucial for these models to produce relevant and coherent outputs, especially in specialized fields like law. While generative AI has made significant strides in performing cognitive tasks in natural language, it will not fully replace lawyers. Generative AI excels in automating voluminous, routine tasks like drafting basic contracts and templates. However, more complex tasks requiring human judgment, strategic thinking, and client interaction will remain the domain of skilled legal professionals.

While there is much hype around generative AI, it must be approached with a balanced perspective. It is important to recognize that this technology is still evolving, with models continuously learning and improving. While the current excitement may be somewhat inflated, the long-term potential of AI cannot be underestimated. It is important for firms and organizations to begin developing and implementing an AI strategy now, to be prepared for the transformations and opportunities that AI will offer in the future.



EU AI Act

Governments and regulators have already begun to come out with regulations and guidelines to monitor and control the use of AI. In Europe, the world's first major law regulating AI – the EU Artificial Intelligence Act – was passed and came into force in August 2024. The Act introduces a uniform framework across all EU countries based on human rights and fundamental values. It categorizes AI into four risk levels, unacceptable risk, high risk, limited risk, and minimal risk, with each category having different rules and obligations. While the Act regulates AI systems that affect individuals in EU, it has significant extra-territorial application. Broadly, the Act applies to:

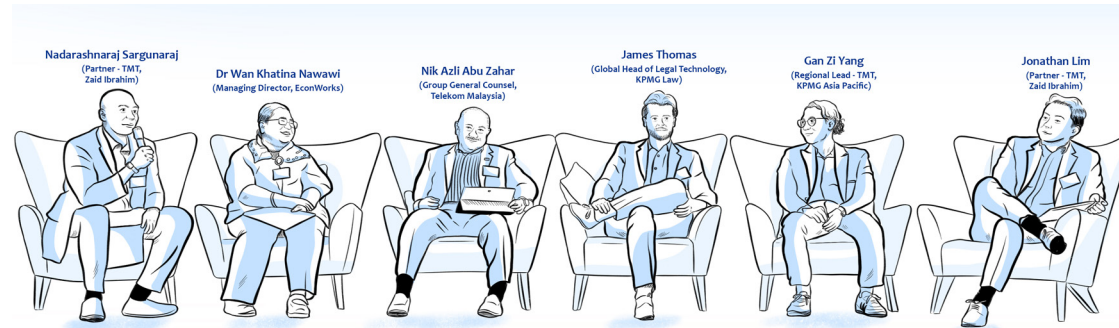
-  Organizations or individuals that supply AI systems/ models on the EU market, regardless of where they are located.
-  Organizations or individuals that use AI systems (for business purposes) and are located or established in EU.
-  Organizations or individuals that use AI systems (for business purposes) and are located or established outside of EU but the output of the AI system is used in EU.

ASEAN's Guide to AI Governance

In ASEAN, AI regulations are relatively decentralized with a blend of national initiatives and framework and the Guide to AI Governance and Ethics as a regional framework. The Guide, which was released in early 2024, aims to promote responsible use of AI via principles such as transparency, fairness, security, and accountability and sets out guidelines for ASEAN Member States to follow as they develop their AI systems and regulations. While the Guide currently excludes advanced generative AI like ChatGPT there is potential for further guidelines and regulations specifically for generative AI.

The regulatory landscape in ASEAN is expected to become more structured as AI becomes an integral part of the region's digital economy. While the current framework is voluntary, individual member states are likely to introduce national AI regulations that are tailored to their specific needs.

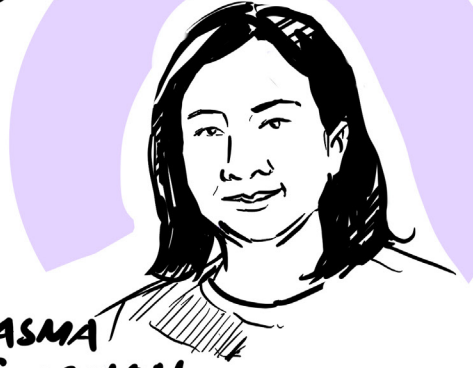
For a more in depth comparison, please see our previous publication on [5As in AI - A Comparative Review of the EU AI Act and the ASEAN AI Guide.](#)



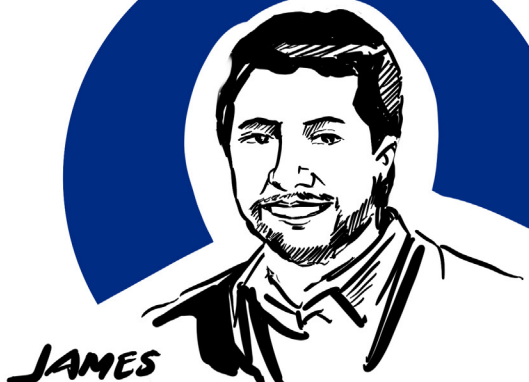
AI PANEL



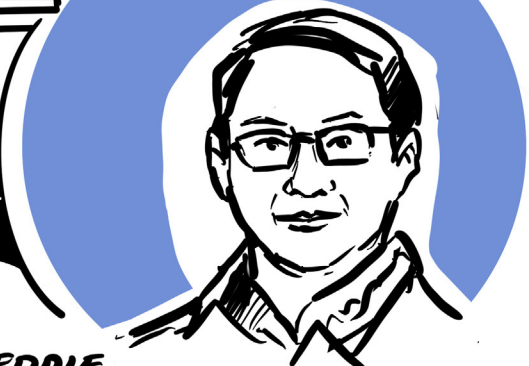
BARRYL ROLANDI
PARTNER CORPORATE M&A



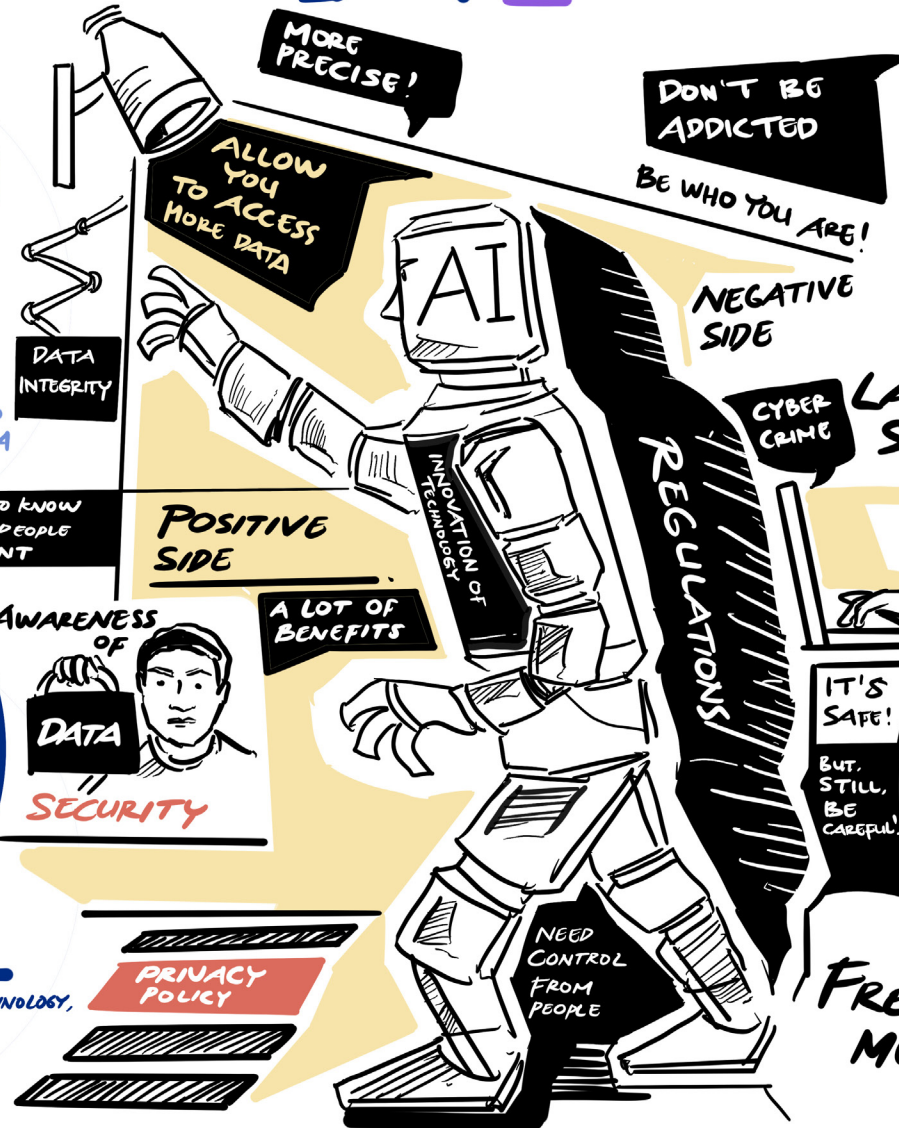
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FREDDIE MULYADI
PARTNER TMT & CYBER



GC Elite

AI



BE PREPARED!
REVIEW WITH
YOUR LEGAL TEAM



DOCUMENTATION



TRANSPARENCY



COMPLIANCE

REVOLUT USES AI to...



ACCURATELY
DETECT
FRAUD

DRAFT
CONTRACTS

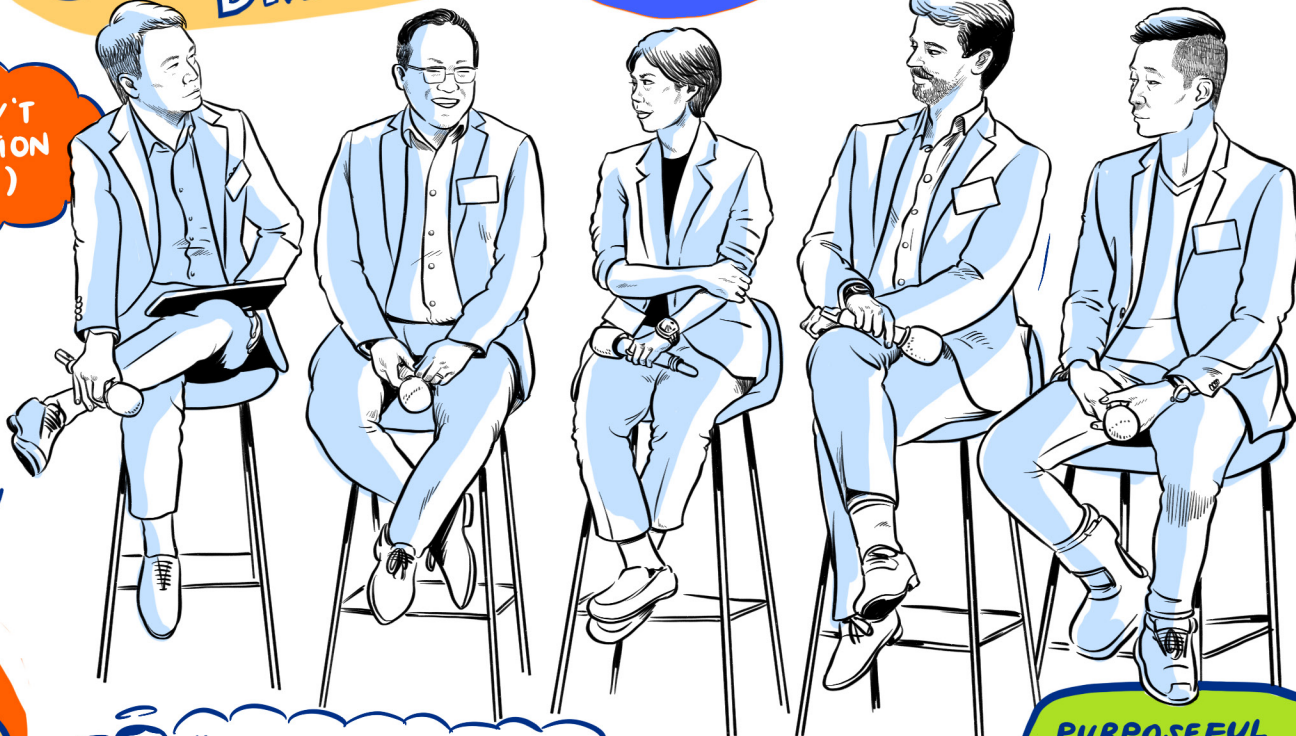
HIGH
ACCEPTABLE
LOW
RISK



POTENTIAL
FINES if
BREACHED

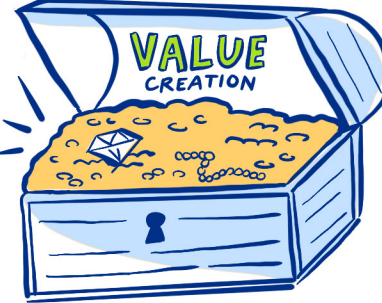
EU AI
LEGAL
FRAMEWORK

NO GOV'T
REGULATION
(YET!)



DBS BELIEVES
THAT A CULTURE OF
ACCOUNTABILITY
ENCOURAGES INNOVATION

CLARITY
CREATES PSYCHOLOGICAL
SAFETY FOR INNOVATION



VALUE
CREATION

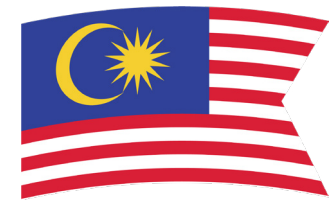
PURE

PURPOSEFUL
UNSURPRISING
RESPECTFUL
EXPLAINABLE

"ASK FOR FORGIVENESS,
NOT PERMISSION"

TECH
IS STILL VERY YOUNG
& DEVELOPING RAPIDLY

HOW CAN
AI IMPROVE
the VALUE
CHAIN?



WHERE ARE WE
HEADING with
GEN-AI?



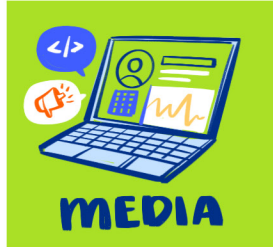
AS A TOPIC, but
UNDERESTIMATED in
ITS IMPACT

THERE ARE CONCERNS
that OVERREGULATION
is GOING to STIFLE
INNOVATION



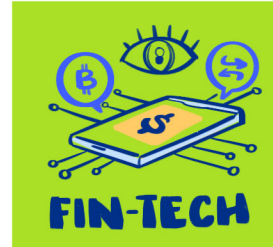
HOTTEST
TRENDS
SEEN ACROSS
ASEAN

AI
IMPLEMENTED
IN DAILY
WORKFLOW



MEDIA

TO UNDERSTAND /
TARGET CUSTOMERS



FIN-TECH

TRANSACTION
MONITORING IN
MONEY LAUNDERING



TAX

WITH FOCUS ON
TRANSFER PRICING

THINK ABOUT
SECURING
MEANINGFUL
WARRANTIES
IF YOU'RE PURCHASING
AN AI-RELATED STARTUP



PRODUCTS BROUGHT
INTO MALAYSIA HAS
TO BE LOCALISED.

YOU'D WANT TO MAINTAIN
CERTAIN KEY PERSONNEL
BEFORE A COMPLETE
MIGRATION!

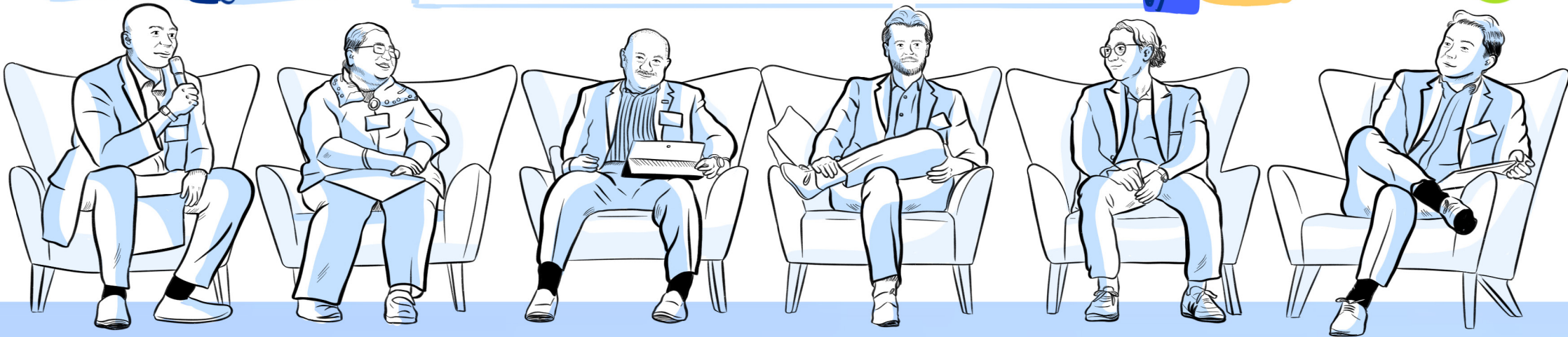
RISK & LIABILITY FACTORS

- 1 OWNERSHIP RISK
- 2 DATA PRIVACY RISK
- 3 GENERATED OUTCOMES
- 4 REGULATORY RISK
- 5 PERFORMANCE METRICS & ACCOUNTABILITY RISK
- 6 TERMINATION RISKS
- 7 TECHNICAL AI TECH RISKS
- 8 CHANGE MANAGEMENT RISKS



AS A LAWYER,
YOU NEED TO
PROVIDE
ETHICAL
GUARD
RAILS

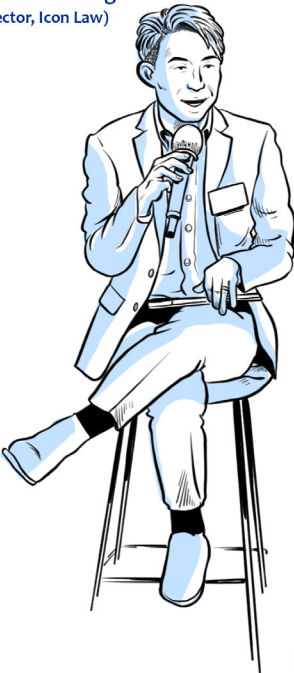
LOOK AT
TRANSACTIONAL
VALUE over
TRADITIONAL
METRICS



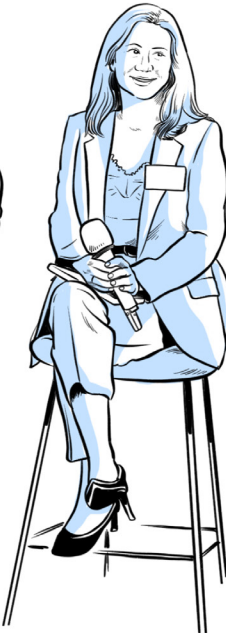
ESG

The adoption and implementation of ESG practices vary by region. In Europe, where ESG frameworks are more mature and established, regulations are now being introduced to oversee and manage these approaches. Although these regulations target EU countries, their influence extends globally, affecting nations that engage in trade with the EU. Both governments and organizations must be aware of these regulations, as they will significantly impact business operations.

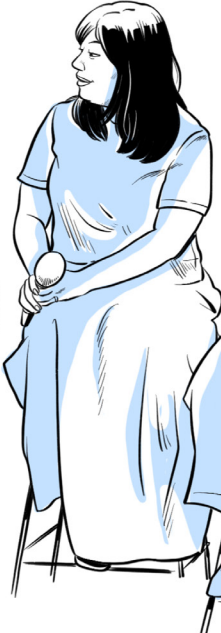
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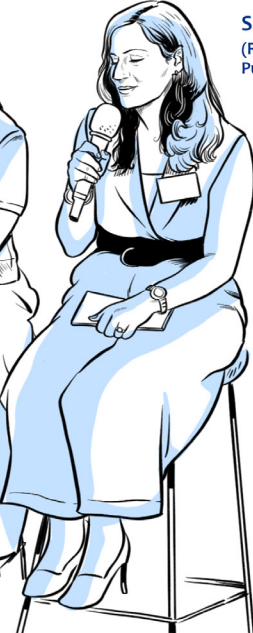
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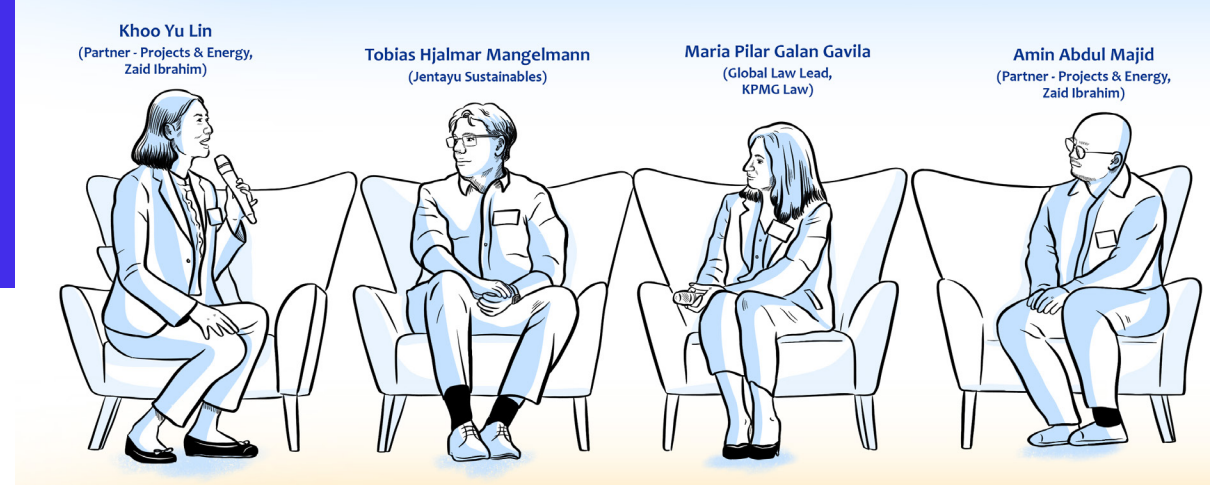
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EU Regulations with extra-territorial impact



Directive on Corporate Sustainability Reporting (CSRD)

Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022, focuses on corporate sustainability reporting

The CSRD seeks to reinforce and broaden sustainability reporting requirements for European companies and those with significant business operations in Europe. It aims to meet current demands for information and standardize reporting to ensure reliable, comparable and accessible ESG data. Further, the reported information must comply with EU rules and regulations, in addition to standards drawn up by European Financial Reporting Advisory Group (EFRAG). The directive affects all large companies and listed SMEs, operating significantly within the EU.

EU Due Diligence Directive (CS3D)

Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024, focuses on corporate sustainability due diligence

The directive, which came into force on 25 July 2024, establishes a framework for companies to address risks and adverse impacts on human rights and the environment in their supply chains. The directive applies to EU companies with more than 500 employees and a net worldwide turnover of €150 million, as well as non-EU companies with similar thresholds if they generate at least €40 million in the EU. The directive aims to foster sustainable and responsible corporate behaviors in companies' operations and across their global value chains by integrating human rights and environmental due diligence through the chain of activities. It also requires the adoption of a climate transitioning plan in accordance with the Paris Agreement. Given its international impact, this directive is expected to be a game changer.

Non-compliance with the directive may potentially lead to fines of up to 5% of global net turnover. Additionally, companies will be liable for damages caused by the failure to meet their obligations and will have to compensate affected parties.

EU Regulations with extra-territorial impact (cont.)

EU Deforestation Regulation

Regulation (EU) 2023/1115 of the European Parliament and of the Council addresses the availability and export of certain commodities and products associated with deforestation and forest degradation.

The regulation aims to minimize EU's role in deforestation and forest degradation. Although the regulation targets the EU, any products or commodities falling under its scope must not be placed, made available or exported into EU unless all the conditions are fulfilled i.e. being deforestation-free, produced in accordance with the relevant laws of the production country, and accompanied by a due diligence statement.

Carbon Border Adjustment Mechanism (CBAM) Regulation

Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishes a carbon border adjustment mechanism

The regulation aims to prevent carbon leakage by imposing carbon price on imports of goods from countries with less strict carbon regulations. This is to ensure a level playing field and encourages other countries to adopt carbon market policies.

Non-EU exporters to Europe must purchase CBAM certificates that reflect the carbon emissions embedded in their products.



You don't need to be the first mover, but be a fast follower

In ASEAN, addressing ESG presents unique challenges and opportunities due to varying stages of economic development, regulatory norms, and social priorities across jurisdictions. Nonetheless, there are valuable lessons to be learnt from the EU approach. It is important to look at comparable EU companies and see how they've integrated ESG into their strategies – being a fast follower can be just as effective as being the first mover. Observing industry players, particularly those with ESG accreditation, can offer insights into embedding ESG within the organization. Leadership must fully understand the ESG strategy to ensure it cascades effectively throughout the company.

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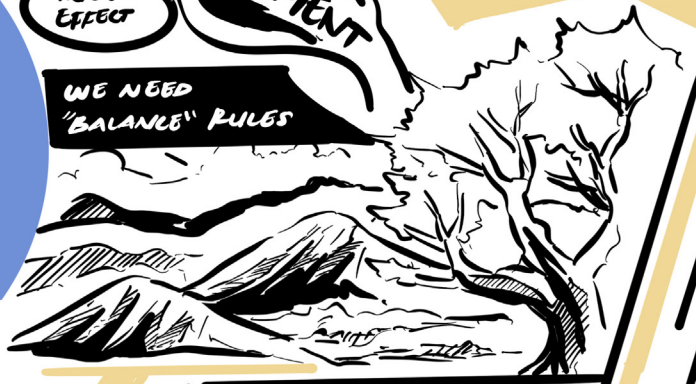
ESG PANEL

PREVENT DEFORESTATION
RIGHT STRATEGY

ENVIRONMENT

HUGE EFFECT

WE NEED "BALANCE" RULES



SUSTAINABILITY IS IMPORTANT

CREATE RULES FOR PEOPLE

GOVERNANCE



NOW, IT'S ALL ABOUT

ACTION!

WE ARE EQUAL



WHAT WE NEED IS COMMITMENT

FROM

SOCIAL

COMPANY

DO A

"RIGHT" RULES

IMPLEMENTATION



ALAGENDRAN MANIAM

HEAD OF SUSTAINABILITY
MINAMAS PLANTATION



ACHIMI ANITA

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MICHAEL HORN

HEAD OF RESTRUCTURING SERVICES
& HEAD OF SUSTAINABILITY

GC Elite ESG

IN EUROPE ...

TRANSITIONAL
PLANNING

REALISTIC
PLANNING



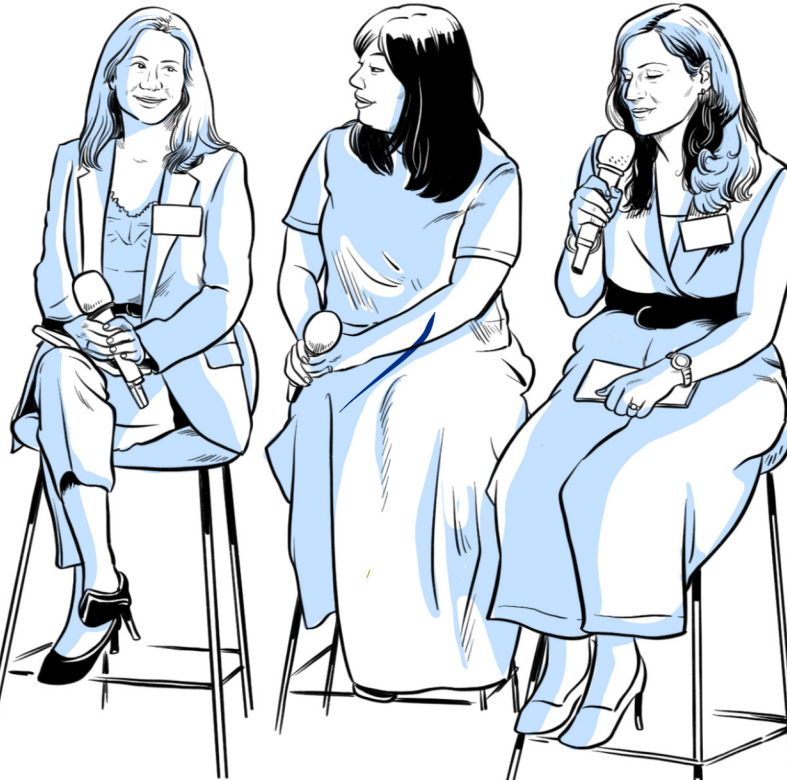
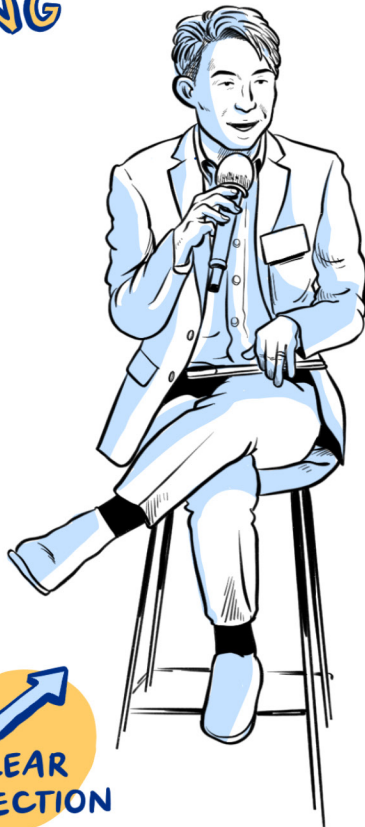
COLLABORATION
(LESS FRAGMENTED)

DUE DILIGENCE
ACROSS THE
WHOLE VALUE CHAIN



PRIVATE
& PUBLIC
SECTOR
FUNDING

CLEAR
DIRECTION



H&M



NOT JUST PROFIT!
BUT OUR IMPACT ON
PEOPLE & THE ENVIRONMENT

TRANSPARENCY
in REPORTING



PROACTIVE
INVESTMENT in
ESG RESEARCH
& INNOVATION



REPRESENTATION
WITH POLICY MAKERS



COMPLIANCE

ESG

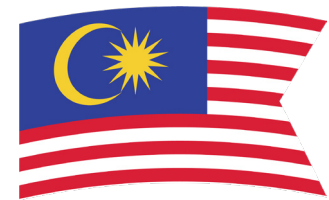
EMBED ESG in YOUR
BUSINESS STRATEGY

NO FINES/
PENALTIES
YET IN SG



SELF-REGULATION
MEANS THAT YOU MUST
UNDERSTAND WHAT
YOU NEED to
PROPERLY COMPLY





WITH 9 BILLION PEOPLE in the WORLD WE HAVE PRESSURE on RESOURCES

IN APPROACHING ESG CONCERNS:

USA
INCENTIVES APPROACH

EU
REGULATORY APPROACH

COMPANY EXPERTISE IS NEEDED TO ENSURE THAT THERE'S CORRECT INTERPRETATION from the INFORMATION

RENEWABLE ENERGY in MALAYSIA

CHALLENGES ASIA FACES:

1 FINANCING GAP

GAP

ESTIMATE ADDITION 2.5 TRILLION ANNUALLY TO ACHIEVE UN SDGs



2 IMPACTS of CLIMATE CHANGE

HIGHLY VULNERABLE TO EFFECTS of CLIMATE CHANGE



3 STRUCTURAL INEQUALITIES

FACING SIGNIFICANT STRUCTURAL OBSTACLES to SUSTAINABLE DEVELOPMENT

THE ROLLOUT of EU STRATEGIES REPRESENTS A REGULATORY TSUNAMI

EXAMPLES of REGULATIONS in the EU

EU DUE DILIGENCE DIRECTIVE (CS3D)

EUDR REGULATION - EU DEFORESTATION REGULATION

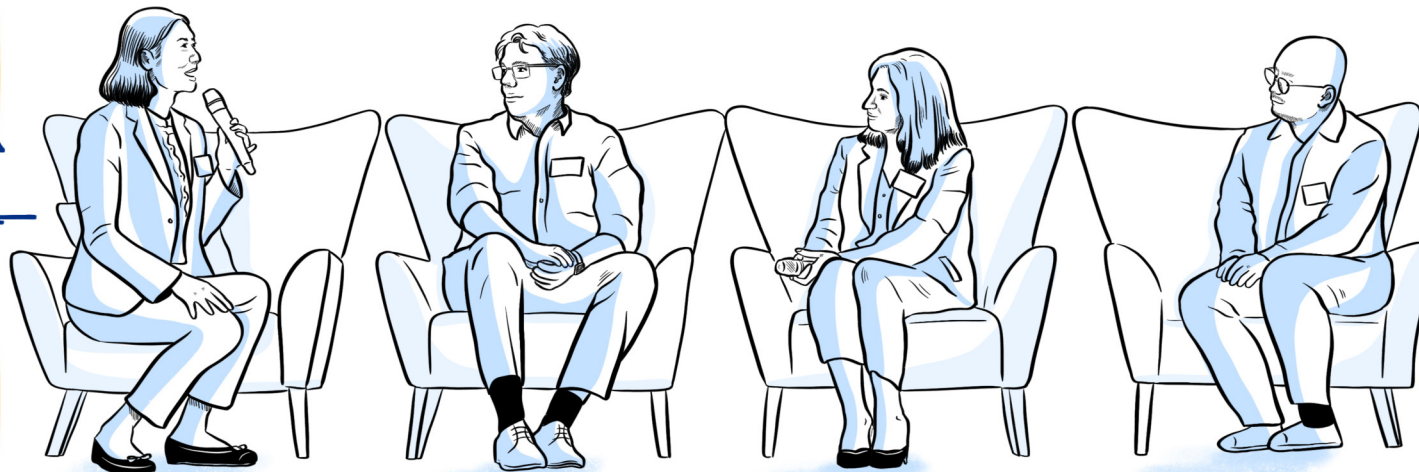
CBAM REGULATION - CARBON BORDER ADJUSTMENT MECHANISM

SOLAR STREET LIGHTS

KINETIC ENERGY from WATER

EMBED ESG NOT FROM A COMPLIANCE PERSPECTIVE, BUT FROM A VALUE CREATION PERSPECTIVE

WE DON'T NEED to be the FIRST MOVER, WE NEED TO BE A FAST FOLLOWER



HOW TO START?



LOOK AT COMPARABLE COMPANIES... and SHAMELESSLY COPY THEM! ADAPT TO WHAT WE NEED

Conclusion

While the road ahead for ESG and AI are constantly evolving, governments and organizations must adapt not only for compliance, but to also drive innovation, enhance competitiveness, and build sustainable futures. Insights from EU's ESG and AI adoption can guide us, though Southeast Asia's diversity and unique challenges require customized strategies.

This publication aims to bridge the knowledge gap, and encourage cross-regional collaboration, helping businesses thrive sustainably and innovatively.

The road ahead is challenging, yet full of opportunities. Together, we can create a future that balances progress with responsibility — one that will benefit generations to come. For further information on this publication and how we can help your business, please reach out to our team:





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