

**FREQUENTLY ASKED QUESTIONS (FAQ) ON
THE PUBLIC CONSULTATION PAPER ON THE PROPOSED NATIONAL SUSTAINABILITY
REPORTING FRAMEWORK**

(Issued: 27 March 2024)

1.0 GENERAL

1.1 Who is the Advisory Committee on Sustainability Reporting (ACSR)?

The ACSR is an inter-agency committee, which was formed with the endorsement of the Ministry of Finance. The ACSR is chaired by the SC with members comprising representatives from the following bodies:

- Audit Oversight Board (AOB)
- Bank Negara Malaysia (BNM)
- Companies Commission of Malaysia (SSM)
- Bursa Malaysia Berhad (Bursa Malaysia)
- Financial Reporting Foundation (FRF)

The role of ACSR is to identify the enablers that will facilitate the use of the standards issued by the International Sustainability Standards Board (ISSB), specifically the International Financial Reporting Standards (IFRS) S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1), and S2 *Climate-related Disclosures* (IFRS S2) (collectively referred to as the ISSB Standards) in Malaysia. The ACSR's role also includes identifying other supporting elements that need to be in place including a framework for assurance and capacity building, collectively constituting the National Sustainability Reporting Framework for Malaysia (NSRF).

1.2 What is the intended outcome of the NSRF?

The NSRF aims to:

- (i) Improve the availability of reliable, comparable and decision-useful information on material sustainability risks and opportunities of companies through the use of the ISSB Standards as the baseline standard;
- (ii) Enable the use of other complementary reporting frameworks, for example, the Global Reporting Initiative (GRI), industry-based standards issued by the Sustainability Accounting Standards Board (SASB), to meet the information needs of different stakeholders; and
- (iii) Support availability and flow of sustainability information across the supply chain.

1.3 How will the ISSB Standards be implemented to be part of the reporting framework in Malaysia?

Should the ISSB Standards be adopted in Malaysia, it is anticipated that legislative amendments, in particular the Companies Act 2016, may be required to enable adoption by both listed issuers and non-listed companies (NLCos). Bursa Malaysia will also need to amend the Listing Requirements to require the use of the ISSB Standards. Where necessary, relevant notice regarding changes to the reporting requirements will be communicated at least 6 months before the effective date.

1.4 When will the adoption decision be finalised?

The ACSR targets to finalise and propose the adoption approach to the Ministry of Finance (MOF) this year (2024).

1.5 My company is currently reporting in accordance with other sustainability frameworks (e.g. GRI and TCFD-aligned disclosures). How will the reporting be impacted?

Companies should continue to comply with the existing sustainability disclosure requirements, where applicable unless otherwise stated.

Companies that have either begun or are preparing their processes and data in providing TCFD-aligned climate disclosures will have a reasonable foundation to begin adopting IFRS S2, as the recommendations of the TCFD-aligned climate disclosures are embedded within the ISSB Standards.

Where necessary, companies can continue to disclose additional information in accordance with other sustainability reporting frameworks (e.g. GRI) to meet their stakeholders' information needs.

1.6 Why does the NSRF use “annual reports issued for FYE on or after 31 December 20xx” instead of the language used in the ISSB Standards which states “annual reporting periods beginning on or after 1 January 2024”?

Financial Year Ending (FYE) 31 December 20XX is used in the NSRF as it is aligned with the language used in Bursa Malaysia's Listing Requirements.

1.7 Why are there different proposed dates for Main Market and ACE Market issuers, as they are both listed?

Given the difference in readiness and maturity of Main Market and ACE Market issuers, a different adoption timeline and approach may be necessary for these issuers.

1.8 Why is the threshold for NLCos based on revenue and not industry-sector-based?

Using a sector-specific threshold approach will add a layer of complexity for large companies operating in multiple sectors. The revenue threshold of RM 2 billion and above was considered after reviewing the landscape of NLCos in Malaysia and benchmarking against the thresholds used in other jurisdictions.¹

1.9 What does the qualifying revenue criterion of RM 2 billion for large NLCos refer to?

The revenue criterion of RM 2 billion and above is based on the financial statements lodged with the Companies Commission of Malaysia (SSM).

1.10 Are there any resources we can use to understand further the implementation of IFRS S1 and S2 in Malaysia?

The ACSR conducted an online webinar on 5 March 2024. The presentation deck and recording of the webinar are available at <https://www.sc.com.my/regulation/corporate-governance/national-sustainability-reporting-framework>.

Resources are also available on the IFRS Foundation website. <https://www.ifrs.org/sustainability/knowledge-hub/>.

¹ Several jurisdictions have recognised that economically or environmentally significant companies are not limited to public listed entities and have passed legislations to mandate sustainability or climate reporting to non-listed companies (refer to para. 6.4 of the Consultation Paper). Key jurisdictions that use a revenue/turnover threshold for its non-listed companies include Singapore (SGD 1 billion), Australia (AUD 500 million), UK (£500 million) and EU (€50 million in net turnover).

2.0 ADOPTION

2.1 Which companies will be required to adopt IFRS S1 and S2?

As outlined in the Consultation Paper issued on 15 February 2024, the target companies are:

- Main Market listed issuers
- ACE Market listed issuers
- Large NLCos with annual revenue of RM2 billion and above

2.2 Will the NSRF include other market players, such as SMEs and LEAP Market listed issuers?

At this juncture, the current prime consideration is for use of the standards by listed issuers on the Main Market, ACE Market and large NLCos. However, other companies may adopt the standards on a voluntary basis unless otherwise mandated by respective regulators.

2.3 When is IFRS S1 and S2 proposed to be adopted?

As outlined in the Consultation Paper issued on 15 February 2024, the proposed timeline is as follows:

Main Market listed issuers, annual reports issued for:

- FYE on or after 31 December 2025: IFRS S2 with reliefs
- FYE on or after 31 December 2026: IFRS S1 with reliefs
- FYE on or after 31 December 2027: Full adoption of IFRS S1 and S2

ACE Market listed issuers, annual reports issued for:

- FYE on or after 31 December 2027: IFRS S2 with reliefs
- FYE on or after 31 December 2028: IFRS S1 with reliefs
- FYE on or after 31 December 2029: Full adoption of IFRS S1 and S2

Large NLCos with revenue of RM2 billion and above, annual reports issued for:

- FYE on or after 31 December 2027: IFRS S2 with reliefs
- FYE on or after 31 December 2028: IFRS S1 with reliefs
- FYE on or after 31 December 2029: Full adoption of IFRS S1 and S2

2.4 Why should IFRS S2 be adopted first before IFRS S1?

Taking into account the current reporting requirements and companies' readiness, Main Market listed issuers and financial institutions have a more reasonable foundation to adopt IFRS S2 first, building from the current reporting requirements of Bursa Malaysia and Bank Negara Malaysia which require TCFD-aligned climate disclosures. This is also aligned

with the transition relief provided by ISSB, i.e. allowing a climate-first approach for the first annual reporting.

Taking the climate-first approach thus prioritising the adoption of IFRS S2, companies will still however need to apply IFRS S1 insofar as they relate to climate which includes key concepts such as connected information and value chains, assessment of materiality, qualitative characteristic of information to be provided as well as changes in estimates and errors, and disclosures on judgements.

2.5 What does "adopt IFRS S2 with reliefs and consequently apply IFRS S1 only as they relate to the disclosures of information on climate-related risks and opportunities" mean?

This means that during the adoption of IFRS S2, companies will still need to apply IFRS S1 to meet the relevant requirements related to climate. The relevant requirements of IFRS S1 that established the conceptual foundation and prescribes the specific requirements for how a company discloses such information, including location of disclosures, timing of reporting, judgements, uncertainties, and errors, should still apply during the adoption of IFRS S2. For example, S1 sets out the approach to materiality and requirements for connectivity of information with that in the financial statements, which are relevant to the disclosure of climate-related information.

2.6 Are there reliefs provided to companies to facilitate adoption?

To facilitate the use of the Standards, ISSB has introduced proportionality and scalability mechanisms (permanent), as well as transition reliefs, to accommodate companies with varying levels of maturity and readiness.

In addition to permanent and transition reliefs provided by ISSB, the ACSR proposes the following additional transition reliefs:

- **2 years relief:** Focus on sustainability and climate-related financial disclosures specifically for principal business segments
- **2 years relief:** Option to not disclose impacts of sustainability- and climate-related risks and opportunities on its strategy and decision-making
- **1 year relief:** Permissible for the company to use boundaries other than those outlined in IFRS S2 Para 29 (iv) for greenhouse gas (GHG) emissions
- **2 years relief:** Option to not disclose Scope 3 GHG emissions, other than business travel (Category 6) and employee commuting (Category 7) that are currently required under Bursa's Sustainability Reporting Framework

Refer to Consultation Paper for details on the potential reliefs.

2.7 What does "proportionality and scalability mechanisms" mean?

To facilitate implementation, ISSB has introduced proportionality and scalability mechanisms to accommodate the varying levels of readiness and maturity of jurisdictions and companies with regards to sustainability reporting.

Proportionality and scalability mechanisms (only for certain disclosures as mentioned in the Consultation Paper):

- Allow companies to consider their skills, capabilities and resources when preparing disclosures. This concept applies to the information required to be used to prepare disclosures and is intended to help entities provide the disclosures required by the Standards in areas in which there is a high level of measurement or outcome uncertainty; and
- Allow companies to use reasonable and supportable information that is available without undue cost and effort. This concept allows entities to apply qualitative approaches (instead of quantitative approaches) in several instances in IFRS S1 and IFRS S2.

2.8 How will companies activate the reliefs for adoption?

Companies may activate the reliefs by explaining in their reports why the relevant disclosures were not yet provided during the transition period.

2.9 What will be the prescribed standard for disclosing GHG emissions according to IFRS S2?

Currently, IFRS S2 requires the use of the GHG Protocol for GHG emissions disclosures. Public tools may be used for calculation as long as it follows the GHG Protocol. The Consultation Paper is also seeking feedback on using the GHG Protocol.

2.10 What does "2-year relief" regarding GHG Scope 3 emission mean?

Companies have the option to not disclose Scope 3 GHG emissions, except for Categories 6 and 7 (currently required under Bursa Main Market and ACE Market Listing Requirements) in the first two years of reporting. However, companies are expected to disclose all relevant GHG Scope 3 emissions information from the third year of reporting onwards.

2.11 How will the disclosure requirements be implemented in companies within the same group?

Companies are required to provide sustainability and climate-related financial disclosures for the same reporting entity as the related financial statements, for example, for the consolidated accounting group, which includes the subsidiaries, affiliates and other

entities within the group. The Consultation Paper has proposed transition relief whereby companies may focus on providing climate and sustainability-related financial disclosures specifically for principal business segments during the transition period of two years.

2.12 If a non-listed company's revenue was RM2 billion and above in a prior financial year but falls below the RM2 billion threshold in a subsequent financial year, what implications does this have?

Once a company qualifies as a "large non-listed company with an annual revenue of RM2 billion and above," it will retain this classification and is expected to continue reporting in accordance with the ISSB Standards.

2.13 Will any training or guidance be provided to assist companies in adopting the ISSB Standards?

Yes. The ACSR is also addressing the implementation and capacity-building support required to implement the NSRF, and more information will be announced soon.

2.14 Will the subsequent standards issued by ISSB be automatically adopted after the implementation of IFRS S1 and S2 (e.g., S3, S4, S5..., etc.)?

No. The adoption of any future standards will need to undergo due process which may include a public consultation process.

2.15 Will there be a localised version of IFRS S1 and IFRS S2 (i.e. MFRS S1 and S2)?

The ACSR is deliberating on the regulatory structure for issuing and overseeing the ISSB Standards in Malaysia. This will determine whether a localised version of the standards will be used.

3.0 Assurance

3.1 What is proposed to be assured under the NSRF, and by when?

The ACSR proposes a climate-first approach, prioritising Scope 1 and Scope 2 GHG emissions to undergo external limited assurance two years after IFRS S2 is mandated for adoption.

3.2 Will reasonable assurance be mandated in the future?

Recognising that the ecosystem for external assurance in Malaysia is still evolving, the ACSR is seeking input to evaluate the practicality of shifting from the existing voluntary approach for assurance to mandatory external assurance.

3.3 If external assurance is made mandatory, will it extend to other sustainability matters besides GHG emissions?

The ACSR is gathering feedback through the public consultation process on whether external assurance if made mandatory, should extend to material sustainability matters beyond emissions.

3.4 Which assurance standard will be used for external assurance of GHG emissions?

The ACSR is gathering feedback through the public consultation process on which standard will be used if external assurance is made mandatory. Currently, Bursa Malaysia recognises both the ISAE 3000 and ISO standards.

3.5 Who will be the assurance providers if external assurance is made mandatory?

The assurance providers will depend on the final standards recognised for the mandatory assurance.

3.6 How will the ACSR ensure the capabilities of external auditors to conduct external assurance?

The ACSR is gathering feedback through the public consultation process. One of the issues raised in the consultation paper is whether external providers for sustainability assurance should be licensed, like financial assurance providers.

3.7 Will review by internal auditor be required under the NSRF?

Currently, it is not mandatory for a company to subject its sustainability disclosures to an internal review or external assurance. Companies are ultimately responsible for ensuring that the disclosures are accurate and verifiable which can be achieved through internal

audit. Nonetheless, the ACSR is seeking input to evaluate the practicality of shifting from the existing voluntary approach for assurance to mandatory external assurance.

3.8 Who will be the regulatory body that will oversee the implementation of mandatory assurance?

The ACSR is deliberating on the oversight framework required for sustainability assurance.