



# Climate Risk Disclosure Barometer 2020 Malaysia

Setting resilient strategies



Building a better  
working world

# Help create long-term value, addressing change

As communities and economies struggle with the COVID-19 pandemic, and with climate crises increasingly apparent across regions, a “wait-and-see” approach could heighten the risk of not developing comprehensive and robust strategies to strengthen business resilience. In fact, the wider Environmental, Social and Governance (ESG) issues arising from climate change are a concern to Malaysia’s economic resilience, long-term recovery and sustainability agenda, which was a focal point in the recently tabled Budget 2021.

As the first Big Four to commit to decarbonization, we recognize this is no easy feat. To extend our support in driving sustainable economic growth, we have developed the inaugural EY Malaysia Climate Risk Disclosure (CRD) Barometer 2020 which aims to help companies understand the current state of reporting and provide insights into areas of improvement across 10 different sectors. Our CRD Barometer highlights that Malaysia is at a nascent stage of climate risk reporting as the overall coverage score is 34%, while the quality score is 12% only.

With challenging externalities, strengthening business resilience demands a comprehensive and robust approach towards enterprise risk management (ERM), including adequate attention to climate risk disclosures. Postponing the identification of climate risk assessment and mitigation actions may increase the risk of short-term reputation damage and the loss of value should an unanticipated climate crisis happen.

## EY Climate Risk Disclosure Barometer Malaysia 2020

### Highlights

#### ► Climate change acknowledged but not addressed

- ▶ Limited focus on climate risk reporting
- ▶ ERM lacks details on climate risk management
- ▶ Scenario analysis under-utilized
- ▶ Surface disclosure of climate-related targets and metrics

#### ► Wide gaps in the quality and coverage of disclosures between sectors

- ▶ Plantation sector scored the highest with coverage of 72% and quality of 26%, reflecting the industry’s vulnerability, i.e. the impact of climate change to their crops and carbon footprint.
- ▶ Telecommunications and media scored reasonably well with coverage of 41% and quality of 17%, reflecting the sectors’ recognition of physical risks and climate change impact to assets and value chain.
- ▶ Energy and utilities scored below average, with coverage of 21% and quality of 6%. As a major carbon emission sector, operators face increasing risk of stranded assets as the world transitions to a low-carbon economy.

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# Background

- ▶ Environmental and climate risks ahead
- ▶ Addressing climate risks: regulatory initiatives in Malaysia
- ▶ Why the focus on climate risk
- ▶ Assessing climate-related risks
- ▶ Mitigating the impact of climate change
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# Environmental and climate risks ahead

## Rebuilding business resilience needs both COVID-19 and climate risk considerations

Our Climate Risk Disclosure (CRD) Barometer 2020 Malaysia notes that over three-fifths of the 100 public listed companies (PLCs) surveyed reported their commitment to the United Nation's Sustainable Development Goals (SDG) on Climate action, SDG 13, which includes stepping up disclosures on climate-related risks in governance, strategy and risk management.

With looming climate risks, it is an opportune time for PLCs to step-up their climate risk assessment by factoring the potential impact of climate change to their risks and opportunities. Addressing climate change should be an integral part of their company-wide strategy development towards business recovery, resilience and sustainability.

In fact, as organizations re-strategize their COVID-19 recovery plans, a strategic assessment of impact from both COVID-19 and climate risks can strengthen the development of resilient strategies and action plans over the near, medium and long term.

### Climate change: impact on ASEAN

The Intergovernmental Panel on Climate Change (IPCC)'s report, *Global Warming of 1.5°C*, identified Southeast Asia (SEA) as among the regions that would be the hardest hit by climate change in the near future.

Current and potential impact on Malaysia include changes in rain patterns, rising sea levels and related coastal flooding, and more frequent extreme weather events.

**1.2°C - 1.6°C**

projected rise in Malaysia's average temperature by 2050

**0.4 - 0.6 meters**

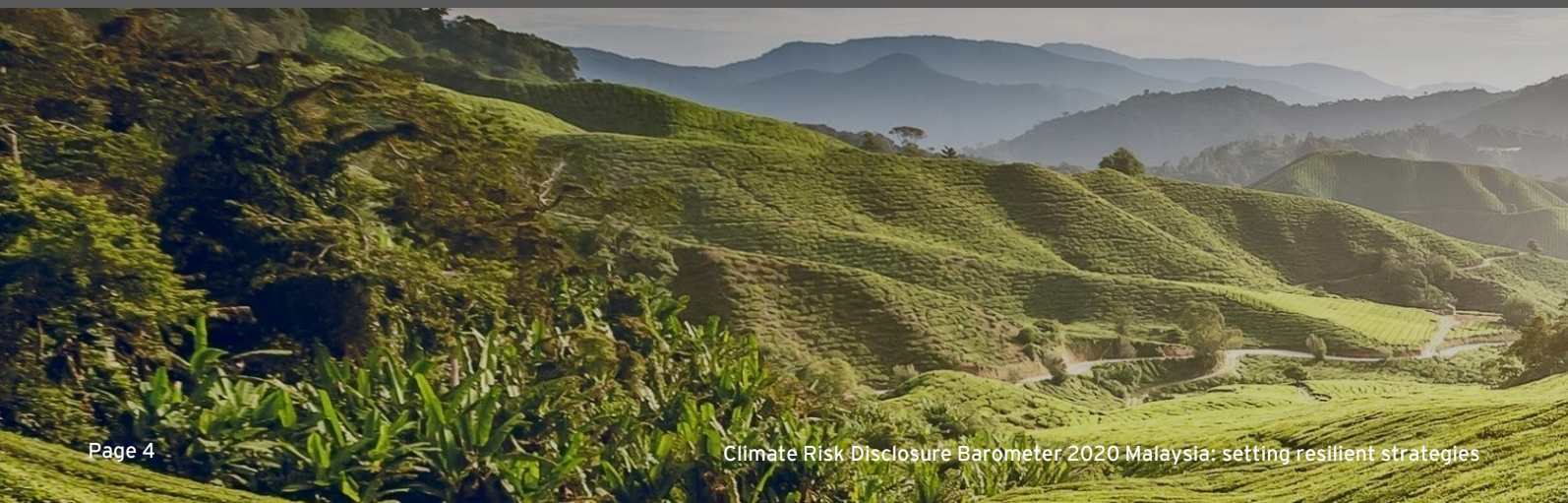
projected rise of sea levels in SEA by 2100

**21%**

projected significant increase in high river flows over the global land area at 2°C (including SEA)

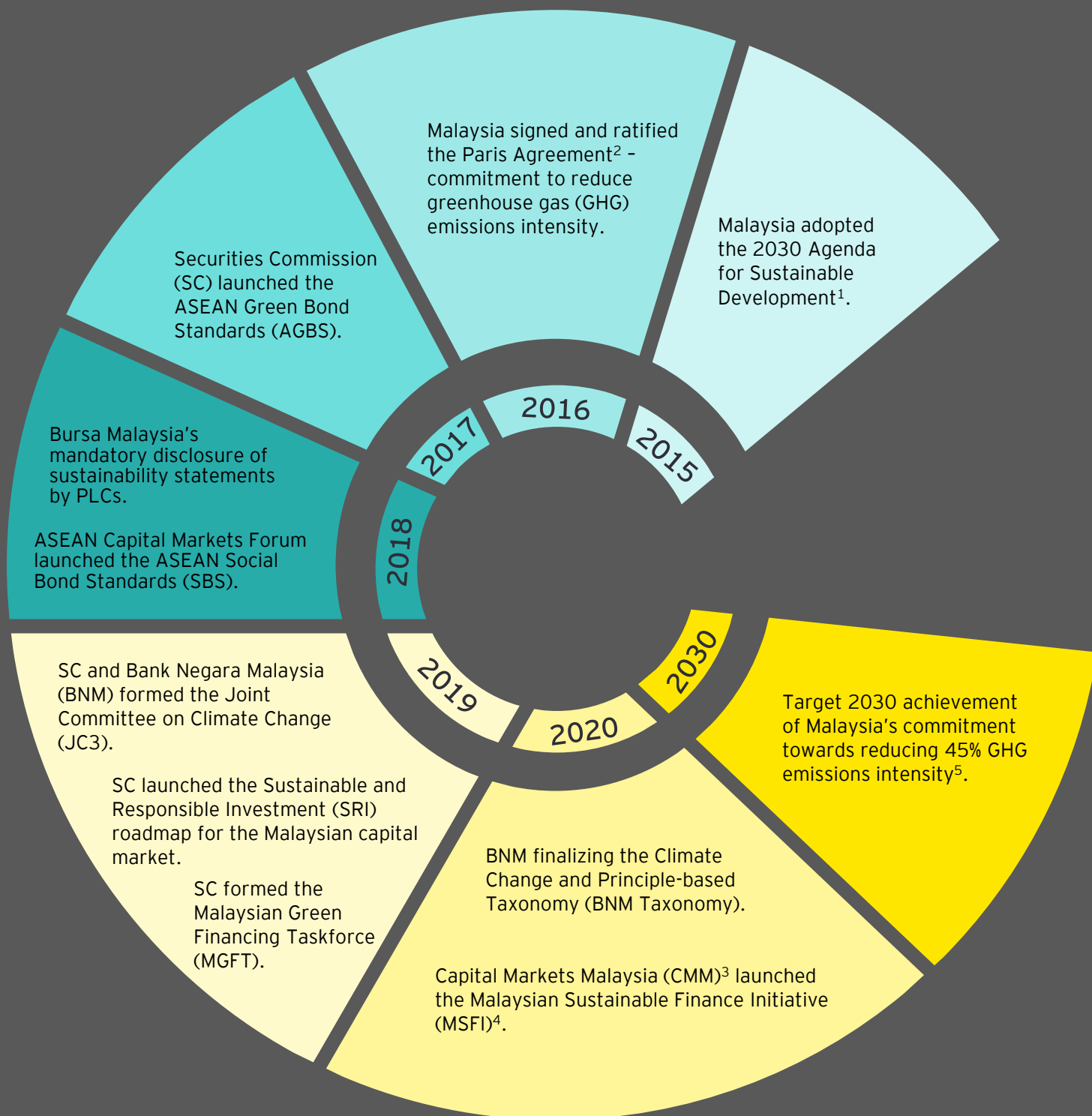
#### Sources:

- *The Special Report on Global Warming of 1.5°C*, October 2018, Intergovernmental Panel on Climate Change (IPCC)
- United Nations Framework Convention on Climate Change (UNFCCC)
- National Hydraulic Research Institute of Malaysia (NAHRIM)
- Media releases - various organizations



# Addressing climate risks: regulatory initiatives in Malaysia

Malaysia's regulators are committed to the agenda of sustainable development and have set the regulatory tone and initiatives to address climate risks. They include:



## Notes:

<sup>1</sup> United Nations General Assembly in New York, September 2015

<sup>2</sup> Malaysia signed the Paris Agreement on 22 April 2016 and ratified it on 16 November 2016.

<sup>3</sup> CMM is an affiliate of SC.

<sup>4</sup> The MSFI is funded by the Capital Market Development Fund and the UK Government's Prosperity Fund ASEAN Low Carbon Energy Programme

<sup>5</sup> This GHG reduction comprises 35% on an unconditional basis and a further 10% conditional upon receipt of climate finance, technology transfer and capacity-building from developed countries.

## Sources:

► BNM; SC Malaysia; CMM; UNFCCC; media releases - various organizations

# Why the focus on climate risk

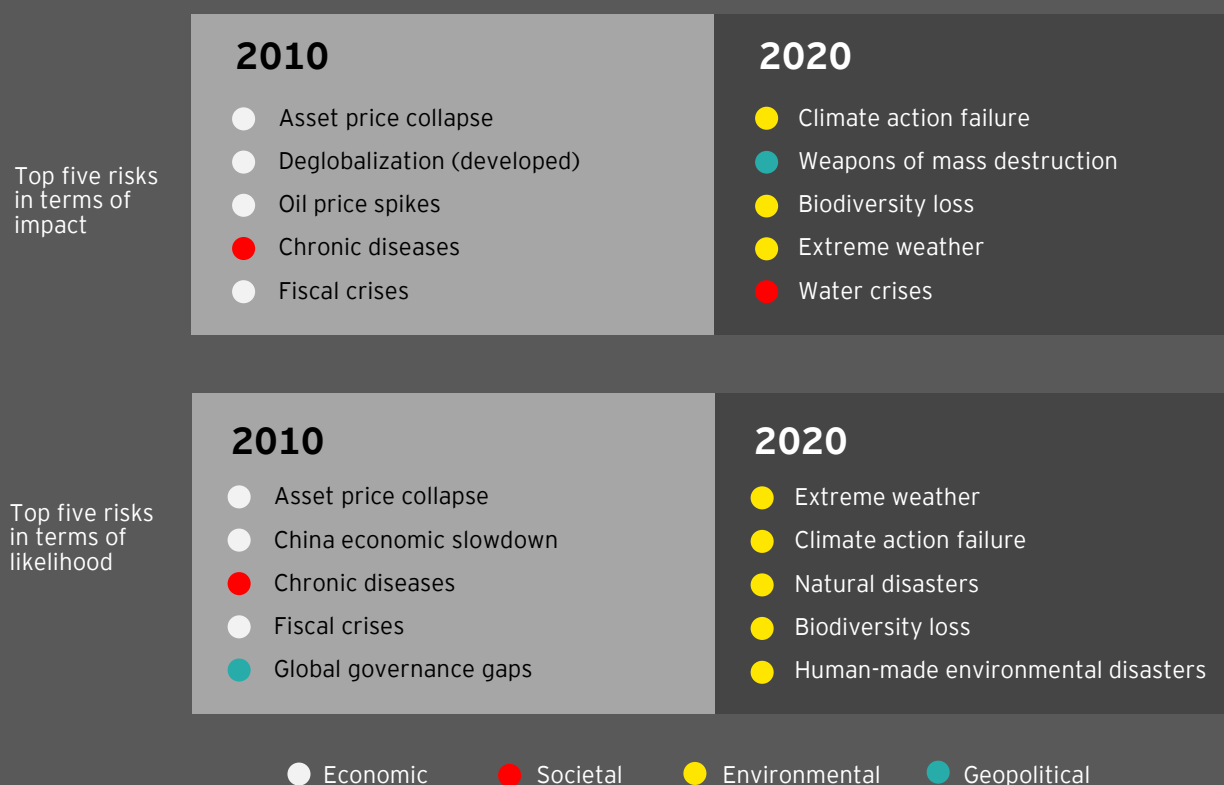
Climate change has two main impacts: the physical impact from changing climate conditions which affects assets and supply chains; and the economic impact to countries that are transitioning to a net zero carbon future. These present both risks and opportunities to businesses.

The onset of climate-related risks should hasten businesses and governments to identify risks and opportunities and develop:

- ▶ Strategic action plans to address near-term and long-term risks
- ▶ Assessment of the financial and non-financial impact
- ▶ Science-based targets to reduce GHG emissions in alignment with the Paris Agreement goal to limit global warming to well below 2°C

## Climate-related risks are one of the top five global risks today

According to the World Economic Forum's Global Risks Report 2020, climate-related issues dominate the top five long-term risks in terms of likelihood. In particular, the potential failure of climate change mitigation and adaptation is cited as a major long-term risk in terms of impact.



### Sources:

- ▶ *The Global Risks Report 2020*, January 2020, World Economic Forum
- ▶ Media releases - various organizations
- ▶ EY research, Malaysia

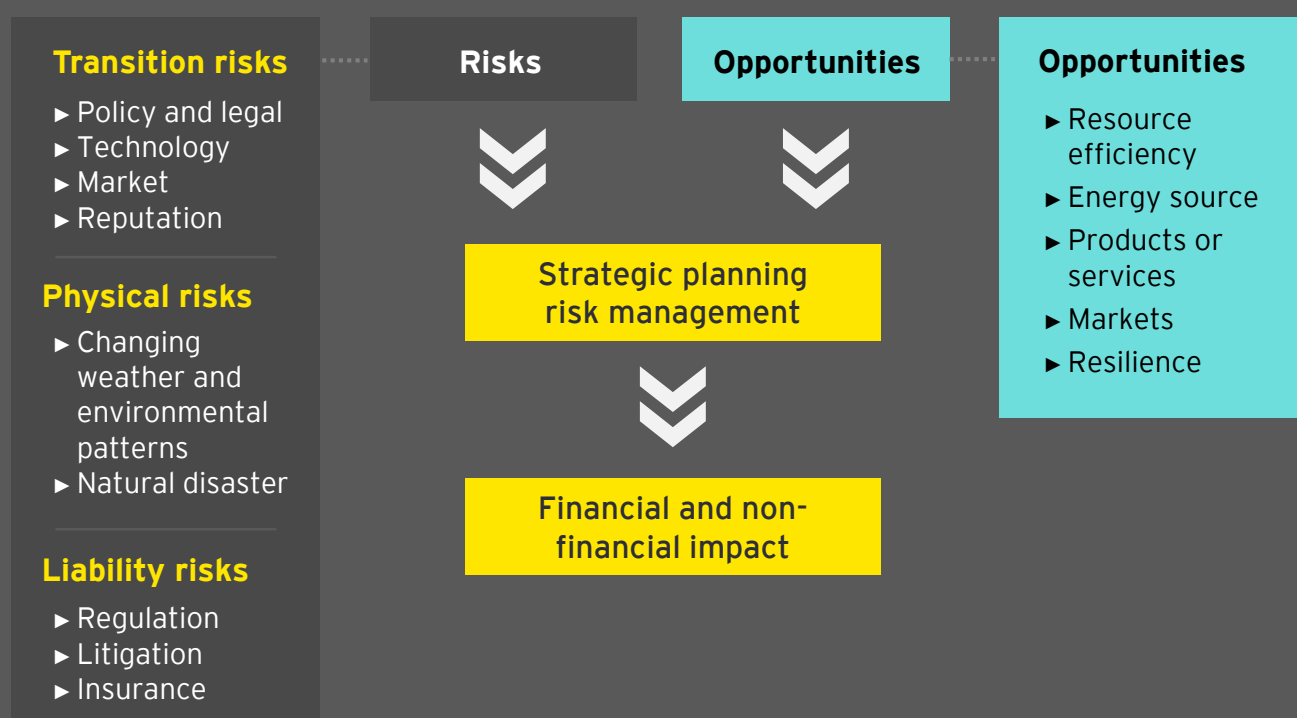


# Assessing climate-related risks

## Framework to assess impact of climate-related risks

In July 2017, the global Taskforce on Climate-related Financial Disclosures (TCFD), set up by the Financial Stability Board (FSB), finalized its recommendations on climate-related financial risk disclosures. Global TCFD standards are aimed at improving organizational understanding of climate risks and opportunities, and their potential impacts, as well as reducing the risk of a systemic financial shock to the economy.

In Malaysia, PLCs' evaluation of the financial and non-financial impact of climate risks is guided by climate-related risk assessment frameworks which include elements from the global TCFD and BNM's Taxonomy.



### Sources:

- *Implementing the recommendations of the TCFD*, June 2017, TCFD
- *Climate Change and Principle-based Taxonomy discussion paper*, December 2019, BNM

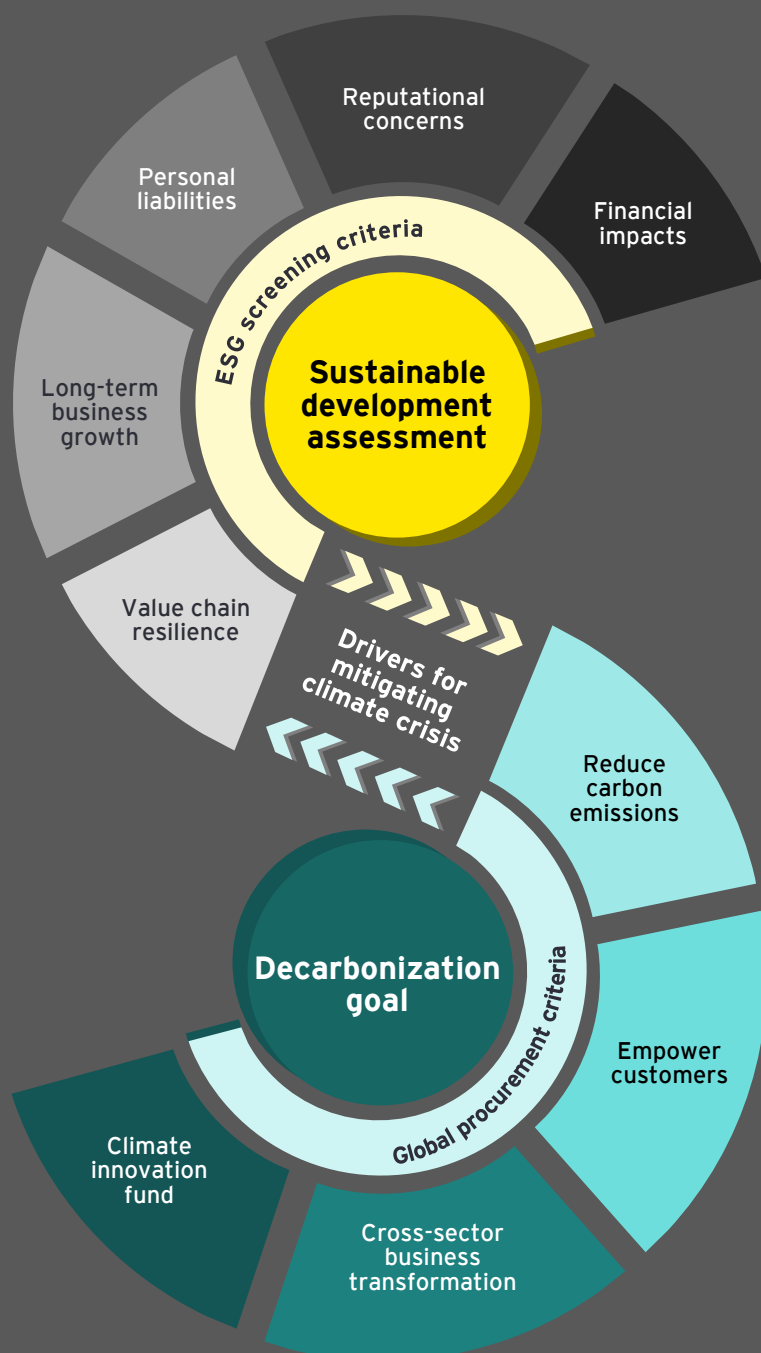


# Mitigating the impact of climate change

## Assessment criteria by key global investors and global supply chain leaders

Mitigating the impact of climate change is a journey of continuous engagement and collaboration with stakeholders including companies and organizations; key global institutional investors; supply chain buyers and suppliers; regulators and internal stakeholders (e.g. company Board of Directors and management team).

Global institutional investors are now factoring in ESG goals and key risk factors when reviewing target investee PLCs, including the financial impact of systemic shocks, reputational concerns, personal liabilities, long-term business growth potential and value chain resilience. In addition, some leading technology MNCs are developing new procurement policies directed towards negative carbon commitment. These include carbon-free emissions, empowering consumers, cross-sector business transformation and the setting-up of a climate innovation fund.



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With the rampant occurrence of climate change disasters and rising global temperature, inaction is no longer an option.

Companies need to consider the broader value chain resilience and build preparedness in facing systemic shocks from external factors such as the COVID-19 pandemic and climate change.

Mapping out potential future climate scenarios and their implications on your company's risk management and strategy will be critical. Developing climate risks reporting can further steer strategic thinking towards the design of a “green” roadmap to build enterprise resilience.

**Arina Kok**

Director, Climate Change and Sustainability Services  
Ernst & Young Advisory Services Sdn Bhd

### Sources:

- EY Global Climate Risk Disclosure Barometer 2018, 2020
- Media releases - various organizations
- EY research, Malaysia

# About EY Climate Risk Disclosure Barometer

This report aims to provide a snapshot of Malaysia's PLCs' climate risk disclosures relative to the global TCFD recommendations.

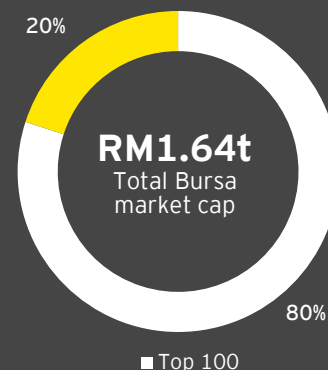
Our analyses on the reporting disclosures of Malaysia's top 100 PLCs and their sustainability practices were extracted from the relevant FY2019 to FY2020 company annual and sustainability reports of the PLCs respectively.

Malaysia's climate risk disclosures were benchmarked against the global TCFD recommendations. This provides a comparative assessment of the current coverage and quality of Malaysia's reporting.

Analyses are structured around four areas of a company's operations:

- ▶ Governance
- ▶ Strategy
- ▶ Risk management
- ▶ Metrics and targets

## Market capitalization: PLCs surveyed\*



\*Market capitalization as at 17 July 2020

Sample: Bursa Malaysia's top 100 PLCs

## TCFD recommendations

The TCFD recommendations provide a reporting framework aimed at improving investors' understanding of the impact of climate risks on different sectors and companies.

### Non-coverage

Companies that have no disclosures related to the core TCFD elements

### Quality

Companies were given a rating (out of five) on the basis of the quality of the disclosure, expressed as a percentage of the maximum score should the company implement all 11 TCFD recommendations.

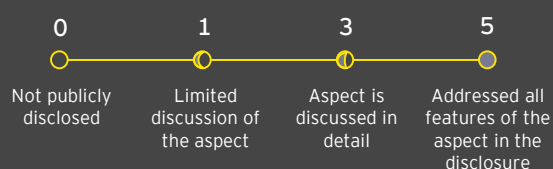
A score of 100% indicates that the company had adopted all the recommendations and the quality of the disclosure met all the requirements of the TCFD (i.e. gaining a maximum score of 5 for each of the 11 recommendations).

### Coverage

Companies were scored on the basis of the percentage of the 11 TCFD recommendations addressed by them in their public reporting, including annual reports and the Carbon Disclosure Project (CDP).

A score of 100% indicates that the company has addressed all the recommendations.

### Scoring





## Core elements of recommended climate-related financial disclosures



- ▶ **Governance**  
The organization's governance around climate-related risks and opportunities
- ▶ **Strategy**  
The actual and potential impacts of climate-related risks and opportunities on the organization's business, strategy and financial planning
- ▶ **Risk management**  
The processes used by the organization to identify, assess and manage climate-related risks
- ▶ **Metrics and targets**  
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

## Methodology

The breakdown of PLCs\* assessed by sector is as follows:

| Bursa Malaysia sector**          | Number of companies |
|----------------------------------|---------------------|
| Consumer products and services   | 20                  |
| Energy and utilities             | 10                  |
| Financial services               | 15                  |
| Healthcare                       | 5                   |
| Industrial products and services | 8                   |
| Plantation                       | 8                   |
| Property, REITs and construction | 14                  |
| Technology                       | 8                   |
| Telecommunications and media     | 6                   |
| Transportation and logistics     | 6                   |
| <b>Total</b>                     | <b>100</b>          |

\*As at 17 July 2020

\*\* Some sectors were re-grouped for broader sector analysis

The findings are based on disclosures from publicly available information, including annual reports, sustainability reports or any other platforms, such as the company's website. Where publicly available, a company's disclosure concerning the CDP was also assessed.

Companies were scored through a multi-tiered system that incorporated both the coverage and quality of disclosures:

- ▶ Firstly, companies were assessed based on how many of the 11 recommended disclosures they addressed.
- ▶ Secondly, the quality of these disclosures was also assessed using the scoring system presented in TCFD recommendations (page 9).

# Key findings

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Our engagement with PLCs indicates that board members increasingly understand the need to step up reporting practices.

Our survey raises questions about the lack of meaningful disclosure on climate risk exposures, particularly at sector level.

Moving forward, Malaysian PLCs can step up their reporting disclosures on climate risks and take inspiration from those who are aiming to achieve net zero GHG emissions and those who have set critical climate-related targets and metrics.

**Terence Tan**

Partner, Climate Change and  
Sustainability Services  
Ernst & Young PLT









### Limited focus on climate risk reporting

Malaysian PLCs are at a nascent stage in climate risk reporting. While Malaysian regulators have encouraged the adoption of TCFD recommendations, PLCs are generally adopting a “check-box” approach to climate risk.

In general, there appears to be a disconnect between the identified climate-related risks and strategies to create or protect value and drive performance metrics against targets.



### ERM lacks details on climate risk management

Present disclosures on monitoring and review of climate-related risks and opportunities are generally limited to current environmental issues and performance metrics. There are limited discussions on the monitoring and review process for emerging climate-related issues.

The majority of PLCs (91%) lacks consideration of climate-related risks in the ERM assessment process. Current gaps in omitting physical and transitional risks have a double-edged impact.



### Scenario analysis under-utilized

Most PLCs have not factored climate risks and opportunities into their current business strategies. Conducting scenario analysis can better identify climate-related risks and opportunities, process and assess the resilience of PLCs' current and future strategic directions.

At this juncture, fewer than 10 PLCs have mentioned their plans to conduct climate scenario analysis in the near future.



### Surface disclosure of climate-related metrics and targets

Disclosure on the monitoring and review of climate-related issues is generally limited to current issues and performance metrics, and lacks discussion on the monitoring and review process of emerging climate-related issues.

32 PLCs described their key climate-related targets such as GHG emissions, energy usage, water usage and waste management.



## Prioritize the impact of climate risk to business resilience

With climate change a material issue in global sustainability reports, Malaysian Boards' ERM agenda needs to prioritize the impact of climate risk to business resilience and long-term sustainability. Boards in their oversight role are integral in driving strategic discussions with management on climate risks.

The assessment of climate risks and opportunities can strengthen current and future business strategies and build business resilience.

## Step up ERM to include the likelihood and impact of climate risk

ERM of companies can evolve to a more structured process including:

- ▶ Ensuring climate-related risk is evaluated according to ERM considerations, specifically on its likelihood and impact
- ▶ Conducting periodic assessments of emerging climate-related risks and opportunities in the near, medium and longer-term future

Whilst transition risks are generally limited to climate risk mitigation actions, physical risks have direct impact on assets, financials, earnings and reputation of a company. Also, liability risks associated with regulatory enforcement, stakeholder litigation and liability insurance are areas of concern.

## Integrate scenario analysis into ERM processes

Integrate scenario analysis into strategic planning and enterprise risk management processes and assign oversight to relevant Board committees or sub-committees

ERM assessments can consider the transition to a lower-carbon economy consistent with a 2°C or lower scenario and, where relevant, scenarios consistent with increased physical climate-related risks in the following areas:

- ▶ Products and services
- ▶ Supply chain or value chain
- ▶ Adaptation and mitigation activities
- ▶ Investment in research and development

## Set clear climate-related metrics and targets

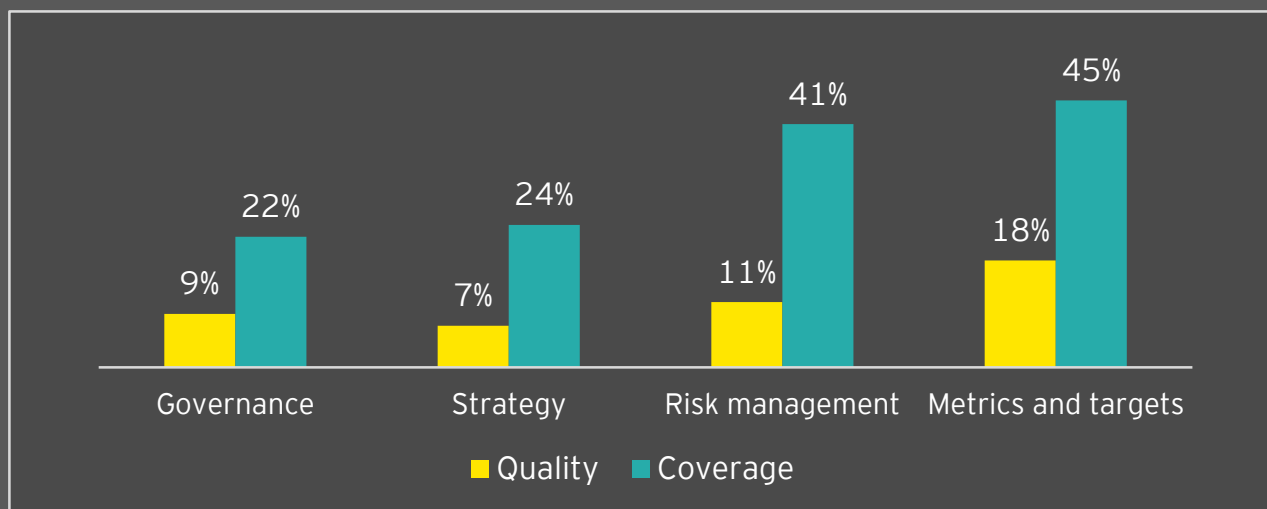
With the urgency to mitigate climate risks, companies can set clear climate-related metrics and targets to improve the quality of disclosures.

Stronger stakeholder engagement across the value chain and more collaborative enterprise-wide efforts can spur the innovation of solutions in mitigating and addressing emerging issues on climate risks.

# Benchmarking Malaysia

## Overview of Malaysia's TCFD performance - at nascent stage

Benchmarked against TCFD recommendations, our Malaysian survey highlights that most PLCs lack comprehensive climate risk disclosures, with an overall coverage score at 34% and quality score at 12% only. In addition, current gaps where physical and transitional risks are omitted need to be addressed as they reflect on the PLCs' strategic and management focus.



## Benchmarking Malaysia: Global and Australia disclosure results

| TCFD recommendations | Country comparison - average results |                  |                 |
|----------------------|--------------------------------------|------------------|-----------------|
|                      | Global (2019)                        | Australia (2018) | Malaysia (2019) |
| <b>Coverage</b>      | 54%                                  | 60%              | 34%             |
| Governance           | 54%                                  | 64%              | 22%             |
| Strategy             | 47%                                  | 55%              | 24%             |
| Risk management      | 52%                                  | 65%              | 41%             |
| Metrics and targets  | 62%                                  | 60%              | 45%             |
| <b>Quality</b>       | 27%                                  | 29%              | 12%             |
| Governance           | 26%                                  | 31%              | 9%              |
| Strategy             | 24%                                  | 24%              | 7%              |
| Risk management      | 27%                                  | 33%              | 11%             |
| Metrics and targets  | 31%                                  | 28%              | 18%             |

### Notes:

- Quality = Companies were rated (out of five) on the basis of the quality of disclosures and if they met all the requirements of the TCFD.
- Coverage = Companies were scored on the basis of the percentage of the 11 TCFD recommendations addressed by them.
- Non-coverage = Companies that have no disclosures related to the core TCFD elements

# Benchmarking Malaysia

## Malaysia's TCFD performance - sectors

Further analyses of Malaysia's PLCs' climate risk disclosures by sectors indicate:

- ▶ Key coverage areas focused on "risk management" and "metrics and targets"
- ▶ Only 18% of PLCs scored on the quality of their metrics and targets
- ▶ The significant gap on quality is identified across three aspects: governance, strategy and risk management

## Malaysia's sectors: climate risk disclosures benchmarked against TCFD recommendations

| Sectors*                      | Coverage |            |          |                 |                     |
|-------------------------------|----------|------------|----------|-----------------|---------------------|
|                               | Overall  | Governance | Strategy | Risk management | Metrics and targets |
| Consumer <sup>1</sup>         | 31%      | 13%        | 15%      | 42%             | 48%                 |
| Energy and utilities          | 21%      | 15%        | 3%       | 33%             | 30%                 |
| Financial Services            | 25%      | 20%        | 7%       | 40%             | 33%                 |
| Healthcare                    | 27%      | 20%        | 20%      | 40%             | 27%                 |
| Industrial <sup>2</sup>       | 34%      | 13%        | 25%      | 33%             | 58%                 |
| Plantation                    | 72%      | 88%        | 67%      | 67%             | 71%                 |
| Property-related <sup>3</sup> | 42%      | 18%        | 50%      | 38%             | 55%                 |
| Technology                    | 15%      | 6%         | 0%       | 33%             | 17%                 |
| Telco and media <sup>4</sup>  | 41%      | 25%        | 33%      | 44%             | 56%                 |
| Transportation <sup>5</sup>   | 39%      | 25%        | 33%      | 39%             | 56%                 |

| Sectors*                      | Quality |            |          |                 |                     |
|-------------------------------|---------|------------|----------|-----------------|---------------------|
|                               | Overall | Governance | Strategy | Risk management | Metrics and targets |
| Consumer <sup>1</sup>         | 12%     | 8%         | 7%       | 14%             | 19%                 |
| Energy and utilities          | 6%      | 3%         | 1%       | 7%              | 13%                 |
| Financial Services            | 8%      | 4%         | 2%       | 9%              | 16%                 |
| Healthcare                    | 11%     | 12%        | 9%       | 8%              | 13%                 |
| Industrial <sup>2</sup>       | 10%     | 5%         | 5%       | 7%              | 23%                 |
| Plantation                    | 26%     | 43%        | 17%      | 25%             | 26%                 |
| Property-related <sup>3</sup> | 13%     | 5%         | 11%      | 9%              | 24%                 |
| Technology                    | 3%      | 1%         | 0%       | 7%              | 5%                  |
| Telco and media <sup>4</sup>  | 17%     | 12%        | 13%      | 20%             | 20%                 |
| Transportation <sup>5</sup>   | 12%     | 5%         | 11%      | 8%              | 22%                 |

\*Sectors:

<sup>1</sup>Consumer products and services

<sup>2</sup>Industrial products and services

<sup>3</sup>Property, REITs and construction

<sup>4</sup>Telecommunications and media

<sup>5</sup>Transportation and logistics



# Sector analyses

## Consumer products and services

**20**  
PLCs

**31%**  
Coverage

**12%**  
Quality

- ▶ The most common climate-related risks identified were the increasing effects of extreme weather events such as drought, flooding and contamination.
- ▶ Only eight consumer PLCs identified climate change (SDG 13) as material to their operations.
- ▶ Nine PLCs disclosed their Scope 1 and 2 emissions, while only two PLCs further disclosed their Scope 3 emissions.

## Energy and utilities

**10**  
PLCs

**21%**  
Coverage

**6%**  
Quality

- ▶ Most PLCs did not identify their climate-related risks and opportunities as well as their impact to businesses, strategy and financial planning.
- ▶ Three utility PLCs have started to disclose their climate-related future targets.
- ▶ Only one PLC has committed to enhance TCFD adoption within the next few years.

## Financial Services

**15**  
PLCs

**25%**  
Coverage

**8%**  
Quality

- ▶ The financial services sector reported reasonably well on coverage of governance and risk management - the majority of PLCs reported their Boards' oversight role on sustainability matters, out of which three PLCs disclosed Board oversight on climate-related matters.
- ▶ Only one PLC submitted its CDP response, with identified climate-related risks, including legal and technology, current and emerging regulations, reputation and acute physical risks (e.g. flood and heatwave).

## Healthcare

**5**  
PLCs

**27%**  
Coverage

**11%**  
Quality

- ▶ One PLC has well-adopted TCFD, covering 8 out of the 11 recommendations, which raised the benchmark average of the sector. However, the PLC acknowledged that reporting on strategy and risk management can be strengthened.
- ▶ Two out of five PLCs have identified SDG 13 as material to their operations.
- ▶ One PLC set a target to reduce GHG emission intensity by 23% by financial year 2024, with a base year of 2019.

## Industrial products and services

**8**  
PLCs

**34%**  
Coverage

**10%**  
Quality

- ▶ Half of the PLCs disclosed sufficient information on their GHG emissions and other climate-related metrics.
- ▶ One PLC specified that it will conduct scenario analysis relating to climate change and its impact to the business by Q4 of financial year 2020 and intends to initiate internal carbon pricing.

## Plantation

**8**  
PLCs

**72%**  
Coverage

**26%**  
Quality

- ▶ Compared to other sectors, the plantation sector achieved the highest coverage and quality score.
- ▶ Key climate-related risks identified include the increasing effects of climate change, specifically extreme weather events, forest fires, deforestation and floods.

### Property-related

**14**  
PLCs

**42%**  
Coverage

**13%**  
Quality

- ▶ Although the highest coverage by some sector companies is nine TCFD recommendations, the overall quality of disclosures is relatively poor.
- ▶ 11 PLCs disclosed broadly their overall climate-related risks including access to clean water, severe storms, extreme temperatures, rising sea levels and droughts.
- ▶ Six PLCs disclosed targets used to manage climate-related risks and opportunities, with two major property PLCs disclosing extensive climate-related targets with clear timeframes.

### Technology

**8**  
PLCs

**15%**  
Coverage

**3%**  
Quality

- ▶ Technology PLCs scored the lowest in terms of coverage and quality when compared to other sectors.
- ▶ Six PLCs disclosed some climate-related metrics – mainly focused on the consumption of electricity and water, and waste management.
- ▶ Only two out of eight PLCs have identified SDG 13 as material to their operations. One PLC disclosed both Scope 1 and 2 emissions, while another only disclosed Scope 2 GHG emissions.

### Telecommunications and media

**6**  
PLCs

**41%**  
Coverage

**17%**  
Quality

- ▶ The telecommunications and media sector emerged as one of the higher performing sectors.
- ▶ One PLC that submitted its CDP response covered 10 out of the 11 Recommendations, but did not disclose its climate-related resilience and scenario analysis.
- ▶ Five PLCs disclosed their Scope 1 and 2 GHG emissions, of which three PLCs further disclosed their Scope 3 emissions. One PLC disclosed its science-based carbon reduction target.

### Transportation and logistics

**6**  
PLCs

**39%**  
Coverage

**12%**  
Quality

- ▶ PLCs in the transportation sector are focused on disclosures of metrics and targets as the sector is generally known to be a key contributor to fossil fuel emissions.
- ▶ One PLC in the aviation sector has launched a Sustainability Charter which includes other community member stakeholders to collaborate in achieving common goals.
- ▶ One PLC is a member of the 'Getting to Zero Coalition', committed to developing zero emission vessels by 2030.

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Our engagement with the business community indicates that board members increasingly understand the need for a change in reporting practices – and we're seeing improvements. However, our analysis continues to raise questions about the depth of disclosures being made on climate risks exposures and resilience. There is wide scope for improvement.

**Mathew Nelson**  
EY Global Leader, Climate Change and Sustainability Services

# Next steps

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Across the world, a broader understanding of company value is taking hold. It goes beyond financial capital to recognize shared values with stakeholders, including communities and the environment.

Reporting on non-financial factors will enable PLCs to have a more comprehensive understanding of risks and opportunities. In this vein, integrated reporting and adequate climate risk disclosures are key steps in today's challenging ecosystem.

**Ong Chee Wai**

Malaysia Assurance Leader  
Ernst & Young PLT









## Next steps

### The time to action is now

Climate risk, a key global risk for 2020 and beyond, is more complex and longer-term in nature. Before climate change risks become more detrimental to organizational performance, PLCs should have a clear understanding of the range and magnitude of potential financial and non-financial impacts.

In Malaysia, there is significant scope to leverage climate risk assessment to build long-term organizational resilience. A comprehensive assessment of climate risk impact using scenario analysis can help PLCs prepare to adapt and mitigate the impact of climate change on current and future investments.



Malaysian PLCs are moving towards more integrated reporting. As such, reporting momentum can shift towards the inclusion of climate risk assessments into core business strategy and financial filings, putting in place the mechanisms required to demonstrate how sector leaders are responsibly mitigating climate risk and optimizing the opportunities from a zero carbon world.

**Dr Matthew Bell**

EY Asia-Pacific Leader  
Climate Change and Sustainability Services

## Step 1: Identify climate risks and seize new opportunities

PLCs planning to improve their disclosure on climate-related risks need to make changes to their governance and risk assessment processes (as per the global TCFD recommendations).

The earlier a PLC embarks on this reporting journey, the better positioned it will be to engage with shareholders and investors on the climate risk impact and opportunities to consider. A “wait-and-see” approach increases the risk of short-term reputation damage and the loss of value.

Let's start with checkpoint questions to assess the potential climate risks exposure of organizations.

### Checkpoints: understanding climate risks exposure



Source:  
► EY Global Climate Risk Disclosure Barometer 2018, 2020

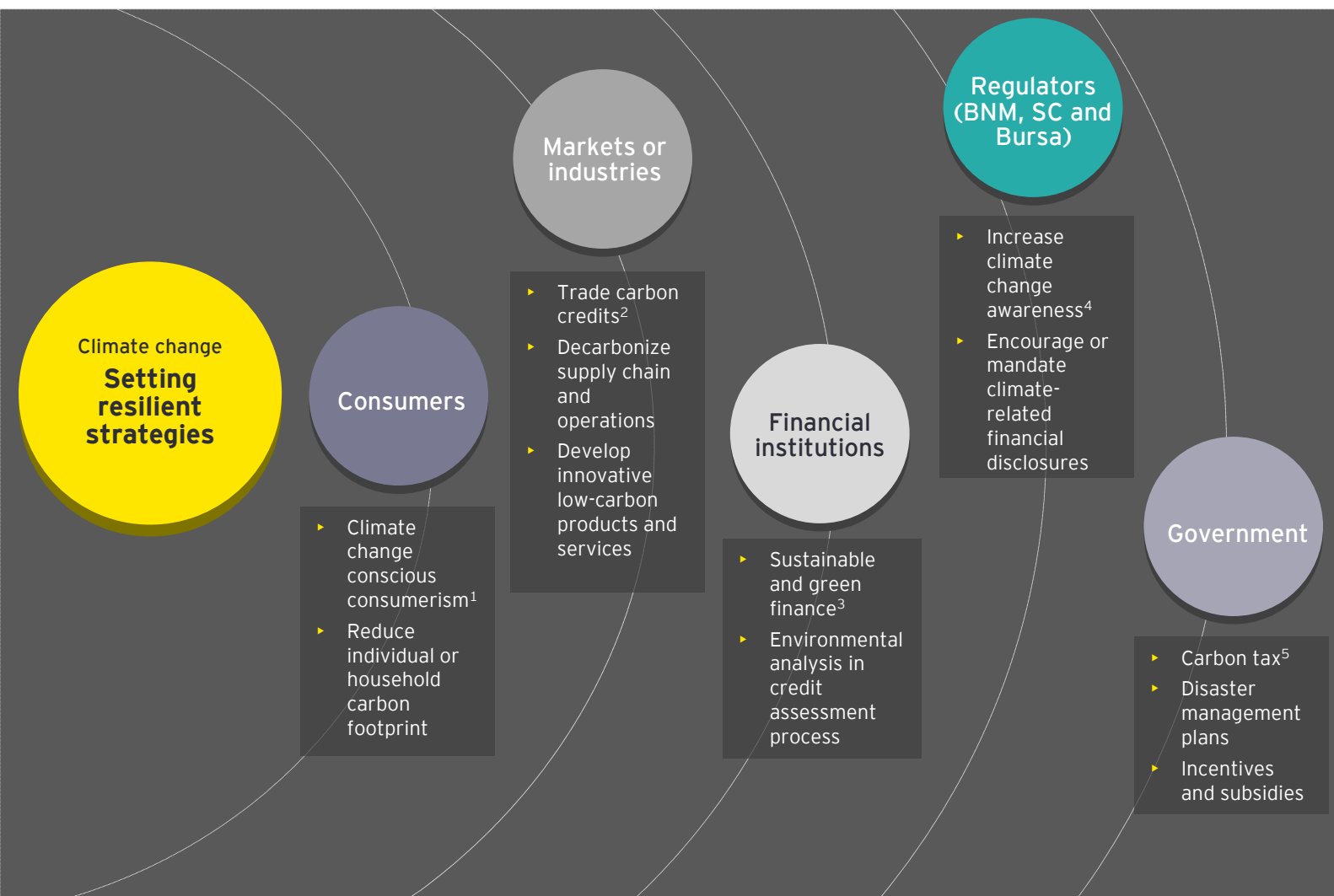


## Step 2: Set and embed resilient ERM strategies

### Align with global trends, regional ecosystems and local communities

Business resilience is the ability of a company or organization to rebound following a shock such as a natural disaster. These are various stakeholders in our ecosystem that are taking the initiative to build business resilience, including regulators (BNM, SC, Bursa), financial institutions with sustainable or green finance products, green-driven industries with low-carbon products and climate-conscious consumers. Collaboration is not only needed to address the risks from climate change, but also to identify and realize the benefits from any potential opportunities.

The more immediate measures of PLCs are to step up climate risk reporting and steer strategic actions to include internal collaborations across the sustainability, risk, finance, operations and investor-related business functions.



#### Sources:

<sup>1</sup> Consumers demand action on climate change – and it's time for retailers to listen, Retail Dive (February 2020)

<sup>2</sup> The Critical Role of Markets in Climate Change Adaptation, Hoover Institution (March 2018)

<sup>3</sup> Climate change and financial risk: central banks and financial regulators are starting to factor in climate change, International Monetary Fund (IMF) (December 2019)

<sup>4</sup> Tackling climate change: The role of banking regulation and supervision, Official Monetary and Financial Institutions Forum (OMFIF) (February 2020)

<sup>5</sup> Fiscal Monitor: How to mitigate climate change, IMF (October 2019)

## Step 3: Communicate climate change risk strategy

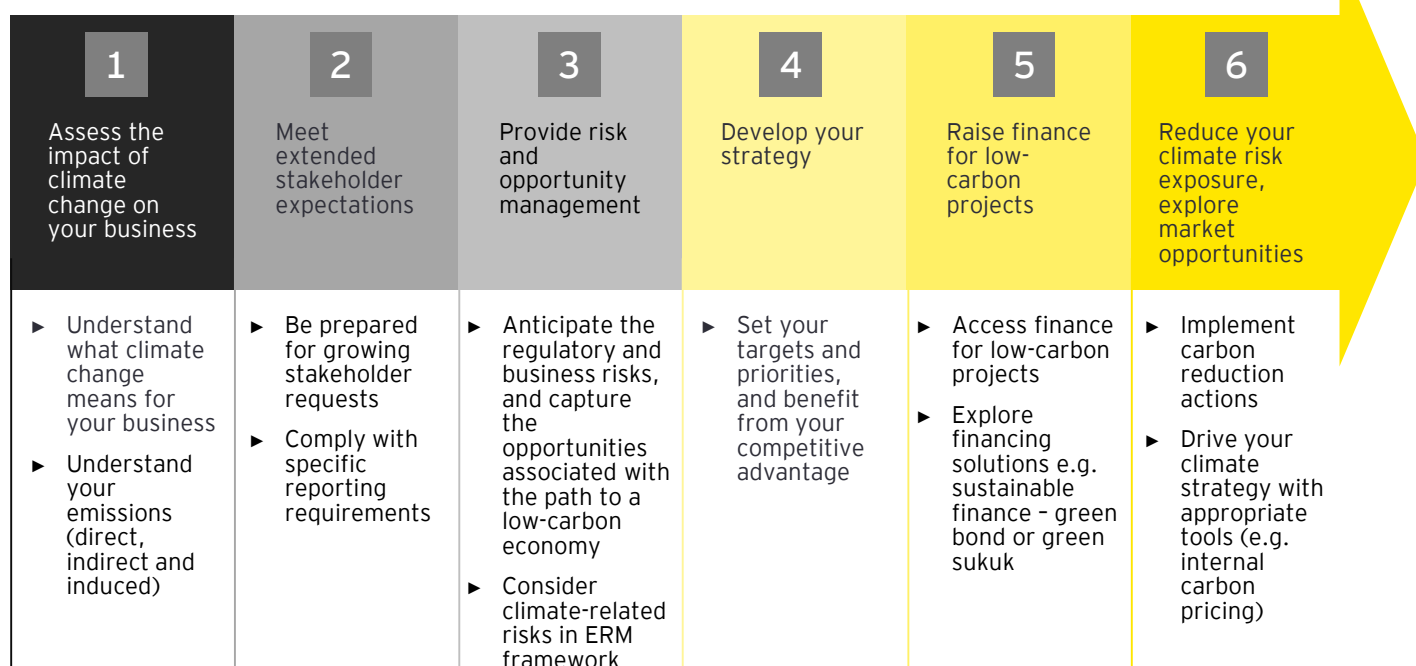
### Engage stakeholders, customers and communities

As your organization develops and implements climate risk strategies, you may engage the EY Climate Change and Sustainability Services (CCaSS) teams to share their experiences of helping PLCs and regulators transition to a low-carbon economy.

We can help:

- ▶ Assess your business exposure to climate change risks
- ▶ Build forward-looking climate change scenarios
- ▶ Prepare information requested by stakeholders
- ▶ Develop a strategic climate action roadmap e.g. propose resilient strategies in countries of operation
- ▶ Explore and identify low-carbon market opportunities

There are many steps in this process, starting with understanding your risks and monitoring your climate risk impacts to developing and financing your strategy to expand your market opportunities:



#### TCFD report playbook

Ernst & Young LLP supported the Institute of International Finance (IIF) and the United Nations Programme Finance Initiative (UNEP FI) September 2020

Ernst & Young LLP supported the IIF, UNEP FI and its members with the release of the TCFD report playbook, which outlines the key components that should be covered under each of the 11 recommended TCFD disclosures. This TCFD report playbook provides guidance for the development of standardized templates for TCFD disclosures by financial institutions (FIs) to facilitate comparability between institutions. For non-FIs, this report provides useful reference.



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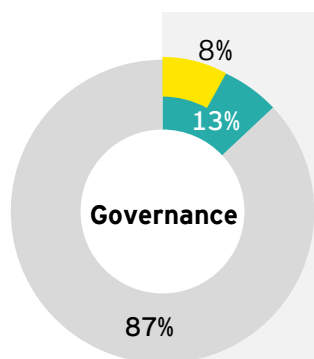
- ▶ EY Global Climate Risk Disclosure Barometer 2018, 2020



# Appendices

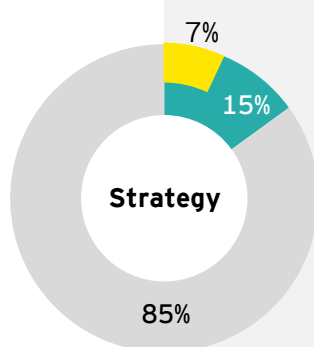
- ▶ Sector scorecards
- ▶ Climate-related thought leadership





## Governance

- ▶ Only three PLCs provided disclosure on climate-related governance, outlining roles and responsibilities for monitoring and reviewing climate-related risks and opportunities, performance and strategy at the Executive Board level.
- ▶ One PLC discussed sustainability and climate change matters twice a year to set policy, public commitments and track progress.
- ▶ Two PLCs provided further disclosures on climate-related governance in their CDP report. However, these are rarely translated into disclosures in annual reporting filings.



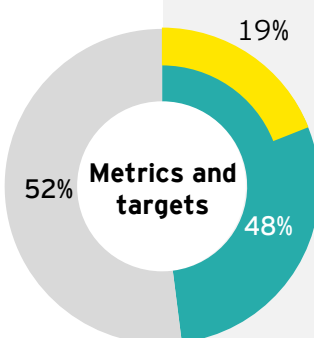
## Strategy

- ▶ The most common climate-related risks identified by PLCs were the increasing effects of extreme weather events such as drought, flooding and contamination.
- ▶ One PLC considered a range of impacts from climate change, including rising sea levels, extreme temperatures, farming shortages and water availability.
- ▶ One PLC commissioned an independent climate change impact assessment which included projected scenarios in relation to changes in temperature, rain, water-balance and climatic risks, and the potential impacts these will have on its crop-growing conditions.



## Risk management

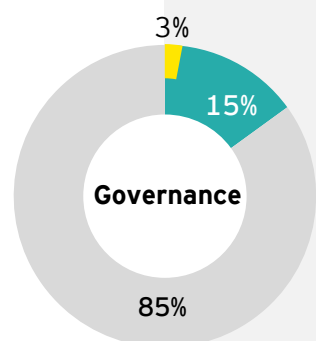
- ▶ The majority of the PLCs have established ERM framework, but lack information on the management process for climate-related risks.
- ▶ Only two PLCs disclosed detailed reporting on their risk management processes specific to climate-related risks and opportunities.
- ▶ One PLC conducted a life-cycle assessment to analyze climate-related risks and opportunities such as emissions, scarcity of freshwater for consumption, land use impact on biodiversity and the ecosystem quality throughout a product's entire life-cycle.



## Metrics and targets

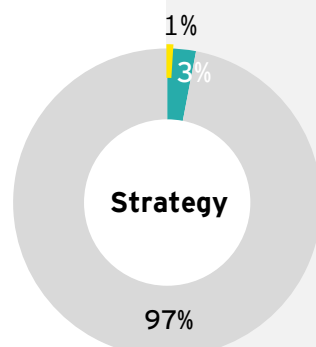
- ▶ 17 PLCs disclosed their climate-related metrics and nine PLCs disclosed to a certain extent their future climate-related targets.
- ▶ Fewer than half of the Consumer PLCs (eight PLCs) have identified SDG13 as material to their operations. Nine PLCs disclosed their Scope 1 and 2 emissions, out of which two PLCs further disclosed their Scope 3 emissions.
- ▶ One PLC has announced its ambition to achieve zero net GHG emissions globally by 2050.





## Governance

- ▶ All PLCs disclosed their sustainability governance structure. However, the majority of the energy and utilities (E&U) PLCs did not disclose their climate-related governance framework, resulting in a low quality score of 3%.
- ▶ Only two utility PLCs disclosed their respective sustainability committee's role in managing climate-related risks and opportunities.



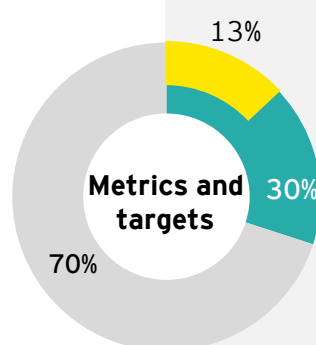
## Strategy

- ▶ For E&U PLCs, only 3% covered climate-related strategy disclosures with a mere 1% quality score.
- ▶ Most of the PLCs did not identify their climate-related risks and opportunities nor their impact to business, strategy and financial planning.
- ▶ Several PLCs disclosed their support for a 2°C future or a low-carbon economy, but did not state how their business aligned with such an economy.
- ▶ None of the companies have submitted CDP responses or developed climate-related scenario analysis.



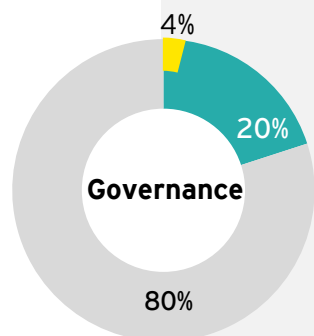
## Risk management

- ▶ Most of the PLCs have established processes to manage direct environmental risks, but did not disclose the identification, assessment and management of climate-related risks, including the integration of the climate-related risks into the ERM process.
- ▶ One PLC has established a research hub to conduct research on ways to promote decarbonization, energy efficiency, innovation and well-being of society.



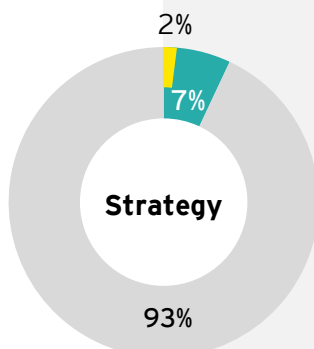
## Metrics and targets

- ▶ 70% of the PLCs still lack disclosures on their climate-related metrics and targets.
- ▶ Four out of the ten PLCs disclosed more than two climate-related metrics with clear explanations of their methodology and boundaries, and presentation of historical data.
- ▶ Only four PLCs have identified SDG13 as material to their operations. Three PLCs disclosed their Scope 1 and 2 GHG emissions, with two of them disclosing their Scope 3 GHG emissions.
- ▶ Three utility PLCs have started to disclose their climate-related future targets.
- ▶ Only one PLC has committed to enhance TCFD adoption in the coming years.



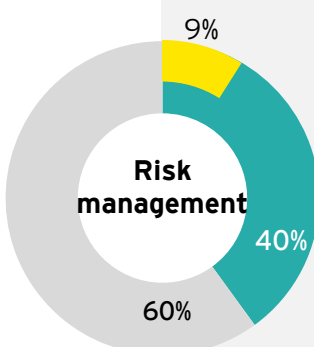
## Governance

- ▶ Seven PLCs reported their Board oversight role in sustainability matters, out of which three PLCs disclosed Board's oversight on climate-related matters.
- ▶ Two PLCs disclosed the role of their Group Sustainability Council in managing climate-related matters.
- ▶ One PLC has established a Climate Action Task Force to manage and disclose climate-related risks in line with TCFD recommendations.



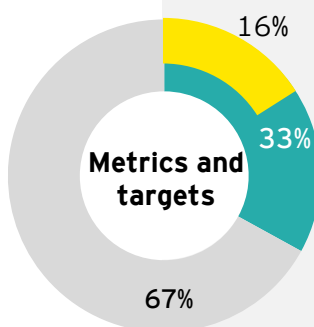
## Strategy

- ▶ Strategy disclosures of the four TCFD components are poorly reported, scoring only 7% coverage and 2% quality. This is largely due to the lack of disclosures on business resilience against climate change and scenario analysis based on TCFD recommendations.
- ▶ Only one PLC submitted its CDP response, with identified climate-related risks including legal, technology, current and emerging regulations, reputation and acute physical risks (flood and heatwave). Opportunities realized were focused on advocating green financing for renewable projects and technology projects under the Green Technology Financing Scheme (GTFS).



## Risk management

- ▶ The majority of the PLCs have established ERM frameworks, but lack information on the management process for climate-related risks.
- ▶ Only two PLCs disclosed their processes for identification and assessment of climate-related risks.
- ▶ One PLC provided high-level reporting on the consideration of climate-related risks in overall risk management.



## Metrics and targets

- ▶ Eight PLCs disclosed their climate-related metrics (e.g. electricity, water and waste consumption).
- ▶ Five PLCs disclosed their Scope 1 and 2 emissions, out of which four PLCs further disclosed their Scope 3 emissions.
- ▶ 10 PLCs have identified SDG-13 as material to their operations. However, only two PLCs disclosed their climate-related targets which largely focused on climate-related metrics.

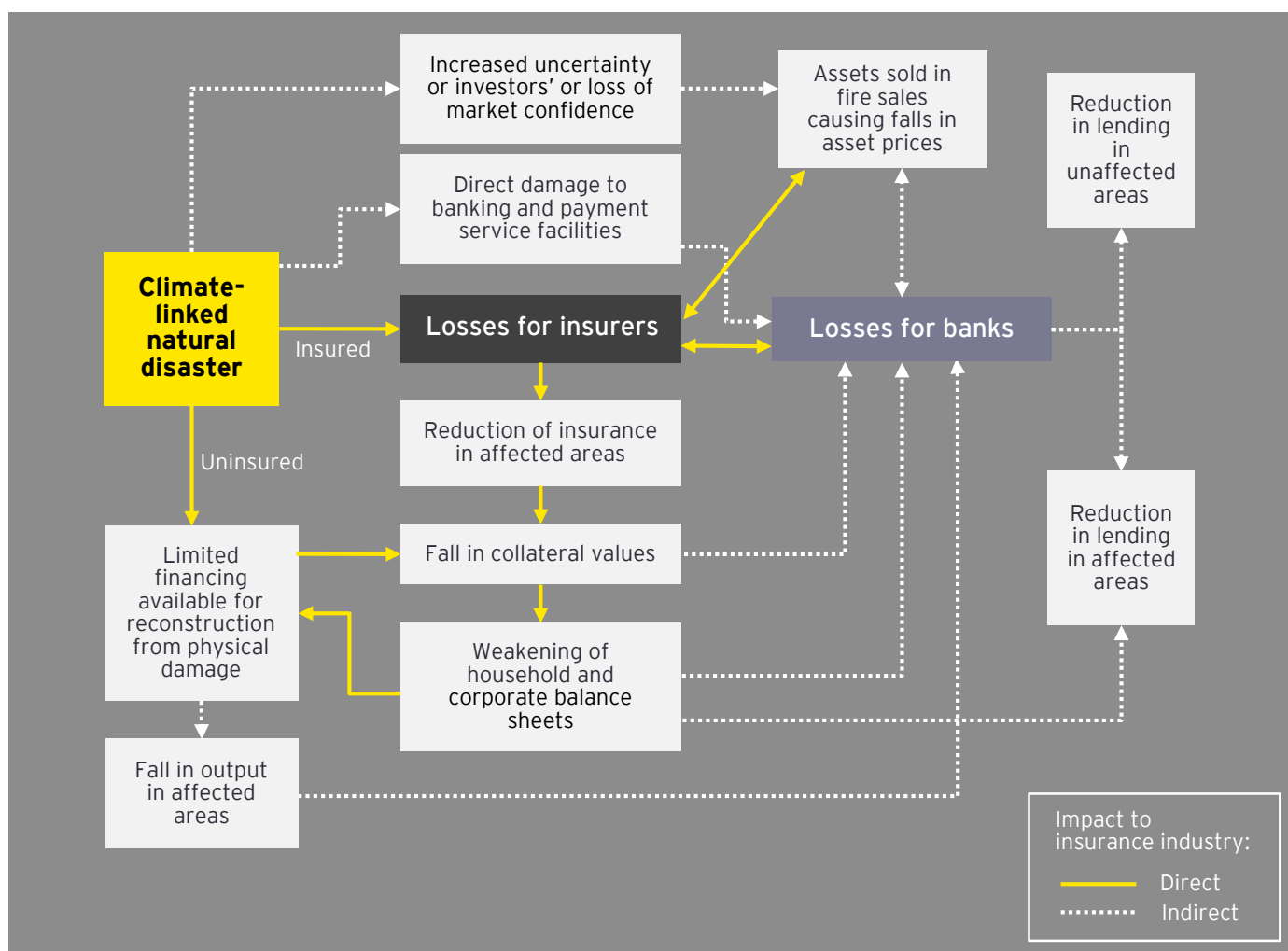
# Financial services assessment

BNM considers climate change as a material source of risk that could pose a threat to financial stability. Supervised financial institutions are to integrate climate-related risks and considerations into their business strategies and risk management practices.

## BNM's five guiding principles in assessing economic activities



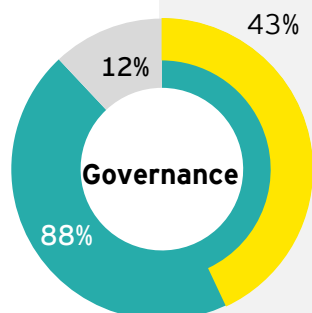
## Transition from a natural disaster to financial sector losses



### Sources:

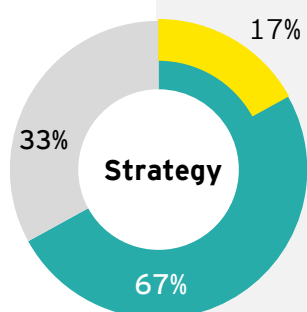
- *Climate Change and Principle-based Taxonomy discussion paper*, December 2019, BNM
- *Issues paper on Climate Change Risks to the Insurance Sector*, July 2018, International Association of Insurance Supervisors,
- Media releases - various organizations
- EY research, Malaysia





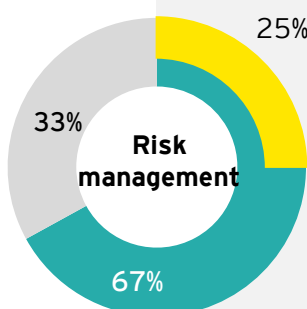
## Governance

- ▶ The majority of the PLCs reported on governance of sustainability-related issues, but lacked discussion on whether the Board considers climate-related issues.
- ▶ One PLC has terms of reference for its Sustainability Committee that outline roles and responsibilities for reviewing sustainability strategy and performance, including climate-related risks.
- ▶ Three PLCs have independent advisors to advise the Board on material sustainability trends, issues and opportunities, including those raised by stakeholders such as NGOs and the Roundtable on Sustainable Palm Oil.



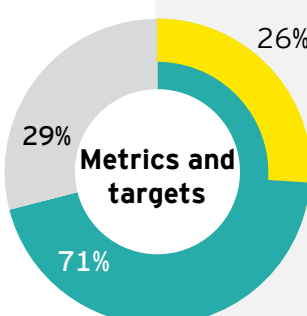
## Strategy

- ▶ All plantation PLCs have identified their climate-related risks and opportunities and have described their impact to the organization's business.
- ▶ The most common climate-related risks identified by PLCs are the increasing effects of climate change, including extreme weather events, forest fires, deforestation and floods.
- ▶ The majority of the PLCs collaborate with other stakeholders such as NGOs, academia and corporates to tackle climate-related risks such as deforestation, traceability in supply chain, and conservation of biodiversity.



## Risk management

- ▶ All of the PLCs disclosed their enterprise-wide risk management process.
- ▶ Half of the plantation PLCs disclosed further details on their risk management specific to climate-related risks and opportunities.
- ▶ Only two PLCs provided high-level reporting on the consideration of climate-related risks in overall risk management.



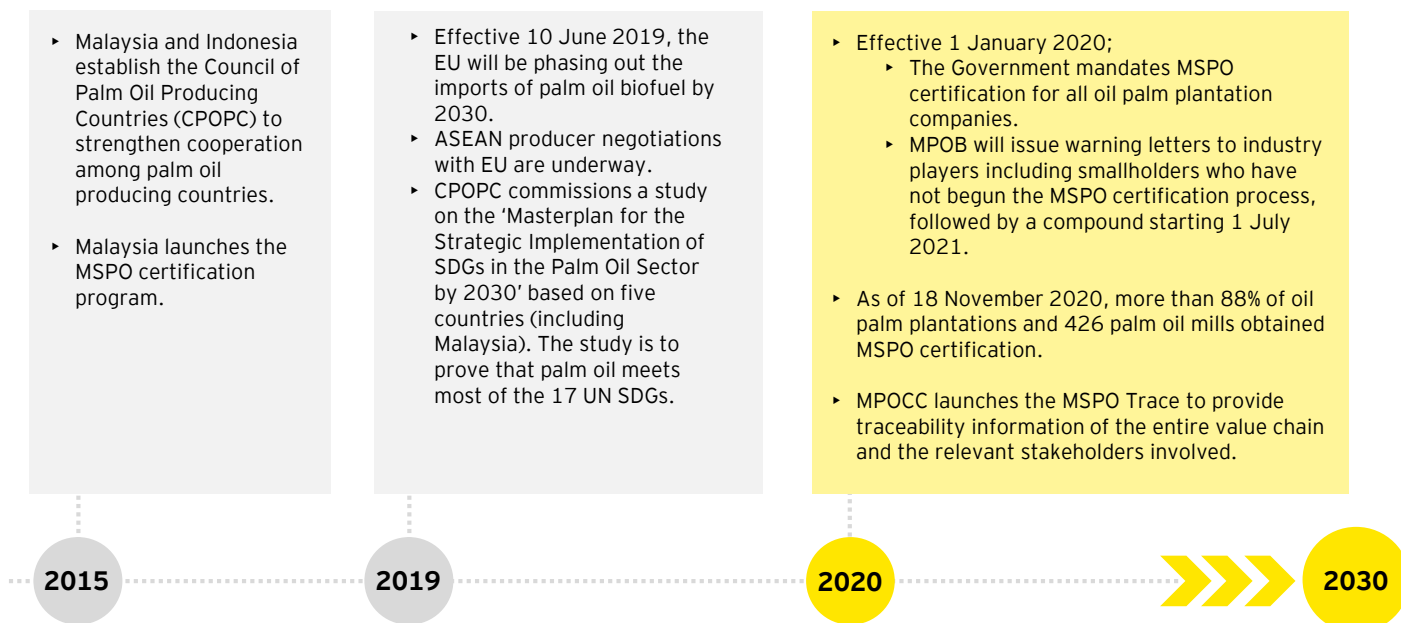
## Metrics and targets

- ▶ All eight PLCs have started disclosing climate-related metrics with clear boundaries and reporting historical data. Key metrics reported include carbon emissions, renewable energy generation, biodiversity conservation, waste and water management.
- ▶ Five out of the eight PLCs identified SDG-13 as material to their operations. Six PLCs disclosed their Scope 1 and 2 GHG emissions, with only one of them disclosing its Scope 3 GHG emissions.
- ▶ One PLC has conducted a life-cycle assessment to identify areas to mitigate GHG emissions within its production chain and has set targets for emission intensity reduction.
- ▶ Three PLCs have commenced disclosing their targets for limited emission reduction, largely focused on mills and estate operations.

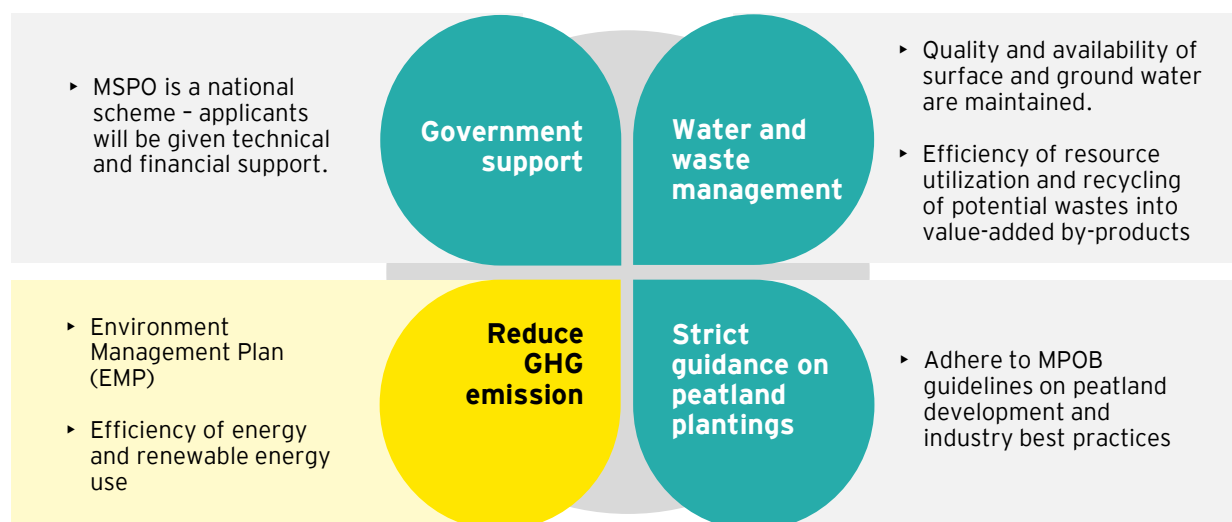
# Plantation: industry initiatives

Malaysia is one of the world's largest palm oil producing and exporting countries. The Malaysian Palm Oil Certification Council (MPOCC) and the Malaysia Palm Oil Board (MPOB) have implemented the Malaysian Sustainable Palm Oil (MSPO) certification for the plantation industry.

## Oil palm: journey to SDG objectives

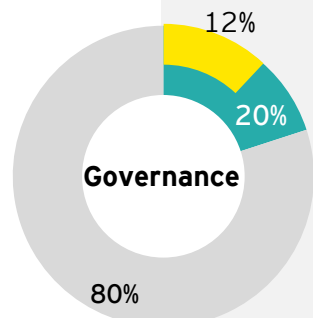


## MSPO standards address sustainable development issues including climate-related matters



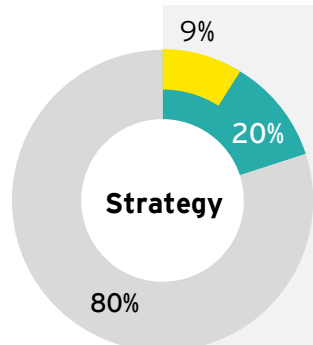
### Sources:

- Malaysian Palm Oil Certification Council (MPOCC)
- Council of Palm Oil Producing Countries (CPOPC)
- Media releases - various organizations
- EY research, Malaysia



## Governance

- Governance of sustainability-related issues was generally reported. Risk committee's reporting on governance did not disclose measures on climate risk.
- Only one out of five PLCs disclosed high-level information on both Board oversight and management's role in assessing climate-related risks and opportunities. This PLC mentioned that it adopted the climate-related reporting framework with reference to TCFD recommendations in its climate data disclosure and acknowledged that reporting on strategy and risk management can be strengthened.



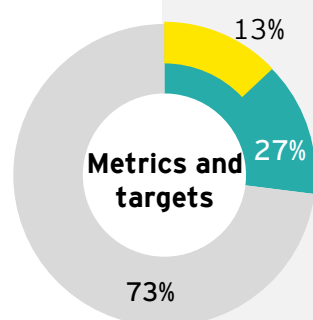
## Strategy

- Only one PLC reported its climate-related risks within a certain time horizon and assessed the high-level impact of climate change to its business, strategy and financials. This PLC's Sustainability Steering Group (SSG) identified key climate risks from flood, water scarcity and rising sea levels which will impact its operations, supply chain and financial performance.



## Risk management

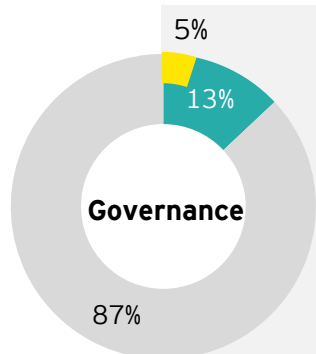
- Most of the PLCs generally describe their enterprise-wide risk management process with limited or no further articulation of climate-related risk identification and assessment process.
- Only one PLC specified key departments involved in supporting the SSG on management and execution of climate and environmental matters.



## Metrics and targets

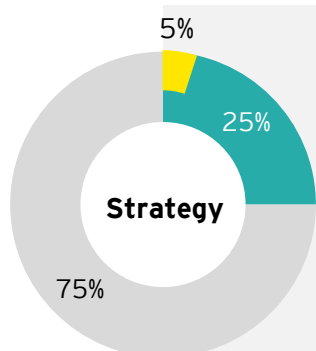
- Two out of the five PLCs identified SDG-13 as material to their operations.
- These two PLCs disclosed climate-related metrics, mainly focused on electricity consumption, emission, water consumption and waste management.
- Similarly, the two PLCs reported certain future targets related to their climate-related metrics.
- One PLC set a target to reduce GHG emission intensity by 23% by financial year 2024, with the base year of 2019.





## Governance

- ▶ Due to the lack of reporting on climate-related governance structures, industrial PLCs scored only 13% coverage and 5% quality.
- ▶ One PLC set up a sustainability department to drive the climate and environment policy, operations and management of natural resources, energy, utilities, environment, biodiversity, waste, GHG emissions and use of alternative resources in optimizing system efficiency.



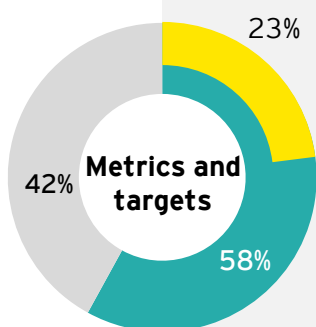
## Strategy

- ▶ Three out of the eight PLCs identified climate-related risks which include air pollution, physical risks, customers' changing preference for environmental-friendly products, reallocation of capital to cleaner and greener investments by financial institutions and the increase in operational costs in meeting regulatory requirements for carbon emissions and climate change.
- ▶ One PLC specified that it will conduct scenario analysis relating to climate change and its impact to the business by Q4 of the financial year 2020 and will consider initiating internal carbon pricing.



## Risk management

- ▶ All PLCs disclosed their enterprise-wide risk management frameworks. However, the majority of the PLCs did not provide further articulation of their climate-related risk considerations.
- ▶ Disclosures are generally lacking on the identification, assessment and management of climate-related risks, including the integration of climate-related risks into the ERM process.



## Metrics and targets

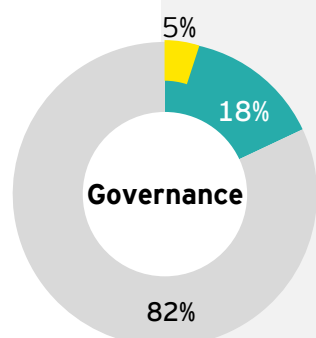
- ▶ Six out of the eight PLCs have identified SDG-13 as material to their operations.
- ▶ Four PLCs disclosed their Scope 1 and 2 emissions, out of which two PLCs further disclosed their Scope 3 emissions.
- ▶ Similarly, half of the PLCs provided high-level climate-related targets - mainly focused on metrics such as reducing environmental-related consumption levels.

# Property-related

42% coverage | 13% quality

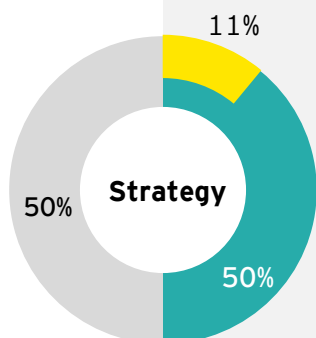
Sample: 14 PLCs

Quality Coverage Non-coverage



## Governance

- ▶ The majority of the PLCs reported governance of sustainability-related matters, but lacked discussion on Board and management responsibilities on climate-related issues.
- ▶ Three PLCs disclosed high-level information on Board oversight of climate-related risk and opportunities.
- ▶ Two PLCs disclosed their management's role in climate-related matters, with one PLC providing further details on their climate change strategy and engagement with employees, contractors, industry peers and regulators.



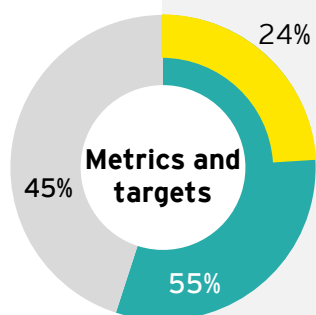
## Strategy

- ▶ 11 PLCs disclosed broadly the overall climate-related risks covering access to clean water, impact of droughts, severe storms, extreme temperatures and rising sea levels.
- ▶ Only one PLC identified its climate-related opportunity for resource substitute based on a medium-term time horizon and disclosed the likelihood and magnitude of the impact through its CDP submission. However, this is rarely translated into disclosures in the annual reporting filings.
- ▶ One PLC reported its investment in environmental and climate mitigation measures.



## Risk management

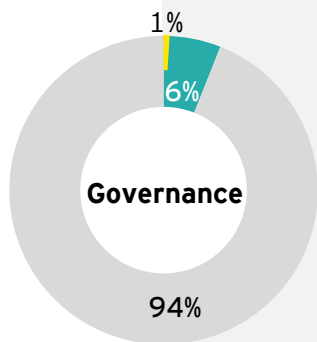
- ▶ All the PLCs have enterprise-wide risk management processes, but only one PLC disclosed its climate-related risk management. This PLC briefly disclosed the identification, assessment and management of climate-related risks, including the consideration of climate-related risks in the ERM process.



## Metrics and targets

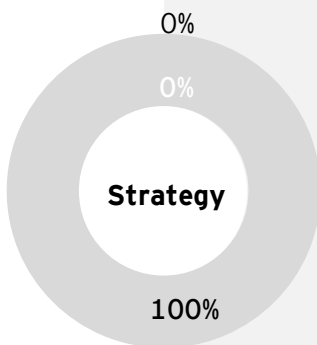
- ▶ The coverage of metrics and targets scored 55%, reflecting reasonably sufficient disclosure on climate-related metrics.
- ▶ Almost all of the PLCs disclosed their climate-related metrics. Half of the PLCs disclosed their GHG emissions with three PLCs disclosing Scope 1-3 emission data.
- ▶ Six PLCs disclosed targets used to manage climate-related risks and opportunities.





## Governance

- ▶ Technology PLCs reported governance of sustainability-related issues.
- ▶ Only one PLC reported high-level discussions on climate-related governance through a corporate level committee tasked to drive energy reduction.



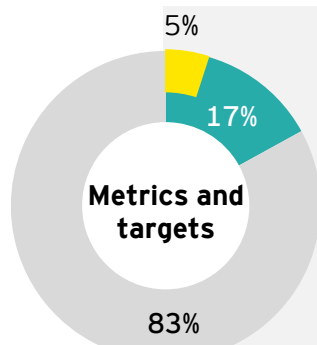
## Strategy

- ▶ Strategy disclosures of the four TCFD components were poorly reported. This is mainly due to the lack of disclosures relating to climate-related risks and opportunities, business resilience against climate change and scenario analysis based on TCFD recommendations.



## Risk management

- ▶ The majority of the PLCs have established ERM frameworks, but lacked disclosure on the management process for climate-related risks.



## Metrics and targets

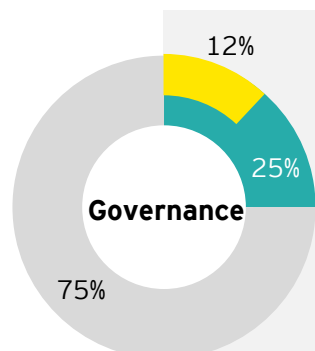
- ▶ Only two out of the eight PLCs identified SDG-13 as material to their operations.
- ▶ Technology PLCs scored the lowest in terms of coverage of metrics and targets compared to the other sectors. Six PLCs disclosed some climate-related metrics - mainly focused on the consumption of electricity and water and waste management.
- ▶ One PLC disclosed Scope 1 and 2 GHG emissions, and one PLC disclosed Scope 2 emissions. Technology PLCs can step up their disclosure of GHG emissions and other climate-related metrics.

# Telecommunications and media

41% coverage | 17% quality

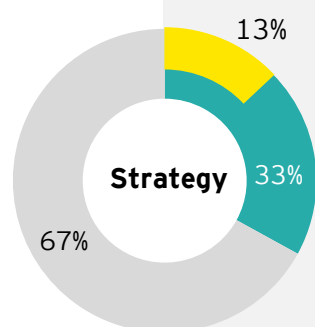
Sample: 6 PLCs

Quality Coverage Non-coverage



## Governance

- Telecommunications and media PLCs disclosed governance of sustainability-related issues, but only two PLCs disclosed climate-related governance.
- One PLC discussed its management's role in climate-related matters which include its climate ambitions, strategy, overall measures, initiatives and climate reporting guided by its Sustainability Policy and Climate and Environment Manual. The Board is updated on these issues on a quarterly basis and annually reviews the climate-related status and strategies of the company.



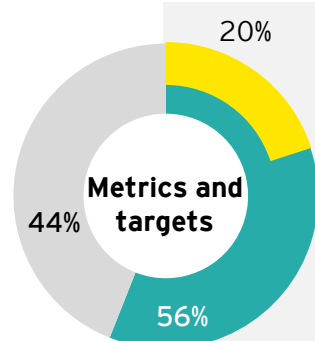
## Strategy

- Three PLCs identified climate-related matters in their operations. However, only one PLC assessed climate-related risks and opportunities in detail, which include technology, current and emerging regulations, acute physical risks (storms and winter weather) and chronic physical risks (flooding and rising sea level), and the upstream and downstream value chain risks.
- This PLC's climate-related risks and opportunities were disclosed according to a consistent time horizon with an estimated quantification of financial impact and detailed articulation of the corresponding organizational strategic responses to address these impacts. This was reported through a Climate Impact Risk Analysis.



## Risk management

- All the PLCs disclosed their enterprise-wide risk management processes.
- One PLC disclosed a reasonably detailed articulation of its organization's process for identifying, assessing and managing climate-related risks and opportunities at the group, business unit and asset levels. This PLC reported strong integration between its climate-related risk management and overall risk management.



## Metrics and targets

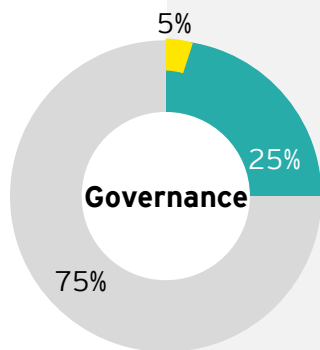
- All the PLCs disclosed their climate-related metrics (e.g. emissions, electricity, water and waste consumptions) to some extent, grossing a score of 56% for coverage and 20% for quality.
- Five PLCs disclosed their Scope 1 and 2 GHG emissions, of which three PLCs further disclosed their Scope 3 emissions.
- One PLC disclosed its science-based carbon reduction target.
- One PLC conducted a life-cycle assessment on one operating segment to manage its carbon footprint reduction.

# Transportation and logistics

39% coverage | 12% quality

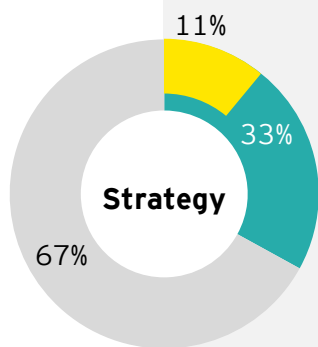
Sample: 6 PLCs

Quality Coverage Non-coverage



## Governance

- ▶ The majority of the PLCs did not describe their Boards' oversight of climate risks and opportunities, particularly in reviewing strategy and progress against goals and targets.
- ▶ One PLC specified its commitment to carbon-neutral business growth and its aspiration to a carbon-free future. This PLC has established an Environmental Management Committee and outlined an Environment Strategy Roadmap with a baseline year and a five-year plan.
- ▶ The Board of one PLC has incorporated sustainability strategy and performance into the Board's agenda to drive its GHG carbon commitments.



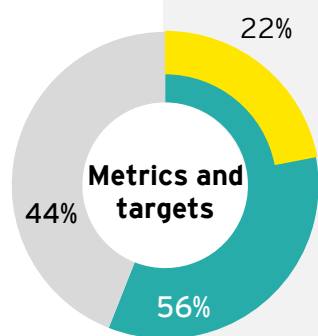
## Strategy

- ▶ Four PLCs have identified climate-related risks and opportunities for their operations.
- ▶ One PLC outlined its direct control over Scope 1 and 2 emissions, taking further responsibility to reduce absolute emissions to the furthest extent possible, while addressing any residual emissions through investment in carbon removal and storage. This PLC has also launched a Sustainability Charter which includes collaborating with other community members to achieve common goals.
- ▶ One PLC is a member of the 'Getting to Zero Coalition', committed to developing zero emission vessels by 2030. Its GHG Carbon Commitment and Reduction Strategy focuses on energy efficiency optimization of its vessels.



## Risk management

- ▶ All the PLCs disclosed their enterprise-wide risk management processes.
- ▶ One PLC conducted an assessment of the impact of sea level rise by 2100, based on the IPCC's report. This PLC also commissioned a study on how changes in wave heights can affect its future expansion plans.



## Metrics and targets

- ▶ This sector's quality score on metrics and targets is among the highest (more than 20%), with PLCs scoring more than half (56%) on coverage.
- ▶ Four out of the six PLCs have reported extensively on their climate-related metrics.
- ▶ Four out of the six PLCs identified SDG 13 as material to their operations. Three PLCs disclosed their Scope 1 and 2 emissions, out of which one PLC further disclosed its Scope 3 emissions.
- ▶ Only two PLCs disclosed limited climate-related targets and lacked specific time-frames.







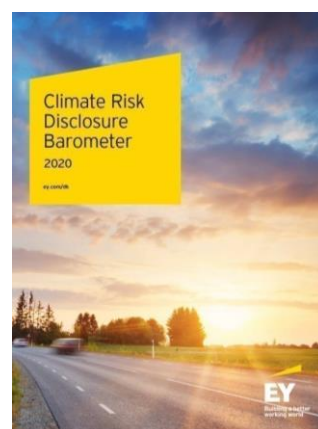
# Climate-related thought leadership



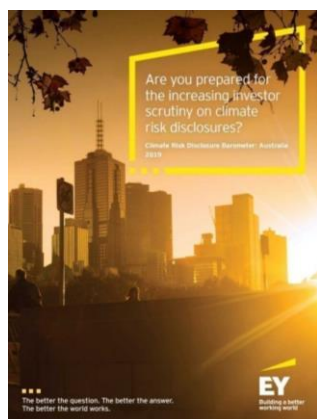
**TCFD report playbook**  
September 2020



**How will ESG performance shape your future?**  
July 2020



**Climate Risk Disclosure Barometer: Denmark 2020**



**Climate Risk Disclosure Barometer: Australia**  
June 2019



**Global Climate Risk Disclosure Barometer**  
2018



**Reporting climate change risk**  
November 2017



**Integrated reporting**  
Oct 2016



**The Sustainability Development Goals Report 2020**  
July 2020

**Task Force on Climate-related Financial Disclosures: Status Report**  
June 2019

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