



A STUDY ON THE MALAYSIAN SUSTAINABILITY REPORTING GUIDELINES FOR ISLAMIC FINANCIAL INSTITUTIONS

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ABSTRACT

The Sustainability reporting landscape has expanded to include Islamic Financial Institutions (IFIs), reflecting a growing emphasis on the integration of environmental, social and governance (ESG) considerations into the business and management of IFIs. With the growing number of ESG-motivated stakeholders, sustainability reporting has become essential to inform the public about the IFIs' efforts and initiatives in ensuring their active involvement in this area. To further strengthen the need for sustainability reporting, the country's regulators, particularly the financial regulators, play a pivotal role in providing the industry with specific guidelines on what to report in sustainability reporting to ensure relevant stakeholders receive standardised reporting content. Nevertheless, this is yet to be the case in Malaysia, considering only general guidelines provided by the Malaysian financial regulator with the lack of specific standards provided for financial institutions, particularly for non-listed financial institutions. However, the current sustainability reporting guidelines should be appraised as they show Malaysian financial regulators' progressive efforts towards enhancing sustainability reporting in this country. Hence, this study was conducted to examine the well-accepted sustainability reporting standards and guidelines applicable for Malaysian IFIs, which were introduced at the global and national levels. The study adopted a descriptive analysis approach by perusing the Global Reporting Initiatives (GRI) standard and a few Malaysian guidelines for sustainability reporting applicable to financial institutions.

Keywords: Islamic Financial Institutions (IFIs), Sustainability Reporting Guideline, Global Reporting Initiatives (GRI) Standard

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INTRODUCTION

Sustainable development has become the main topic of discussion across the globe in different country's sectors, be it economy, financial, infrastructure, agriculture, and others. The concept of sustainable development is well documented in the Brundtland Report, presented to the United Nations General Assembly in 1987 by Gro Harlem Brundtland, the then Prime Minister of Norway and chairman of the World Commission on Environment and Development. The report defined sustainable development as "development that meets the needs of the present world without compromising the ability of future generations to meet their own needs". This definition has marked a significant development in the concept of sustainability.

There is scientific evidence to show that economic development has had a significant negative impact on the environment. For example, the Intergovernmental Panel on Climate Change (2001) states in their report entitled *Climate Change 2001: Working Group 1: The Scientific Basis* that "An increasing body of observations gives a collective picture of a warming world and other changes in the climate system ... There is new and stronger evidence that most of the warming observed over the last 50 years is attributable to human activities". Nonetheless, Jayachandran (2022) emphasised that we cannot deny economic development, one of which is through the expansion of consumption and production. Although it could harm the environment, progress in the country's development is pertinent for humans to keep living. This is due to the growing and different needs of humans over the years. Despite this, as stated by Jayachandran (2022), what matters is that the specifics of the new possibilities and how they compare to the status quo need to be given due consideration.

Many organisations, industry associations, professional bodies, governments, and non-governmental organisations have now accepted the concept of economic development sustainability. It is now widely acknowledged that sustainability has three dimensions: economic, environmental, and social. This is referred to as the triple bottom line model (Elkington, 1997). A company is said to be sustainable if it performs well in terms of economic (financial) performance, environmental performance, and social performance. Corporate business entities have been using sustainability reports as a non-financial performance indicator to monitor and enhance their financial outcomes (Buallay, 2019).

Given that investors are less willing to participate in businesses that have unfavourable societal repercussions, sustainability reports also give stakeholders insight into the entities' future concerns and strategies. Therefore, entities or institutions with proper and disclosed sustainability reports are more likely to earn the trust of stakeholders and investors (Jamil et al., 2021). With the current trend and attention of the industry on the UN's Sustainable Development Goals Agenda, corporate entities are racing towards proving that they have the best sustainability strategies and commitment as an added value to the company. Therefore, sustainable reporting, apart from financial reporting, has become one of the most demanded reports by stakeholders (Sutopo et al., 2018).

Since the end of the 1990s, the topic of sustainability reporting has gained more significance within the context of corporate responsibility reporting (Jamil et al., 2021). Large businesses now routinely release sustainability data on their own initiative through websites or printed materials like integrated reports, sustainability reports, or annual reports. The practice of disclosing information about an organisation's social, environmental, and economic performance is known as sustainability reporting. The goal of sustainability reporting is to provide stakeholders with information about a company's sustainability practices and to demonstrate the company's commitment to sustainable development. Typically, sustainability reports include data on the organisation's environmental impact, social and ethical performance, and economic performance. Sustainability reporting has grown in importance as a tool for organisations to demonstrate their commitment to sustainability and communicate





their performance to stakeholders. Many companies now produce sustainability reports as part of their annual reporting process. Several frameworks and standards, such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), are available to help organisations develop their sustainability reports (SASB) (Maybank Sustainability Report, 2022; Bursa Sustainability Reporting Guide, 2015; JC3 Report on Climate Data Catalogue Key Findings and Recommendations to Bridge Data Gaps, 2022).

Despite the existence of a global reporting standard introduced by international organisations and later referred to and adopted by local companies in Malaysia, Malaysian regulators lack the initiative to produce their own specific guidelines on sustainability reporting, particularly for non-listed financial institutions. This concern needs to be addressed to ensure a standardised way of reporting is being adopted by Malaysian financial institutions to facilitate relevant stakeholders to make just comparisons in sustainability performance from one financial institution to another. Hence, this study is conducted to appraise the available sustainability reporting standards and guidelines referred to by Malaysian Islamic financial institutions as well as current Malaysian initiatives to ensure sustainability consideration takes place in Malaysian Islamic financial institutions.

As addressed by KPMG (2022), the wide variety of reporting standards currently in use worldwide makes comparing companies and markets difficult. As the world collectively attempts to address issues such as climate change and inequality, it is becoming increasingly important that we all speak the same language about sustainability. Fortunately, alignment is still in progress.

For ease of reference, this paper is divided into five sections. Section 1 is the introduction, briefly introducing the significance of sustainability in the corporate industry and the definition of sustainability reporting. Next, the paper proceeds into section 2, which briefly explains the research methodology used in conducting this study, which deploys a descriptive analysis approach. Then, section 3 further discusses the literature review of the studies addressing the previous research on the subject matter and the research gap that this paper hopes to fill. Section 4 of this paper further explores the discussion and findings observed on the sustainability reporting framework applicable in Malaysia. Finally, this paper moves to section 5, which is the conclusion which presents the summary of the study as well as the researcher's brief recommendation for financial regulators.

RESEARCH METHODOLOGY

This study employs a descriptive analysis method. The descriptive research technique is a fundamental research strategy that investigates the situation as it already exists. Descriptive research identifies a specific phenomenon's characteristics based on observing or investigating the relationship between two or more occurrences (Williams, 2007). The data used for this research are mainly from the well-accepted sustainability reporting standard at the global level, i.e., the Global Reporting Initiative (GRI) Sustainability Reporting Standard, as well as from relevant guidelines or policy documents relevant to sustainability reporting issued by Malaysian regulators. These standards and guidelines are extracted from the official websites of the respective issuer responsible for issuing those standards and guidelines. These resources are carefully studied to see the extent of their requirements, which requires observance and adherence by the relevant parties required to report their companies' sustainability efforts.





LITERATURE REVIEW

Malaysia takes pride in the commitments made by corporate entities all across the country to improve their sustainability in support of the UN Sustainable Development Goals Agenda 2015 (the UN Agenda) in global monitoring and reporting. This is done to align with the aim of the UN Agenda in enhancing sustainable development, targeting every sector across the participating countries. The companies' fulfilment towards the UN Agenda can be evidenced through reporting to ensure its accessibility to the public at large. Hooks, Tooley and Basnan (2012) stated that implementing sustainability reporting will be the best way for Malaysian companies to discharge public accountability.

Additionally, according to Said, Zainuddin and Haron (2009), the inclusion of corporate social responsibility reporting in annual reports would likely boost not only the company's financial performance but also the company's public reputation. Nonetheless, the extent and quality of disclosures, especially in the sustainability reporting amongst Malaysian public listed companies, are exceptionally low except in the oil and gas industry (Bakar, Ghazali & Ahmad, 2019). The authors found that companies involved in the oil and gas industry disclosed to the most extent and of the highest quality compared to others from other industries. Additionally, the authors found that most of the information disclosed in the company's sustainable reporting is qualitative and narrative statements rather than quantitative information.

Looking into Malaysian sustainability reporting, data from KPMG show that Malaysia is gradually raising awareness among companies through sustainability reporting. According to KPMG (2020), Malaysia's sustainability reporting statistics increased significantly in 2020, with 99% surpassing India (98%), Taiwan (93%), and Australia (92%). Malaysia's trend has also increased significantly since 2017, when it was only 97%. A recent report by KPMG (2022) found that Malaysia is one of the seven Asia Pacific (ASPAC) countries, territories and jurisdictions with sustainability reporting higher than 90%, which is 99%, followed by Thailand at 97%, Taiwan at 94% and Pakistan at 91%. This demonstrated that Malaysia is on the right track in terms of making sustainability reporting mandatory, with Bursa Malaysia providing a comprehensive Sustainable Reporting Guideline (SRG) issued in 2015 for all publicly listed companies in Malaysia. In addition to SRG issued by Bursa Malaysia, Malaysia has also launched the Malaysian Code on Corporate Governance (MCCG), which includes recommendations for the role of the Board of Directors in ensuring the integration of sustainability considerations for the business. The MCCG encourages businesses to take a stakeholder-centric approach to sustainability, which includes interacting with stakeholders like employees, customers, suppliers, and local communities. Malaysia's efforts to promote sustainability reporting are a step in the right direction towards greater transparency and accountability in corporate sustainability practices. However, there is still room for improvement, particularly in terms of ensuring that companies implement the SRG effectively and that reporting requirements are enforced.

In narrowing the scope of discussion, Islamic financial institutions (IFIs) in Malaysia have long been recognised for having a developed and strong governance framework championing first place in global ranks throughout the years (Refinitiv, 2021; Shafaki, 2023). Bank Negara Malaysia, as the main regulator for IFIs in Malaysia in achieving this, had put a high requirement level on reporting standards and disclosure among IFIs to ensure a high level of transparency for better and informed decision-making among industry players.

Sustainability reporting has long been discussed in research and studies going back even more than 20 years (Jamil et al., 2020). Nevertheless, the published studies are more concentrated on the relevance and impact of sustainability reporting on business performance as well as the importance of key elements in corporate governance for better sustainability





reporting and strategy (Komathy and Johari, 2019; Bakar, Ghazali, & Ahmad, 2019; Abbas et al., 2022). Additionally, few studies focus on sustainability reporting on financial institutions globally, let alone studies focusing on Malaysia specifically (Sawani, 2010).

Buallay (2019) highlighted the small number of studies on the impact of sustainable reporting on financial sectors, while Jamil et al. (2020) further highlighted that the studies on the subject matter in financial institutions in Malaysia are even fewer. Although there are fewer studies on sustainability reporting for financial institutions conducted, previous research and studies on the subject matter have mentioned the lack of development and adoption of sustainability reporting in financial institutions as compared with other corporate business entities (ElAlfy and Weber, 2019; Abbas et al. 2022). Realising the research gap and the need to fill in, this study studies sustainability reporting in financial institutions, further focusing on Islamic financial institutions' reporting framework.

FINDING AND DISCUSSION

Global Reporting Initiatives (GRI) Standard

According to KPMG 2022, the GRI Standard remains the most dominant standard used worldwide, with the leading countries comprising Singapore, Taiwan, and Chile. The usage of GRI or even the Sustainability Accounting Standard Board (SASB) by Malaysian companies for their sustainability reporting is low. Despite this, Malaysia ranks second globally and leads the ASPAC region for sustainability reporting against the country's respective stock exchange guidelines with a high score of 95%. Additionally, GRI has become the most preferred standard for sustainability reporting by non-listed financial institutions (Maybank Sustainability Report, 2022; JC3 Report on Climate Data Catalogue Key Findings and Recommendations to Bridge Data Gaps, 2022).

The GRI was established in 1997, convened by the Coalition for Environmentally Responsible Economies in the United States and the United Nations Environment Programme. It was founded as an independent non-profit organisation in the Netherlands in 2002 and continues to be well known worldwide, with current stakeholders of more than 30,000 from over 100 countries working together to advance sustainability reporting (GRI Official Website, 2023a). The GRI Standards are global best practices for publicly reporting on a variety of economic, environmental, and social impacts. Standards-based sustainability reporting provides information about an organisation's positive and negative contributions to sustainable development. The goal of sustainability reporting reported in accordance with the GRI Sustainability Reporting Standards (GRI Standards) is to provide transparency on how an organisation contributes or intends to contribute to sustainable development (GRI, 2023).

The GRI Standards are an interconnected modular system of standards. The reporting process is supported by three series of Standards: the GRI Universal Standards, which apply to all organisations, providing a foundation for all GRI reports with topics covered including reporting on governance, strategy and management approach; the GRI Sector Standards, which apply to specific sectors; and the GRI Topic Standards, which list disclosures relevant to a specific topic according to their list of material topics. For both conventional and Islamic financial institutions in Malaysia, if they decide to adopt the GRI Standard, then this Universal Standard is applicable together with the GRI Topic depending on topics relevant to the Islamic financial institutions. Meanwhile, for the GRI Sector Standard, financial institutions can specifically adopt the GRI G4 Financial Services Sector Disclosure, which was established in 2008.





Nonetheless, the GRI organisation is progressing towards establishing the GRI Financial Services Sectors Standard, specifically prepared to cater to the needs of banking, capital markets and insurance sectors in guiding and reporting their sustainability activities (GRI, 2023). The development of the standards has been approved by the Global Sustainability Standards Board (GSSB) and is expected to be released in Q3 2025.

Nevertheless, depending on respective Malaysian financial institutions, they can either report 'in accordance' or 'in reference' with GRI as the use of the GRI Standards is self-declarative, which means that each organisation must indicate whether the report was prepared in accordance with or in reference to the GRI Standards using the criteria specified in GRI 101: Foundation (The GRI Standards: A Guide for Policy Makers, 2021). Both carry different weightage as the former is a more comprehensive adoption than the latter. One example is an Islamic bank in Malaysia, Bank Islam Malaysia Berhad, that reported its sustainability 'in reference' to GRI Standard 2021 (Bank Islam Integrated Report, 2022).

If the institutions choose to report their sustainability 'in accordance' with GRI, then they need to comply with all nine requirements specified in the Standards, which include the following:

1. To apply the reporting principles
2. To report on GRI 2 on General Disclosures
3. To determine material topics in which the company has an impact or may be impacted by
4. To report on GRI 3 about the Material Topics
5. To report on each material topic
6. To provide reasons for omission if the institutions unable to comply with specific disclosures or requirements
7. To publish a GRI Content Index
8. To provide a Statement of Use
9. To notify GRI upon publication of the institution's sustainability reporting.

On the other hand, if financial institutions choose to report their sustainability 'in reference' with GRI due to their inability to fulfil some of the Standards' requirements or if they only want to report on specific information from the standard, they just need to comply with three out of the nine requirements which are the requirements mentioned in number 7, number 8, and number 9 (GRI, 2021b). Additionally, financial institutions need to apply reporting principles, including accuracy, balance, clarity, comparability, completeness, sustainability context, timeliness, and verifiability. This is pivotal in ensuring high-quality sustainability information is being presented by the institutions. Apart from this, financial institutions are required to explain how they manage their material topics by using GRI 3. GRI 3 2021 defined material topics as those representing an organisation's most substantial economic, environmental, and social implications, including any effects on human rights (GRI, 2021).

The GRI Universal Standards consist of three standards: GRI 101 for foundation, GRI 102 for general disclosures and GRI 103 for management approaches. The foundation provides the purpose and system of the GRI Standard and key concepts for sustainability reporting. Additionally, it also specifies the requirements and reporting principles that are required to be adhered to by the companies to report in accordance with the GRI Standards. On the other hand, the General Disclosure contains requirements for the companies to provide information about their reporting practices and other organisational details, such as their activities, governance, and policies. The information required will give insight into the organisation's profile and scale and provide a context for understanding the organisation's impacts (GRI, 2023). Furthermore, the Material Topics provides step-by-step guidance on how to determine





material topics, how companies identify their material topics, the process involved and how they manage each of the topics.

Meanwhile, three different standards govern the three different spectrums for the GRI Topic Standards: GRI 200 for Economic, GRI 300 for Environmental and GRI 400 for Social, respectively. On the other hand, the GRI Sector Standard can be adopted by interested companies according to their involvement in certain sectors. This standard consists of four priority groups: Priority Group 1 on basic materials and needs, Priority Group 2 on industrial, Priority Group 3 on transport, infrastructure, and tourism and lastly, Priority Group 4 on other services and light manufacturing. The use of the GRI Standards is self-declarative, which means that each organisation must indicate whether the report was prepared in accordance with the GRI Standards using the criteria specified in GRI 101: Foundation (GRI, 2021b).

Sustainability Reporting Framework by Bursa Malaysia Securities Berhad under the Purview of Securities Commission Malaysia

Optimistic Malaysia has made significant efforts to improve sustainability reporting in recent years. In 2015, Bursa Malaysia Securities Berhad introduced the Sustainability Reporting Framework (SRF), comprising amendments to the Listing Requirements of both the Main Market and ACE Market, which requires the listed issuers and corporation issuers to include a sustainability statement that deals with economic, social and environmental risks and opportunities in their annual reports as well as to refer to Sustainability Reporting Guide issued under Bursa Malaysia Non-compliance with this regulatory requirement will result in legal action and a negative reputation among stakeholders.

Sustainability reporting has been made mandatory for all listed companies in Malaysia, including listed financial institutions, and it is aimed at promoting transparency and accountability in corporate sustainability reporting (Carrot and Stick, 2016). According to Bursa Malaysia (2016), the sustainability reporting framework marked the goals of strengthening listed companies' commitments to producing high-quality sustainability reporting. As a result, all listed companies in Bursa Malaysia are now required to report on their sustainability. The SRF is based on international standards that include the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), and it requires companies to report on issues such as energy use, greenhouse gas emissions, human rights, labour practices, and community engagement.

The SRF 2015 consists of three big items, which are 1) requirements under the Listing Requirements for a listed issuer to include a narrative statement in their annual reports on the management of substantial economic, environmental, and social ("EES") risks and opportunities (Sustainability Statement). 2) the Sustainability Reporting Guide (SRG), and 3) Toolkits. Toolkits play a significant role in detailing selected items in the SRG and assist the listed issuers in preparing their sustainability statement by providing relevant information and guidance. To date, there are six Toolkits issued by the SC, which include a Toolkit on materiality assessment, stakeholder engagement, stakeholder prioritisation, materiality matrix, and management approach. Furthermore, to ensure up-to-date Toolkits and SRG, both items will be revised accordingly whenever the SRF undergoes enhancement by the SC.

Additionally, the SRF was further amended on September 26, 2022. The 'Enhanced Sustainability Framework' enhanced the existing sustainability reporting requirements and practices in both Main Market Listing Requirements and ACE Market Listing Requirements. Consequently, the ACE Market LR has now detailed what information needs to be disclosed by corporation issuers in its sustainability reporting, as required under its Para. 6.2 of Guidance Note 11 in ACE Market LR, similar to Para. 6.2 of Practice Note 9 in Main Market LR (similar requirements for both listed issuers and corporations). The intended information includes





matters below and further detailed in the Sustainability Reporting Guide with the assistance of Toolkits. Listed corporations must comply with these requirements for financial year end (FYE) on or after December 31, 2024.

1. the governance structure, including governing bodies or functions, division of roles and responsibilities and lines of reporting in order to manage the economic, environmental, and social risks and opportunities ('sustainability matters') of the company;
2. the scope of the Sustainability Statement and the basis (reasons or justification) for the scope- as to what extent and coverage of the data reported in the company's Sustainability Statement, of whether restricted to geographical or organisational boundary or even business segments or divisions;
3. how material sustainability matters are identified and why they are important to the listed corporation- Identification > Prioritisation> Review and Validation; and
4. how material sustainability matters are managed, including details on policies to manage such matters, measures taken to deal with these matters, and indicators which demonstrate the performance of the listed corporation in managing the said matters (Bursa Malaysia Sustainability Reporting Guide 3rd Edition, 2022).

Furthermore, the Enhanced SRF put further requirements for both listed issuers in the Main Markets and listed corporations in the ACE Market to include a few matters in their sustainability reporting. Firstly, both listed issuers and listed corporations must include common material sustainability matters in their Sustainability Statements. There are 11 material sustainability matters identified as common across all listed issuers and listed corporations, listed in Annexure Practice Note 9-A to existing PN9 of Main Market LR and Annexure Guidance Note 1A-A to existing GN11, which include anti-corruption; community or society; diversity; energy management; health and safety; labour practices and standards; supply chain management; data privacy and security; water; waste management; and emissions (Bursa Malaysia Amendments to Listing Requirements in Relation to Enhanced SRF, 2022). Taking data and privacy as an example, listed companies need to report the number of proven complaints about customer privacy violations and customer data losses.

Secondly, both issuers are also required to provide quantitative information on indicators for material sustainability matters for at least three financial years' data on a rolling basis, for each reported indicator with three different manners as stated in the Enhanced SRF. Taking the percentage of employees receiving anti-corruption training as well as confirmed cases of corruption and action taken as the common indicators are the examples to be reported under the common sustainability matter of 'anti-corruption' (Bursa Malaysia Amendments to Listing Requirements in Relation to Enhanced SRF, 2022). This requirement could finally rebut the finding in the study conducted by Bakar, Ghazali, and Ahmad (2019), where it was found that the majority of listed companies' sustainable reporting reported qualitative and narrative statements rather than quantitative information.

Thirdly, under the Enhanced SRF, only listed issuers are required to align their climate-related disclosures with the four pillars of TCFD Recommendations, which include governance, strategy, risk management, as well as metrics and targets in one section in their Sustainability Statement. On the other hand, listed corporations are required to disclose their basic plan for transitioning their companies' business and management towards a low-carbon economy ('transition plan') by setting out their target and actions in supporting the transition plan. Besides that, information related to the role of the board and senior management to oversee and execute the transition plan, as well as strategies taken to reduce climate change risks and increase its opportunities, are also required to be included in that plan (Bursa Malaysia Sustainability Reporting Guide, 2022). Nonetheless, listed corporations will not be tied with





this transition plan if they comply with the four pillars of TCFD Recommendations in reporting their climate-related disclosures.

The last requirement is regarding a statement of assurance of whether the sustainability reporting of the listed issuers and listed corporations has been reviewed by their internal auditor or independent assurance, following acceptable standards. If their Sustainability Statement undergoes an assurance process, they need to provide the subject matter and the scope covered while providing the conclusions if an independent assurance is conducted. Nonetheless, the implementation of this requirement will be undertaken in stages to allow listed issuers to make necessary preparations to put in place the requirements with their current practices, procedures, and policies.

Task Force on Climate-Related Disclosure for Financial Disclosure (TCFD) Application Guide by Joint Committee on Climate Change (JC3) Malaysia

The Malaysian TCFD Application Guide (application guide) was introduced specifically for Malaysian financial institutions, including Islamic financial institutions, with the aim of accelerating FIs' efforts in managing climate-related risks and opportunities on the companies' business and management (TCFD Application Guide for Malaysian Financial Institutions, June 29, 2022). It was issued in June 2022 and forms part of the JC3 good initiative to implement the TCFD Recommendations in a progressive manner within the Malaysian financial institutions' sphere. Its focus is on the disclosure of climate change. Such disclosure can be done under the 'Sustainability Statement' section of the financial institutions' Annual Report or in a separate Sustainability Report.

This application guide explains critical recommendations and includes pertinent justifications, instructions, suggestions, and illustrations that can be used as beneficial materials to assist Malaysian financial institutions in adopting the TCFD Recommendations. It is applicable to local and foreign financial institutions in Malaysia, including Islamic banks, Takaful and retakaful operators. It was founded upon four pillars, which are 1) governance, 2) strategy, 3) risk management, and 4) measurements and targets, which become the cardinal structure of this guide. Nevertheless, this application guide is developed to best suit the Malaysian economy and its financial system (TCFD Application Guide for Malaysian Financial Institutions, June 29, 2022).

In order to fulfil the governance pillar, financial institutions need to publish their climate governance gradually. In the early phase of its implementation, financial institutions may highlight the capacity, role and responsibilities of Board members and the management in climate-related matters. In the following steps, financial institutions may consider forming a separate climate-related committee, exposing discussions about climate change during board meetings, and incorporating sustainability into the board's and top management's key performance indicators (KPIs). This is pertinent to ensure that sustainability matters are being well addressed during the meeting with top-level key persons of the financial institutions (Adnan et al., 2022).

Regarding strategy disclosure, the TCFD application guide requires the strategy disclosures to contain information on the type, magnitude or amount and length of financial institutions' exposure to key climate challenges, as well as the potential outcomes or effects of climate-related risks and opportunities. Regarding risk management, it is upon the financial institutions to proactively start identifying climate risks and opportunities and subsequently examine how such risks and opportunities affect their business strategy and performance before disclosing their climate risk strategy and risk attitude (Adnan et al., 2022). The identification, assessment, monitoring and measuring of climate-related risks also need to be done by the financial institutions and subsequently report on them. Finally, financial institutions should





integrate climate-related indicators and targets as part of their efforts to decarbonise their finance or investment portfolios.

Incorporating the TCFD Application Guide in the IFIs' sustainability reporting is significant as it could convey the message to the relevant stakeholders that their institutions are taking the issue of climate change that is currently affecting all countries across the globe seriously. Additionally, their climate-related disclosures can be aligned with TCFD Recommendations, which have been widely accepted and adopted around the world, and that could position the IFIs' sustainability reporting to align with the other financial institutions at the international level.

Relevancy of the National and International Sustainability Standards and Guidelines to Malaysian Islamic Financial Institutions

Bursa Malaysia Sustainability Reporting Framework is a significant effort to elevate the current practice of sustainability reporting by listed companies (listed issuers and listed corporations) in Malaysia. This is because the SRF and its items (SRG and Toolkits) provide specific guidance on “what” and “how” sustainability information should be disclosed by the issuers in their sustainability reporting, as discussed in writing above. Apart from that, it could lead to standardised sustainability reporting, which is crucial for stakeholders as it allows companies to communicate their environmental, social, and governance (ESG) performance in a consistent and comparable manner. Importantly, it could enable relevant stakeholders to make informed decisions and judgements regarding a company's sustainability practices.

The discussion on the Enhanced Sustainability Reporting Framework by Bursa Malaysia in this writing is pivotal as few Malaysian Islamic financial institutions were listed in Bursa Malaysia and subjected to Main Market Listing Requirements. This includes Bank Islam Malaysia Berhad (banking) and Syarikat Takaful Malaysia Berhad (Takaful). It is noteworthy that Bank Islam is the first pure-play, full-fledged Islamic financial institution to be listed in the Main Market of Bursa Malaysia (Bursa Malaysia News, October 17, 2021). Hence, their sustainability reporting needs to adhere to sustainability requirements required by Bursa Malaysia Securities Berhad through its Main Market Listing Requirements and Sustainability Reporting Guide. The authors observed that Bank Islam reported its sustainability in their Integrated Report with one specific section dedicated to the 'Sustainability Statement' (Bank Islam Integrated Report, 2022).

Unlike Bank Islam, other Islamic banks in Malaysia are not listed in Bursa Malaysia. Despite that fact, they still report their sustainability in accordance with or in adherence to the GRI Standards and Sustainability Reporting Guide by Bursa Malaysia. One of the factors is that their conventional bank wing is listed in Bursa Malaysia, and their sustainability reporting is combined under one document. Additionally, it is because of their voluntariness to ensure they are at par level with the others.

Meanwhile, the current style of reporting by Malaysian Islamic Banks shows that sustainability is reported either in a single Sustainability Report under a Group report or in an Annual Report under the Sustainability Statement section. For example, Hong Leong Bank Berhad dedicated a single report for its annual Sustainability Reports, encompassing its subsidiaries, including Hong Leong Islamic Bank (Hong Leong Bank Berhad Sustainability Report, 2022). Maybank Group and CIMB Group Holdings Berhad are doing a quite similar practice. Bank Muamalat Malaysia reported its sustainability under one section, 'Sustainability Statements, ' in their annual report (Bank Muamalat Annual Report, 2021).

GRI Standards are widely accepted and recognised as a leading framework for sustainability reporting worldwide. Additionally, most countries refer to the GRI Standards in developing their country's sustainability guidelines and standards. This is also reflected in the





sustainability requirements of the Sustainability Reporting Guide issued by Bursa Malaysia Securities Berhad. Hence, it is also relevant to Islamic financial institutions in Malaysia. Few Islamic banks in Malaysia have reported in reference with and in adherence with GRI Standards.

CONCLUSION AND RECOMMENDATION

The most referred sustainability reporting standard is the one introduced at the global level, namely Global Reporting Initiatives (GRI) Standards (latest 2021). A glance at the annual report or sustainability report of the majority of Malaysian Islamic financial institutions would show that ‘in accordance’, rather than ‘in reference’, was made to the GRI when the reports were prepared. Nevertheless, its adoption or reference is an option for all financial institutions in Malaysia, including the Islamic ones. However, Malaysian Islamic financial institutions that are listed in Bursa Malaysia are mandatorily required to report their sustainability in accordance with requirements set out by the Bursa Malaysia Securities Berhad under the purview of Securities Commission Malaysia. The sustainability requirements and information that need to be reported have been specified in its Listing Requirements as well as in the Sustainability Reporting Framework, which includes the Sustainability Reporting Guide and Toolkit 2022 (latest Edition).

Nonetheless, since the reporting on sustainability has been well addressed worldwide for the non-listed Islamic financial institutions, and the BNM itself has made rigorous efforts, particularly in addressing climate-related disclosure, sustainability reporting has become a new norm and practice rather than an exception. All Islamic financial institutions in Malaysia report their sustainability, except they are not mandatorily required to report in accordance with requirements provided by Bursa Malaysia Securities Berhad and the sustainability reporting framework. However, due to the absence of specific standards or guidelines issued by BNM to guide financial institutions, including Islamic financial institutions, the institutions currently rely on the existing global standard, i.e., GRI, as well as those guidelines issued by Bursa Malaysia Securities Berhad even though they are not listed issuers and are not public listed companies.

Hence, this study recommends that BNM provide one specific guideline or standard for sustainability reporting to be adopted by Islamic financial institutions in Malaysia. Consequently, sustainability reporting can be made mandatory for all Islamic financial institutions. Additionally, there could be an insertion of Islamic social finance such as Zakat, Waqf and Sadaqah to be part of sustainability matters that can be reported extensively inside their sustainability report or statements and be recognised as ‘material sustainability matters’ internationally.

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