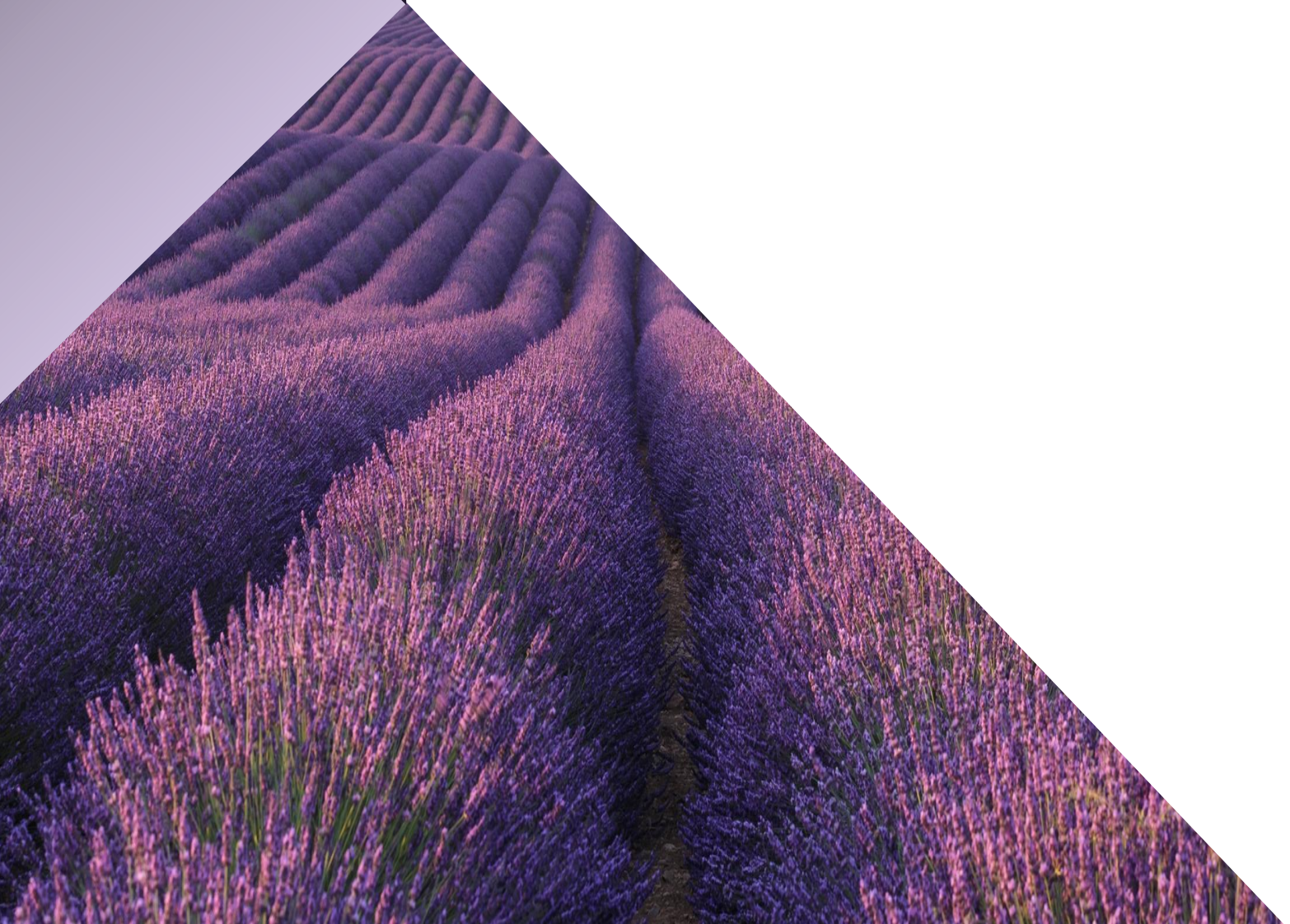


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LEGAL FRAMEWORK ON
ESG
IN VIETNAM





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Implementing ESG (Environment, Social, Governance) standards in enterprises has become a crucial international standard as investors and stakeholders increasingly recognize the importance of non-financial factors in assessing long-term value and sustainability of companies. In Vietnam, this trend is gaining traction driven by growing awareness of the necessity for sustainable development and the potential benefits of ESG integration. In this legal update, we shall discuss the background of ESG, legal framework of ESG standards in Vietnam, and its application.

1. General overview of ESG

Originating in the 1970s, ESG gained broader recognition when the UN officially endorsed it in a 2004 report titled “Who Cares Wins”. Since then, ESG standards have garnered increasing attention and have encouraged enterprises to prioritize sustainability through responsible business strategies and management.

ESG is a set of standards which are used to measure the sustainability and impact of enterprises on society. Particularly, the ESG standards includes 3 groups as follows:

E - Environmental: This criterion evaluates how a company interacts with the natural environment. It includes issues such as carbon footprint and greenhouse gas emissions, resource usage and efficiency (water, energy), biodiversity conservation, and mitigating climate change impacts.

S - Social: This criterion evaluates the company's relationships with stakeholders such as employees, customers, communities, and partners. Issues such as labor rights, health and safety, supply chain management, and social impacts of the company are considered here.

G - Governance: This criterion evaluates the company's governance structure, including risk management, board structure, business ethics, transparency, accountability, anti-corruption policies and practices.

Reporting Framework	Remarks
2023 IMO GHG Strategy	features a strengthened shared objective to achieve net zero GHG emissions from international shipping close to 2050. Shipping companies may use the IMO Strategy as a framework for establishing their decarbonization targets in their ESG disclosures.
Sustainability Accounting Standards Board (“SASB”)	sets standards for the disclosure of financially material sustainability information by companies to their investor, is designed to identify and standardize disclosure for the sustainability issues most relevant to investor decision-making in each of 77 industries (including maritime sector).
Global Reporting Initiative (“GRI”)	are a modular framework that includes sets of universal, sector-specific and topic-based sustainability reporting standards.
Taskforce on Climate-related Financial Disclosures (“TCFD”)	helps companies report climate-related financial risks, focus on an organization’s impact on ecosystems and biodiversity.
UN Global Compact	urges companies to align with principles related to human rights, labor, environment, and anti-corruption to advance societal goals and the Sustainable Development Goals.



2. Legal framework on ESG in Vietnam

Aligning with its commitment to carbon reduction and achieving Net Zero by 2050, Vietnam is increasingly focusing on sustainable enterprise. For enterprises, sustainable enterprise is also emphasized and mentioned in Program 167, with its full name being “Program to support private sector sustainable enterprise development phase 2022 – 2025” stipulated in Decision No. 167/QĐ-TTg dated 08 February 2022 by the Prime Minister, aiming to promote enterprises towards sustainable development.

Currently, Vietnam is developing a Green Taxonomy to complete the legal framework for sustainable enterprise practices within the corporate environment. Alongside with that, the Vietnamese government has introduced several regulations and initiatives to promote ESG adoption and can be described as below:

<p>Environment</p>	<p>Vietnam has issued several regulations and decisions related to greenhouse gas emission reductions and ozone layer protection. These include:</p> <ul style="list-style-type: none"> • Decree No. 06/2022/ND-CP dated 7 January 2022 on reducing greenhouse gas emissions and protecting the ozone layer; • Decision No. 01/2022/QĐ-TTg dated 18 January 2022 approving the list of emission sources requiring greenhouse gas inventories; • Decision No. 148/QĐ-TTg dated 28 January 2022 by the Prime Minister on monitoring climate change; • Decision No. 888/QĐ-TTg dated 25 July 2022 by the Prime Minister approves the plan for breakthrough tasks and solutions to implement the outcomes of COP26 on climate change, and the action plan for methane emission reduction by 2030. <p>Furthermore, Vietnam has issued Decision No. 896/QĐ-TTg dated 26 July 2022 by the Prime Minister on approving the national strategy for climate change up to 2050, taking into account Vietnam's Net Zero commitment and other related documents.</p>
<p>Social</p>	<p>In Vietnam, social criteria are most prevalent in employment law and data privacy laws. Specifically, the Labor Code generally prohibits discrimination, forced labor, and regulates working conditions, labor unions, as well as the rights and obligations of employees. Regarding data privacy protection, Decree 13/2023/ND-CP on principles for personal data protection is issued to raise awareness and establish a legal framework for this sensitive issue.</p>
<p>Governance</p>	<p>Vietnamese law includes regulations on board and management structures, anti-bribery and corruption compliance, executive remuneration, and information disclosure. Notably, pursuant to Circular No. 96/2020/TT-BTC dated 16 November 2020 issued by the Ministry of Finance replaced Circular No. 155/2015/TT-BTC dated 6 October 2015, public companies and companies with listed or publicly offered bonds must disclose their environmental and social impacts in a specified format.</p>

In addition, there are also some indicators for measuring and evaluating the level of ESG practice of Vietnamese enterprises that have been developed in the recent years:



- Vietnam Sustainability Index: formed by HCMC Stock Exchange (HOSE) in collaboration with the German International Cooperation Organization (GIZ) and the State Securities Commission to recognise, promote best ESG practices implemented by publicly listed companies in Vietnam and create investment products in the market.
- The Corporate Sustainability Index (CSI): formed by VCCI's Vietnam Business Council for Sustainable Development to assess the level of sustainable development of enterprises more accurately.
- ISO Standard 26000: formed by the International Standards Organization (ISO), this is defined as the international standard developed to provide guidance corporate social responsibility with employees.

Considering the above, it can be seen that these efforts demonstrate Vietnam's gradual completion of the legal framework to facilitate the implementation of ESG application in enterprises. This evolving legal infrastructure aims to promote transparency, accountability, and sustainable business practices.

3. Main steps to prepare a sustainability report

To guide enterprises in preparing a sustainability report, the State Securities Commission, in collaboration with the International Finance Corporation, has developed a Sustainable Reporting Handbook for Vietnamese Companies and a Greenhouse Gas Emissions Report, providing a process and guidance on ESG. When preparing this report, enterprises can refer to the following main steps:

Step 1	Set a vision and corporate commitment for sustainability performance and reporting
Step 2	Appoint a senior executive with oversight and accountability for the reporting process and the report itself
Step 3	Establish a cross-departmental taskforce to plan and prepare the sustainability report
Step 4	Take stock of where your company is on the sustainability journey
Step 5	Engage with stakeholders
Step 6	Determine the most important issues to report on
Step 7	Plan the data collection process
Step 8	Compile your report
Step 9	Build the report's credibility
Step 10	Plan for continuous improvements

Adhering to these guidelines and embedding ESG principles within their operations enables Vietnamese enterprises to align with global sustainability trends, thereby enhancing their competitive edge in the international market.

4. Challenges and Recommendations for ESG Disclosure in Vietnam

Although Vietnamese enterprises have made positive changes in their standards practices, they are also facing new challenges. The variety of ESG standards can lead to confusion and inconsistency, despite offering flexibility. In addition, ESG disclosure processes require various resources, including financial costs, human capital, time, and productivity. Considering that adopting ESG standards is a long-term commitment, once enterprises meet these standards, they can adapt to international trends and enhance their reputation. However, it is worth noting that ESG standards are not one-size-fits-all; there will be different implementation roadmaps for each company depending on their specific industry.

The necessary action is that Vietnamese enterprises should keep updated on the latest regulations, best practices, and practical guidelines related to ESG. It is recommended to regularly review and assess the



ESG practices to ensure compliance and relevance.

To sum up, green transition is key for enterprises in Vietnam to join the global green supply chain. With increasing government support, growing market demand, and successful case studies paving the way, the future outlook for ESG application in Vietnamese enterprises in Vietnam is promising. Enterprises should proactively seek information, adapt to regulatory changes, and continually enhance their ESG practices to stay competitive and sustainable in the evolving market landscape.

We hope the above is beneficial to you. Should you have any questions or need further information, please feel free to contact:



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