

PLENARY 4

Incorporating ESG Values Into Public Employment Services

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**International Public Employment
Forum 2023 (IPEF 2023) -
Building a Resilient Workforce:
The MADANI Approach**

Organized by:

PRESSING CHALLENGES FOR COMPANIES



A quote

“Companies tend to disclose good performance, ignore poor performance, twist the science and use sustainability reports to legitimate their actions and even mislead their stakeholders.”

ACCELERATING CONVERGENCE

Financial reporting standard-setters are recognizing the materiality of ESG information and the need for an international governing body to coordinate the development of ESG reporting standards



The International Organization of Securities Commissions (**IOSCO**) and International Financial Reporting Standards (**IFRS**) are working together to accelerate convergence



The Five: Carbon Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) announced their intention to work together under Impact Management Project. IIRC and SASB subsequently have announced their intent to merge, forming the **Value Creation Foundation**.



The **World Economic Forum (WEF)** released a set of universal ESG metrics and disclosures to advance stakeholder capitalism.

In this project there are Bank of America, the Big Four and the International Business Council (IBC).

The reality of materiality Insights from real-world applications of ESG materiality assessments. WBCSD

Why should ESG matter to business?

What is driving focus on **ESG risk management**?

Megatrends and disruption

Disrupting the global risk landscape and future growth pathways

Investors

Wanting more data on a company's ESG performance

Employees

Wanting to work for employers that incorporate ESG into their purpose

Customers

Demanding more sustainable products and services

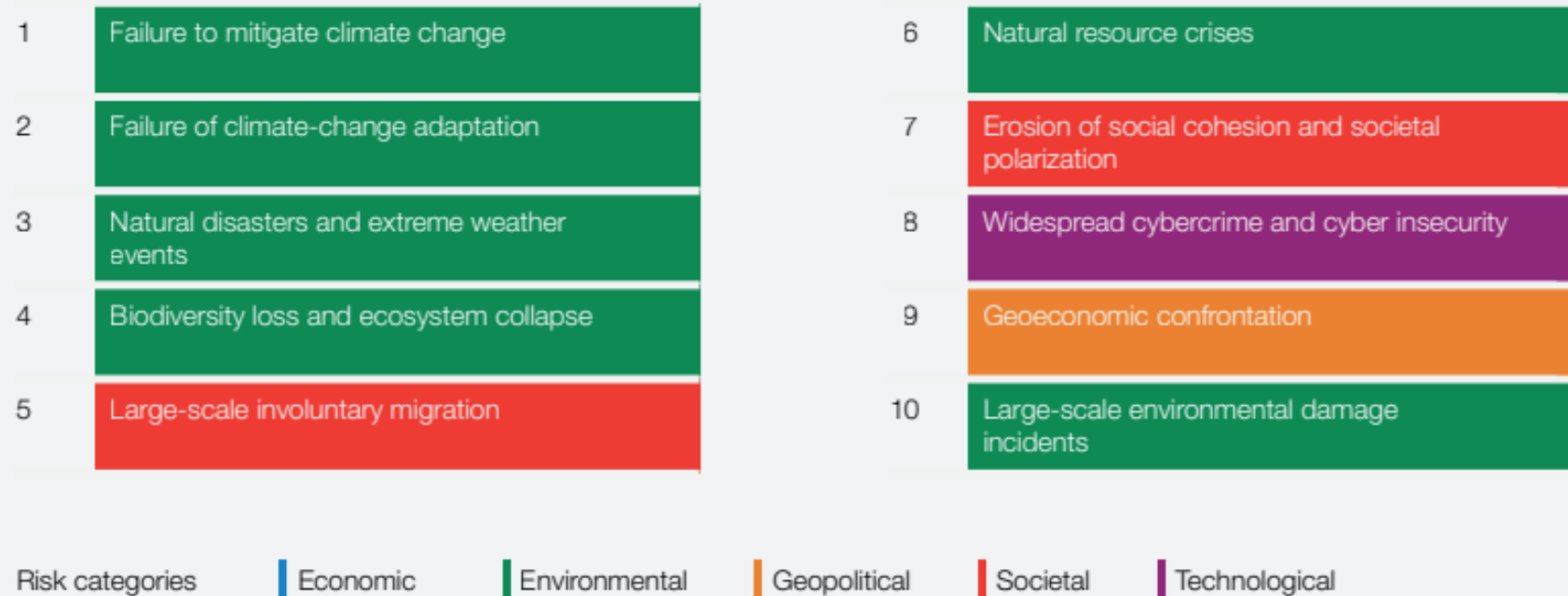
Regulators

Increasing regulation around ESG issues

NGOs and Communities

Increasing pressure for radical transparency

THE BUSINESS CONTEXT AND RISK LANDSCAPE HAVE CHANGED



Source

World Economic Forum Global Risks
Perception Survey 2022-2023.

INVESTOR EXPECTATIONS



Financial Reporting Council



Climate Thematic

November 2020

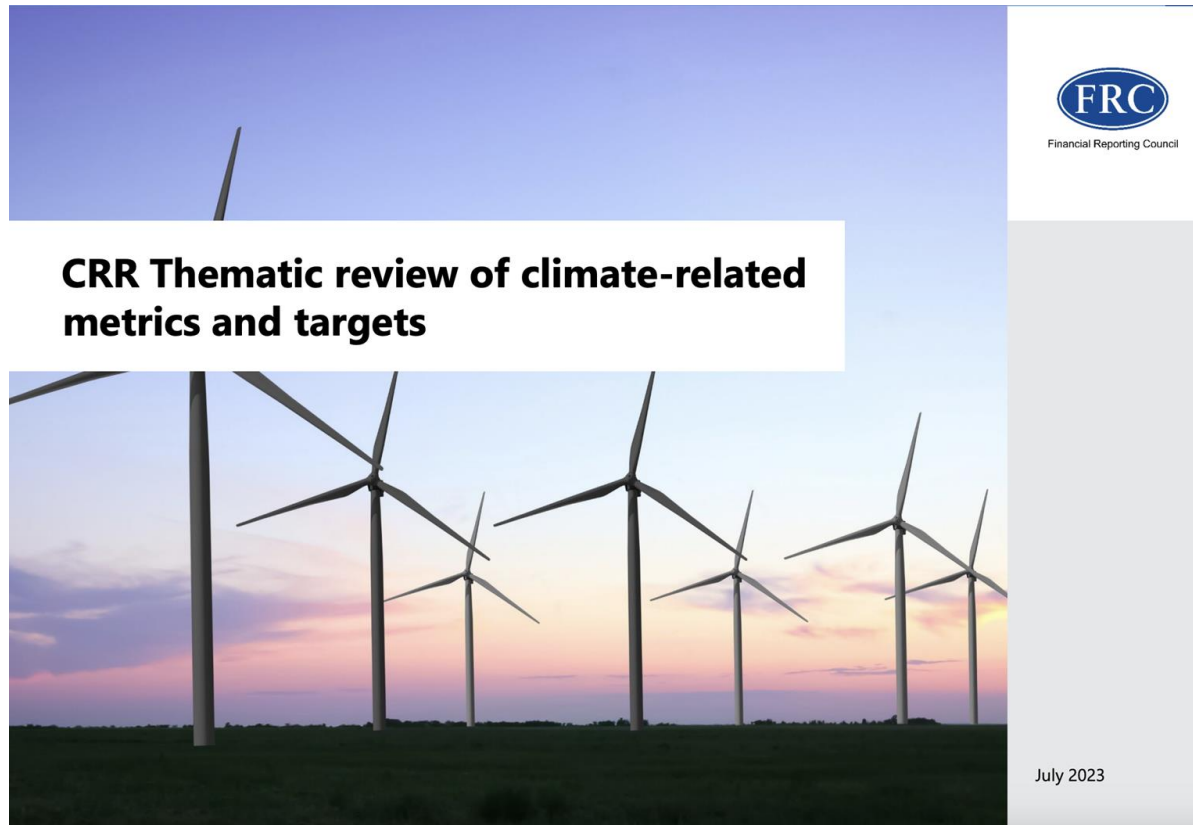


In the FRC's 2020 climate thematic, investors reiterated that they continue to seek a better understanding of:

- **Governance:** How boards consider and assess climate-related issues
- **Strategy:** How the business model may be affected by climate-related issues and what changes the company might need to make
- **Strategy & Risk Management:** The risks and opportunities presented by climate change
- **Metrics & Targets:** How climate-related issues, and their impact, are measured

INVESTOR EXPECTATIONS

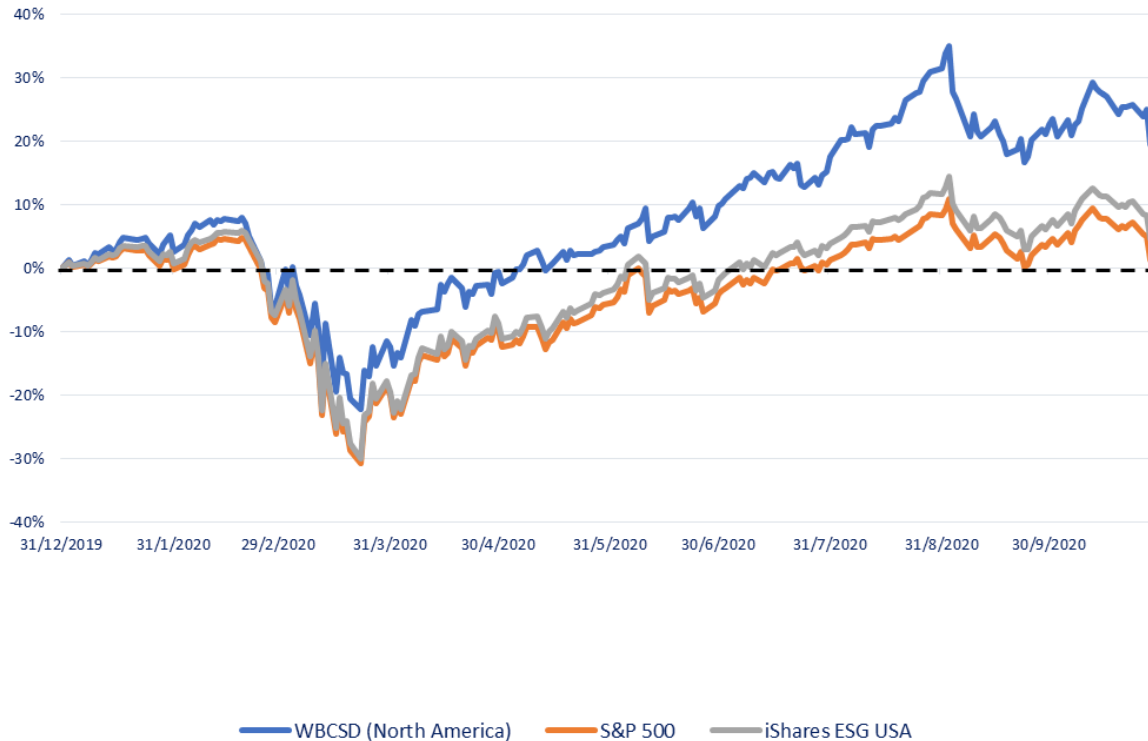
FRC thematic review examines quality of climate-related metrics and targets disclosures.



The review analysed TCFD disclosures from 20 companies' 2022 annual reports across four sectors: **materials and buildings, energy, banks, and asset managers**. It identified areas of better reporting practice as well as opportunities for improvement. Key findings show an **incremental improvement in the quality of companies' disclosure of net zero commitments and interim emissions targets**. The review also found that explanations of how climate targets affect financial statements still need improvement.

ESG OUTPERFORMANCE DURING THE COVID-19 CRISIS

WBCSD North American Members YTD Performance



* 3M, Abbott, ABInbev, ADM, Apple, Bunge, Cemex, Chevron, Cooper Tire, Corteva, Dow, DuPont, Eaton, Exxon Mobil, Goodyear, Google (Alphabet), Greif, IFF, International Paper, Kellogg, Maple Leaf Foods, Microsoft, Nutrien, PepsiCo, Procter & Gamble, S&P, Tiffany, UPS, Verizon, Walmart, Whirlpool. (Market cap-weighted)

31 North American member stocks weathered downturn better than the market

Consistently outperforming:

By mid-end October, the WBCSD portfolio had outperformed S&P 500 Index by **18.8%** and was **15.6%** higher than iShares ESG MSCI USA index.

Rapid recovery from the crisis lows:

WBCSD members returned faster with positive return

ESG AND LOW CARBON ADOPTION IN THE LOCAL CAPITAL MARKET ECOSYSTEM

Bursa Malaysia launches two ESG-themed indices with FTSE Russell

CORPORATE NEWS

Monday, 29 Aug 2022

6:25 PM MYT



KUALA LUMPUR: Bursa Malaysia Bhd today launched two new environmental, social, and governance (ESG) themed indices under the FTSE Bursa Malaysia Index Series, a statement from the exchange said.

- **2 ESG-themed indices:**
 - FTSE Bursa Malaysia Top 100 ESG Low Carbon Select Index (FBM100LC)
 - FTSE Bursa Malaysia Top 100 ESG Low Carbon Select Shariah Index (FBM100LS)
- Expanded the Exchange's benchmarking offerings in the **ESG, low carbon** and **climate risk** index space.
 - 30% reduction in **fossil fuel reserves intensity**
 - 30% reduction in **carbon emissions intensity**
 - 20% uplift in **ESG ratings**.
- Excludes companies involved with **controversial product activities**

Source: The Star

Emerging trends for Senior Managers and Boards?

The evolution of ESG related risk



- Approach ESG matters in the same way as approach any other **financial risk**
- ESG risks has evolved from **non-financial**, purely environmental, **ethical** matters to **material**, financial risks and opportunities for companies.
- **Legislators, regulators** and **investors** acknowledge this.
- Enhance decision-making: Comprehensive assessment of the **relevant facts** and circumstances, under appropriate circumstances **challenge the evidence**.

Problem Drivers



Favour the **short-term maximisation** of shareholder value



Focus on short-term financial returns to shareholders **at the expense of long-term value creation**



Companies **lack a strategic perspective** over sustainability and current practices



Board remuneration structures incentivise the focus on short-term shareholder value



The current board composition does not fully support a **shift towards sustainability**



Corporate governance frameworks do not sufficiently voice the long-term interests of **stakeholders**



Enforcement of the directors' **duty to act** in the long-term interest of company is limited.

Challenges for Directors



- Regulations
- Risk of litigation
- Risk of damage to reputation
- Stakeholders' expectations
- Reporting Trend – from voluntary to mandatory in the near future

The rise of ESG litigation

Categorization of ESG-Related Litigation



Government ESG Litigation



Infrastructure ESG Litigation



Concerns companies:

- Company Operations ESG Litigation
- Company Governance ESG Litigation
- Corporate Disclosure ESG Litigation



Fiduciary Duty ESG Litigation



Informal ESG Disputes



Fiduciary duties and stakeholder governance

Fiduciary duties



- To promote the **success** of the company
- To act within powers for proper **purpose**
- To exercise **independent** judgment
- Not to accept **benefits** from third parties
- To avoid **conflicts of interest**
- To declare interests in proposed transactions with the company.
- To exercise reasonable **care, skill** and **diligence**
- A duty of **confidentiality**
- To consider the interests of **creditors** when a company becomes **insolvent**.

Duty of Care expected of directors



- Boards need to maintain **sufficient knowledge and understanding** of the company's business
- Directors should have **access to information** regarding **risks and opportunities** for the company

A greater focus on stakeholder governance



- Directors are required to promote the success of the company for the benefit of any parties interested in or affected by the operations of the company – its stakeholders.
- Social license to operate
- Balance short- and long-term interests.
- Long-term stakeholder value

Modernizing governance:

ESG challenges and recommendations for corporate directors



Recommendations to modernize governance

“Boards must have the right skills, organization and decision-making process, the right agenda and enough time dedicated to the relationship with stakeholders to place sustainability issues at the heart of the company strategy”

Published by the World Business Council for Sustainable Development (WBCSD),
January 2020

Conclusion

Conclusion



- Companies must understand the **ESG drivers** (compliance and beyond compliance)
- Increased **expectations** from shareholders, employees, customers and society
- **Identify and prioritize** material ESG risks and opportunities
- **Embed ESG considerations** into ERM and governance
- Board directors and senior managers must acquire the necessary **ESG /sustainability knowledge**.



THANK YOU

BCSD Malaysia creates the business case for sustainability through the development of tools, research and business models. These scalable science-based solutions deliver measurable impact and enable our members to engage at the highest level, influencing the agenda as well as demonstrating leadership.

Zakri Abdul Hamid

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