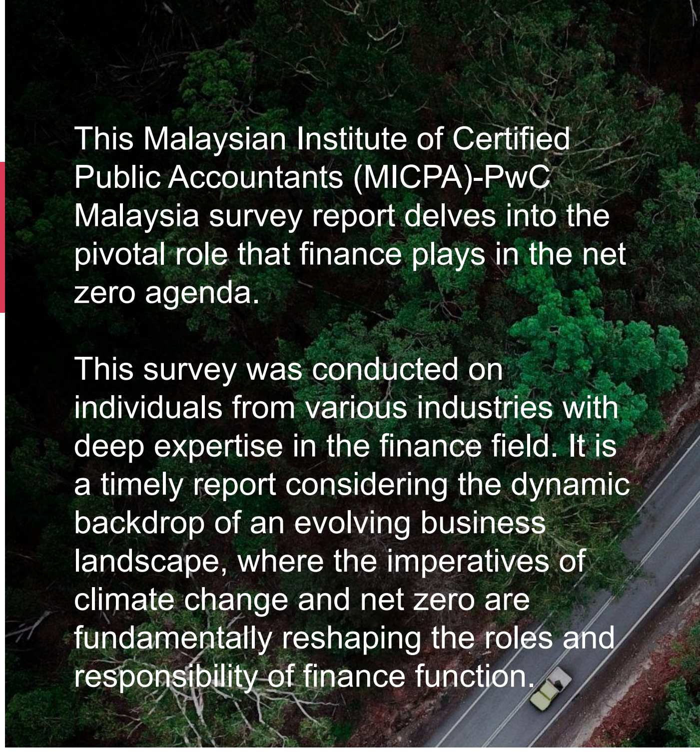
From numbers to impact:

A net zero remit for finance functions

A MICPA-PwC Malaysia survey report
September 2023

Foreword



This Malaysian Institute of Certified Public Accountants (MICPA)-PwC Malaysia survey report delves into the pivotal role that finance plays in the net zero agenda.

This survey was conducted on individuals from various industries with deep expertise in the finance field. It is a timely report considering the dynamic backdrop of an evolving business landscape, where the imperatives of climate change and net zero are fundamentally reshaping the roles and responsibility of finance function.

The role of the finance function is being redefined. Traditionally, its primary focus had been on quantifying, overseeing, and communicating conventional financial metrics. Now, as net zero aspirations spread far and wide throughout the economy, the finance function is now assuming an expanded role in supporting companies' net zero goals.

Some finance chiefs welcome this widening of their remit, seeing it as a natural extension of their focus on long term value and performance. Others remain sceptical of their division's level of involvement in these initiatives. Regardless, respondents from our joint MICPA-PwC survey were in sync, with 47% identifying the loss of competitive advantage and reputational damage to be the top two impacts that can occur as a result of failing to comply with ESG practices in the next three years.

The reality remains clear, in that finance as a function must keep pace with global and national developments in this space. The movement towards a low-carbon economy is taking shape, as regulators, investors and consumers alike are actively committing to net zero emissions by 2050.

The recent launch of the National Energy Transition Roadmap (NETR) underlines the need for a consolidation of resources to accelerate Malaysia's energy transition. The roadmap highlighted the need for central and internal efficiency, where finance must be upfront and proactive in their support. The spotlight is on them and it must be intrinsically understood that decarbonisation is now a non-negotiable for businesses.

Soo Hoo Khoon Yean
Managing Partner,
PwC Malaysia

PwC Malaysia and MICPA acknowledges the imperative for finance leaders to drive the net zero agenda. This collaborative survey report explores how net zero efforts can be operationalised in the finance function and showcase insights from our respondents in the finance field.

Throughout this report, you will find frequent emphasis on the finance function interrelationship with sustainability initiatives through elements such as infrastructure and data, risks and opportunities, upskilling and reskilling, commitment gaps and others.

Readers will have a clearer understanding of what more is needed to meet net zero emissions targets. Taking it a step further, if you have a role in finance, this report can serve as a key reference point on how you formulate an action plan in your organisation's road to net zero.

Foo Yoke Pin
Executive Director,
The Malaysian Institute of Certified Public Accountants (MICPA)

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Net zero and the changing role of finance

Finance leadership plays a crucial role in driving net zero efforts, not only for sustainability objectives but also for long term value creation. This is primarily due to their:

- ability to effectively manage information
- extensive network of relationships
- focus on long term value
- wide range of analytical tools and skill sets

A majority of respondents are receptive to the added duties of sustainability reporting, KPI monitoring, and climate-related financial risk disclosure, among others, with 77% of respondents saying they view it as a welcomed transition. Of that number, many believe that finance as a core function is strategically placed to address sustainability goals.

In light of heightened regulatory environment and investor demands, finance professionals are acutely aware of the implications in failing to comply with ESG practices. Their commitment in ensuring reporting and investor-grade data is paramount.

77%

consider the shift in the overall finance role to increasingly support the organisation's sustainability goals as **a welcomed transition**

47%

see the **loss of competitive advantage** as well as **reputational damage** to be the largest impacts as a result of failing to comply with ESG practices

The changing role of the finance function

Having clarified the need for change in the role of finance, it is more important to understand what changes are needed. Attending to demands for support in the net zero agenda will require the utilisation of similar skill sets and potentially the same tools, only that a new perspective must be considered in balancing financial performance.

For example, with budgeting and forecasting being a frequent and crucial component of the finance function, there is a need to start looking into internal carbon pricing and adopt a forward view on how externalities could affect the bottom line. This, along with other adaptations, can help mitigate the negative implications mentioned earlier, on top of helping companies to be prepared for substantial amendments to legislative and regulatory policies in the coming years.

Figure 1: Examples of how the finance function can integrate net zero efforts into existing roles (non-exhaustive)

Traditional finance tasks	Sustainability-integrated role
Stay on top of reporting requirements, and perform budgeting and forecasting exercises	Prepare timely, reliable and investor-grade sustainability reports
Gather insights from various stakeholder engagements	Integrate sustainability into daily operations and investments strategies
Own and maintain the company's financial and analytical data	Establish credibility in sustainability data

Roles of finance in the transition to net zero

Depending on specific needs and wants, the actual role of finance may differ. So how can the finance function synthesise all of these distinctions to determine the role best suited to address the company's needs?

In our view, finance leaders can further value creation and lead on sustainability by playing four interconnected roles:

Strategic visionary

Balance longer term risks and opportunities from sustainability commitments

Transformative catalyst

Align company strategy and culture behind a common sustainability agenda

Collaborative integrator

Build internal and external networks to uphold sustainability commitments

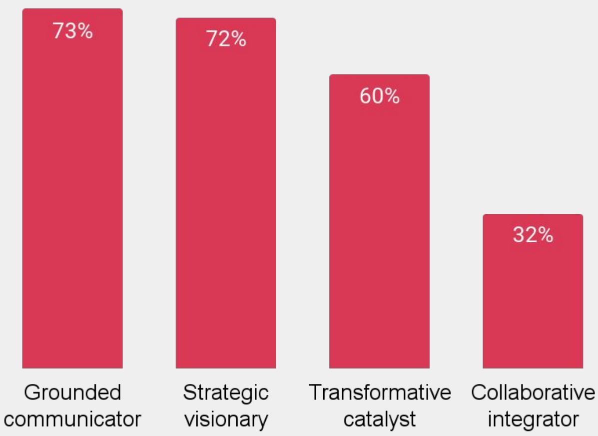
Grounded communicator

Bring data and cross-functional understanding together to present a business case for a sustainability programme

From our survey, it is clear that respondents believe CFOs and the finance department would be most suitable playing the role of the **grounded communicator** in supporting the transition towards net zero.

This commensurates with findings from a separate question asking the specific sustainability initiatives that the finance function would be involved in. Data was a standout, as sustainability reporting (78%), monitoring of sustainability KPIs (72%), and climate-related financial risk disclosure (62%) were the top sustainability initiatives they understood the finance function to be and/or should be involved in.

Chart 1: Role of finance function in ESG



Q. What role do you think CFOs and the finance department, as an extension, play in the ESG agenda? Choose all that apply.

Chart 2: Finance function involvement in sustainability initiatives

Q. Please select all sustainability initiatives that the Finance function is involved in.

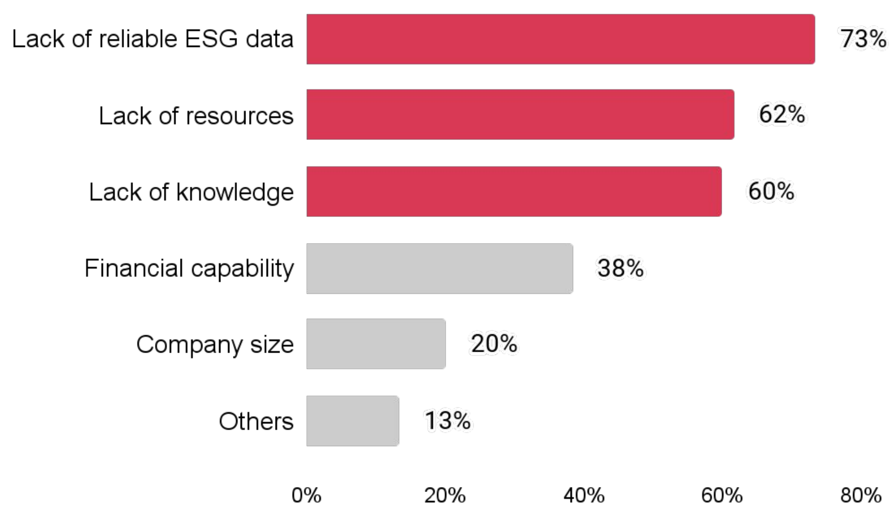
Is finance ready to lead the net zero agenda?

At the core of every sustainability transformation lies a finance challenge - how to make your organisation green without going red.

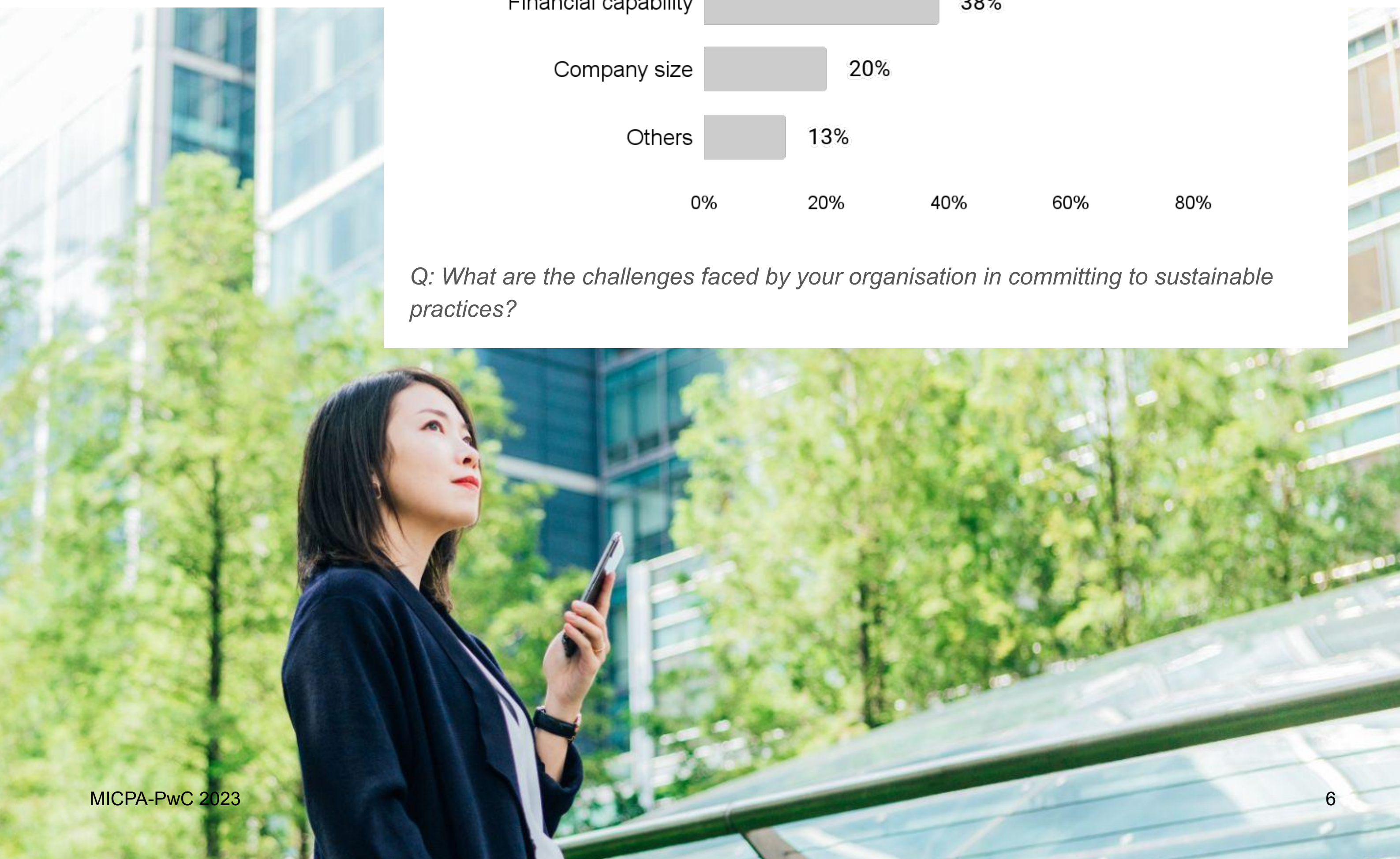
Finance must translate the net zero strategy into actionable steps, from altering reporting to fostering value driven decision making.This role extends into emerging areas like carbon markets. Financing net zero also adds complexity as it involves not just handling standard financing elements like capital costs but also managing green financing, which secures funds for lower carbon projects.

Ultimately, the finance function holds a central role in the transition to net zero. The question is, are they ready? Limited in-house expertise could hinder progress. Through their responses, there are clear key challenges in finance's bid to turn companies green: **lack of reliable ESG data, lack of resources, and lack of knowledge.**

Chart 3: Key challenges in committing to sustainable practices



Q: What are the challenges faced by your organisation in committing to sustainable practices?



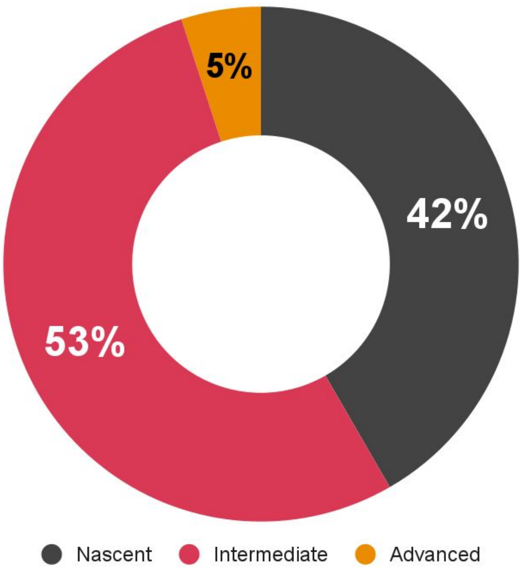
Finance leaders see room for companies to improve their ESG data infrastructure

We can't manage what we can't measure. Data-driven decisions are key in bridging the gap between net zero ambition and action. However, **survey findings suggests that existing infrastructure used to capture ESG data is still in its early stages.**

While 53% of finance leaders surveyed reported that the data is periodically maintained (intermediate), 42% of respondents said that their data is inconsistently managed and lacks clear ownership (nascent). Only 5% mentioned that their data has been seamlessly integrated into the business's software infrastructure and stored in a common data warehouse (advanced).

The race towards net zero demands a robust level of ESG data management as the appetite for transparency and visibility grows larger. PwC's Global Investor Survey 2022 found that 87% of investors perceive that company reporting on sustainability performance contains elements of greenwashing.

Chart 4: The state of ESG data infrastructure



Q: Which of the following best describes your data infrastructure for ESG data compilation? (responses summarised)

Counting carbon emissions

Carbon accounting underpins much of the economic analysis related to climate change, forming the basis of a company's journey to net zero. **Only 30% of respondents said that they report on emissions data as part of their monthly operation and financial analysis.**

Companies surveyed appear to report more on health and safety issues (52%), anti-corruption (50%) and energy management (47%). Collecting quality emissions data, especially Scope 3 emissions, is crucial in decarbonisation efforts for both the private sector and nation. Yet, tracking and measuring Scope 3 emissions, which make up a big chunk (around 65-95%) of a company's carbon footprint, can be a real challenge. This is because companies often have little control or influence over their suppliers' operations.

In a PwC-CMM report on corporate Malaysia's journey towards a sustainable supply chain, only around 20% of companies collect ESG data from their suppliers, and 14% incorporate ESG as part of their supply chain tracking.

Just **30%** of respondents

include emissions data in their monthly operation and financial analysis.

Closing the confidence gap on skills

The consensus view among finance leaders is that ESG skills are important. But, respondents' confidence in the finance function performing those skills tells a different story.

On average, less than 40% who claim each skill to be important demonstrated actual confidence in their finance departments' ability to execute those skills. The confidence gap grows larger when looking at C-suites and senior management, where the level of confidence drops to 32% on average, despite them finding the finance function's ability to embed ESG into financial risks the most important.

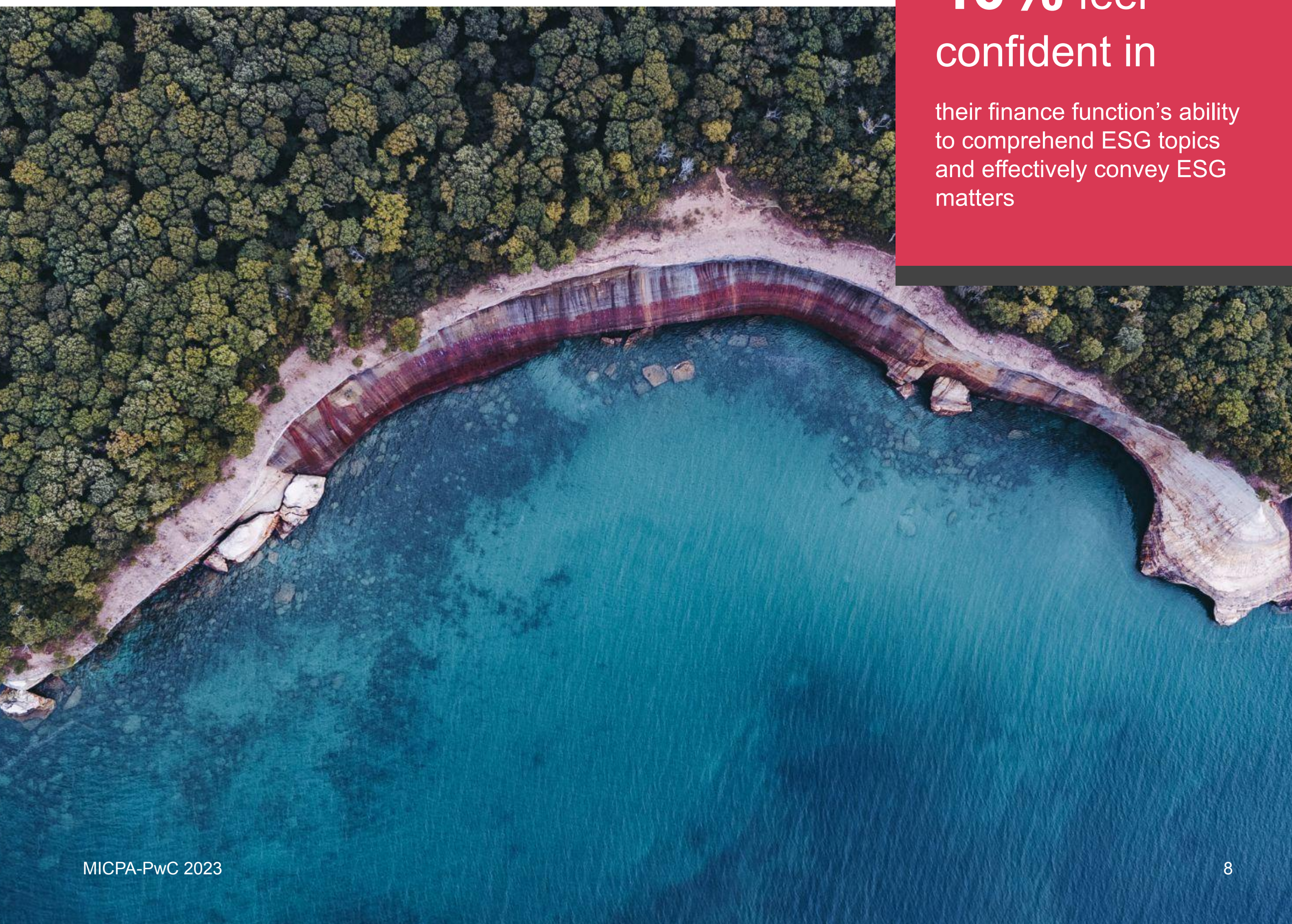
Evidently, the finance function would benefit from upskilling. By deepening their grasp on relevant principles and having hands-on experiences, finance leaders can adeptly navigate the dynamic sustainability landscape and make well-informed financial choices.

More than **80%** agree on the importance of ESG comprehension,

integrating it into financial risk, and adapting to evolving ESG frameworks

Less than **40%** feel confident in

their finance function's ability to comprehend ESG topics and effectively convey ESG matters



Evolving sustainability reporting landscape in Malaysia

There has been an increasing call for the "harmonisation" of sustainability reporting standards for enhanced transparency from investors, regulators and other stakeholders. Notably, considerable progress have been made in the sustainability reporting landscape in 2023.

PwC worked with the National University of Singapore (NUS) to gather insights on the state of sustainability reporting in Asia Pacific.

Key findings on the sustainability reporting landscape in Malaysia include:

- **Sustainable Development Goals (SDG) and Global Reporting Initiative (GRI) are most commonly used frameworks in Malaysia,** adopted by 92% and 84% of companies studied respectively, followed by the Task Force on Climate-Related Financial Disclosures (TCFD). The revised GRI Standards have more focus on organisations' impacts on the economy, environment and people, and are effective for reporting from 1 January 2023.

- **The adoption of the TCFD framework has gained significant traction;** 60% have now aligned their reporting with the framework in contrast with 28% in the previous year. With TCFD-aligned disclosures being mandated for companies listed in Bursa Malaysia beginning 2025, we expect that there will be further uptake of the framework.

Chart 6: State of sustainability reporting standards and frameworks used in Malaysia

	SDG	GRI	TCFD	IIRC	CDP
2022	92%	84%	60%	24%	22%
2021	88%	80%	28%	48%	12%

Source: Sustainability Counts 2023 and 2022, based on top-50 listed companies by market capitalisation

SDG: Sustainable Development Goals
GRI: Global Reporting Initiative
TCFD: Task Force on Climate-Related Financial Disclosures
IIRC: The International Integrated Reporting Council
CDP: Carbon Disclosure Project

- **Spotlight on Scope 3 emissions**: With 80% of companies studied disclosing their emissions, measurement of Scope 1 and 2 emissions is reaching maturity. However, Malaysian companies need to place an added effort for better transparency and accuracy of the measurement of their Scope 3 emissions.

- **Trust and transparency over sustainability - related data can be a competitive advantage for companies.** Assurance over sustainability reporting adds credibility and builds trust in ESG disclosures, increasing confidence levels among users of the reports. 49% of companies studied have carried out external assurance.

Bringing Financial Skills into Sustainability Reporting

As mentioned in earlier chapters, finance teams provide unique insights as they have been systematically engaged in an organisation's strategic initiatives, data analytics and as well as performance monitoring processes.

Areas where insights and experience from finance function can enhance sustainability reporting include:

- Leveraging expertise in regulatory reporting and risk management to improve how sustainability data is handled, making it accurate and timely.
- Striking a balance to make sustainability information understandable and relevant to diverse stakeholders, both internal and external.
- Ensuring alignment with global reporting standards, which is crucial for organisation in getting ready for upcoming sustainability reporting requirements e.g. TCFD, ISSB
- Engaging third-party assurance providers to enhance trust and credibility in reported sustainability data.

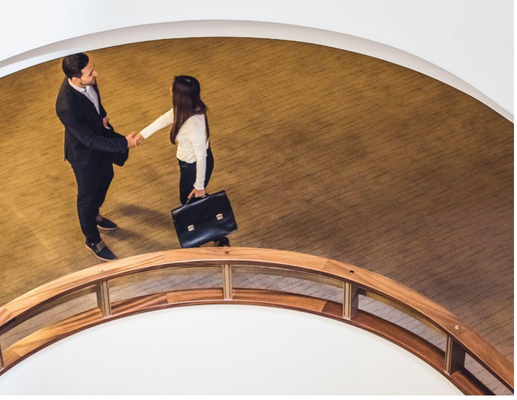
Time to take the driver's seat

There is an enormous opportunity for finance functions to strengthen their relevance and live up to the evolving demands and performance expected of them. They can increase the value of sustainability-based insights into strategic and operational decision-making and foster the right control mindset over these issues across the entire organisation.

Three key areas to address:

1 Tackle the data challenge

Finance leaders recognise the importance of net zero for businesses, yet measuring it remains complex. Auditable and regulatory-grade ESG data will be key for investors and shareholders going forward. Optimising data processes is crucial for quick, informed decisions in today's data-driven world. Aligning data collection with reporting needs, both internal and external, is vital to ensure transparency, compliance, and adaptability to changing regulations.



2 Bring together financial and environmental competencies

Connecting financial and sustainability-related competencies is key. Finance executives must be given opportunities to learn the language of climate change and decarbonisation from Scope 1, 2 and 3 emissions, transition and physical risks and sustainability-linked financing, among others. Relevant sustainability upskilling opportunities will enable them to identify sustainability risks and solutions, and take part in supporting net zero transformation in a financially balanced manner, utilising taxonomies and harnessing green finance and carbon instruments effectively.

3 Enhance reporting effectiveness

Track and report sustainability performance starting with the most financially material metrics. Collaboration between sustainability and finance teams can make sustainability reporting more meaningful by placing it in a financial context, while breaking down data silos. Additionally, organisations can mitigate greenwashing risks by integrating robust systems, controls, and oversight into reporting processes for accuracy and reliability. Strengthen trust by seeking assurance from impartial practitioners skilled in applying professional skepticism.

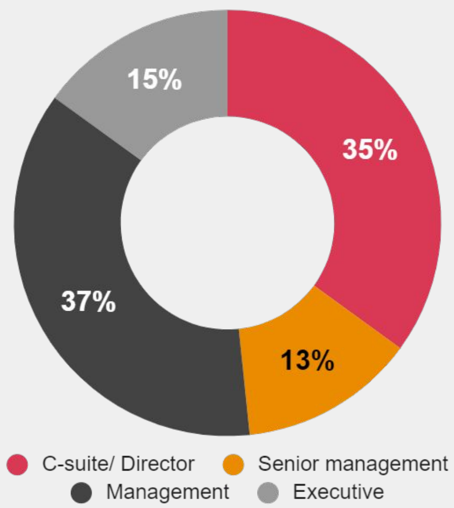
About our survey

MICPA and PwC Malaysia jointly conducted a study to help stakeholders understand the role finance function can play in their organisation's transition to net zero.

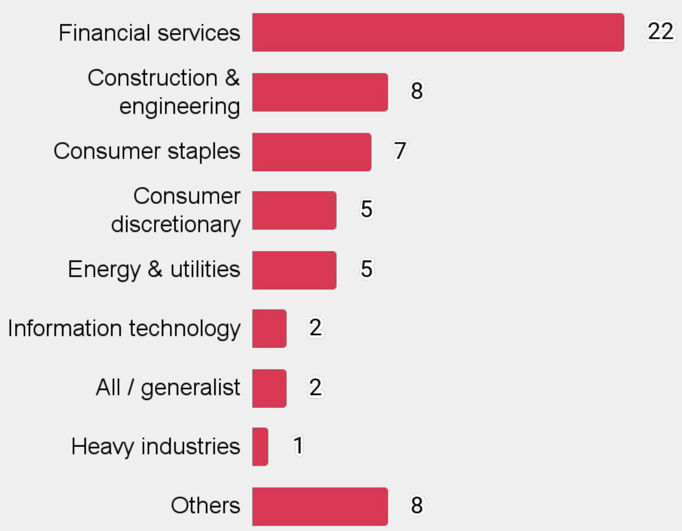
Between June and July 2023, an online survey was conducted in which 60 responses were received.

Demographics

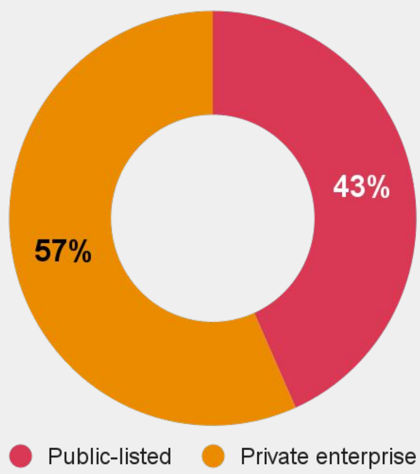
Designation



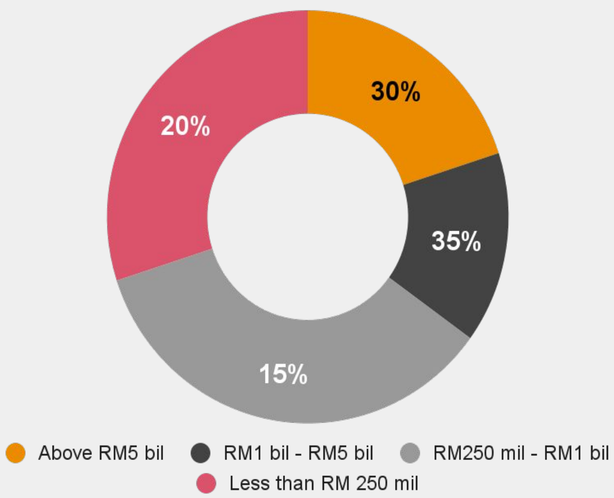
Industry / Sector



Ownership



Revenue



Contacts

PwC Malaysia

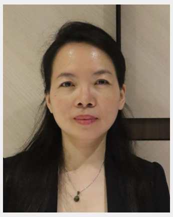
Soo Hoo Khoon Yean
Managing Partner
PwC Malaysia
khoon.yean.soo.hoo@pwc.com

Andrew Chan
South East Asia's Sustainability and Climate Change Leader
PwC Malaysia
andrew.wk.chan@pwc.com

Farhana Jabir
Director,
Sustainability & Climate Change
PwC Malaysia
farhana.jabir@pwc.com

The Malaysian Institute of Certified Public Accountants (MICPA)

Foo Yoke Pin
Executive Director
fooyp@micpa.com.my



Chiam Pei Pei
Executive Director,
Technical
peipei@micpa.com.my

micpa.com.my

pwc.com/my