

## THEMATIC REVIEW ON SRI PRACTICES

### BACKGROUND

ESG risks are increasingly recognised as sources of financial risk. The SC undertook a thematic review to assess the current policies and practices adopted by fund management companies (FMCs) in managing ESG risks. The thematic review was conducted via the issuance of a survey and engagements with selected FMCs.

### KEY OBSERVATIONS

- FMCs have started to develop **SRI intermediation capabilities** albeit at different levels of development between foreign and local FMCs.
- **Foreign FMCs:**
  - Generally demonstrated higher level of awareness and maturity by leveraging global expertise and practices, with some having in-house proprietary tools to assess and incorporate ESG factors into their investment process and decision-making.
  - These include integration of qualitative and quantitative methods from various sources by in-house ESG experts, third-party data, and utilising proprietary ESG model.
- **Local FMCs:**
  - Generally, at the early stages of development, some have progressed well by having commitments made at board level to put in place a responsible investment framework including formulation of SRI strategies, allocation of budget and establishment of a dedicated SRI working group/committee.
  - Most have adopted third-party screening methods and ratings.
  - Some have entered into arrangements with external SRI experts and managers. These have expedited the introduction of SRI funds into the market while enabling knowledge transfer and internal capabilities to be built over time.
- The observations and findings from this thematic review are relevant towards, among others, planning the SC's future engagements and communications with FMCs, including the proposed issuance of guidance to assist FMCs in managing their ESG risks.
- **Challenges:**
  - Lack of data and disclosures from issuers for FMCs to adequately assess and manage the potential effects of ESG risks.
  - Limited investment universe.
  - However, the SC views that FMCs play a critical role in changing the landscape by influencing the issuers to transition and adopt sustainable business practices, and enhance the quality of ESG reporting through active ownership.

### OUTCOME

In line with the SC's *Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market* (SRI Roadmap), CMP3 and global regulatory developments, the SC is targeting to issue a Guidance Note on Managing ESG Risks to assist and guide FMCs in establishing and further developing their responsible investment framework, focusing on ESG investment and risk policies, and procedures towards effective analysis and management of material ESG risks as well as facilitating meaningful disclosures to investors. The proposed Guidance Note is targeted for issuance in the 1<sup>st</sup> half of 2022.