VERISUSTAIN Article | P1-DIS-01 | NSRF

NSRF Demystified: What IFRS S1 & S2 Mean for Malaysian Finance Teams

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For years, corporate sustainability in Malaysia sat comfortably within the domain of CSR, corporate communications, and dedicated ESG teams. Reports were filled with qualitative highlights, community narratives, and eco-friendly initiatives.

That era has officially ended.

With the Securities Commission Malaysia's launch of the National Sustainability Reporting Framework (NSRF) and Bursa Malaysia's subsequent listing requirement amendments, sustainability reporting has shifted firmly into the finance department.

By adopting the International Sustainability Standards Board (ISSB) baseline—IFRS S1 (General Requirements) and IFRS S2 (Climate-related Disclosures)—regulators have established a clear expectation: sustainability data must meet the same standards of rigour, internal control, and financial connectivity as traditional financial accounting.

If you are a Chief Financial Officer, Finance Director, or Financial Controller, this is no longer an optional overlay. Here is what the NSRF transition means for your financial ledgers, risk registers, and reporting workflows.

1. The Core Paradigm Shift: From CSR to Financial Materiality

Historically, legacy framework standards like GRI evaluated an organization's impact on the economy, environment, and society.

IFRS S1 and S2 operate on a different primary lens: financial materiality.

> **The fundamental questions under IFRS S1 and S2 are:**
> • How do climate and sustainability-related risks and opportunities impact our cash flows, access to capital, and cost of capital over the short, medium, and long term?
> • How do these factors affect our balance sheet, financial position, and financial performance?

When sustainability data carries financial implications, it enters the purview of financial reporting standards. Disclosures must be published concurrently with financial statements, governed by equivalent oversight, and backed by auditable data trails.

2. Who is In Scope and When? The NSRF Implementation Roadmap

The Advisory Committee on Sustainability Reporting (ACSR) and Bursa Malaysia designed a phased rollout to allow companies to build capacity:

Group	Entities In Scope	Mandatory Climate-First Disclosures (IFRS S2 Focus)	Full IFRS S1 & S2 Disclosures	Mandatory Scope 3 Emissions
Group 1	Main Market Issuers (Market Cap ≥ MYR 2 Billion)	FYE 31 Dec 2025	FYE 31 Dec 2027	FYE 31 Dec 2027
Group 2	All Other Main Market Issuers	FYE 31 Dec 2026	FYE 31 Dec 2028	FYE 31 Dec 2028
Group 3	ACE Market Issuers & Large Private Companies (Revenue ≥ MYR 2 Billion)	FYE 31 Dec 2027	FYE 31 Dec 2029	FYE 31 Dec 2030

Crucial Transition Reliefs: To ease the transition, the NSRF permits a 'Climate-First' approach. Groups 1 and 2 receive two annual reporting periods of relief, allowing them to focus disclosures strictly on IFRS S2 (Climate) before expanding to full IFRS S1 general sustainability metrics. Furthermore, Scope 3 greenhouse gas (GHG) emissions reporting receives a phased deferral across all groups.

3. What IFRS S1 & S2 Mandate in Practice

Both standards follow the four structural pillars established by the Task Force on Climate-related Financial Disclosures (TCFD):

- **Governance:** Board oversight and management's role in monitoring sustainability and climate risks.
- **Strategy:** Financial position impacts, resilience, and quantitative Climate Scenario Analysis.
- **Risk Management:** Integration of climate risks into Enterprise Risk Management (ERM) frameworks.
- **Metrics & Targets:** Scope 1, 2, and Scope 3 GHG accounting alongside cross-industry metric disclosures.

Key Technical Challenges for Finance Teams:

1. **Financial Statement Connectivity:** IFRS S1 requires explicitly linking sustainability disclosures to numbers in your primary financial statements. If you state in your IFRS S2 filing that extreme weather poses a high risk to production facilities, finance must explain how that impacts asset impairment, useful lives, residual values, and capital expenditure planning.

2. Quantitative Climate Scenario Analysis (IFRS S2): Finance teams must evaluate how business models perform under different climate trajectories (e.g., a 1.5°C transition scenario vs. a 3°C+ high-physical-risk scenario). This requires moving beyond qualitative discussion into financial modeling and stress-testing.

3. Internal Control Environments: Financial figures are governed by robust general ledger controls, segregation of duties, and audit trails. Under NSRF, GHG data (Scope 1, 2, and eventually Scope 3) requires the same level of internal control architecture. Unverified spreadsheet aggregation will no longer withstand board scrutiny or external audit.

4. The Assurance Horizon: Audit Readiness Starts Now

While initial NSRF disclosures focus on establishing baseline data, mandatory external assurance is approaching rapidly.

Regulators have mapped a pathway toward mandatory external assurance over Scope 1 and Scope 2 emissions, starting progressively for Group 1 issuers and expanding across cohorts.

External assurance providers will evaluate sustainability filings using standards such as AA1000AS, ISAE 3000 (Revised) and the IAASB's ISSA 5000 standard. If your data collection processes lack clear evidence trails, calibration records, and documented calculation methodologies, sign-off will become a significant bottleneck.

5. Immediate Action Plan for CFOs & Controllers

To prepare your finance department for NSRF compliance, consider taking the following steps:

Step 1: Establish a Joint Finance-Sustainability Steering Committee — Ensure the CFO, Head of Risk, Financial Controller, and Sustainability Lead meet regularly to align reporting timelines and financial assumptions.

Step 2: Perform an IFRS S1/S2 Gap Analysis — Map your existing Bursa Sustainability Statement indicators against the explicit requirements of IFRS S1 and S2. Identify gaps in data collection, scenario modeling, and scope definitions.

Step 3: Formalize GHG Accounting Controls — Upgrade manual carbon tracking spreadsheets into structured, verifiable carbon accounting engines that maintain data lineage for audit inspection.

Step 4: Evaluate Capital Expenditure & Impairment Models — Review existing impairment testing frameworks to confirm that climate transition risks (e.g., carbon pricing, regulatory phase-outs, technology shifts) are integrated into cash flow projections.

Moving Forward

The National Sustainability Reporting Framework is a structural evolution in corporate reporting. By treating climate and sustainability data with the same precision, control, and analytical depth as financial reporting, finance leaders can turn regulatory compliance into a strategic tool for securing capital, reducing risk, and maintaining competitive advantage.

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