

Making the Shift from Double to Single Materiality

Malaysia is entering a new phase in corporate sustainability reporting with the adoption of the International Sustainability Standards Board (ISSB) standards through the National Sustainability Reporting Framework (NSRF). This adoption marks a shift from double materiality to single materiality, aligning the country's reporting landscape with global investor expectations and strengthening its position as a competitive capital market in Southeast Asia.



The ISSB, established by the IFRS Foundation, issued its first two standards in 2023:

1. International Sustainability Standards Board IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information)
2. IFRS S2 (Climate-related Disclosures).

These standards aim to create a global baseline for sustainability disclosures focused on enterprise value; how sustainability risks and opportunities affect a company's financial performance and prospects, i.e. reflecting single materiality. As stated in IFRS S1 the "materiality of information is judged in relation to whether omitting, misstating or obscuring that information could reasonably be expected to influence decisions of primary users of general purpose financial reports, which provide information about a specific reporting entity."

This shift to ISSB standards also represents a conceptual change in how materiality is defined and applied. Historically, many Malaysian companies, especially those influenced by European frameworks, have adopted a 'double materiality' lens reported using the Global Reporting Initiative (GRI) standards. Moreover, it's worth noting that companies that need to comply with European regulations such as the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CS3D) will still need to utilise double materiality. Under double materiality, organizations report not only on sustainability issues that affect their financial performance (financial materiality), but also on their impacts on the environment and society (impact materiality), regardless of whether those impacts are financially significant.

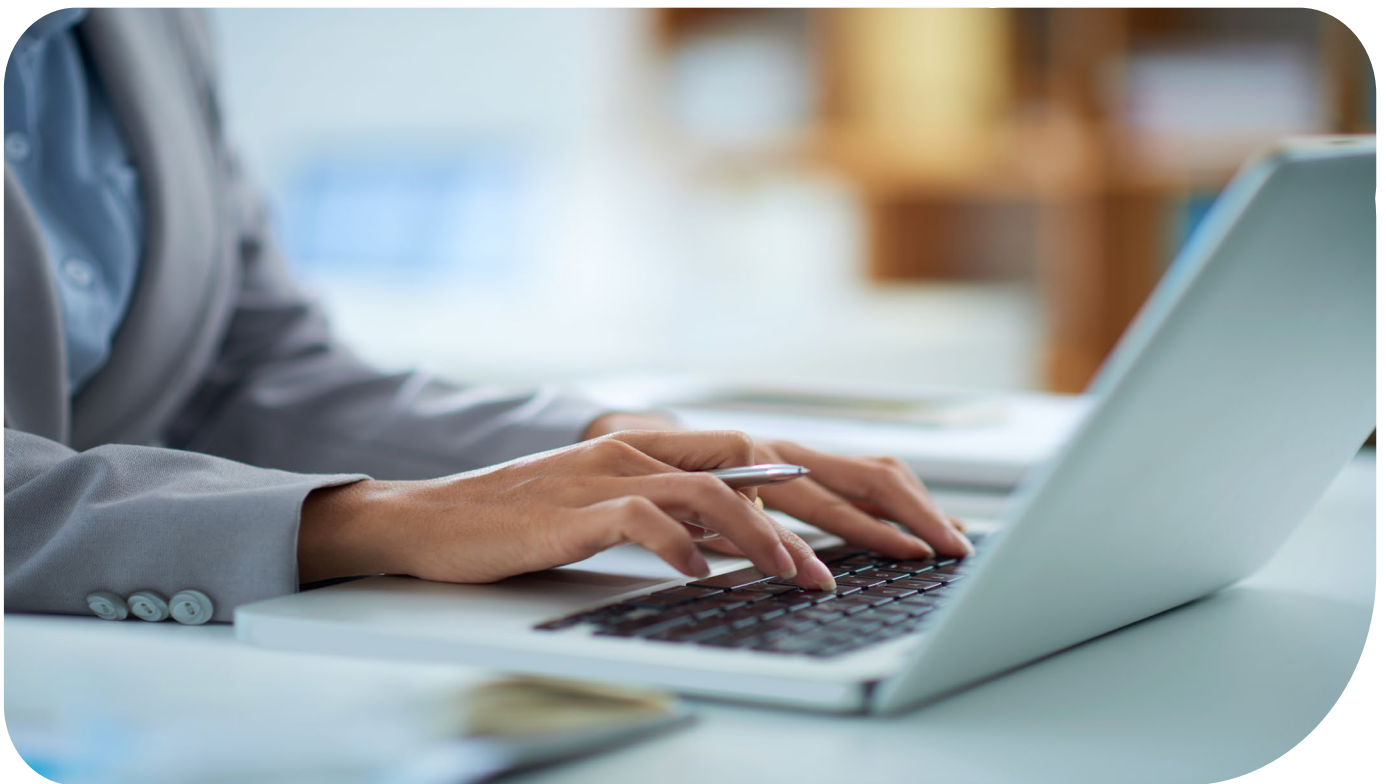
Connecting and Enhancing Financial and Sustainability Disclosures

The shift towards single materiality assessments has practical implications.

1. Companies must enhance their risk management and scenario analysis capabilities, particularly for climate-related disclosures under IFRS S2. Climate risks, such as transition risks from carbon pricing or physical risks from extreme weather, must be quantified and connected to financial outcomes.
2. Governance and internal controls over sustainability data must be strengthened to meet the same level of rigor expected for financial reporting, creating connectivity between sustainability, finance and risk.

At the same time, the move to single materiality does not mean that environmental and social impacts become irrelevant. Instead, they are assessed through the lens of financial relevance. For example, biodiversity loss or labour rights issues may still be disclosed if they pose reputational, regulatory, or operational risks that could affect enterprise value.

Malaysia's adoption of ISSB standards reflects a broader ambition to position its capital market as transparent, resilient, and globally integrated. For investors, the alignment enhances comparability across jurisdictions. For companies, it raises the bar on sustainability governance and disclosure quality. And for the broader economy, it signals a maturing sustainability ecosystem, one that increasingly integrates environmental and social considerations into mainstream financial decision making.



Collaboration is Key to Creating Stronger Connections for Reporting

As implementation progresses, the key challenge will be capacity building. Boards and management teams can leverage auditors or advisors to help operationalize single materiality effectively.

If managed well, Malaysia's transition could serve as a model for other emerging markets navigating the same global reporting transformation.

Let's connect to explore how our Sustainability and Climate Change Services can support your organisation's journey towards greater transparency and sustainability!

Contact us to discuss how we can help with our Sustainability and Climate Change Services



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