MINORITY SHAREHOLDER WATCHDOG GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD (Incorporated in Malaysia
Company No. 20-0001022382 (524989-M)

The Star, Starbizweek – Monday, 18 July 2022 (**C**) Part 1

StarBiz Special

FTSE4Good Bursa Malaysia (F4GBM)

Launched in December 2014, the F4GBM Index is aimed at:

- Supporting investors in making ESG investments in Malaysian listed companies,
- Increasing the profile and exposure of companies with leading ESG practices,
- Encouraging best practice disclosure, and
- Supporting the transition to a lower carbon and more sustainable economy.

In July 2021, Bursa Malaysia and FTSE Russell launched the FTSE4Good Bursa Malaysia Syariah (F4GBMS) Index to cater to investor demand for ESG and syariah-compliant index solutions.

The F4GBMS index is designed to track constituents in the F4GBM Index that are syariah-compliant.

The composition of the F4GBM and F4GBMS indices are reviewed semi-annually in June and December.

June 9, 2022 - There were 10 new additions to the constituents of the F4GBM Index and nine new additions to the constituents of the F4GBMS Index.

Source: Bursa Malaysia TheStargraphics

Preventing an ESG washout

Greenwashing among firms must stop, say observers

CORPORATE

By DALJIT DHESI
daljit@thestar.com.my

PETALING JAYA: As more companies embrace environmental, social and governance (ESG), the ugly side of this practice – greenwashing – is expected to increase if actions are not taken to minimise its occurrence.

Industry observers said Malaysia, as a trading nation as well as foreign direct investment destination, would lose out if companies adopt a lackadaisical attitude on greenwashing.

Amid headwinds like inflation and supply chain disruptions, investors are increasingly looking to park their monies into companies that adopt sustainability practices.

> ***"Institutional investors will sell down companies that do not adopt ESG practices and this can hurt both the share price and prestige of the company."***
> Devanesan Evanson

Greenwashing is the process of conveying a false impression about how a company's products are environmentally sound.

Instead of "falsifying" their ESG initiatives, companies should make honest investments and back their claims with targets and milestones, they said.

Minority Shareholders Watchdog Group (MSWG) CEO Devanesan Evanson expected an upsurge in greenwashing.

The phenomenon is likely to rise as companies know the price of not adopting ESG practices, according to him.

The companies risked being punished by

> TURN TO PAGE 2

MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD (Incorporated in Malaysia Company No. 20-0001022382 (524989-M)

The Star, Starbizweek – Monday, 18 July 2022 (**C**) Part 2

Call for globally recognised ESG measures to reduce greenwashing

> FROM PAGE 1

institutional investors and countries that import the their goods.

"Institutional investors will sell down companies that do not adopt ESG practices and this can hurt both the share price and prestige of the company.

"The companies do not have the vote of confidence of the institutional investors. Many minority shareholders follow the cue of the institutional investors and will do likewise," he told *StarBiz*.

Devanesan said foreign countries would forbid the imports from companies found to be ignoring ESG practices.

For example, the recent Withhold Release Order by the US Customs and Border Protection involved cases in Malaysia relating to forced labour issues and indiscriminate degradation of the environment, he said.

"Thus, to make it seem as if they are adopting ESG practices, some companies may choose the easy way out by greenwashing rather than investing money and resources in honest and sincere adoption of ESG," he said.

The FTSE4Good Bursa Malaysia (F4GBM) Index was launched in December 2014 to support investors in making ESG investments in Malaysian-listed companies, among others.

As at June 9, there have been 10 new additions to the constituents of the F4GBM Index, bringing the total number of constituents to 87, and nine new additions to the constituents of the FTSE4Good Bursa Malaysia Syariah or F4GBMS Index.

Separately, with the nine new additions to the F4GBMS Index, the index's constituent count stands at 65.

Maybank Investment Banking Group head of sustainability research Jigar Shah said greenwashing was universal and not specific to Malaysia.

"As capital market regulations mandate ESG and sustainability practices, and other stakeholders demand more action on issues such as climate, social factors, the companies are taking steps to provide greater disclosures on non-financial information.

"It is a learning curve where some companies are likely to have good policies but not specific strategies or targets to implement such policies.

"This could result in greenwashing either intentionally or otherwise," he said.

Misleading claims, advertisements or reporting without proper independent verification or third-party assurance are the worst form of greenwashing.

He also pointed out that there were no proper standards for ESG which would harmonise it globally to reduce greenwashing.

The International Sustainability Standards Board is expected to issue international financial reporting standards sustainability disclosure standards by year-end.

Bursa Malaysia had also issued a consultation paper on the task force on climate-related financial disclosures requirements. These were steps in the right direction to elevate the quality of sustainability-related disclosures, Jigar noted.

With greenwashing expected to be on the uptrend, is there a need to have a special body to monitor such practices in Malaysia? Economists and bankers did not think so.

OCBC Bank (M) Bhd chief transformation officer Choong Wai Hong said greenwashing was often due to a lack of a sufficient taxonomy (classification) for the players to benchmark against.

If greenwashing was due to lax standards and external pressure, the upgrading of audit expertise in ESG (both internally and externally) would be key to minimising the risk.

He said the disclosure standards, especially for the public and large corporations, would set the stage for enhanced audit coverage and management transparency.

Over time, large companies, via their internal policies and governance, would influence the compliance of their stakeholders namely customers, employees and suppliers by driving it down through the economic ecosystem.

Choong said it would be beneficial for the individual industry governing bodies or associations to work closely with the regulators and international communities to establish the compliance standards that are acceptable.

Sunway University economics professor Yeah Kim Leng said local companies that had allegedly engaged in greenwashing were likely unaware of their actions.

The practices were likely caused by the lack of research, inadequate expertise and absence of green standards, according to Yeah.

The surveillance of greenwashing is best left to environmental watchdogs, consumer groups and concerned citizens, he said.

"The government could assist by providing support in kind such as access to data and reports for the voluntary groups to conduct their own research and investigations.

"Given the complexities and difficulties of measuring the impact of sustainability practices, a more cooperative and supportive approach among the key stakeholders and industry self-regulation will be more beneficial and less costly compared with creating a special body."

Bank Islam (M) Bhd chief economist Mohd Afzanizam Abdul Rashid said creating another body to look into greenwashing would mean further bureaucracy. He said there was a need to look at the current legislation and agencies that could help reduce greenwashing.

"Further disclosure on ESG-related matters will help. Such information will assist the investors to make their own assessment. And also perhaps using tax policy to address the negative externalities for those who continue to pollute the environment," Afzanizam added.

To reduce such practices, MSWG's Devanesan said greenwashers must to be called out.

The mass media could play a part in this, he said, noting that companies should realise the reputational risk associated with greenwashing.

"They must realise that they have been caught lying no matter how they wish to gloss over that fact. They will lose a host of investors and their reputation will be affected," he said.

The best way to plug greenwashing according to Jigar is to check if companies are backing their claims with proper targets and milestones.

A company's claim for net-zero should also be backed by science-based targets.

Net-zero refers to a state in which greenhouse gases going into the atmosphere are balanced by their removal from the atmosphere.

"If a company suggests that it would become carbon-neutral, what is the targeted share of carbon offsets in achieving the carbon neutral status? If it is very high then there is greenwashing.

"Greenwashing is fact-checking and authentication of various claims made by companies," Jigar said.