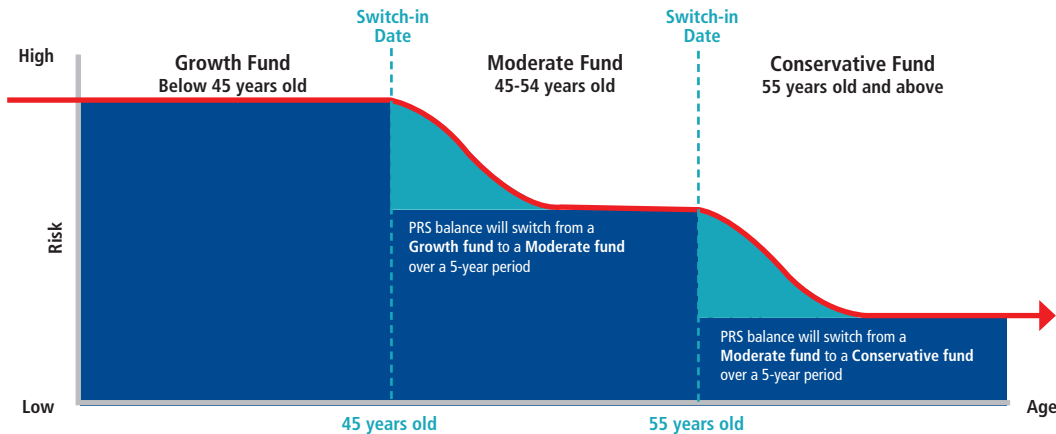


New glide path design and age group for PRS members under default option



Source: Private Pension Administrator Malaysia

ALIGNING VALUES WITH SUSTAINABLE AND RESPONSIBLE INVESTMENTS

One of the key drivers propelling the interest and traction of SRI over the years is the growing demographics and introspection of socially responsible investors, focusing on climate change, green energy, health and safety of workforce. This became more apparent in 2020 following the impact of the health crisis. Given these trends, SRI continues to be one of the key priorities in the Malaysian capital market. In 2020, the SC embarked on several initiatives aimed at facilitating the advancement and development of the SRI ecosystem, including broadening the range of offerings for Shariah-compliant SRI products.

Enabling Greater Access to Capital for Companies with Green and Social Projects

In 2020, the SC had organised several technical workshops for bond market intermediaries to provide further clarity on regulatory requirements and technical aspects for the issuance of SRI sukuk as well as ASEAN green, social and sustainability bonds. These technical workshops were well-received by the intermediaries as they become more well-informed and are in a better position to advise their clients. In tandem with this, domestic credit rating agencies

have offered climate and sustainability-related review services to boost confidence in such debt issuances, with one service provider obtaining international accreditation from a leading international climate bond certification body. As of December 2020, RM5.4 billion of SRI sukuk have been issued under the SRI Sukuk Framework since its introduction, out of which RM3.1 billion were dually recognised under the *ASEAN Green Bond Standards* and *ASEAN Sustainability Bond Standards*. In addition, a total of RM635 million ringgit-denominated bonds and a US\$680 million foreign-currency denominated bond were issued under the *ASEAN Green Bond Standards* and *ASEAN Sustainability Bond Standards*, since the release of these standards.

To further accelerate the growth of SRI and promote more issuances of sukuk and bonds to finance the country's sustainable developmental needs, the Board of Trustees of the Capital Market Development Fund (CMDf) has approved on the expansion of the Green SRI Sukuk Grant Scheme to cover all sukuk issued under the SC's SRI Sukuk Framework as well as bonds issued under the ASEAN standards². The grant provided by the CMDf is intended to incentivise issuers by offsetting up to 90% of external review costs incurred in the issuance process. Following the approval by the Board of Trustees of CMDf, the grant was subsequently rebranded as SRI Sukuk and Bond Grant Scheme. Accordingly, the tax exemption for the recipient of the grant has been extended for another five years from 2021 to 2025.

² *ASEAN Green Bond Standards, ASEAN Social Bond Standards and ASEAN Sustainability Bond Standards.*

Enhancing the SRI Information Architecture for Greater Transparency and Accessibility

In designing a comprehensive information architecture within the capital market, particularly in promoting disclosure information on SRI sukuk and bond markets, the SC had collaborated with its affiliate, the Bond+Sukuk Information Exchange (BIX), to establish a dedicated SRI Centre.

The SRI Centre launched on 25 August 2020, provides enhanced transparency and access to information on ringgit-denominated SRI bond and sukuk issuances in the country. The one-stop hub was launched during the SRI Virtual Conference 2020 organised by the SIDC. Accessible via the BIX website, it provides comprehensive and up-to-date information from a single source to all market participants as well as the general public. The SRI Centre is part of the recommendation under the 5-year plan of the *Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market* (SRI Roadmap).

Accelerating Climate Resilience Through the Financial Sector

The health crisis has highlighted the far-reaching impact of the pandemic on the global economy, with demand and supply shocks spreading across borders. This had raised a further sense of urgency to the work of the Joint Committee on Climate Change (JC3) in supporting efforts to build resilience against adverse climate and environmental-related events and secure an orderly transition to a more sustainable economy.

As Co-Chair of the JC3, the SC jointly hosted its third meeting on 14 September 2020. The meeting discussed the progress of initiatives under its four sub-committees as well as the focus of priorities for the next 12 months. This includes capacity building, creating awareness and developing measures to help bridge current gaps in climate and environment risk-related information needed to support risk management and solutions on products by financial service providers.

The SC also serves as the Chair of the Sub-Committee 3 on Product and Innovation. In 2020, this sub-committee completed a Gap Analysis and several recommendations were identified. This included accelerating the roll-out of existing financial and capital market products, and introducing new products to finance the transition to a sustainable economy.

Enhancing Social Finance and Impact Investing Through the Islamic Capital Market

Waqf-Featured Fund Framework

In November 2020, the SC released a *Waqf-Featured Fund (WQ-FF) Framework* to facilitate the offering of unit trusts and wholesale funds with *waqf* feature. The framework provides a platform for fund managers to launch products that integrate commercial with social objectives. Investors will also have the opportunity to invest and participate in products that could deliver sustainable benefits for society.

WAQF-FEATURED FUND FRAMEWORK



Contains new requirements for WQ-FF to facilitate the offering of Islamic unit trust funds and Islamic wholesale funds with *waqf* feature.



Only Islamic unit trust funds and Islamic wholesale funds that comply with the requirements under the new chapter of the *Guidelines on Unit Trust Funds* and LOLA Guidelines respectively, can consider themselves as a fund with *waqf* feature.



These requirements provide guidance and clarity in the areas of investment objective and distribution policy, eligible *waqf* recipients, disclosure documents, information memorandum and product highlights sheet (where applicable), and breakdown of total amount distributed in the fund report.

Growing and Strengthening the Impact Economy Ecosystem

Co-organised by the SC and the Oxford Centre for Islamic Studies (OCIS), the SC-OCIS Roundtable is a strategic platform for intellectual discourse among a diverse group of stakeholders to deliberate and bring about greater understanding on topical issues relating to Islamic finance globally.

The 11th SC-OCIS Roundtable was held virtually for the first time on 15 and 16 October 2020. The Roundtable, themed 'Repurposing Islamic Finance for Longer Term Opportunities' was graced by His Royal Highness Sultan Nazrin Muizzuddin Shah, Sultan of Perak and the Royal Patron for Malaysia's Islamic Finance Initiative, with a special keynote address.

Central to the discussions at the Roundtable was the role of ICM in leading the impact investing ecosystem, which would ultimately provide greater reach with sustainable impact towards beneficiaries. Close to 50 distinguished participants comprising local and international scholars, industry practitioners, regulators and intermediaries shared their perspectives and exchanged views on the subject matter.

The Impact Investment Roundtable 2020 was initiated following the proceedings of the 10th SC-OCIS Roundtable in 2019. The main objective was to gather subject matter experts to discuss the way forward and formulate requisite foundations to grow and strengthen the Impact Economy Ecosystem in Malaysia. There were three series segregating stakeholder groups based on corresponding themes:

- **Intermediaries** – 'Building an Impact Investment Ecosystem: The Role of Islamic Capital Market Intermediaries in Impact Capital Intermediation';
- **Demand** – 'Achieving Sustainability and Profitability: Businesses Driving the Demand for Impact Capital'; and
- **Supply** – 'What's Next for Sustainable and Responsible Investment: The Impact Imperative'.

Each session gathered approximately 40 local and international experts from various sectors including the government, regulators, corporate organisations, social enterprises, business incubators and accelerators, university-led entrepreneurship centres, intermediaries, capacity-building organisations and non-governmental organisations. The Roundtable discussions led to key findings and recommendations for strategic action plans for ICM moving forward.

Driving the Global Sustainable Finance Agenda

The emphasis on a resilient and inclusive economic recovery has provided the SC with the impetus to accelerate sustainable finance efforts internationally and regionally. The SC's efforts to lead and participate actively in the sustainable finance agenda has been through the IOSCO, ACMF, and ASEAN Working Committee on Capital Market Development (WC-CMD). The SC's participation in the work of sustainable finance raises Malaysia's position as a regional leader and further informs ongoing initiatives to promote SRI within the Malaysian capital market.

Regionally, the SC continues to drive the sustainable finance agenda through the ACMF, a high-level forum of ASEAN capital market regulators tasked with developing and implementing capital market integration and connectivity initiatives. The SC as the co-chair of the ACMF Sustainable Finance Working Group played a significant role in the issuances of the *ASEAN Green Bond Standards* (2017) as well as the *ASEAN Social Bond Standards* and *ASEAN Sustainability Bond Standards* (2018). Since then, labelled issuances under all three standards continued to gain traction, achieving US\$8.35 billion as of 31 December 2020. Malaysian issuances accounted for 19% of this total.

In May 2020, the ACMF published the *Roadmap for ASEAN Sustainable Capital Markets* (ACMF Roadmap) whose development was facilitated by the SC. The ACMF Roadmap provides a broad strategic direction for sustainable finance in the region's capital markets.

The ACMF Roadmap charts the vision to develop an open ASEAN capital markets ecosystem that facilitates and mobilises private sector capital in the financing of sustainable projects. It also guides the development of relevant action plans and initiatives for the next five years.

On a parallel note, the WC-CMD comprising representatives of regional Ministries of Finance, Securities Regulators and Central Banks, published a *Report on Promoting Sustainable Finance in ASEAN* (WC-CMD Report) in October 2020. During its co-chairmanship of WC-CMD from July 2018 to June 2020, the SC with its co-chair (Ministry of Finance, Viet Nam) led the development of the WC-CMD Report, which identifies recommendations on areas for collaboration between regional policymakers to further the sustainable finance agenda in ASEAN. These recommendations focused on the role of government and quasi-government sectors.

Within IOSCO, the SC is a member of the Sustainable Finance Network (SFN) that comprises 42 global regulators from both developed and emerging markets. Following the publication of the *SFN Report on Sustainable Finance and the Role of Securities Regulators and IOSCO* (SFN Report) in April 2020, IOSCO established the Board-level Sustainable Finance Task Force (STF), of which the SC is also a

member. The objectives of the STF include improving sustainability-related disclosures, addressing greenwashing and other investor protection concerns, collaborating with other international organisations and regulators to avoid duplicative efforts, and enhancing co-ordination of relevant regulatory and supervisory approaches.

The STF work stream that SC participates in identifies areas for improvement in sustainability-related disclosures. With regard to the effort among the global standard setters³ and the International Financial Reporting Standards Foundation to formulate a unifying system for sustainability reporting, IOSCO plays an important role to ensure that public interest considerations are taken into account for the future system architecture.

The SC is also a member of the IOSCO Asia Pacific Regional Committee Working Group on Sustainable Finance, which seeks to facilitate information-sharing, capacity building and awareness on ESG and climate-related financial risks within the Asia Pacific region. The SC has been part of continual efforts to address these issues, including facilitating a more consistent approach to address ESG and/or climate-related risk disclosures in the region.

³ Global Reporting Initiative, Sustainability Accounting Standards Board, Task Force on Climate-Related Financial Disclosures, Climate Disclosure Standards Board and International Integrated Reporting Council