

## **FREQUENTLY-ASKED QUESTIONS**

### **SUSTAINABLE AND RESPONSIBLE INVESTMENT LINKED (SRI-LINKED) SUKUK FRAMEWORK**

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#### **1. What is a SRI-linked sukuk?**

A SRI-linked sukuk is a sukuk where the financial and/or structural characteristics vary depending on whether the issuer achieves its predefined sustainability objectives within a predefined timeline.

Example:

- A company issues a SRI-linked sukuk with a baseline profit rate of 5% per annum.
- The key performance indicator (KPI) is reduction in carbon dioxide (CO<sub>2</sub>) emission to 50 million tonne in year 3 whereupon if it achieves the KPI, the profit rate will be reduced by 25 basis point (b.p.).
- In year 3, the external verifier confirms that the CO<sub>2</sub> emission target has been achieved.
- The profit payment is reduced to 4.75% as incentive for achieving the objective.

#### **2. What is the difference between SRI sukuk and SRI-linked sukuk?**

As stated in question 1 above, SRI-linked sukuk is structured differently where its financial and/or structural characteristics may vary whereas SRI sukuk does not have the same feature.

Further, unlike SRI sukuk, there is no restriction on the use of the SRI-linked sukuk proceeds. Proceeds raised from a SRI-linked sukuk may be utilised for general purposes, whereas the proceeds from a SRI sukuk must only be used for funding of eligible SRI projects.

#### **3. What are the key features of the SRI-linked Sukuk Framework?**

The SRI-linked Sukuk Framework consists of 5 key components as follows:

- a) Characteristics: The financial and/or structural characteristics of the SRI-linked sukuk vary depending on whether the issuer achieves the KPIs;
- b) KPIs: Sustainable commitments that the issuer would want to improve;
- c) Sustainable Performance Targets (SPTs): Pre-defined targets against which the KPIs are assessed;

- d) External review: A report prepared by an independent third party to provide an opinion on the issuer's framework and a verification of the KPIs; and
- e) Reporting: Issuer's obligation to report at least annually, on the performance of the KPIs.

#### **4. What is the scope of an external review?**

An external review is generally a process undertaken by an independent third party to assess and provide report on the issuer's compliance with the requirement of the framework and the issuer's performance against the selected KPIs and SPTs.

An external review is carried out in two stages: at the pre-issuance and post-issuance stage.

At the pre-issuance stage, an external reviewer would evaluate, amongst others, the relevance of the KPIs, the rationale for the SPTs, related benchmarks and baselines, and the strategies for the issuer's SRI-linked sukuk.

At the post-issuance stage, the verifier's report should include an evaluation of the issuer's performance against each SPT for each KPI.

#### **5. Is there a difference between an external reviewer and a verifier and who may be appointed as either an external reviewer or verifier?**

The term external reviewer and verifier are used to distinguish the parties conducting the review process at the different stages of issuance, i.e., an external reviewer conducts the pre-issuance evaluation while a verifier confirms the issuer's post-issuance progress.

An external reviewer and verifier must be independent from the issuer and may be consultants or audit firms which have expertise in sustainability or environmental, social and governance (ESG) matters.

Both the external reviewer and verifier may be a local person or a person based outside of Malaysia.

#### **6. Is an external review compulsory?**

Yes. An issuer must ensure that both the pre-issuance and post-issuance external reviews are conducted in compliance with the relevant requirements as set out under the *Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework* and the *Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors*.