



# ASEAN ESG Focus Group Summary Report



ASEAN Federation of Accountants



# Introduction

## Acknowledgments

We extend our sincere gratitude to all the participants for their generous contributions during the discussion sessions and their willingness to share their valuable insights.

## Introduction

CPA Australia and the ASEAN Federation of Accountants (AFA) recently collaborated to organise an ASEAN ESG focus group discussion. This collaborative effort brought together a diverse panel of ESG experts from across the region to engage in meaningful dialogue about the driving forces, challenges, and emerging ESG-related developments in the region. The focus group participants included:

- Julian Hashim, Chief Regulatory Officer, Bursa Malaysia
- Eugene Wong, Chief Executive Officer, Sustainable Finance Institute Asia
- Elvia Shauki, IAI's Task Force on Comprehensive Corporate Reporting
- Dr. Adi Budiarmo, Ministry of Finance, Indonesia
- Benjamin Villacorte, Chair of Philippines Sustainability Reporting Committee
- Dr. Nguyen Viet Long, Consulting Partner, EY Vietnam
- Chan Yen San, Member, Singapore Sustainability Reporting Advisory Committee
- Cherine Fok, KPMG Singapore
- Aucky Pratama, Executive Director, ASEAN Federation of Accountants
- Patrick Viljoen, ESG Senior Manager, Policy & Advocacy

Their valuable contributions enriched our understanding of the dynamic landscape of ESG in the ASEAN region, and we are deeply appreciative of their participation.

This report delves into the evolving landscape of ESG practices in the ASEAN region. It highlights the critical factors driving ESG adoption, the challenges that must be overcome, and the emerging trends in ESG-related developments.

The report offers an understanding of how ESG is shaping the region's business and regulatory landscape and underscores the significance of these principles in promoting sustainability, responsible governance, and long-term economic growth.

# ESG adoption

## Drivers of ESG adoption

ESG initiatives are indispensable as they foster a more sustainable and responsible approach to corporate operations. Participants underscored the significant roles played by their respective governments and financial securities regulators in driving ESG adoption on the domestic front. This alignment with regulatory frameworks was further affirmed by the findings from CPA Australia's ESG Survey in 2022, where regulation emerged as the primary driver for businesses embracing ESG practices across the APAC region.

Across the ASEAN region, governments have committed to achieving Net Zero and transitioning to cleaner and affordable energy sources. To realize these ambitious targets, national-level advisory committees have been established, concentrating their efforts on sustainability reporting. These committees engage in diverse activities related to the implementation of sustainability reporting, including the introduction of climate change acts, the identification of appropriate climate-related disclosures for the market, and the facilitation of consultations for future regulatory measures.

Notably, participants highlighted the indirect influence of ESG regulations in the European Union as a driver of ESG adoption in ASEAN. Given that several ASEAN markets are intricately linked to the global supply chain, firms operating within these sectors must ensure ESG compliance to maintain their involvement in this global network.

**ASEAN sustainable policies are seen as instrumental in shaping behaviour to alleviate potential supply chain disruptions, underscoring the region's increasing alignment with global ESG standards.**

Regulators are also actively working on developing domestic green taxonomies tailored to their specific markets, with the ASEAN taxonomy serving as an overarching guide. These taxonomies serve as strategic roadmaps, pinpointing crucial ESG data points and creating reporting templates for Public Listed Companies (PLCs).

## Challenges to ESG adoption

ESG adoption faces a multitude of challenges that must be addressed to achieve widespread integration. These obstacles present significant hurdles to the seamless implementation of ESG practices.

Primarily, participants expressed uncertainty about which taxonomy to implement in their respective jurisdictions and the specific areas that the taxonomy should encompass. Clarity on this front is crucial as it provides companies with the necessary guidance and information to facilitate their transition towards ESG compliance.

Another noteworthy challenge is the existing skills gap in ESG expertise across many markets, which hampers the quality of ESG reporting and assurance and escalates the cost of compliance. While efforts are underway to bridge this gap through various programs and initiatives, there is a pressing need for further action, especially with the impending implementation of mandatory sustainability reporting in many jurisdictions, which could strain the existing ESG expertise.

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The importance of leadership from the board and senior management in driving ESG adoption is well-recognized, yet the lack of ESG skills and knowledge among most PLC directors is a pressing concern. Participants emphasized the need for directors who are well-versed in ESG and its various commitments to ensure more effective ESG adoption. This view was also reflected in CPA Australia's ESG Survey which showed that leadership from the board/senior management is a key driver of ESG adoption. Initiatives like mandatory accreditation programs for PLC directors in countries such as Malaysia and Singapore aim to boost ESG knowledge and awareness among corporate boards.

Addressing greenwashing remains a critical issue, with participants acknowledging that it can be unintentional due to a lack of capacity and knowledge. Taxonomies play a pivotal role in defining greenwashing and identifying appropriate disclosures to combat this issue effectively.

Moreover, concerns surround the overreliance on carbon credits by many PLCs instead of genuine emissions reduction efforts. The carbon credit sector also grapples with inconsistencies and unreliable assurance, further underscoring the need for improved practices and standards in this area. Addressing these challenges is pivotal to advancing the cause of ESG adoption and fostering responsible business practices.

# The ESG Landscape

## ESG Reporting

The ESG reporting landscape has undergone rapid transformation, emerging as an essential element of business transparency and accountability. This evolution is not isolated; rather, it reflects a broader context where governments, stock exchanges, and regulatory bodies are playing pivotal roles in shaping ESG reporting standards.

In the ASEAN region, the discussion highlighted a shared intent among most jurisdictions to incorporate the International Sustainability Standards Board (ISSB) or some form of hybrid reporting system, demonstrating a commitment to aligning with global ESG reporting standards.

Notably, authorities in these regions have embarked on phased approaches toward ESG reporting for PLCs. These phased implementations are gradually moving toward making sustainability reporting mandatory, underlining the region's dedication to fostering ESG adoption.

While the primary emphasis has been on PLCs, Singapore has also placed an emphasis on public sector reporting. Notably, all public sector agencies are slated to release sustainability reports by 2024.

Additionally, authorities are proactively developing guides and templates to support PLCs in navigating the intricacies of new regulations and comprehending the complexities associated with sustainability reporting.

## ESG and the role of SMEs (small to medium-sized enterprises)

Embracing ESG principles represents not just a moral obligation but also a strategic advantage for SMEs. By integrating sustainable practices, promoting social inclusivity, and enhancing governance, SMEs can not only bolster their reputation but also attract socially responsible investors while mitigating potential risks.

Given the significant role that SMEs in ASEAN countries play in the global supply chain, international institutional investors are often hesitant to invest in them due to concerns about their ability to meet ESG requirements within the supply chain. This hesitancy could potentially hamper economic growth and the advancement of SMEs in the region.

One of the primary challenges faced by SMEs in adopting ESG practices is their lack of knowledge and expertise in sustainability reporting. This issue is exacerbated by a shortage of ESG skills, making it costlier for SMEs to seek the necessary guidance and advice.

To address these challenges, authorities in ASEAN are proactively working to enhance ESG adoption among SMEs through dedicated programs and grants aimed at building their capacity. The introduction of reporting templates and smart calculators, as mentioned earlier, will further alleviate the burden on SMEs that lack ESG expertise and may be financially constrained in seeking professional ESG guidance. These efforts collectively aim to create a more sustainable and socially responsible business environment for SMEs in the ASEAN region.



# Conclusion

In conclusion, from the discussion ESG considerations have gained increasing prominence in the ASEAN region, reflecting a global shift towards sustainability and responsible business practices.

ASEAN, a diverse and rapidly growing region, faces unique challenges and opportunities in its ESG journey. To harness these opportunities effectively, it is imperative for governments, businesses, and investors to collectively prioritize ESG. Government support, through robust regulations and incentives, can stimulate ESG adoption among businesses of all sizes. This not only enhances the region's competitiveness in the global market but also fosters economic resilience and sustainable development.

Moreover, the adoption of ESG principles in ASEAN helps address pressing issues such as environmental degradation, social inequality, and governance transparency. These challenges are intricately linked to the well-being and future prospects of the region's diverse population. By integrating ESG considerations into policymaking, businesses, and investments, governments can create an environment that values long-term sustainability over short-term gains.

The ASEAN region has the potential to lead the way in responsible and ethical business practices, and by doing so, it can attract socially conscious investors, bolster its global reputation, and secure a more resilient future.