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Consultative Document on the Proposed National Sustainability Reporting Framework

A public consultation issued by the Advisory Committee on Sustainability Reporting (ACSR)

Comments from ACCA to ACSR
21 March 2024
TECH-CDR-2102

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Further information about ACCA's comments on the matters discussed here can be requested from:

Andrew Lim
Portfolio Head, ACCA Maritime Southeast Asia
andrew.lim@accaglobal.com

Sharath Martin
Senior Policy Consultant, ACCA Asia Pacific
sharath.martin@accaglobal.com

ACCA Malaysia Sdn Bhd (473007-P)
1800 88 5051
myinfo@accaglobal.com
www.accaglobal.com
Level 27 Centrepoint North Tower Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur Malaysia

GENERAL COMMENTS

ACCA commends the Advisory Committee on Sustainability Reporting (ACSR) on the development of the Proposed National Sustainability Reporting Framework (NSRF) involving the adoption of International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards – specifically IFRS S1 and S2. We further commend ACSR on inviting public feedback on the proposed framework through a formal consultation process. This is critical towards fostering trust and transparency in the framework and positively shaping the journey of sustainability reporting in Malaysia.

ACCA welcomes the opportunity to respond to this consultation. In forming our responses, it is useful to note that roundtables were carried out involving participants from two critical components of the reporting ecosystem – namely:

- preparers of sustainability-related disclosures (namely Chief Financial Officers, Chief Sustainability Officers and other finance leaders); and
- audit partners who will be critical in providing assurance in respect of such disclosures in time to come.

These roundtables were conducted on Chatham House rules and were instrumental in providing validation and feedback on a number of key issues raised in the consultation paper. Where there were mixed views by the participants, we have endeavoured to capture such perspectives in this our responses in order that ACSR will have the benefit of appreciating alternate view points on what will likely be a challenging yet exciting development in the corporate reporting landscape.

In addition to the specific questions which were raised in the consultation, for which we provide our responses in the accompanying document, we set out in this comments letter detailed views on a number of significant issues for your overall consideration. It is important to highlight that both this comments letter and the responses to the consultation questions should be read together.

ACCA Malaysia Sdn Bhd (473007-P)

1800 88 5051

myinfo@accaglobal.com

www.accaglobal.com

Level 27 Centrepoint North Tower Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur Malaysia

Adopting and building on a global baseline – IFRS Sustainability Disclosure Standards

ACCA advocates for a global approach to the development and application of sustainability-related disclosure standards, and we support the role of the International Sustainability Standards Board (ISSB) in setting a consistent and comparable global baseline to sustainability reporting around the world.

We believe that the IFRS Sustainability Disclosure Standards developed by ISSB provide a comprehensive global baseline of sustainability-related disclosures, building on the Climate Disclosure Standards Board (CDSB) framework, the Task Force on Climate-related Finance Disclosures (TCFD) recommendations, the Integrated Reporting <IR> Framework and the industry-based Sustainability Accounting Standards Board (SASB) Standards.

ACCA therefore strongly supports adoption of the IFRS Sustainability Disclosure Standards in Malaysia as the baseline of sustainability-related disclosures, with as minimal modification as possible from the global standards.

In doing so, it is important that national policy makers and standard-setters, as much as possible, align the language and terminology of its local standards with global standards in order to ensure consistent understanding across the meaning of key terms. In the attached document containing our responses to specific consultation questions ("the attached document") we highlight a number of instances where possible inconsistencies were observed.

Scope and timelines

The focus of our roundtable discussions was on the scope and timelines of Main Market listed issuers which comprise the bulk of listed issuers in Bursa Malaysia.[1] While there was broad agreement on the proposed timelines by ACSR, there were however concerns over the lead time needed for the provision of implementation guidelines and notices on regulatory requirement amendments (elaborated below) as well as the availability of skilled resources (both internal and external) needed in order for such a large number of issuers to prepare relevant disclosures with integrity and quality. We believe these concerns should not be understated and will need to be managed through various enablers and support mechanisms (we expand on these further below).

[1] Listing Statistics (bursamalaysia.com)

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Scope and timelines (contd.)

With regards to the proposed approach with Non-listed companies, we believe a phased approach based on sectors or industries which are regarded as having high sustainability-related risks (e.g. high emissions, extraction and exploitation of nature, water usage, high concentration of labour, foreign and local) should be considered instead. The size of companies can then be overlayed on this risk-based approach to minimise additional reporting burden to less-well-resourced companies stemming from such requirements.

Applying a building blocks approach

Concerns were raised by roundtable participants on the different reporting frameworks that are currently being used by several large listed companies which have already embarked on their sustainability reporting journey and how the proposed adoption of IFRS Sustainability Disclosures Standards changes that.

This demonstrates the need for ACSR to provide further clarity on the building blocks approach that supports interoperability and compatibility of IFRS Sustainability Disclosures Standards with other frameworks.

Additionally, calls were made by roundtable participants for guidance on how reporting entities that used other reporting frameworks should transition to IFRS Sustainability Disclosures Standards.

Materiality

We support how the ISSB defines information as 'material' in the IFRS Sustainability Disclosure Standards, which is aligned with the IFRS Accounting Standards.

With the IFRS Sustainability Disclosure Standards as the global baseline, jurisdictions should then apply the building blocks approach, whereby requirements relating to the disclosure of impact on society and the environment (impact-focused disclosures) should be set at the national level to reflect the respective needs and urgency unique to the country. In this manner, information disclosed will encompass consideration of an entity's wider impact on sustainability.

We believe that the government, policy makers and standard setters are best placed to align such disclosure requirements with national laws, regulations, policies and strategies to catalyse and drive cohesive development. This is because it is more difficult for preparers to assess the impacts of an entity's activities on society and environment, than to assess the impact of matters on the entity.

Materiality (contd.)

Placing the onus of complex materiality judgements fully on preparers without sufficient guidance through jurisdiction-specific policies and targets can lead to reporting that is disjointed and lacks conciseness, to the detriment of comparable and decision-useful information. Accordingly, such disclosure requirements should be limited in number and target the most significant impacts, to avoid disclosure overload.

Connectivity in reporting

Connectivity in a broad sense is of paramount importance to lead to more resilient capital markets, and better long-term decision making in businesses. Information needs to be provided in a coherent and consistent manner to enable primary and other users to understand the connections between various types of information, and how this then connects to different aspects of business activity – governance, strategy, risk management and assessing progress – in a way that supports users' understanding of the organisations' resilience and ability to thrive.

ACCA's research[2] into climate-related disclosures in the construction materials and chemicals industries indicated that disclosures are often scattered, duplicated, and have little to no cross-referencing. The result can be information overload that hinders, instead of enabling, transparency and comparability, with readers having to spend considerable time and effort to find the information that they need.

As such, care is needed to ensure that policy making or standard setting appropriately drives connectivity in reporting, not only between different sustainability-related topics but also between sustainability-related information and information provided within and across an entity's different means of communication. This can include information disclosed in an entity's general purpose financial statements, management reports, annual reports, integrated reports, or website.

[2] *Companies' Readiness to Adopt IFRS S2 Climate-related Disclosures*
https://www.accaglobal.com/gb/en/professional-insights/global-profession/readiness-for-IFRS-S2.html

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Location of reporting

The location of reporting within the general-purpose financial report of listed issuers requires clarification given that they could be included in a number of areas – e.g. Management Discussion & Analysis, Sustainability Statement or Report or the Annual Report itself. For greater consistency, it would be good for ACSR to identify the location of reporting for IFRS Sustainability Disclousres Standards in the final NSRF.

Statement of Compliance

IFRS S1 (in para 72) states that "An entity whose sustainability-related financial disclosures comply with all the requirements of IFRS Sustainability Disclosure Standards shall make an explicit and unreserved statement of compliance. An entity shall not describe sustainability-related financial disclosures as complying with IFRS Sustainability Disclosure Standards unless they comply with all the requirements of IFRS Sustainability Disclosure Standards."

Para 72 further states that "This Standard relieves an entity from disclosing information otherwise required by an IFRS Sustainability Disclosure Standard if law or regulation prohibits the entity from disclosing that information (see paragraph B33). This Standard also relieves an entity from disclosing information about a sustainability-related opportunity otherwise required by an IFRS Sustainability Disclosure Standard if that information is commercially sensitive as described in this Standard (see paragraphs B34–B37). An entity using these exemptions is not prevented from asserting compliance with IFRS Sustainability Disclosure Standards."

The ACSR in its consultation paper has proposed a number of additional reliefs in the table set out in para 6.11 of the paper. The rationale for these reliefs are set out in para 6.10 of the paper which acknowledges the potential challenges companies may encounter in adopting these standards, such that these reliefs are therefore designed to provide extended support for preparers to integrate the required reporting processes and adhere to the requirements of IFRS S1 and S2.

In light of these additional reliefs and its rationale, clarity is needed on whether companies will be able to make an explicit and unreserved statement of compliance or whether such a statement can only be made upon the expiry of these reliefs.

ACCA Malaysia Sdn Bhd (473007-P)

1800 88 5051

myinfo@accaglobal.com

www.accaglobal.com

Level 27 Centrepoint North Tower Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur Malaysia

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Adoption of IFRS S1 as the overarching framework for IFRS S2

IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* provides the overarching framework for the adoption of IFRS S2 *Climate-related Disclosures*. Hence, in order to adopt IFRS S2, IFRS S1 needs to be adopted at the same time but only applied in so far as the disclosure of information on climate-related risks and opportunities.

Feedback from our roundtable suggests that this was not clear given the way the information was laid out in the consultation paper (e.g. in the tables in para 6.5 and 6.11).

It is important to clarify that IFRS S2 can only be applied with IFRS S1 as the latter:

- establishes key concepts such as connected information, value chains and which sustainability and climate-related risks and opportunities to report on
- provides vital guidance on the assessment of materiality
- sets out the qualitative characteristics of the information to be provided, e.g. that it needs to be relevant and represented faithfully
- sets out requirements for reporting, such as:
    - the reporting entity
    - timing and location of reporting
    - connections and comparatives in reporting
- sets out how to deal with changes in estimates and errors, disclosures on judgements, assumptions and estimates, requirements on when to aggregate and disaggregate information, focussed exemptions from disclosing commercially sensitive opportunities, and the interaction with law and regulation

This is a fundamental point to clearly establish and communicate in the final National Sustainability Reporting Framework.

Additional reliefs proposed by ACSR

While there was general support from our roundtables on the additional reliefs proposed in para 6.11, concerns were also expressed on the proposed reliefs relating to:

	Main Market listed issuer	**ACE Market listed issuers and Large NLCos with revenues of RM2billion and above**
Option to not disclose impacts of climate-related risks and opportunities on the company's strategy and decision-making	Transition relief until FYE 31 December 2026	Transition relief until FYE 31 December 2028
Option to not disclose impacts of sustainability-related risks and opportunities on the company's strategy and decision-making	As above	As above

The above disclosure is just one out of a list of 5 disclosure items relating to strategy set out in para 29 in IFRS S1 and para 9 in IFRS S2 respectively.

It is unclear why transition relief is proposed for only this item and we look forward to understanding ACSR's rationale for providing transition relief over this particular disclosure item as opposed to others in para 29 in IFRS S1 and para 9 in IFRS S2 respectively.

Given that these disclosures relate to strategy, they are likely to be considered integral by investors. Consideration should be given on how this transition relief may affect investors' evaluation of a company's performance in this regard, as well as on a more macro level possible implications to the overall attractiveness and integrity of the capital market if its disclosures lag behind regional peers.

In addition, para 29 in IFRS S1 and para 9 in IFRS S2 both use the word "effects" rather than "impacts" which is used in the table in Para 6.11 of the consultation paper. This is an example of the recommendation made earlier on the need for alignment of language and terminology used by standard setters, regulators and policy-makers with that used in the IFRS Sustainability Disclosure Standards to avoid ambiguity, misunderstanding and challenges in implementation.

ACCA Malaysia Sdn Bhd (473007-P)

1800 88 5051

myinfo@accaglobal.com

www.accaglobal.com

Level 27 Centrepoint North Tower Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur Malaysia

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Additional reliefs proposed by ACSR (contd.)

In addition, the relevant disclosure item in IFRS S2 reads in full as "the effects of those climate-related risks and opportunities on the entity's strategy and decision-making, *including information about its climate-related transition plan* (see paragraph 14)" (emphasis in italics by ACCA for the purposes of this response).

The italicised words relating to *"including information about climate-related transition plan"* appear to be omitted in the table in Para 6.11. We wish to enquire if the omission is intentional and request that ACSR kindly provide the rationale for doing so. Climate transition plans are integral to communicating a reporting entity's plan to transition from more heavy carbon-emitting energy sources towards more low carbon sources as well as how it plans to balance any competing priorities between climate and societal effects.

Lead time for the provision of implementation guidelines and notices on regulatory requirement amendments

The consultation paper proposes a 6 month lead time for the provision of implementation guidelines and notices on regulatory requirement amendments. Feedback from our roundtable strongly supports a longer time frame of at least 12 months. This is to allow companies sufficient time to put in place relevant processes, controls, data collection and governance, hire and train internal resources, engage external resources where needed etc. *before* the start of the financial year in which these standards will be effective from. Anecdotal experience from our members suggests that, even for large businesses which began transitioning towards TCFD type disclosures much earlier, it took them approximately 18-24 months to be disclosure-ready. This suggests that the process and readiness towards making high quality disclosures should not be understated.

Participants in our roundtable also called for various implementation enablers to support their transition towards the adoption of IFRS Sustainability Disclosure Standards. These are elaborated below.

ACCA Malaysia Sdn Bhd (473007-P)

1800 88 5051

myinfo@accaglobal.com

www.accaglobal.com

Level 27 Centrepoint North Tower Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur Malaysia

Implementation support needed

Our roundtables highlighted the following measures of support that will be needed to holistically and effectively implement IFRS Sustainability Disclosure Standards.

1. Creation of an open platform on the back of public-private partnership which shares data, preferably independently assured, which are needed for sustainability reporting. This could begin with emissions factors, given the adoption of IFRS S2, and move on to other sustainability-related metrics. The need for data in this regard from government – central, state and/or local – needs to be emphasised and it will facilitate the ease of reporting and improve consistency and comparability of information.
2. Active leadership and accountability by Boards, relevant committees and Senior Management to adopt sustainability reporting based on the requirements of IFRS Sustainability Disclosure Standards. In this regard, the roles and responsibilities of those charged with governance should be made clear in listing requirements, including consequences for misleading or misreporting such information. Appropriate training in this regard should also be offered to Directors and Senior Management to facilitate smooth implementation of the National Sustainability Reporting Framework.
3. The lack of resources to enable the implementation of these standards was a key concern raised by roundtable participants. Hiring and retention of skilled resources in sustainability reporting is proving more challenging. With the large number of listed issuers needing support in preparing sustainability-related disclosures, the availability of skilled external resources is also constrained. The education eco-system (namely universities and colleges) will also need time to produce high quality professionals that are needed in sustainability-related reporting and assurance. Education and training to improve the number and quality of skilled resources in this space should be considered a matter of priority and looked at holistically. Skills development also needs to be considered for other relevant stakeholders in the ecosystem – such as policy-makers, regulators, standard setters, finance and accounting (including assurance) professionals, judiciary, academia - to improve overall understanding, implementation quality and regulatory oversight and enforcement.
4. Comprehensive implementation roadmap, guidance documents, toolkits, illustrative reporting guides, FAQs etc should be developed to provide practical advice and best practices for implementing IFRS Sustainability Disclosure Standards.
5. Alignment of the National Sustainability Reporting Framework with laws, rules, regulations, policies and/or strategies relating to sustainability matters, including the future introduction of climate change legislation.

ACCA Malaysia Sdn Bhd (473007-P)

1800 88 5051

myinfo@accaglobal.com

www.accaglobal.com

Level 27 Centrepoint North Tower Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur Malaysia

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Regulatory and oversight structure

We are pleased to note in para 6.6 of the consultation document, that ACSR is currently actively deliberating on the regulatory and oversight structure and changes that will be needed to enable the issuance and oversight of IFRS Sustainability Disclosure Standards. Feedback from our roundtable further emphasised the need for such enabling legislation and regulations and oversight structures to be brought into effect soon. Together with the appropriate lead time for the provision of implementation guidelines and notices on regulatory requirement amendments, they will collectively impact upon the timing of adoption of these standards.

Applicable standards for sustainability assurance engagements

ACCA supports the International Auditing and Assurance Standards Board's (IAASB) accelerated development of the proposed ISSA 5000 in response to the demand for high quality sustainability assurance. Globally consistent high-quality assurance over sustainability information will be important to the impact of sustainability reporting and the decisions made by users of that information.

We are also very supportive of the direction that the IAASB has taken in developing an overarching standard that can set the global baseline for sustainability assurance initially, recognising that expectations will evolve, and the standard will need to be refined over time (e.g. more standards within the 5000 series may need to be developed).

ISSA 5000 builds on existing standards, including ISAE 3000 (Revised) and ISAE 3410. ACCA considers the IAASB's extant standard ISAE 3000 (Revised) and the Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance as a strong foundation for those intending to undertake a sustainability assurance engagement before the completion of ISSA 5000.

Providing sustainability assurance

We believe professional accountants are well placed to lead the reporting and assurance of sustainability-related information, working in collaboration with others to ensure confidence and trust in the creation, protection, and communication of value to entities and society.[3] This is because professional accountants have the accountancy qualification requirements, the experience in applying professional judgement around assurance in relation to both audit and non-audit engagements, alongside the requirement of professional accountants to comply with the five fundamental principles of the IESBA Code of Ethics for Professional Accountants and additionally for auditors' independence standard requirements[4].

Our research findings underscore the need for assurance skills obtained through audit experience, as this is vital for performing high quality sustainability assurance engagements, in particular the professional judgement required in applying the specific nuances of the proposed ISSA 5000.[5]

The interconnected nature of financial reporting and sustainability reporting further emphasises the need for sustainability assurance providers to have undertaken sufficient training and professional experience in both financial and sustainability reporting. Accountants are well-suited to connect financial and sustainability-related information and apply professional judgement to the complex requirements of the proposed ISSA 5000 including for example the various concepts such as the materiality and ethical concepts[6].

We understand that profession-agnostic standards best serve the public interest, given that there are different types of practitioners currently performing sustainability assurance engagements and that, in a number of jurisdictions, they are mostly not professional accountants. We strongly support ACSR's consideration of the need to license and indeed regulate assurance providers. It is important to appreciate two of the non-negotiable aspects of IAASB standards that underpin quality - ethical standards and quality management standards (ref. ED ISSA 5000 para 5).

Regulators often have power to regulate and perform oversight work on financial audits but not necessarily on other assurance engagements. Effective oversight of independent assurance is critical to the reliability and integrity of sustainability reporting, to ensure that quality of assurance is attained, and the interests of investors and other users of such assurance are protected.

[3] Accountants, purpose and sustainable organisations
[4] Ethical dilemmas in an era of sustainability reporting, see sections 2 and 3
[5] Sustainability assurance – Rising to the challenge
[6] Sustainability reporting – The guide to preparation, see section on better business within introduction and relevant capabilities within section 7.

ACCA Malaysia Sdn Bhd (473007-P)

1800 88 5051

myinfo@accaglobal.com

www.accaglobal.com

Level 27 Centrepoint North Tower Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur Malaysia

Providing sustainability assurance (contd.)

We believe therefore that it is important that a robust system of oversight is established to review and approve practitioners who are seeking to conduct such assurance work based on an agreed standard/ qualification, and to establish effective oversight of the assurance work performed to ensure that they are performed in accordance with the assurance standard(s) approved within the jurisdiction. This must include the practitioners' adherence to the relevant ethical, including independence requirements and relevant quality management standards.

We recommend that the ACSR develops and communicates a clear roadmap for licensing and oversight of assurance providers or commits to produce a clear timetable at the point at which it is feasible. This will provide certainty and a clear signal not just to users of sustainability information but the entire ecosystem.

Ethics for Sustainability Assurance

We recommend that the ACSR also closely monitors developments in ethical requirements relating to sustainability reporting and assurance, as these are key to fostering greater trust in all publicly communicated sustainability-related information.

In particular, we are supportive of the direction that the International Ethics Standards Board for Accountants (IESBA) has taken in developing an additional part of the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) to address ethical considerations in sustainability reporting and assurance, culminating in the launch of the following two Exposure Drafts (EDs) in January 2024:

- the proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards (IESSA), which includes revisions to the existing Code related to sustainability reporting, and
- the exposure draft on Using the Work of an External Expert.

The profession-agnostic proposed requirements are comprehensive and scalable, and will help bring clarity to non-professional accountants on which parts to apply while recognising that practical application of the standards for non-professional accountants will be difficult initially and that expectations will evolve, and therefore the associated ethical standards will need to be refined over time.

ACCA Malaysia Sdn Bhd (473007-P)

1800 88 5051

myinfo@accaglobal.com

www.accaglobal.com

Level 27 Centrepoint North Tower Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur Malaysia

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Capacity building

In developing an implementation roadmap for sustainability reporting, including the requirement for assurance, jurisdictions should carefully consider the extent of the skills and human resources gap across its corporate reporting ecosystem, whereby the anticipated demand for sustainability reporting talent may far exceed the supply in reporting entities, vendors, assurance firms and regulators. Scarcity of talent will have implications on the cost of compliance, quality and integrity of reporting and assurance and is likely to persist beyond the initial transition period. A lack of financial resources, likely an acute issue for smaller entities, can compound this issue.

Professional accountants will need to rapidly develop new skillsets and adopt new mindsets to meet the drive to provide sustainability-related information. At the same time, other professionals, including sustainability experts, will need to adapt to concepts and terminology related to general purpose financial reporting. It is also likely that extensive application guidance and education material will be needed to support implementation.

Capacity building for sustainability reporting – IFRS Sustainability Disclosure Standards

In recognising the fundamental importance of capacity building in this journey, we recommend that ACSR leverages the IFRS Foundation Partnership Framework (Partnership Framework) in the development of supplementary educational materials centrally to ensure greater interoperability and consistent application.

ACCA is a partner of this Partnership Framework, and thus far, under our Accounting for a better world initiative, we have produced a series of explainer videos with the ISSB to support understanding and application of the IFRS Sustainability Disclosure Standards. We have also produced a guide to help entities get ready to report sustainability-related information.

The guide was developed with proportionality in mind and structured around an eight-stage sustainability reporting cycle, which suggests a flow of process, technology and people-related activities to prepare for and manage sustainability reporting.

Alongside our webinars and conferences, we also offer a wide range of sustainability-related learning resources such as our course on Climate Finance which we developed with the CFA Institute and our Certificate in Sustainability for Finance for accountants, finance and business professionals which has been updated to incorporate the latest developments in the IFRS Sustainability Disclosure Standards. In the ACCA qualification, sustainability is integrated across the qualification exams, experience and ethics, and the qualification is updated annually to reflect the latest developments.

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Capacity building for sustainability reporting – IFRS Sustainability Disclosure Standards (contd.)

We are at advanced stage of developing an ACCA Diploma in Sustainability, a modular qualification with stackable credentials covering different aspects of sustainability, including legal and regulatory frameworks, ethical considerations, strategic planning, decision making, reporting and assurance. We are working at pace to build a robust product that the market needs and are aiming to have the Diploma released in 2024.

Capacity building for sustainability assurance providers

In line with the ongoing work of the International Auditing and Assurance Standards Board (IAASB) in developing a globally consistent set of standards for sustainability assurance engagements, which commences with their overarching standard, ISSA 5000 *General Requirements for Sustainability Assurance Engagements*, ACCA is committed to building the necessary competency and capability of sustainability assurance providers in applying assurance and sustainability skills, with an understanding of the ethical requirements for carrying out assurance engagements. These sustainability assurance providers may comprise accountants and non-accountants.

Limited timeframe for responding to the consultation

Adequate public consultation in response to a significant proposed regulatory initiative such as the NSRF is critical towards fostering trust and confidence in the capital market.

In this regard, the feedback period allowed in this consultation from 15 February to 29 March was limited and may not have allowed sufficient time for interested parties to respond. As an example, when the International Sustainability Standards Board (ISSB) issued its first two standards as exposure drafts as well as later on its proposed agenda priorities, it allowed a consultation period of approximately 4 months.

In addition, this consultation process overlapped with another significant consultation in the Malaysian corporate reporting landscape – namely the proposal for the new audit exemption criteria for private companies in Malaysia by Suruhanjaya Syarikat Malaysia (SSM). This added to the challenge faced by relevant parties interested in dedicating sufficient time and resources to adequately address the consultation questions raised in the proposed NSRF.

As sustainability matters are likely to grow in importance over the coming years with possibly newer IFRS Sustainability Disclosures Standards, we would strongly encourage that public consultation periods are lengthened, consistent with the desire to foster greater trust and confidence in the market.

ACCA Malaysia Sdn Bhd (473007-P)

1800 88 5051

myinfo@accaglobal.com

www.accaglobal.com

Level 27 Centrepoint North Tower Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur Malaysia