

SUPPORTING THE NATIONAL SUSTAINABILITY AGENDA VIA THE CAPITAL MARKET

Sustainability remained a central pillar in strengthening the long-term resilience and competitiveness of Malaysia's capital market. The SC continued to advance initiatives that embed sustainable practices across the ecosystem, enhance transparency, and mobilise capital towards projects with measurable social and environmental outcomes. Key developments included the establishment of Malaysia's Social Exchange framework to channel philanthropic and private capital for social good, and the advancement of the COFAR initiative to drive financing for climate adaptation.

In parallel, the Advisory Committee on Sustainability Reporting (ACSR) made headway in implementing the NSRF, conducted a public consultation on the proposed *Sustainability Assurance Framework*, and supported the formation of a professional body for sustainability practitioners. Through these initiatives, the SC reinforced its commitment to enhancing the capital market ecosystem to support the national sustainability initiatives.

Paving the way for the Establishment of Malaysia's First Social Exchange

According to the 2024 World Giving Index, Malaysia ranked 20th out of 142 countries with a score of 50, indicating a strong culture of generosity. This provides a good foundation for Malaysia to further unlock philanthropic giving in a more systematic manner. Towards this end, in 2024, the Prime Minister of Malaysia announced at the Global Islamic Economic and Finance Forum that the SC will facilitate the establishment of a Social Exchange as part of efforts to mobilise private and philanthropic capital to support social impact projects.

The Social Exchange will serve as a dedicated market based fundraising platform for projects with positive social outcomes through the mobilisation of private and philanthropic capital which will benefit entities such as non-profit organisations (NPOs), social enterprises and State Islamic Religious Councils.

In developing the Social Exchange, the SC launched a Social Exchange Pilot Programme (SEPP25) in January 2025, with participation from five NPOs showcasing social impact projects. The pilot phase provided an avenue to obtain a deeper understanding of critical components towards establishing the Social Exchange. During SEPP25, that ran for a period of six months, the five NPOs engaged closely with the SC to share data and provide input on key building blocks for the Social Exchange. SEPP25 also allowed SC to gather feedback for the development of the SC's regulatory framework for the Social Exchange.

Following the SEPP25, and various stakeholder engagements, the SC released its *Guidelines on Social Exchange Platforms* (SEP Guidelines) on 19 September 2025 which paves the way for the establishment of Malaysia's first Social Exchange to facilitate fundraising for social impact projects. The SEP Guidelines set out requirements for SEP operators and NPOs, covering eligibility, disclosure, and mandatory reporting, to assure donors on fund utilisation and project outcomes.

The development of the Social Exchange will be undertaken in phases, with the current phase involving the introduction of an SEP to facilitate eligible NPOs to raise cash donations for social impact projects listed on the SEP. While participation is voluntary, the ability to list projects on the SEP offers NPOs a credible fundraising avenue within a regulated framework. In the next phase, the Social Exchange will be expanded to include other types of instruments and participants, such as social enterprises and other NPOs.

In December 2025, the SC registered an SEP operator under section 76A of the CMSA. The registered SEP operator is responsible for establishing and operating Malaysia's first SEP, as well as onboarding eligible NPOs in accordance with the requirements set out in the SEP Guidelines.

In an effort to encourage NPO participation, one of the measures introduced as part of Budget 2026 was the establishment of a RM2 million government grant to assist NPOs to offset part of the fees charged by SEP operator when projects are listed by NPOs on the SEP. This reflects the government's commitment under the 13th Malaysia Plan (13MP) to foster a more resilient and impactful third sector in Malaysia.

The Social Exchange initiative marks an important step towards building a transparent, accountable, and inclusive fundraising ecosystem that supports meaningful social impact projects in Malaysia.

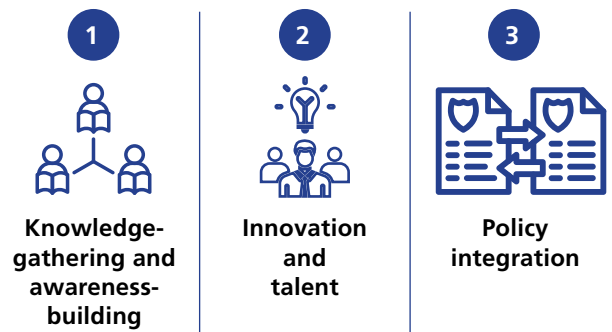
Driving Market-based Financing for Climate Adaptation and Resilience

Malaysia continues to face increasing climate risks, including water risks¹ and heat risks², which require substantial financing to address. Examples of adaptation projects include the building of seawalls or dikes in areas likely to be flooded and improving water management in areas prone to drought.

Given that climate change adaptation projects tend to be unbankable or marginally bankable, the SC intensified efforts to mobilise market-based financing, including through the private sector. These efforts are aligned with the SC's CMP and supportive of the upcoming National Adaptation Plan (MyNAP).

In 2025, the SC launched its COFAR initiative. The COFAR initiative explores the capital market's role in

financing climate adaptation and resilience activities through three strategic pillars:



Coastal Flooding Adaptation and Resilience (COFAR) Challenge and Climate Adaptation and Resilience (A&R) Conference

On 14 October 2025, the SC hosted the Climate Adaptation and Resilience (A&R) Conference, its first major platform dedicated to advancing Malaysia's climate adaptation agenda. Held at the SC, the Conference saw over 400 participants from ministries and governmental agencies, financial institutions, climate experts and academia.

ENGAGEMENTS AND SITE VISITS WITH KEY STAKEHOLDERS AND PARTNERS

As part of the COFAR initiative, the SC undertook a series of engagements and site visits to deepen the understanding of local climate adaptation challenges, with a view to identifying potential capital market-based solutions.

The SC team visited three key locations in Malaysia, Singapore and Indonesia to observe adaptation measures such as bunds, tidal gates, and sea dikes that protect vulnerable coastal communities. These visits provided valuable insights into the financing needs and partnership opportunities for large-scale resilience infrastructure.

To strengthen collaboration within the resilience ecosystem, the SC also engaged with a wide range of stakeholders, including government ministries and agencies, foreign missions, engineering experts, listed companies, and climate researchers. Insights from these engagements will help shape practical frameworks to advance and scale adaptation finance in Malaysia.

¹ The National Water Research Institute of Malaysia projects sea-level rise of 0.11m to 0.62m by 2050.

² Malaysia's Fourth National Communication Report (NC4) states that there has been a surface mean temperature increase of 0.13°C to 0.24°C per decade in the past 50 years.



The event was graced by YB Datuk Seri Johari Abdul Ghani, Minister of Plantation and Commodities, and Acting Minister of Natural Resources and Environmental Sustainability of Malaysia, who delivered a keynote address on 'Why Adaptation Can No Longer Wait'. The Conference was also attended by YAB Dato' Seri Amirudin Shari, Chief Minister of Selangor and YAM Tengku Zatashah Sultan Sharafuddin Idris Shah, Princess of Selangor, whose presence underscored the shared commitment across Royal, Federal and State levels in building national resilience.

Discussions centred on mobilising private capital for adaptation and resilience projects, and the policy enablers needed to finance scalable solutions. International and domestic experts also shared existing solutions that could be scaled within the nation to strengthen local resilience towards the changing climate. The SC also held an exhibition in conjunction with the Conference, with the theme 'The Rising Waters'. Designed to be interactive and engaging, the exhibition invited visitors to experience the escalating impacts of floods and to reflect on the urgency of financing solutions to address them.



Collectively, these efforts mark the SC's targeted steps in positioning the capital market as a catalyst for climate adaptation and resilience. By transforming research, innovation and partnerships into investable opportunities, the SC aims to unlock and mobilise the capital needed to support Malaysia in achieving its sustainability goals.

COASTAL FLOODING ADAPTATION AND RESILIENCE CHALLENGE



The SC, together with ICAEW Malaysia, SD Guthrie and SEADPRI-UKM, launched the COFAR Challenge to mobilise the next generation of leaders in tackling coastal flooding and sea-level rise. Some 220 students from 29 universities across Malaysia and abroad participated in the Challenge to develop practical, multidisciplinary solutions for Carey Island, a coastal community facing rising tides, saltwater intrusion and storm surges.

Their mission was to:



Protect communities and economic activities from saltwater intrusion, storm surge and sea-level rise.



Integrate both hard (e.g. seawalls, reservoirs) and soft (e.g. green infrastructure) engineering solutions.



Identify financing pathways for marginally bankable projects such as through green bonds, resilience bonds and public-private partnerships (PPP).

The winners of the COFAR Challenge received RM50,000 in total prizes, which was announced and awarded at the ACMF International Conference 2025. The COFAR Challenge reflects the SC's drive to foster technical, financial and collaborative innovation in building Malaysia's climate resilience.

Driving Adoption of the National Sustainability Reporting Framework

Following the launch of the NSRF in September 2024, the ACSR, chaired by the SC focused on facilitating timely and successful delivery of relevant Sustainability Reports by scoped-in entities in accordance with the established timeline. In contrast to many jurisdictions that focus solely on climate related reporting under IFRS S2, the NSRF phases in the adoption of IFRS S1 and IFRS S2, supported by a 'limited transition' approach that includes climate-first reporting and deferred Scope 3

emissions disclosures, enabling companies with varying levels of readiness to transition smoothly.

The majority of the efforts in 2025 have thus focused on implementation support to strengthen the overall state of readiness of companies.

To support the ACSR's initiatives, three separate working groups were formed:

- **PACE (Policy, Assumptions, Calculators, Education) Working Group** – responsible

for developing initiatives towards the NSRF implementation;

- **Implementation Working Group** – responsible for providing technical views and feedback on the use of the ISSB Standards; and
- **Sustainability Assurance Working Group (SAWG)** – responsible for developing the sustainability assurance framework.

The year commenced with the issuance of *Navigating the Transition: A Guide for Boards* (Guide), designed to provide directors with practical guidance to strengthen governance and oversight in sustainability reporting. Introduced in January 2025, the Guide supports boards in steering their organisations towards NSRF implementation. It offers practical direction on key areas such as governance, defining sustainability data boundaries, assessing the financial implications of climate and sustainability-related risks and opportunities, and integrating these considerations into enterprise risk management and reporting processes.

In June 2025, Malaysia's leadership in advancing high quality sustainability disclosures was further affirmed when the IFRS Foundation recognised Malaysia as the only ASEAN jurisdiction to adopt the ISSB Standards with limited transition provisions. This acknowledgement, published within the IFRS Foundation's inaugural cohort of 17 Jurisdictional Profiles, reflects the nation's unwavering commitment to strengthening transparency and corporate accountability in line with globally benchmarked reporting standards. Malaysia's steady advancement in sustainability disclosures has garnered attention from international regulatory and standard-setting counterparts, acknowledging our ability to share lessons learnt from early adoption, thus reflecting strong confidence in our approach. This recognition also underscores Malaysia's sustained efforts to elevate the integrity, comparability, and accountability of sustainability disclosures across the corporate sector.

In December 2025, the ACSR outlined its approach to non-compliance with sustainability reporting requirements. In essence, emphasis at the start will be placed on ensuring reporting entities make reasonable and meaningful progress and to allow for corrective action to be taken in the case of non-compliance generally. However, in situations of willful or serious non-compliance, relevant enforcement action may still be taken.

Initiatives under the PACE Working Group

Throughout the year, the ACSR also continued to develop several capacity building initiatives under PACE. In March 2025, the ACSR took a step forward in bridging global sustainability frameworks with the development of the GRI-ISSB Interoperability Module. What began as a technical alignment exercise, evolved into hands-on training programmes designed to help accountants and companies navigate the interplay between the GRI and the ISSB Standards. Through this initiative, participants gained a clearer understanding of how both frameworks can work together to strengthen the quality, consistency and comparability of sustainability disclosures.

The ACSR advanced its commitment to providing practical guidance with the release of the *Illustrative Sustainability Reports* (ISRs) in October 2025. The ISRs were developed to demonstrate to companies what comprehensive sustainability disclosures could look like in practice, translating technical standards into tangible examples. Recognising the urgent need for clearer guidance in Malaysia's high-emitting sectors, the ACSR focused its first two ISRs on the plantation and construction sectors. The ISRs help companies not only understand reporting requirements but also build confidence in producing transparent, decision-useful sustainability disclosures aligned with global best practices.

To support the effective use of the ISRs, the ACSR conducted three training sessions to familiarise preparers with the structure and application of the reports. These practical and hands-on sessions helped over 250 participants interpret the ISSB Standards and apply illustrative examples in preparing their own sustainability reports.

The ACSR continues to engage actively with stakeholders to understand the on-the-ground challenges faced in sustainability reporting and to address these gaps through targeted initiatives. In this regard, the Data to Disclosures Forum, held on 17 October 2025, was organised to bridge critical data gaps, featuring insights from key data custodians such as the National Water Research Institute of Malaysia (NAHRIM), the National Water Services Commission (SPAN) and Tenaga Nasional Bhd (TNB). The Forum recorded participation of close to 420 participants.



Complementing this, the ACSR also held dedicated engagement sessions with the plantation, construction, banking, and insurance sectors to gain a deeper understanding of sector-specific challenges in adopting the ISSB Standards. Feedback from these sessions continue to inform and refine future PACE initiatives, ensuring that the ACSR's efforts remain responsive, inclusive, and aligned with the needs of the market.

Public Consultation on the Sustainability Assurance Framework

As part of ongoing efforts to enhance the reliability and credibility of sustainability disclosures, the ACSR issued a public consultation paper during the year to seek feedback on the proposed *Sustainability Assurance Framework*. The consultation, which garnered 91 responses, provided valuable insights on key areas such as the adoption of international assurance, quality management and ethics standards, oversight of sustainability assurance providers, and the appropriate scope and level of assurance. In developing the framework, the ACSR continues to seek the right balance between robustness and practicality, ensuring that the assurance approach strengthens confidence in sustainability disclosures while remaining proportionate to the evolving maturity of the market. The aim is to mandate reasonable assurance on Scope 1 and Scope 2 GHG emissions to provide investors with the same level of trust and confidence akin to audited financial statements. Malaysia is one of the few countries globally which will be mandating reasonable assurance on Scope 1 and Scope 2 GHG emissions. It implies SC's commitments towards mandating corporate accountability in companies' sustainability practice. The finalised framework will be published following a comprehensive analysis of the consultation feedback.

Strengthening the Sustainability Profession through Establishment of Dedicated Association

Recognising the increasing importance of sustainability professionals in achieving sustainability commitments and targets of the capital market, the SC is facilitating the establishment of a dedicated association to support the development and institutionalisation of the sustainability profession.

In April 2025, the SC convened a closed-door Sustainability Officers' Dialogue (Dialogue), bringing together over 50 sustainability practitioners from public listed companies, institutional investors, consultants, and international organisations, among others. The Dialogue discussed required competencies and capabilities of existing and aspiring sustainability practitioners, particularly in the context of implementing the NSRF, and the merits of having a dedicated, structured and formal group for sustainability practitioners.

In July 2025, a Protem Committee was formed, supported by the SC as Secretariat, to lead the establishment of an association for sustainability practitioners (Association). The Association aims to enhance the credibility and professional standing of sustainability professionals, support the development and competency needs of the professionals, including supporting companies and professionals in complying with emerging frameworks such as the NSRF. The Association will also serve as a collective voice and sounding board for policy advocacy and engagements with regulators and authorities on sustainability matters.

Championing Financial Sector Response to Climate Change: Joint Committee on Climate Change

As Co-Chairs of the Joint Committee on Climate Change (JC3), the SC and BNM are committed to enhancing the financial sector's response of climate change. The SC continues to play a role in the Climate Finance Innovation Lab (CFIL), a collaborative platform to identify, develop and accelerate innovative climate solutions and mechanisms that mobilise private and public finance to support Malaysia's transition to net zero by 2050. Since its launch on 18 June 2025, CFIL has garnered strong interest, receiving more than

20 climate-related projects in its inaugural cohort with estimated funding needs of approximately RM3 billion. These projects address critical areas that significantly contribute to or are materially affected by climate change such as energy transition and green innovation; circular economy and sustainable cities; sustainable agriculture; and nature-based solutions and biodiversity.

To advance these priorities, CFIL rolled-out several inaugural programmes during the year, including the Impact Launchpad on 6 August, the Accelerator Programme on 21 October; and its very first Lab Session on 5 November. The SC will continue to provide direction and guidance to CFIL as part of efforts to foster public-private collaboration for climate and nature-related finance, and drive ecosystem development.

Strengthening Corporate Governance Ecosystem through Regulatory, Self and Market Discipline

In 2025, the SC continued to advance efforts to strengthen Malaysia's corporate governance ecosystem through the interplay between regulatory discipline, self-discipline and market discipline. While regulatory discipline, through rules and enforcement, plays an important role in shaping behaviour, the effectiveness of corporate governance depends on sustained behavioural and cultural shifts driven by the self-discipline exercised by boards and management, including the choices they make, the tone they set and the accountability they demonstrate. Market discipline exercised by investors and stakeholders is likewise critical in driving meaningful and sustained improvements in corporate conduct and accountability.

Discussion Paper on Corporate Governance Framework

In 2025, the SC issued a Discussion Paper to obtain feedback on potential enhancements to Malaysia's corporate governance framework, with the objective of strengthening governance outcomes and elevating standards of conduct in Corporate Malaysia. The Paper outlines the SC's perspectives on key focus areas and serves as a platform to gauge market sentiment and gather insights, to inform the next calibration of corporate governance reforms.

Among others, the proposals seek to place stronger emphasis on long-term value creation, decision-useful disclosures and strengthen board accountability, aligning with evolving investor expectations. Reflecting on lessons from the MCCG 2021, the Discussion Paper highlights emerging and thematic shifts reshaping the governance landscape, including digital transformation, the governance of technology and AI, cybersecurity and data governance as well as continued enhancements to audit and risk management processes, including auditors' independence and enhanced disclosures.

Revised MCCG is targeted for issuance in 2026.

Collaboration with the Organisation for Economic Co-operation and Development

As part of the MCCG review, the SC is collaborating with the Organisation for Economic Co-operation and Development (OECD) to benchmark Malaysia's Corporate Governance framework against the G20/OECD Principles of Corporate Governance (revised in 2023). The exercise will provide an independent assessment as well as recommendations to further strengthen the effectiveness of Malaysia's Corporate Governance ecosystem. This in turn enhances investor confidence, supports corporate valuations, corporate valuations, and reinforces Malaysia's position as a trusted investment destination.

Corporate Governance Monitor 2025

The *Corporate Governance Monitor 2025* (CG Monitor 2025), released on 14 November 2025, continues to track market adoption of the MCCG 2021 by PLCs based on disclosures in their Corporate Governance reports. The CG Monitor 2025 analyses adoption trends based on Corporate Governance Reports issued by PLCs for the financial year 2024.

Adoption momentum by PLCs remains positive, with many core practices now firmly embedded as market norms. A smaller set of practices continues to evolve at a slower pace, typically where behavioural shifts, enhanced transparency or stronger oversight structures are required.

KEY HIGHLIGHTS

**STRONG OVERALL ADOPTION**

Out of 48 MCG best practices, 33 achieved adoption levels of 90% and above, reflecting continued progress in embedding good governance practices across PLCs.

WOMEN ON BOARDS (WOB)

Female participation continues to rise, with women holding 2,112 board positions (29%) across PLCs. 472 PLCs (45%) have met the 30% WOB target, though 30 of the Top 100 PLCs have yet to do so.

**COMMITTEE INDEPENDENCE**

Independent committee leadership improved, with 73% of boards ensuring the Chair is not a member of the Audit, Nomination or Remuneration Committees (up from 63%). Remaining gaps are mainly due to transition timing and reliance on the Chair's expertise, which should be addressed through succession planning and clearer committee mandates.

**SUSTAINABILITY GOVERNANCE**

Oversight structures have strengthened, though challenges persist in integrating sustainability into board and management evaluations, largely due to KPI design and data limitations. In line with the NSRF, companies are increasingly expected to disclose oversight structures and progress against sustainability targets.

**REMUNERATION DISCLOSURE**

Transparency on senior management remuneration remains low. PLCs are encouraged to adopt banded disclosures, articulate a clear pay philosophy linked to performance, and progressively move toward named disclosure as governance practices mature.

**RISK OVERSIGHT**

A dedicated Risk Management Committee remains uncommon, with many PLCs maintaining a combined Audit and Risk Committee, which may dilute focus on emerging risks such as sustainability, cyber resilience, and business continuity. Boards are urged to reassess their structures and demonstrate how non-financial risks receive sufficient specialist attention.

**ENHANCED EXPECTATIONS**

The Step-Up practices are reaffirmed as directional best practices for all PLCs. Where immediate adoption is not feasible, companies should disclose credible transition plans outlining scope, timelines and interim safeguards, enabling investors to track progress and understand risk management measures.

