Beyond compliance in reporting

BY **GRACE YAP ERN HUI**

Malaysian companies are on the right track, as many are compliant in their sustainability reporting. Yet, there is still the fundamental issue of meaningful and quality reporting, especially for small and medium enterprises (SMEs).

The survey of sustainability reporting 2024 titled "The move to mandatory reporting" by KPMG shows that Malaysia has a 100% reporting rate for sustainability reporting. However, more work needs to be done for capacity building and a coordinated message on the need for reporting.

Malaysia took big strides in sustainability reporting in 2024 with the launch of its National Sustainability Reporting Framework (NSRF) as markets across the globe are moving towards a globally aligned sustainability reporting standard.

While the NSRF provides guidance to companies in sustainability reporting, a flexible approach should be considered to help them identify and report on the sustainability issues that are most relevant to them, say some industry observers.

A holistic view to sustainability efforts will need companies to be consistent in reaching out to their downstream and upstream suppliers to ensure accurate and meaningful reporting of their Scope 3 emissions. More importantly, more support needs to be given to SMEs that are also indirectly affected by the NSRF, they add. E

QUALITY MATTERS

While the top 100 companies in the KLCI demonstrate good performance in reporting, the mid-tier and small-cap companies are not reporting comprehensively, says Phang Oy Cheng, head of ESG and sustainability advisory at consulting firm KPMG Malaysia.

Many companies are missing out on an opportunity to showcase their commitment to sustainability, says Phang, as they are failing to see the value in reporting on what is important to them and the measures being taken to address issues that arise.

"In essence, what Bursa Malaysia has done with the new NSRF is actually very good because it mandates these requirements, which provides a structure for companies to focus on what they need to report on," says Phang.

The NSRF, which is based on the International Financial Reporting Standards (IFRS) S1 and S2, promotes a more holistic approach to sustainability reporting.

IFRS S1 is for sustainability-related financial disclosures and IFRS S2 is for climate-related disclosures. The NSRF emphasises the connection between material matters and financial implications for a company.

Reporting on the right matters is important. Customers and investors are interested in understanding how companies are crafting their climate transition plans, climate risk management and revenue-generating strategies from climate-related activities.

KPMG

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"A major focus of ESG reporting is identifying what is material to you from an ESG perspective," says Phang.

Once material issues are identified, the next step is to link them to potential risks. This involves assessing how these issues could affect the company's operations, financial performance or reputation.

While fiduciary duty is important, board members of the company must also factor in the non-financial risk, as it can affect a company's long-term value.

"But the smaller-cap companies have not started looking at this. In fact, a lot of them will consider it a burden because they are more concerned with survivability and you can't argue against that. So, everything will happen in its good time but, as a board of directors, these are questions you need to keep on asking," says Phang.

Currently, Bursa requires public-listed companies (PLCs) to report on 11 common matters, from anti-corruption to data privacy and waste management matters, regardless of its materiality to the company.

Norges Bank Investment Management called for a more flexible method for PLCs to disclose material environmental and social impacts of their operations and value chains, while referring to the Global Reporting Initiative standards as guidance.

"I can see both sides of the coin, but I tend to let companies select what is material and more important to them. We haven't reached that level of maturity yet; so, I can see why Bursa mandated the 11 indicators because of the inability to provide adequate data in some companies," says Phang.