KPMG

Getting ESG ready for opportunities ahead

18 November 2024

KPMG in Malaysia

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The Big Picture – Regulatory Space

Malaysia - Evolution of Sustainable Development and Reporting

Initiating the concept of CSR	Introducing the fundamental of Sustainability management	Integrating climate-related considerations	Combining sustainability + financial data
2007, 2010, 2014	2015, 2017, 2018	2019, 2020, 2021, 2022	2023, 2024

2007
CSR Statement
With focus on 4 pillars: Environment, Marketplace, Social and Governance

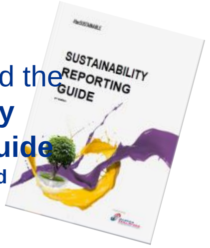
2010
Powering Business Sustainability
Bursa Malaysia - Principles of sustainable development

2014
Establishment of **FTSE4GOOD Bursa Malaysia Index**

2015
Bursa Malaysia launch of Sustainability Reporting Framework – Sustainability Law, Guide & Toolkit

2017
SC revised **Malaysian Code on Corporate Governance ("MCCG")**

2018
Bursa updated the **Sustainability Reporting Guide & Toolkit (2nd edition)**



2019
BNM and SC formed **Joint Committee on Climate Change ("JC3").**

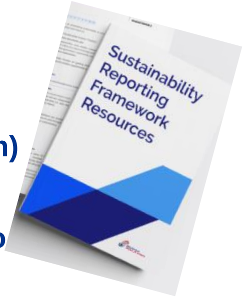
2020
SC's Guidelines on conduct of directors of listed corporations and their subsidiaries – with focus on ESG-risk management

2021
SC revised **Malaysian Code on Corporate Governance ("MCCG")**

BNM released **The Climate Change and Principle-based Taxonomy (CCPT)**

2022
Bursa updated the **Sustainability Reporting Guide & Toolkit (3rd edition)**

BNM issued **Climate Risk Management and Scenario Analysis** Policy Document



2024
Climate Risk Stress Testing Methodology Paper by **Bank Negara Malaysia (BNM)**

Launch of NSRF on adoption of ISSB's IFRS S1 and S2 standards

About National Sustainability Reporting Framework (NSRF)

Objective

Addresses the use of the IFRS® Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB), specifically the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, and IFRS S2 Climate-related Disclosures (collectively referred to as the ISSB Standards), as the baseline sustainability disclosure standards for companies in Malaysia, as well as the assurance requirements for sustainability reporting.

NSRF's Approach

Implementation of the NSRF will be through a phased and developmental approach, supporting widespread adoption and continuous improvement in the quality of disclosures.

Climate-First Approach

Prioritising climate-related disclosures to support Malaysia's net-zero goals, with a focus on transparency and accountability. Companies are encouraged to provide clear, accurate data on their climate risks and opportunities to facilitate informed decision-making.

Phased Implementation

The NSRF provides a phased approach to sustainability reporting, allowing companies to gradually adopt the ISSB standards. This approach ensures that companies of different sizes and levels of readiness can implement reporting processes in stages, giving them time to build capacity and align with global standards.

Additional Transition Reliefs

To ease the adoption of sustainability reporting, additional transition reliefs are made available under the NSRF. These include focusing on climate-related disclosures first and allowing additional time for more complex reporting, such as Scope 3 GHG emissions. This allows companies to report their sustainability and climate-related disclosures at a manageable pace.

PACE

PACE provides tools and guidance to help companies meet their sustainability reporting requirements. This includes access to policy guidance, emissions calculators, and capacity-building programs, ensuring companies have the resources they need to comply with the NSRF.

Malaysia Implementation of ISSB IFRS S1 and S2

Source: National Sustainability Reporting Framework Official Website

Applicable entities		Timeline 1					
		2025	2026	2027	2028	2029	2030
Group 1	Main Market listed issuers with market capitalisation of RM2 billion and above	IFRS S1 and S2		Full adoption IFRS S1 and S2 Scope 3 GHG emissions disclosures			
Group 2	Main Market listed issuers (other than listed issuers in Group 1)		IFRS S1 and S2		Full adoption IFRS S1 and S2 Scope 3 GHG emissions disclosures		
Group 3	• ACE Market listed issuers • Non-listed companies (NLCos) with annual revenue of RM2 billion and above 2			IFRS S1 and S2			Full adoption IFRS S1 and S2 Scope 3 GHG emissions disclosures
Assurance **Assurance framework will be subject to further consultation*		• Aim for reasonable assurance for Scope 1 and Scope 2 GHG emissions starting 2027 • Accounting and non-accounting practitioners					
Location of disclosures and timing of reporting		Applicable entities shall adhere to their respective regulator's requirements on location and timing of reporting.					

Malaysia Implementation on ISSB IFRS S1 and S2

Source: National Sustainability Reporting Framework Official Website

	Applicable entities	Timeline 2025	2026	2027			
Group 1	Main Market listed issuers with market capitalisation of RM2 billion and above	IFRS S1 and S2		Full adoption IFRS S1 and S2; Scope 3 GHG emissions disclosures			
Group 2	Main Market listed issuers (other than listed issuers in Group 1)		IFRS S1 and S2		Full adoption IFRS S1 and S2; Scope 3 GHG emissions disclosures		
Group 3	• ACE Market listed issuers • Non-listed companies (NLCos) with annual revenue of RM2 billion and above			IFRS S1 and S2			Full adoption IFRS S1 and S2; Scope 3 GHG emissions disclosures

1 Annual reporting periods beginning on or after 1 January 20XX (e.g., 2025 refers to annual reports that cover period from 1 January to 31 December 2025).

2 The threshold is calculated based on consolidated group revenue of RM2 billion or more for two consecutive financial years preceding the current financial year. In the absence of group level revenue, the threshold will be measured at the company level. This is intended to align with the entity's existing financial reporting practices

*Assurance framework

…nce for Scope 1 and Scope 2 GHG emissions starting 2027

…unting practitioners

Location of d… reporting

Applicable entities shall adhere to their respective regulator's requirements on location and timing of reporting.

Malaysia Implementation on ISSB IFRS S1 and S2

ISSB In-Built Relief & ACSR's Additional transition Reliefs ("ATR")

	Summary of ISSB in-Built Relief
General	Climate-first approach for 1 year
General	Comparative information is not required to be disclosed in the first annual reporting period
Metrics & Targets	1 year transition relief for Scope 3 emissions
Metrics & Targets	Allows an entity already using a different measurement than GHG-Protocol for 1 year
Metrics & Targets	Proportionality and scalability mechanisms for Scope 3 emission & determination of scope of value chain

Summary of ATR	G1, G2	G3	
Disclose information on **only climate related risks and opportunities** (in accordance with IFRS S2)	**2 years**	**3 years**	
Focus on sustainability-and climate-related financial disclosures specifically **for principal business segments**	**2 years**	**3 years**	
Reporting exemption, given the holding company: ➢ already reports using an ISSB-aligned or equivalent standards *(e.g., ESRS)*; **or** ➢ reports using other international standards (subject to the policy decision of the Registrar)	**N/A**	**3 years**	***Only Large NLCos***
Permissible to **not disclose Scope 3 emissions**, except for categories already required by respective regulators *(i.e., business travel - Cat 6 and employee commuting – Cat 7 are currently required under Bursa Listing Requirements)*	**2 years**	**3 years**	

Legend:

Proportionality and scalability mechanisms (permanent)

Transition reliefs (temporary)

Source: National Sustainability Reporting Framework Official Website

The Big Picture – Carbon Tax

Carbon Tax – what is the Asian trajectory?

- Levied on facilities that directly emit ≥ 25,000 tonne carbon dioxide emission (tCO_2e) of greenhouse gas (GHG) emissions annually
- Covers seven GHGs, namely carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride and nitrogen trifluoride emissions
- Covers 80% of total GHG emissions from about 50 facilities in the manufacturing, power, waste, and water sectors

2019 - 2023	2024 - 2025	2026 - 2027	2030
SGD 5/tCO_2e	SGD 25/tCO_2e	SGD 45/tCO_2e	SGD 50 - 80/tCO_2e

- JPY 289 (USD 2.04)/tCO_2e (fixed rate since 2012)

- Planning to introduce carbon tax on energy, transport and industrial sectors in 2025 to achieve carbon neutrality by 2050 and net zero greenhouse gas emissions by 2065
- Proposed to be at rate of 200 baht/tCO_2e and initially levied as part of existing taxes on oil products such as diesel and gasoline

- Postponed introduction of carbon tax to 2025

- No news on implementation date of carbon tax – possibly similar to Singapore – RM X/tCO_2e
- To achieve carbon neutrality by 2050

Malaysia – Announcement of Carbon Tax by 2026

During the recent announcement of the Malaysia Budget 2025, the Malaysia government shows a strong signal in implementing **carbon tax by 2026**,aiming at the **iron, steel and energy industries**. The tax revenue will be used in supporting further research of decarbonisation technologies.

Malaysia will implement a carbon tax by 2026 on the iron, steel and energy industries, prime minister and finance minister Datuk Seri Anwar Ibrahim announced in Malaysia's Budget 2025 speech on Oct. 18, emphasizing the country's commitment to its emissions reduction goals.

CBAM will impose carbon taxes on commodities exported to the EU market, including cement, iron and steel, aluminum, fertilizers, electricity and hydrogen. Companies may pay less if they have already paid domestic carbon prices under their carbon tax or ETS regimes.

The tax revenue collected will be used to support further research for decarbonization technologies within the country.

For sectors not covered by the carbon tax, Malaysia may continue exploring the possibility of a domestic emissions trading scheme in the future.

"Given the coverage of the proposed carbon tax on the iron and steel and energy sectors, it is crucial that the government have in place the Emission Trading Scheme, which is the preferred mechanism by the industry, to drive more cost-effective emission reductions," the Federation of Malaysian Manufacturers said in a release Oct. 18 following the national budget announcement.

The Federation also hopes the carbon tax will not lead to higher electricity tariffs for the industrial sector.

In the Budget 2025 Economic Outlook, new platforms, including a voluntary carbon market, were suggested to contribute to Malaysia's financial growth going forward.

This aligns with the expectation that the carbon tax could allow for a specific proportion of carbon offsets to be used for compliance obligations, much like the mechanism in Singapore, which could generate demand for carbon credits issued by domestic projects. However, the government has not provided further details.

Source: https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/energy-transition/102124-malaysia-sets-2026-carbon-tax-reaffirms-decarbonization-goals-in-budget-2025

For reference – Prices of ETSs and Carbon Taxes FY2024

Main price set by ETSs and Carbon taxes (US$/tCO2e)

East Asia & Pacific	
China	
Beijing pilot ETS	14.51
China national ETS	12.57
Shanghai pilot ETS	10.06
Shenzhen pilot ETS	8.95
Guangdong pilot ETS	8.93
Chongqing pilot ETS	5.98
Hubei pilot ETS	5.61
Tianjin pilot ETS	4.70
Fujian pilot ETS	3.74
Indonesia	
Indonesia ETS	0.61
Japan	
Tokyo CaT	36.91
Japan carbon tax	1.90
Saitama ETS	0.94
Korea	
Korea ETS	6.30
Pacific	
New Zealand ETS	35.10
Australia Safeguard Mechanism	21.90
Singapore	
Singapore carbon tax	18.47
Taiwan	
Taiwan carbon fee	9.12

Europe & Central Asia	
EU Countries	
Sweden carbon tax	127.25
Finland carbon tax	99.98
Netherlands carbon tax	71.48
EU ETS	61.30
Ireland carbon tax	60.19
Luxembourg carbon tax	49.90
Germany ETS	48.37
Austria ETS	48.37
France carbon tax	47.94
Hungary Carbon tax	38.69
Denmark carbon tax	28.20
Slovenia Carbon tax	18.59
Latvia carbon tax	16.12
Spain carbon tax	16.12
Estonia carbon tax	2.14
Ukraine carbon tax	0.76
Non-EU Countries	
Switzerland carbon tax	132.12
Liechtenstein carbon tax	132.12
Norway carbon tax	107.78
Switzerland ETS	59.17
UK ETS	45.06
Iceland carbon tax	36.50
Montenegro ETS	25.79
UK Carbon Price Support	22.61
Albania Carbon tax	13.11
Central Asia	
Kazakhstan ETS	1.05

The Americas, Carribean & Africa	
North America	
Alberta TIER	58.94
BC carbon tax	58.94
BC OBPS	58.94
Canada federal OBPS	58.94
Newfoundland and Labrador PSS	58.94
Northwest Territories carbon tax	58.94
Nova Scotia OBPS	58.94
Canada federal fuel charge	58.94
Saskatchewan OBPS	58.94
New Brunswick OBPS	58.94
Ontario EPS	58.94
California CaT	38.59
Quebec CaT	38.59
Washington CCA	25.75
RGGI	17.64
Massachusetts ETS	2.25
Latin America & Carribean	
Uruguay CO2 tax	167.17
Queretaro carbon tax	36.69
Yucatan carbon tax	17.69
Zacatecas carbon tax	15.08
Colombia carbon tax	6.67
Durango carbon tax	6.03
Chile carbon tax	5.00
Mexico carbon tax	4.30
State of Mexico carbon tax	3.50
Guanajuato carbon tax	2.71
Argentina carbon tax	0.81
Africa	
South Africa carbon tax	10.08

Source: Price | Carbon Pricing Dashboard (worldbank.org)

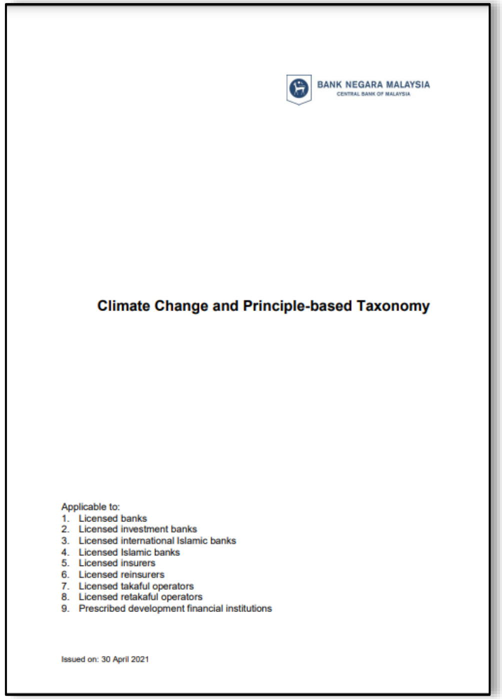
Malaysia's carbon tax regime will be announced in due course

Abbreviations	
ETS	Emissions Trading Schemes
CaT	Cap-and-Trade
TIER	Technology Innovation and Emissions Reduction
BC	British Columbia
OBPS	Output-Based Pricing System
EPS	Emissions Performance Standards program
CCA	Climate Commitment Act
RGGI	Regional Greenhouse Gas Initiative
CO2 Tax	Carbon Tax

The Big Picture – Financial Institutions Space

BNM is pushing the ESG agenda within financial institutions (1/2)

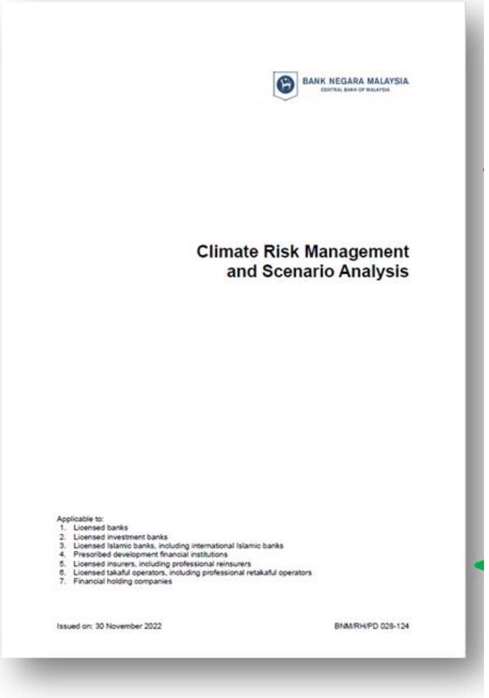
Bank Negara Malaysia (BNM) has introduced climate-related laws and regulations since 2021. This is in response to the growing recognition of the risks that climate change poses to the economy, the financial sector, and wider societal welfare.


BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Climate Change and Principle-based Taxonomy

Applicable to:
1. Licensed banks
2. Licensed investment banks
3. Licensed international Islamic banks
4. Licensed Islamic banks
5. Licensed insurers
6. Licensed reinsurers
7. Licensed takaful operators
8. Licensed retakaful operators
9. Prescribed development financial institutions

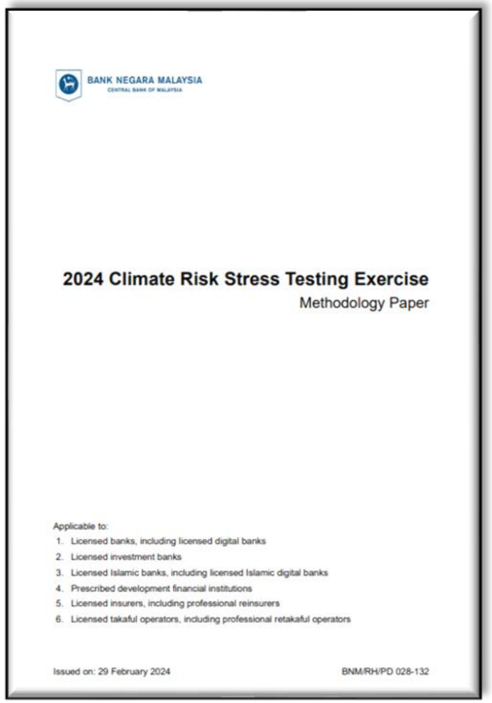
Issued on: 30 April 2021


BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Climate Risk Management and Scenario Analysis

Applicable to:
1. Licensed banks
2. Licensed investment banks
3. Licensed Islamic banks, including international Islamic banks
4. Prescribed development financial institutions
5. Licensed insurers, including professional reinsurers
6. Licensed takaful operators, including professional retakaful operators
7. Financial holding companies

Issued on: 30 November 2022 BNM/RH/PD 028-124


BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

2024 Climate Risk Stress Testing Exercise
Methodology Paper

Applicable to:
1. Licensed banks, including licensed digital banks
2. Licensed investment banks
3. Licensed Islamic banks, including licensed Islamic digital banks
4. Prescribed development financial institutions
5. Licensed insurers, including professional reinsurers
6. Licensed takaful operators, including professional retakaful operators

Issued on: 29 February 2024 BNM/RH/PD 028-132

What are the implications for companies (non-FIs) at large?

- **Companies are required to demonstrate the climate risks that are impacting the company/project.**
- **Companies are required to demonstrate how they are mitigating their climate-related risks.**
- **Companies must put in place proper mitigation plans, KPIs, and targets for performance monitoring.**

Source: Climate Risk Management and Scenario Analysis - Policy Document (bnm.gov.my)

BNM is pushing the ESG agenda within financial institutions (2/3)

Climate Change And Principle-based Taxonomy ("CCPT") – Categorisation of Financial Institutions Economic Activities

All financial institutions (including banks and insurance companies) in Malaysia are required to report on its economic activities (loan and investment portfolio) based on the CCPT by June 2022. The categorisation of the economic activities are as follows:

- **GP1** – Climate change mitigation
  Avoid, reduce, or enable others to avoid or reduce, GHG emissions.
- **GP2** – Climate change adaptation
  Increase own, or enable others to increase, resilience to climate change.
- **GP3** – No significant harm to the environment
  Control pollution, protect ecosystems and biodiversity, and sustainable use of energy and natural resources.
- **GP4** – Remedial measures to transition
  Recognise remedial measures to address siginificant harm identified.
- **GP5** – Prohibited activities
  Activities that are illegal or contravene environmental laws.

CCPT Classification System		Economic Activity		Overall Business	
		GP1	GP2	GP3	GP4
Climate Supporting Activities with positive impact on climate change, and causing no significant harm to the environment	C1	GP1 or GP2 or both		✓	
Transitioning Activities causing significant harm to the environment, but remedial measures taken to reduce harm	C2	GP1 or GP2 or both		✗	✓
	C3	✗		✗	✓
Watchlist Activities causing significant harm to the environment, and no remedial measures taken to reduce harm	C4	GP1 or GP2 or both		✗	✗
	C5	✗		✗	✗

Source: https://www.bnm.gov.my/documents/20124/10150236/fsr22h2_en_wb2.pdf

What are the ESG Opportunities Ahead?

Availability of Sustainability Financing – Maybank

Maybank is committed to mobilise RM80 billion in sustainable finance by 2025. Since starting this journey in 2021, they have mobilised a total of RM68.48 billion across both retail and non-retail segments.

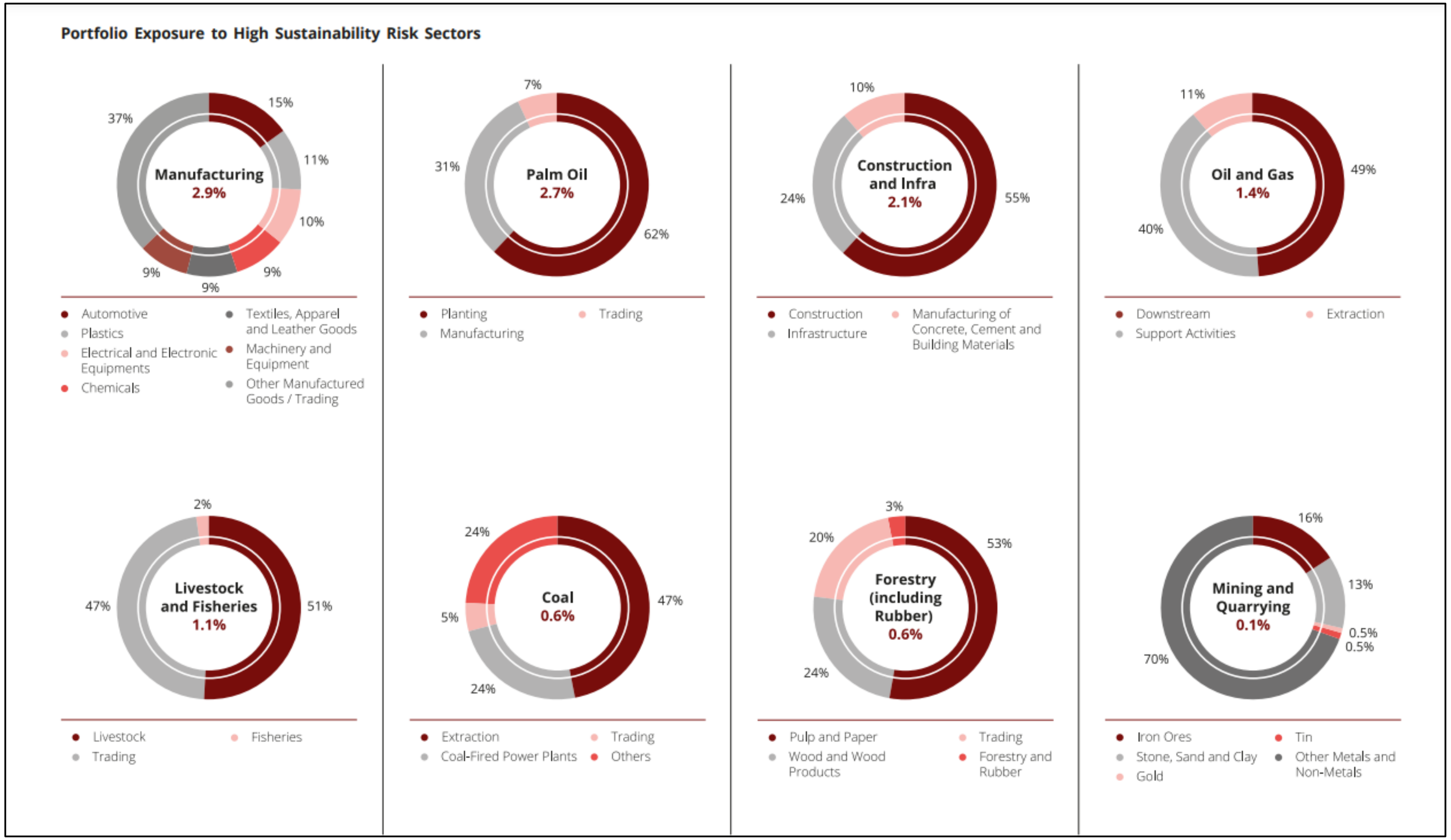
Total Sustainable Finance Achievement FY2023

Indicators	Alignment to SPF Classification Logic[1]	2022 (RM million)	2023 (RM million)
Lending/Underwriting			
Green Loan	Principles	3,654.80	1,591.32
Green Bond		1,013.51	452.53
Social Loan		–	91.78
Sustainability Bond/Sukuk		2,023.00	2,238.76
Eligible Green	Use of Proceeds	2,052.00	5,343.25
Eligible Social		1,346.32	9,918.73
Sustainability Linked Loan	Product	4,813.08	4,971.40
Sustainability Linked Bond/Sukuk		300.00	450.00
Pure-play Green	Company Profile	60.00	9.12
Pure-play Social		-	649.04
Advisory[2]			
Green Bond	Principles	-	285.00
Sustainability Bond/Sukuk		-	200.00
Sustainability Linked Loan	Product	-	1,392.45

Indicators	Alignment to SPF Classification Logic[1]	2022 (RM million)	2023 (RM million)
Lending			
Clean Transportation	Use of Proceeds	1,214.77	1,393.61
Green Buildings		649.57	616.27
Affordable Basic Services or Infrastructure		2,309.38	2,809.19
Renewable Energy		0.51	18.13
Socioeconomic Advancement and Empowerment & Employment Generation[4]		48.30	–
Investment			
Wealth Management[3,5]		(178.49)	(129.77)
Total Retail			**4,707.43**Ⓐ
TOTAL SUSTAINABLE FINANCE MOBILISED FY2023			**34,108.79**

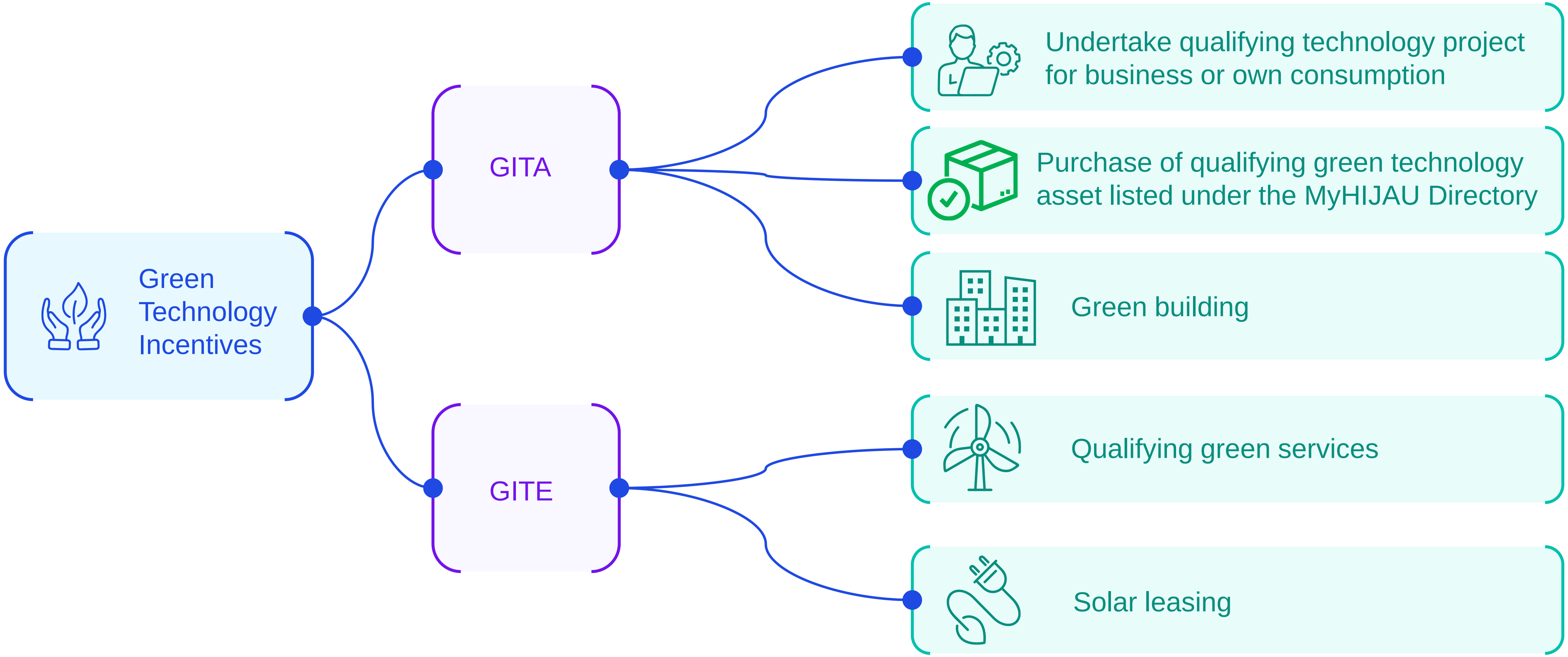
Availability of Sustainability Financing – CIMB

CIMB has committed to a sustainable finance target of RM100 billion by 2024, having already achieved over RM80 billion by December 2023.



ESG-related Tax Incentives

Green Investment Tax Allowance ("GITA") and Green Income Tax Exemption (“GITE”) Incentive Package before 2024 Budget



ESG-related Tax Incentives

Proposed Incentives based on Tiering Approach under 2024 Budget - GITA Project for Business Purpose

Qualifying activities	GITA incentive	Incentive period	Notable criteria / conditions
Tier 1: • Green hydrogen	100% GITA to be set off against 100% or 70% of statutory income	Up to 10 years (5 + 5)	**First 5 years** • Produce green hydrogen from renewable energy sources • Obtain certification for production of green hydrogen from DOSM or any of the recognized international certification bodies • Comply with the fixed asset / investment value, high value jobs / science and technical jobs requirements **Second 5 years** • Project's spillover such as high value jobs, local spending and / or any other conditions to be imposed by National Committee of Investment
Tier 2: • Integrated waste management (IWM) • EV charging station	100% GITA to be set off against 100% of statutory income	5 years	**IWM** • Invest in IWM facility and undertake waste recycling or waste treatment activities and at least 2 of the following activities: ➢ Recovery, composting, storage, collection, or disposal • Only allowed to utilize waste obtained within Malaysia, including Free Zones / Licensed Manufacturing Warehouse • Abide by the guidelines / conditions of the relevant Acts, Rules and Regulations under the respective ministries and agencies

ESG-related Tax Incentives

Proposed Incentives based on Tiering Approach under 2024 Budget - GITA Project for Business Purpose

Qualifying activities	GITA incentive	Incentive period	Notable criteria / conditions
Tier 2: (Continue) • Integrated waste management (IWM) • EV charging station	100% GITA to be set off against 100% of statutory income	5 years	**EV charging station** • Invest in equipment or a combination of equipment, providing dedicated functions to supply electric energy from a fixed electrical installation or supply network to an EV for the purpose of charging • Obtain EV Charging System licence from Energy Commission • Obtain approval for the installation of EV Charging Bay from local councils
Tier 3: Generation of energy from renewable sources: • Biomass, biogas, mini hydro, geothermal, solar, wind energy	100% GITA to be set off against 70% of statutory income	5 years	• Obtain award Letter from SEDA / Energy Commission on the proposed project • The equipment / assets used must be owned by the company, recognised and registered under the MyHIJAU Mark or have product verification that is recognized and accepted by MGTC

- Application to be submitted to MIDA from 1 January 2024 until 31 December 2026 (PU order yet to be gazetted)
- Date of first qualifying capital expenditure shall not be incurred earlier than the date of application to MIDA (except for green hydrogen)
- Companies within the same group undertaking the same green qualifying activities as their parent companies / related companies will be imposed with certain restrictions

ESG-related Tax Incentives

Proposed Incentives based on Tiering Approach under 2024 Budget - GITA Asset for Own Consumption

Qualifying activities	GITA incentive	Incentive period
Tier 1: • Qualifying EVs (commercial / industrial used only) and EV infrastructure • Battery energy storage system • Green building	100% GITA to be set off against 70% of statutory income	Qualifying capital expenditure incurred starting from 1 January 2024 until 31 December 2026
Tier 2: • Qualifying assets or projects for energy efficiency • Renewable energy system • Waste composter / waste recycling system • Wastewater recycling system • Rainwater harvesting system	60% GITA to be set off against 70% of statutory income	

- Companies within the same group that incurred qualifying capital expenditure as their parent companies / related companies will be imposed with certain restrictions
- PU order yet to be gazetted

Notable criteria

1 Qualifying company

- Incorporated under the Companies Act 2016 and resident in Malaysia
- Has not incurred qualifying capital expenditure under GITA asset and has not been approved for Green Technology incentive

2 Qualifying conditions

- Comply with the following criteria:
  - ➢ minimise the degradation of the environment or reduce greenhouse emission;
  - ➢ promotes health and improvement of environment; and
  - ➢ conserves the use of energy, water and / or other forms of natural resources or promote the use of renewable energy or able to recycle waste material resources
- Qualifying capital expenditure must be verified
- Asset must be new and owned by the company and used in the business carried out in Malaysia

ESG-related Tax Incentives

Proposed Incentives based on Tiering Approach under 2024 Budget - GITE Solar Leasing

- GITE on 70% of statutory income (excluding the intellectual property income) from the provision of solar photovoltaic system leasing services verified by SEDA:

Tier	Capacity (MW)	Incentive Period
1	>10MW - ≤30MW	10 YAs
2	>3MW - ≤10MW	5 YAs

- Any income generated from excess capacity is not eligible for tax exemption and the company shall keep separate account
- Only one company in the same group is eligible for GITE solar leasing
- Application to be submitted to MIDA from 1 January 2024 until 31 December 2026 (PU order yet to be gazetted)

Notable criteria

1

Qualifying company

- Incorporated under the Companies Act 2016 and resident in Malaysia
- At least 60% of its equity is directly owned by Malaysia citizens
- Listed under the Registered Solar Photovoltaic Investor Directory
- Made an application to MIDA before issuance of first sale invoice in relation to solar leasing project

2

Qualifying conditions

- Employs at least 5 permanent full-time employees in Malaysia which shall include 2 competent personnel in green technology
- Incurs an approved adequate amount of annual operating expenditure in Malaysia which shall include local services provided by local service providers

Tax Deduction on ESG-related Expenditures

Tax Deduction on ESG related expenditures

- Tax deduction up to RM50,000 per YA (YA 2024 – YA 2027)

ESG Related Expenditure
ESG reporting by companies listed on the Bursa Malaysia stock exchange
ESG reporting by financial institutions regulated by the Bank Negara Malaysia
Preparation of reports related to Tax Corporate Governance Framework by companies
Preparation of transfer pricing documentation by companies
Consultation fee for implementing e-invoicing incurred by Micro, Small and Medium Enterprises
ESG reporting by companies to approved regulator by the Ministry of Finance

Further Tax Deduction for Voluntary Carbon Market

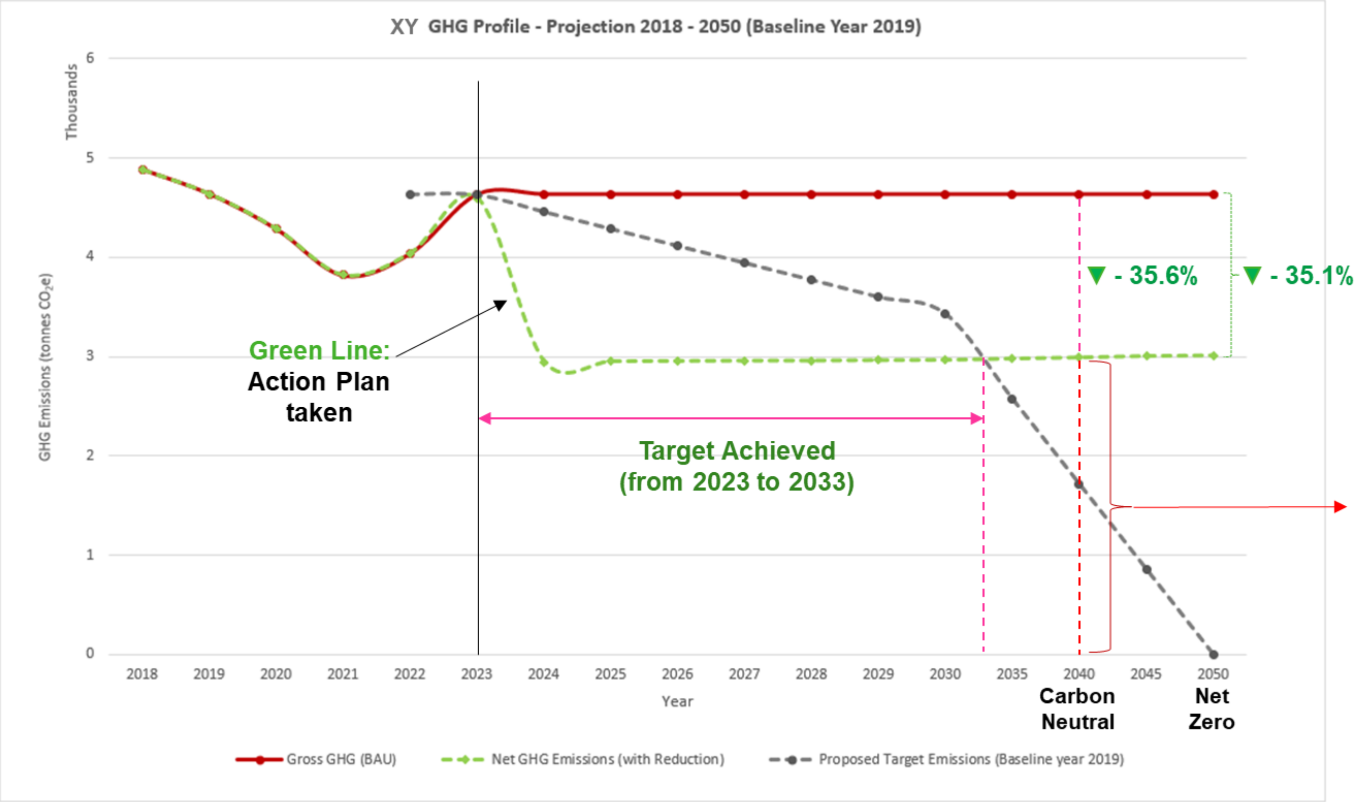
- Currently, expenditure related to development of carbon projects incurred by carbon credit trading companies is allowed under Section 33(1).
- Further tax deduction be given to companies for costs incurred on Development and Measurement, Reporting and Verification related to the development of carbon projects (certified by MGTC), against the carbon credits income traded on BCX.
- Each qualified company is eligible for a tax deduction of up to RM300,000 for 1 Carbon Project developed in Malaysia, where the incentive period is capped to 3 years. Up to 3 related companies within the same group can apply.
- Effective for applications received by MGTC from 1 January 2024 to 31 December 2026.

What does this mean in practice?

Case Study 1

As companies examine their transition journey ...

Projection below is based on being Carbon Neutral by 2040 and Net Zero by 2050 with a y-o-y reduction of 3.7%. Using year 2019 (Scope 1 & 2) as baseline.



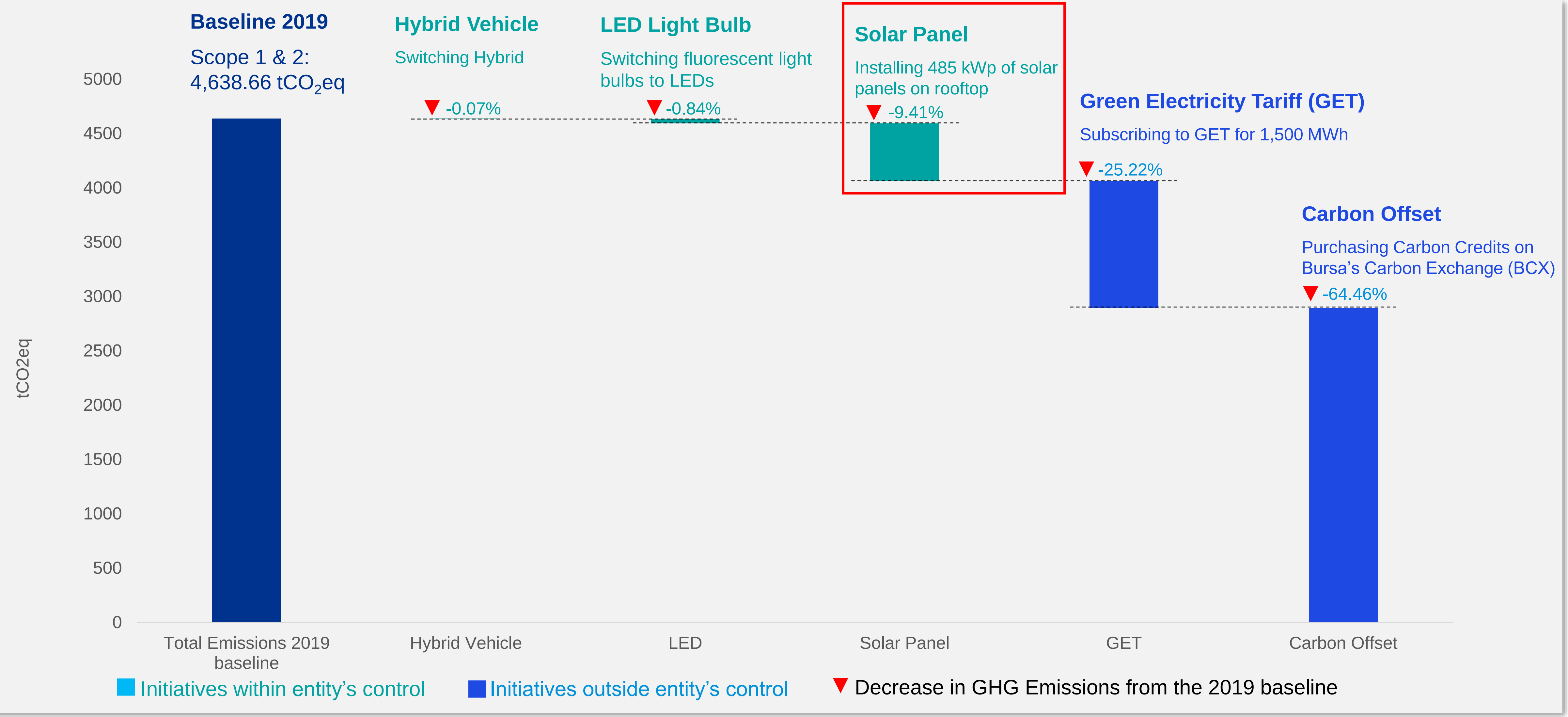
Action Plan

1) Change fluorescent bulbs to LED
2) Change to Hybrid cars
3) Successfully subscribe to maximum GET quota (mREC certificate from TNBX)
4) Install Solar Panel

- Emission in **2040** will be reduced by **35.6%** and **2050** will be **reduced by 35.1%** from the 2019 baseline. The reduction from 35.6% to 35.1% is due to the reduced efficiency of solar panels over time.
- XY would be able to achieve targets **up until 2033** without buying carbon credits.
- XY to consider purchasing **2,989.61 tCO_2e (64.4%)** worth of **Carbon Credits** to offset emissions and achieve carbon neutrality in **2040**.
- XY to maintain all GHG reduction initiatives implemented and be attentive towards **future upgrades or new technology** in carbon reduction to meet Net Zero target.

Case Study 1

Pathway to Carbon Neutral 2040



Case Study 2

Financial Impact Reporting (S2): Solar Installation (1/3)

Net Zero Commitment by 2050

Action plan

Installation of Solar Panel on plants and premises' rooftop to generate solar energy as an alternative energy source to reduce conventional electricity consumption, and thus lower the GHG emission by 6% for the next 25 years.

Existing consumption p.a.

Average electricity consumption:	45,000 MWh
Average utilities cost:	RM16.4 mil
Average GHG emission:	35,100 tCO2

Project details

Project cost:	RM7 mil
Project tenure:	9 months

Project cost

Upfront capital investment:	RM0.7 mil
Bank loan:	RM6.3 mil
Loan interest:	5% p.a.
Loan tenure:	5 years

Asset details

Expected useful life:	25 years
Maintenance cost:	RM70,000 (incremental 3% p.a.)
Asset capacity:	3,000 kWp (3MW)/hour
Asset degradation:	0.5% degradation p.a.

Case Study 2

Financial Impact Reporting (S2): Solar Installation (2/3)

Solar Panel - Cost Benefits Analysis

	Without Solar Panel Installation	With Solar Panel Installation	Emission reduction
	tCO2	tCO2	tCO2
GHG Emission			
(Projected total for the next 25 years)			
Total GHG Emission	912,600	852,243	(60,357)

			(Cost)/ Savings
Cost Savings Analysis	RM'000	RM'000	RM'000
(Projected total for the next 25 years)			
Capital expenditure incurred	-	(7,193)	(7,193)
Utilities costs (based on base tariff of 0.365)	(427,050)	(398,806)	28,244
Carbon tax	(30,563)	(23,392)	7,171
Maintenance cost	-	(2,552)	(2,552)
Finance cost	-	(963)	(963)
Net (cost)/savings before tax	(457,613)	(432,905)	24,708
Tax savings	-	1,911	1,911
Net (cost)/savings after tax	(457,613)	(430,994)	26,619

Assumptions applied in this case study:

- GHG emission is calculated at an emission factor of 0.78.
- Solar panel is able to generate 3,000 kWp (3 MW) capacity at 3 hours of peak sunlight per day (3MW x 3 hours x 365 days = 3,285 MW p.a.)
- Solar panel degradation of 0.5% p.a. is anticipated over useful life.

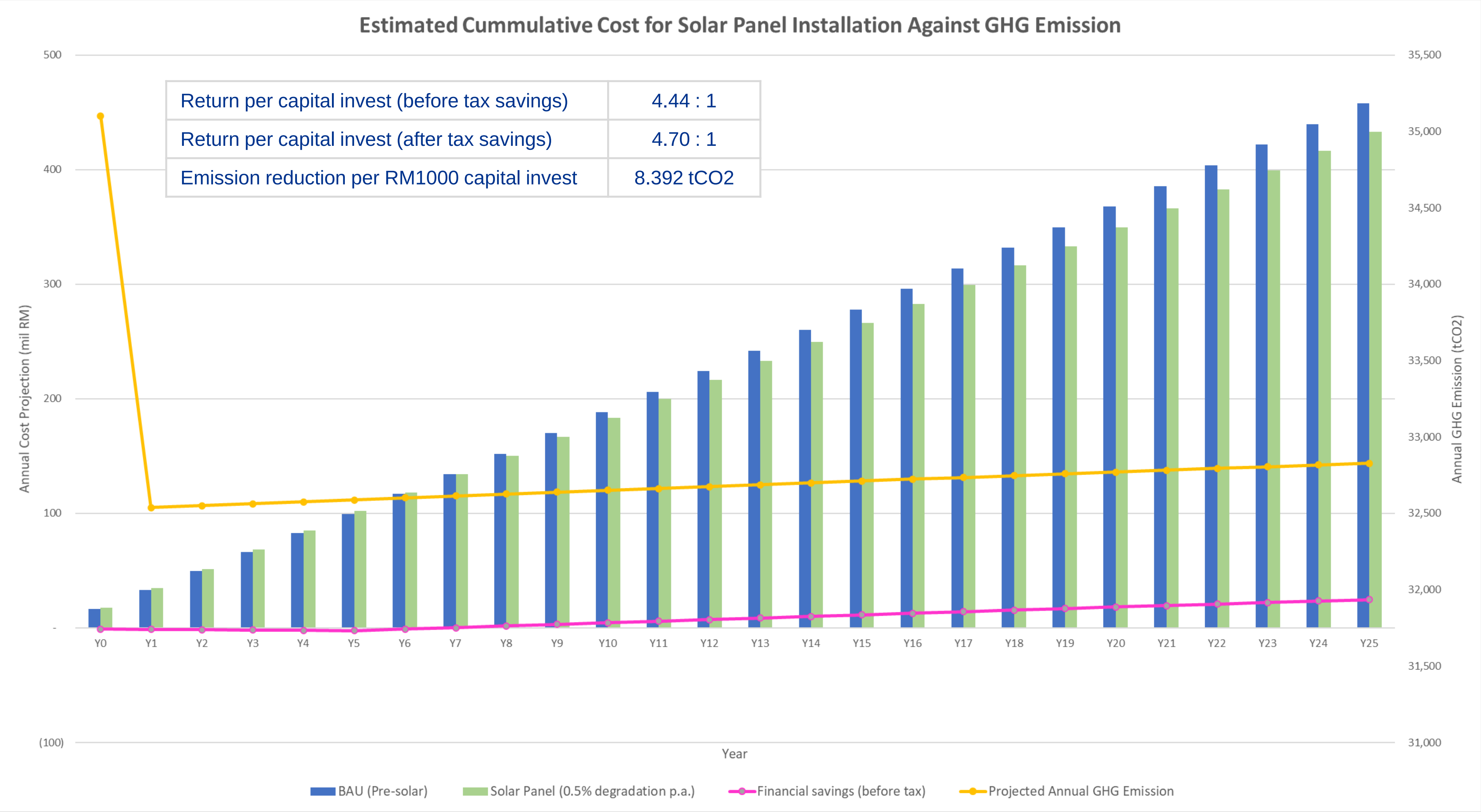
- Electricity cost is calculated using base tariff of RM0.365 per kWh. The same base tariff is assumed for the next 25 years.
- Entity's average annual electricity consumption remained the same over the assessment periods.

- Singapore carbon tax mechanism is assumed to apply where carbon tax is imposed on all facilities exceeding the annual direct GHG emissions threshold of 25,000 tCO2 or more in a year with staggered carbon tax rate.

- Solar panel is an approved green technology asset (which is registered and listed under MyHIJAU Directory), thus entitled for Green Investment Tax Allowance ("GITA") – a tax incentive in the form of 100% qualifying capital expenditure

Case Study 2

Financial Impact Reporting (S2): Solar Installation (3/3)



Return per capital invest (before tax savings)	4.44 : 1
Return per capital invest (after tax savings)	4.70 : 1
Emission reduction per RM1000 capital invest	8.392 tCO2

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How can Malaysian companies reap the ESG opportunities?

- Understand the requirements set by green/ sustainable finance products and gather insights into ESG-related tax benefits
- Set up internal sustainability management framework for governance and performance monitoring
- Improve data collection and analysis, followed by setting up internal targets to meet the requirements set forth by green/ sustainable financing products
- Enhance sustainability disclosure in accordance to the needs from various stakeholder groups, including regulators, investors and financial institutions
- Perform cost-benefit analysis on the company’s sustainability-related initiatives

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