

## ADDRESSING CLIMATE CHANGE IN YOUR BUSINESS

On 30 April 2021, the Bank Negara Malaysia issued a guidance document on Climate Change and Principle-based Taxonomy ("**CCPT**"). CCPT introduces the guiding principles (GPs) intended to help financial institutions (FIs) assess and categorise economic activities (i.e. business activities) according to the extent to which they meet climate objectives and promote the transition to a low-carbon economy. This document is aimed at encouraging the adoption of ESG principles by FIs and provides a common framework for the classification of climate risk-related exposures of FIs to support risk assessments and encourage financial flows towards greening the economy.

What this document would mean to businesses is that if they are existing or prospective customers of the FIs, they may be required to consider or take climate-related actions to meet such GPs and climate objectives.

### **Climate Change and Principle-based Taxonomy**

CCPT recognises the impact and importance of identifying and managing climate risks. More than 50 natural disasters have occurred in the past 20 years which resulted in financial losses of more than RM8 billion and affected the lives and livelihoods of over 3 million people in Malaysia through displacements, injuries and death.

If climate and environmental-related risks are not recognised and managed, they may lead to substantial financial consequences not just for businesses and households but also FIs which provide financing or investment to those exposed to such risks.

Considering the above, the CCPT sets out 5 GPs for FIs' assessment of the business activities of their customers, as follows:

GP	Climate and environmental objective	GP is met if:
<b>GP 1: Climate change mitigation</b>	To reduce or prevent emissions of greenhouse gases (GHG) into the atmosphere.	(a) The business activity makes substantial contribution in avoiding, reducing or enabling others to avoid or reduce GHG emissions. (b) The business activity does not cause significant negative impact on the broader environment while contributing to climate change mitigation.
<b>GP 2: Climate change adaptation</b>	To increase resilience to withstand adverse physical impact of current and future climate change.	(a) The business activity implements measures to increase its own resilience to climate change or enable others to increase resilience to climate change. (b) The business activity is sustainable, does not negatively impact other adaptation efforts, or cause harm to the broader environment and community, while contributing to climate change adaptation. (c) The business activity has climate change adaptation outcomes that can be clearly defined. The outcomes of the action taken shall be sustainable and fit-for-purpose.
<b>GP 3: No significant harm to the environment</b>	To ensure that the business activity and overall business do not cause unintended harm to the broader environment, while the business activity may contribute towards climate risk mitigation and/or adaptation.	The business activity and overall business: <ul style="list-style-type: none"> <li>(a) prevents, reduces and controls pollution (air, water and land);</li> <li>(b) protects healthy ecosystems and biodiversity; and</li> <li>(c) sustainably and efficiently uses energy, water, and other natural resources.</li> </ul>
<b>GP 4: Remedial measures to transition</b>	To support an orderly transition by avoiding any outright exclusion of business activities that are currently not contributing to climate change objectives and/or not sustainable.	Business takes remedial efforts that directly contribute towards eliminating or significantly reducing the unacceptable risks to the climate and/or environment.
<b>GP 5: Prohibited activities</b>	At a minimum, to ensure business activities that are being considered and/or financed are not illegal and do not contravene environmental laws.  FIs are also strongly encouraged, to ascertain if businesses are engaged in activities that are in contravention with national human rights and labour laws.	Business keeps its activity legal by complying with the environmental laws as well as ensuring that it does not breach labour laws and human rights. Environmental-related prohibited activities include: <ul style="list-style-type: none"> <li>(a) Illegal deforestation;</li> <li>(b) Illegal waste management; and</li> <li>(c) Operations using fire for land clearance.</li> </ul>

## **Practical Tips**

The following are some practical tips to address climate change in businesses:

### **1. Assess business activities**

Some business activities would directly impact climate change or would be more affected by climate change than others. Thus, businesses must:

(a) understand the nature of their business activities and how the activities actually or may potentially impact climate change and the broader environment (for example, their carbon footprint) and vice versa.

(b) assess their business activities holistically by taking into account the entire and various levels of business activities.

### **2. Acclimatise to climate change**

(a) Embrace responsible energy management in day-to-day operations.

(b) Formulate business strategy(ies), target(s), risk exposure and mitigation, adaptation considerations, implementation plans and remedial measures in light of climate impact (actual and potential).

(c) Identify how climate objectives and risk management can be incorporated within business operations and activities. For example, in the supply chain, office management and waste management.

(d) Periodically assess the climate and environmental-related risks on business operations and document the criteria and outcomes of such assessments.

### **3. Make meaningful disclosure**

Make meaningful and publically accessible disclosures of environmental performance and targets:

(a) to enable key stakeholders, including investors and lenders, understand the efforts taken to address climate change.

(b) which will be a yardstick for the businesses as well as their stakeholders to monitor the efforts taken and compliance with the targets set.

#### **4. Engage with the FIs**

Understand the FIs' expectations as well as the nature of information or data required by such institutions to conduct due diligence on its customers' businesses. This would help businesses to:

(a) gauge where their business activities stand in terms of their financial institution's expectations.

(b) incorporate such expectations or concerns into their business activities by introducing new practices or enhancing existing practices.

#### **Conclusion**

CCPT is a fairly recent guidance document and so is climate risk management among Malaysian businesses. Though FIs may not drastically impose the guidance document now, it is just a matter of time before this happens. Besides, the pressure to act on climate change may arise from other sources including the regulators (for example through policies and regulations such as the requirement to integrate sustainability, including environmental factors, in the strategy, decision-making and governance of companies under the recently updated Malaysian Code on Corporate Governance and Climate Change Bill, which is expected to be tabled in the Parliament) and shareholders, investors and customers. Therefore, it is vital for businesses to gear up towards climate change objectives.

**Written by:**



**Nur Sajati Asan Mohamed**  
*Senior Associate*  
nursajati@azmilaw.com

**Corporate Communications**  
**Azmi & Associates**  
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