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The 'Climate-First' Approach: Navigating NSRF Transition Reliefs in Malaysia

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When the Securities Commission Malaysia (SC) released the National Sustainability Reporting Framework (NSRF), adopting the International Sustainability Standards Board (ISSB) standards—IFRS S1 and IFRS S2—it marked a historic shift toward investor-grade corporate reporting.

However, regulators recognized a stark operational reality: requiring immediate, comprehensive disclosure across all ESG themes (from biodiversity and human rights to water security and supply chain emissions) could overwhelm corporate finance, risk, and reporting teams.

To facilitate a structured transition without compromising data quality, the Advisory Committee on Sustainability Reporting (ACSR) and Bursa Malaysia built crucial Transition Reliefs directly into the implementation timeline.

At the core of these reliefs sits the 'Climate-First' approach—a strategic grace period designed to give reporting entities time to build internal control capacity, formalize data pipelines, and establish governance frameworks.

1. What Is the 'Climate-First' Transition Relief?

Under standard ISSB rules, IFRS S1 serves as the overarching standard for general sustainability-related financial disclosures, while IFRS S2 targets climate-specific risks and opportunities.

Under Malaysia's NSRF transition provisions, reporting entities are granted temporary relief from complying with full IFRS S1 requirements in their initial reporting years. Specifically, entities are permitted to disclose strictly climate-related risks and opportunities under IFRS S2 first, while deferring broader non-climate IFRS S1 disclosures (such as general social, human capital, or biodiversity metrics).

Reporting Cohort	Entities In Scope	Climate-First Window (IFRS S2 Only)	Full IFRS S1 & S2 Disclosures
Group 1	Main Market Issuers (Market Cap ≥ MYR 2 Billion)	FYE 31 Dec 2025 & FYE 31 Dec 2026 (2-Year Relief Window)	FYE 31 Dec 2027 Onward
Group 2	All Other Main Market Issuers	FYE 31 Dec 2026 & FYE 31 Dec 2027 (2-Year Relief Window)	FYE 31 Dec 2028 Onward
Group 3	ACE Market Issuers & Large Private Companies (Revenue ≥ MYR 2 Billion)	FYE 31 Dec 2027 to FYE 31 Dec 2029 (3-Year Relief Window)	FYE 31 Dec 2030 Onward

2. Beyond Climate-First: Additional NSRF Transition Reliefs

In addition to the Climate-First option, the NSRF provides three critical additional relief mechanisms that finance and audit committees must factor into their reporting calendars:

1. **Scope 3 Emissions Reporting Deferral:** Recognizing the significant complexity of gathering upstream and downstream value chain data, reporting Scope 3 greenhouse gas (GHG) emissions is deferred across all groups. For Group 1, mandatory Scope 3 reporting begins in FY2027, granting a vital 2-year buffer to establish supplier data governance.

2. **Comparative Information Relief:** In the first annual reporting period under IFRS S2, entities are not required to disclose comparative historical financial information for climate metrics. This prevents companies from having to 'back-cast' historical GHG figures without proper evidence trails.

3. **Concurrent Reporting Timing Relief:** While IFRS S1 ultimately mandates publishing sustainability disclosures concurrently with primary financial statements, in Year 1 of application, entities are permitted to publish sustainability reports alongside their annual reports or within an extended timeframe.

3. The Danger of 'Technical Debt': Why Relief Is Not an Exemption

The most critical mistake a CFO or Financial Controller can make during this window is treating transition reliefs as a reason to delay action.

Transition reliefs are grace periods designed for capacity building, not permanent exemptions. Delaying preparation creates severe 'technical debt' that will trigger compliance bottlenecks when mandatory deadlines arrive:

- **Scope 1 & 2 Controls Must Be Immediate:** Because mandatory external assurance over Scope 1 and Scope 2 emissions is approaching rapidly, spreadsheet-based manual tracking during Year 1 will fail upcoming assurance audits under ISSA 5000 or ISAE 3000.

• **Scope 3 Data Lead Times:** Establishing primary supplier data collection workflows for Scope 3 emissions typically takes 12 to 18 months. Waiting until FY2027 to start supplier engagement virtually guarantees non-compliance.

4. Strategic 3-Year Action Plan for Finance & Sustainability Teams

To make effective use of the Climate-First relief window, corporate teams should execute a phased roadmap:

Phase 1: Year 1 (Focus: Scope 1 & 2 Integrity & Qualitative Scenarios) — Formalize GHG accounting engines for Scope 1 & 2 emissions. Implement internal controls over fuel, energy, and utility data. Conduct initial qualitative climate scenario analysis and gap-map existing Bursa disclosures against IFRS S2.

Phase 2: Year 2 (Focus: Scope 3 Supplier Mapping & Financial Modeling) — Initiate supply chain engagement for material Scope 3 categories (purchased goods, transport). Transition climate scenario analysis from qualitative stories to quantitative financial stress-testing. Perform gap assessments against SASB metrics for non-climate IFRS S1 readiness.

Phase 3: Year 3 (Focus: Full IFRS S1 Integration & Assurance Readiness) — Publish full IFRS S1 and S2 disclosures concurrently with annual financial statements. Activate Scope 3 reporting and conduct mock external assurance audits under ISSA 5000 standards.

Moving Forward

Malaysia's NSRF transition reliefs offer a pragmatic, well-structured bridge to investor-grade reporting. By using the 'Climate-First' window to build auditable internal controls, formalize GHG data lineage, and train finance teams, companies can transform regulatory compliance into a competitive advantage for capital access.

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