

Sustainability Disclosure Standards – coming ready or not?

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More recently, on 31 March 2022, The International Organization of Securities Commissions (IOSCO) released a statement³ welcoming the publication of Exposure Drafts on proposed climate and general sustainability disclosure requirements and indicated that it would begin an in-depth review of the exposure drafts to determine whether they meet securities regulators' expectations.

In addition, only days earlier, Malaysia's Joint Committee on Climate Change (JC3) issued for public consultation a draft TCFD Application Guide⁴ for Malaysian financial institutions which sets out the various proposed recommendations as well as guidance to facilitate the adoption of TCFD Recommendations by financial institutions in Malaysia.

The JC3 is co-chaired by Jessica Chew Cheng Lian, Deputy Governor of Bank Negara Malaysia and Datuk Zainal Izlan Zainal Abidin, Deputy Chief Executive of Securities Commission Malaysia with members comprising senior officials from Bursa Malaysia and 19 financial industry players as well as relevant experts. Members of JC3 have also indicated support for certain climate-related disclosures, based on the Application Guide, to become mandatory from 2024⁵.

This proposed timing is similar to the initiatives announced by the European Commission in February 2022⁶ for its Corporate Sustainability Reporting Directive (CSRD) and by the U.S. Securities and Exchange Commission in March 2022⁷ on proposed rule changes to enhance and standardise climate-related disclosures.

So, the pressure on companies, both locally and internationally, to provide mandatory

sustainability financial and non-financial information is building very rapidly and consequently it is vital that directors stay abreast of capital market expectations.

Broad requirements of S1 and S2

Both S1⁸ and S2⁹ build on the recommendations of the TCFD which seek to assist public companies and other organisations more effectively to disclose climate-related risks and opportunities through their existing reporting processes. It is structured around four thematic areas that represent core elements of how organisations operate namely governance, strategy, risk management and metrics and targets.

S1 proposes that a reporting entity be required to include in its general purpose financial reporting disclosures about the

- governance
- strategy
- risk management
- financial position, performance and cash flow
- resilience
- metrics

connected with sustainability related risks and opportunities.

It specifically requires an entity to provide information to enable users to assess the connections between these sustainability-related risks and opportunities and how information about these risks and opportunities is linked to information in the general purpose financial statements.





S2 requires an entity to disclose information that enables users of general purpose financial reports to understand the significant climate-related risks and opportunities that could reasonably be expected to affect the entity’s business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium and longer term. The proposed Standard would require disclosure of information to enable users to understand the:



- governance processes, controls and procedures used to monitor climate-related risks and opportunities
- processes used to identify climate-related risks and opportunities
- entity’s strategy for addressing significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period and the anticipated effects over the short, medium and long term
- metrics and targets used to measure, monitor and manage significant climate-related risks and opportunities and how the entity assesses its performance including progress towards the targets it has set.
- resilience of the entity’s strategy to climate-related changes, developments or uncertainties

1. <https://www.consilium.europa.eu/en/press/press-releases/2021/10/31/g20-rome-leaders-declaration/>
2. <https://www.consilium.europa.eu/media/52730/g20-leaders-declaration-final.pdf>
3. <https://www.iosco.org/news/pdf/IOSCONEWS638.pdf>
4. <https://www.bnm.gov.my/-/jc3-7th-meeting>
5. <https://www.bnm.gov.my/-/bnm-sc-6th-jc3-meeting-en>
6. <https://data.consilium.europa.eu/doc/document/ST-6292-2022-INIT/en/pdf>
7. <https://www.vorys.com/publications-3084.html#:~:text=On%20March%2021%2C%202022%2C%20the.statements%20filed%20with%20the%20SEC>
8. <https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf>
9. <https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf>

Avoiding duplication

Through a collaboration agreement announced on 24 March 2022¹⁰ with the Global Sustainability Standards Board (GSSB), both the ISSB and GSSB will coordinate their work programme and standard-setting activities to facilitate reducing the reporting burden on companies and further harmonise the sustainability reporting internationally. The objective is to align GSSB's sustainability standards which have been developed under the oversight of the Global Reporting Initiative (GRI) with investor-focused standards being developed by the ISSB.

The GSSB has developed global standards for sustainability reporting designed to enable organisations to report on their impacts on the economy, environment and people in a comparable way. The GRI Standards are a modular system comprising three series of Standards, namely the GRI Universal Standards, the GRI Sector Standards and the GRI Topic Standards.¹¹

By combining the work of both the GSSB and ISSB it is intended that organisations will be able to report on the impact of sustainability issues both on their own organisation and that on the wider environment in which they operate with the results that investors and other stakeholders can more readily ascertain the overall contribution of an organisation.

The intention to avoid unnecessary duplication is further underwritten by paragraphs 53 and 54 of S1 which require management in the absence of an IFRS Sustainability Disclosure Standard that applies specifically to a sustainability-related risk or opportunity to use its judgement in identifying disclosures that are relevant, neutral and faithfully represent the entity's risks and opportunities to consider, to the extent that they do not conflict with IFRS Sustainability Disclosure Standards,

- the metrics associated with disclosure topics included in industry-based SASB Standards;
- the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the needs of users of general purpose financial reporting; and
- the metrics used by entities in the same industries and geographies.

Embrace the inevitable but influence the outcome

As mentioned earlier, the ISSB is seeking feedback on its proposed initial standards by 29 July 2022. Given the probability that adherence to these Standards may be inevitable in the near future, it is therefore imperative for both directors and their stakeholders to **NOW** become more aware of the Standards and recommendations of the TCFD and GSSB and the detailed content of the proposed S1 and S2.

This will enable the board of directors to give timely consideration to the impact of the proposed Standards on their companies and provide constructive feedback to the ISSB on proposed requirements such as practical difficulties envisaged in implementing certain requirements on a consistent basis or other undesirable unintended consequences.

In conjunction with the ISSB's public consultation on the IFRS Sustainability Disclosure Exposure Drafts, MASB in collaboration with the ISSB will be organising an Outreach Session on 13 June 2022. This is an opportunity for you to share your views and feedback directly with the ISSB representatives. Please register your interest via this link <https://bit.ly/RegistrationForm-MASB> or you can also send your registration details to events@masb.org.my.

10. <https://www.ifrs.org/news-and-events/news/2022/03/ifrs-foundation-signs-agreement-with-gri/>

11. <https://www.globalreporting.org/standards/>
<https://www.globalreporting.org/media/wtaf14tw/a-short-introduction-to-the-gri-standards.pdf>