



Palm oil sector in focus:

Improving disclosures for better insight and prioritisation

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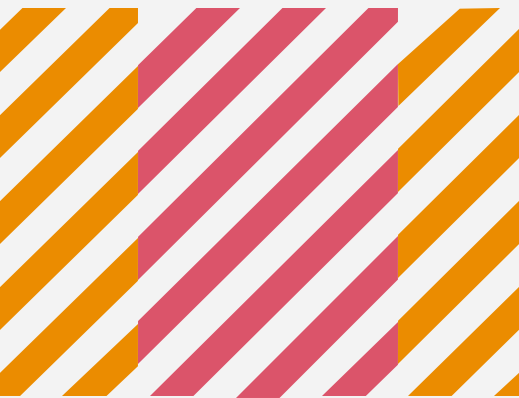


Key message

The palm oil sector has strong roots to anchor ESG disclosure

With historically strong sustainability reporting, companies in the palm oil sector have a good foundation to build on in the disclosure of metrics related to climate and nature. In addition to producing reports using the framework of the Taskforce on Climate-related Financial Disclosures (TCFD), there is also already some reporting related to the Taskforce on Nature-related Financial Disclosures' (TNFD) core global metrics for nature-related dependencies and impacts. For example, greenhouse gas (GHG) emissions, total spatial footprint, waste generation and disposal, and resource use/ replenishment.

Leveraging these existing disclosures can serve as a foundation for further integration of TNFD's metrics within the palm oil sector to streamline reporting and minimise duplication of efforts. Better disclosure enables improved ability to share impact measurement approaches including data sources and other assessments. This in turn can support stakeholder engagement, leading to prioritisation of measurement and reporting enhancements.



Significant developments are expected to impact sustainability reporting in Malaysia



Bursa Malaysia's Sustainability Reporting Guide provides listed companies with guidance on the required indicators for disclosure, and some of these indicators are already aligned with TNFD's core global metrics.

Specifically for the plantation sector:



Biodiversity-related indicators such as

- i. percentage of existing operations or projects assessed for biodiversity risks
- ii. size and location of all habitat areas protected or restored
- iii. total number of International Union for Conservation of Nature (IUCN Red List of Threatened Species) and national conservation list species with habitats in areas affected by the operations of the company
- iv. percentage of certified palm oil as a percentage of total palm oil produced, used or processed relative to Roundtable on Sustainable Palm Oil (RSPO) or Malaysian Sustainable Palm Oil (MSPO) recommendations are required to be disclosed



Nature-related indicators such as

- i. total volume of water (effluent) discharge over the reporting period,
- ii. total weight or volume of materials that are used to produce and package products and services
- iii. amount of air emissions of pollutants and particulate matter are also required to be disclosed by listed companies

The International Sustainability Standards Board (ISSB) has issued International Financial Reporting Standards (IFRS) S1 and S2 effective 1 January 2024, with the Securities Commission Malaysia supporting the implementation of it in Malaysia by setting up a national level Advisory Committee on Sustainability Reporting to facilitate public consultation in February 2024. Palm oil companies can consider leveraging existing sustainability disclosure efforts based on reporting standards such as IFRS S2 (which has subsumed the TCFD).

Announced on 24 September 2024, the National Sustainability Reporting Framework (NSRF) is being implemented in phases starting from 1 January 2025, requiring listed issuers, and non-listed companies with market capitalisation over RM2 billion, to issue sustainability reports under IFRS S1 and IFRS S2, including Scope 3 GHG emissions. The IFRS S2 standard requires the disclosure of GHG emissions, which is one of TNFD's core global metrics. In addition, the IFRS S1 requires the identification of material topic risks and opportunities - of which nature and biodiversity is likely to be a material topic to the palm sector. Pursuing a TNFD approach to reporting will support in meeting some components of IFRS S1 and S2 reporting.

For more information, check out PwC's Spotlight on Sustainability: [NSRF](#)

There are opportunities for palm oil companies to benefit from tax incentives



Existing tax incentive opportunities are available for palm oil companies to offset some of their expenditures associated with nature-based projects (e.g. tree planting, environmental preservation, conservation awareness projects), climate risk management and scenario analysis, and projects approved under the Green Investment Tax Allowance. This includes tax deductions for expenditure related to sustainability reporting of up to RM50,000 per year. While there are limited direct tax incentive opportunities available specific for the palm oil sector, there is potential for palm oil companies to collaborate and advocate for bespoke incentives by showcasing the socio-economic benefits of their proposed initiatives to relevant authorities, especially where they can show alignment with national and state level priorities.

For a full list of tax incentives offered in Malaysia, check out PwC's [2024/2025 Malaysian Tax Booklet](#).

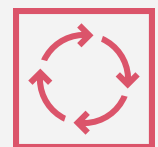
Several key focus areas can be considered when prioritising nature and conservation



Prioritisation should include the identification of High Conservation Value (HCV), riparian zones, High Carbon Stock (HCS), and areas with Rare, Threatened, Endangered (RTE) species.

Other examples that can be considered as part of nature and conservation initiatives to address nature-related dependencies and risks include systematic biodiversity monitoring and community-based conservation, capacity building, and empowerment of local communities, improved forest management and restoration, and publication of key information about critical species. To ensure that nature conservation efforts are effectively implemented, it is essential to consider collaboration with research partners and community engagement. There are also potential opportunities related to nature-based solutions, that also can support emissions reduction pathways.

A holistic approach is necessary for a comprehensive sustainability outlook



Prior to delving into nature-related assessments or aligning with frameworks like TNFD, it is imperative to take a step back and assess the broader spectrum of ESG topics. These encompass a myriad of critical areas, including socio-economic topics such as livelihoods, affected communities, suppliers, buyers, and end-users, workers in the value chain, and own workers. Taking these topics collectively and using a total impact measurement and management approach, enables a holistic and data-driven approach to defining corporate or sector wide priorities, ultimately helping to support better decision making.

Ensuring alignment with other critical areas, such as the social impact of changes from a nature perspective, is equally crucial. This involves considering how alterations in the natural environment might affect local communities, suppliers, buyers, and end-users of palm oil products, as well as the welfare of workers both within the palm oil sector's value chain and within the companies themselves. By integrating social considerations alongside environmental ones, palm oil companies can develop more resilient and sustainable practices that benefit not only their bottom line but also society at large, supporting a just transition. To learn more about key opportunities and barriers to a just transition, check out PwC-PETRONAS' report '[Laying the Foundation for a Just Energy Transition](#)'.



Points for consideration

1 Potential for disclosure efficiency via overlaps in framework

- **As the adoption of the TNFD gains momentum and with potential integration into the ISSB announced in April 2024, it becomes imperative for companies to initiate assessments of nature-related matters within their sustainability reporting practices.** With indications of regulators potentially mandating nature-related reporting and financial disclosures covering nature-related risks in the future, a good starting point is for companies to capitalise on existing overlaps between different frameworks. Leveraging the similarities in approach of these frameworks enables interoperability and efficiency, especially in the identification and collection of relevant data for disclosure requirements. By using established frameworks as a foundation, companies can strategically position themselves for a more efficient sustainability reporting process.
- Companies can consider their ambition level and assess their level of maturity to undertake TNFD's core disclosures, as well as additional metrics for more mature companies.

PwC has developed an **in-house TNFD maturity assessment tool** that assesses companies' readiness for TNFD disclosure, allowing companies to identify preliminary areas for enhancement towards TNFD alignment. Reach out to PwC to find out how we can help you in assessing and improving your TNFD readiness.



- **The increasing demand for disclosures mandating sustainability risk quantification, particularly concerning climate and nature-related risks, reflects a shift driven by regulator, investor and bank expectations to understand the financial implications of sustainability efforts.**
- Quantifying risks can be challenging as it requires financial modelling, and quantification has to be driven by certain technical or operational assumptions and inputs provided by other teams, particularly, the sustainability team. In this process, it would be beneficial for the sustainability team to have a robust understanding of financials and risk management frameworks to effectively integrate sustainability considerations with financial and risk management needs. There are also potential discrepancies between what are considered material issues and how these link up to broader investment plans, highlighting the importance of robust risk assessment methodologies.
- By leveraging insights gained from previous experiences in implementing TCFD quantification, companies can initiate the adoption of TNFD by building on the same architecture and supporting the identification of nature risks and opportunities with financial impact. A parallel can be drawn from companies mapping the financial implications of emissions reduction programmes within TCFD reporting, which aligns with a similar reporting component integral to TNFD.

The Finance, Sustainability and Risk function

- **An enhanced clarity on roles between the sustainability and finance department is recommended** to effectively utilise financial modelling techniques for risk quantification.
 - PwC suggests a structured approach wherein the Chief Sustainability Officer (CSO) retains core responsibility on sustainability reporting including climate and nature disclosures, with specific input on financial insights and data from the Chief Financial Officer (CFO) into the final report. This mirrors the process of gathering inputs for financial statements from the Chief Operating Officer (COO) and Chief Executive Officer (CEO), while ensuring that the CFO retains ultimate responsibility. However, with regulatory requirements such as the EU Corporate Sustainability Reporting Directive (CSRD) and IFRS framework focussed more on financial reporting, the responsibility sits much more toward the CFO.
 - Expectations on financial reporting are set prior, where the covered measurements and parameters are discussed in advance to ensure data integrity, with the CFO and Chief Risk Officers (CRO) working together. This includes agreements on sources, systems, and processes required to churn out the necessary data to ensure that the sustainability report is investor ready.
 - This further addresses the potential discrepancies between material issues and broader investment plans.
- **Companies can be better supported in their disclosure of material nature-related issues by integrating nature-related decision making into traditional enterprise risk management (ERM) processes.** Adaptations to this existing framework will provide clarity on sustainability and finance functions to identify, quantify, and surface scenarios of material risks as well as detail on future mitigation and management.



4 Managing the narrative around risks and opportunities

- **Consider that both nature and climate-related disclosures allow companies to position themselves with first-mover advantage concerning sustainability related performance. This could have a positive impact on valuation and pricing.** By highlighting strategically how companies are quantifying and managing sustainability related risks and opportunities, companies have an opportunity to providing clarity to finance providers on business resilience. Disclosing potential risks relevant to nature (as well as positive opportunities), also helps to mitigate potential greenwashing. A double materiality assessment is recommended to identify the most relevant sustainability risks and opportunities.

What is double materiality?

Double materiality is associated with the approach that organisations should disclose not only how ESG issues may impact the organisation's immediate financial performance (so-called 'outside-in') but also how the organisation impacts environment and society ('inside out').

- Additionally, the TNFD provides an opportunity for companies to define which nature-relevant factors are most material to their business. In the same way that sustainability reporting and disclosure is built on the most material topics, there is no expectation that every nature-relevant topic needs to be reported. There is definite scope for alignment on what should be considered material in a given sector. Palm oil companies have the opportunity to build on the sector's known collaborative approach to identify and agree on sector-specific material topics in nature, creating consistency, alignment and taking the lead on defining what is most appropriate for the sector.

Palm oil companies can kickstart their TNFD journey by consolidating existing sustainability data, metrics and disclosure to help identify qualitatively material nature-related issues, including dependencies, impacts, risks and opportunities. Quantification of the financial impacts on nature risks and opportunities can then be undertaken in the next phase, ideally aligned with the quantification required for TCFD.



Related reading materials on nature and biodiversity:

- [Nature at a tipping point: How investors in Asia Pacific can manage nature-related risks](#)
- [Strategic integration of nature into business practices - The right climate for nature](#)
- [Your company may be more exposed to nature risk than you think](#)
- [Managing nature risks: From understanding to action](#)

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