

PUBLIC CONSULTATION PAPER

No. 1/2021

PRINCIPLES-BASED SUSTAINABLE AND RESPONSIBLE INVESTMENT TAXONOMY FOR THE MALAYSIAN CAPITAL MARKET

The Securities Commission Malaysia (SC) invites your written comments on this public consultation paper. Comments are due by **31 March 2022** and will only be received when submitted at this link www.sc.com.my/feedback-sri-taxonomy.

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BACKGROUND

As sustainable investments develop globally, greater clarity and guidance are required to guide market practitioners and investors to identify sustainable investment assets. Having a common taxonomy will enhance the standardisation and comparability of sustainable investment assets, which in turn will further accelerate the development of this asset class.

The Securities Commission Malaysia (SC) recognised that a Sustainable and Responsible Investment (SRI) Taxonomy for the Malaysian capital market will further accelerate the development of SRI ecosystem towards achieving national environmental and sustainable objectives. In line with the recommendation of the SC's *Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market* (SRI Roadmap), a SRI Taxonomy has been developed to enable the Malaysian capital market and its constituents in identifying economic activities that are aligned with environmental, social and sustainability objectives.

Given the importance of the SRI Taxonomy to the capital market industry as well as the relevant sectors of the economy, its development was undertaken jointly by the regulator and the industry, through an Industry Working Group (IWG) comprising the World Bank Group Inclusive Growth & Sustainable Finance Hub in Malaysia as the Lead Technical Expert, and representatives from the local stock exchange, asset and fund management companies, investment bank, asset owner and other sustainable finance specialists.

A principles-based approach was adopted in developing the SRI Taxonomy taking into account the state of readiness of the wider Malaysian capital market, as the capital market constituents are at different stages of their sustainability journey. Therefore, a principles-based SRI Taxonomy will provide common guiding principles on the classification of economic activities to support sustainable investments. The IWG had jointly developed the foundation for the Principles-based SRI Taxonomy for the Malaysia Capital Market, comprising the environmental, social and sustainability components. This will pave the way for the introduction of a more granular and technical guidance in the SRI Taxonomy planned for a later phase.

In developing the environmental component, relevant taxonomies were reviewed including the Bank Negara Malaysia (BNM)'s *Climate Change and Principle-Based Taxonomy* (CCPT)¹ and ASEAN Taxonomy Board (ATB)'s *ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy) – Version 1*². To ensure greater harmonisation and alignment, the proposed environmental objectives of the SRI Taxonomy are consistent with the environmental objectives in BNM's CCPT and the Foundation Framework of the ASEAN Taxonomy.

To further enhance the capabilities of Malaysian capital market industry in facilitating transition finance, proposed guiding principles in financing a credible transition have been included in the SRI Taxonomy. This is aimed at enabling more companies to leverage market-based instruments in meeting their transition finance needs. In developing these guiding principles,

¹ Released on 30 April 2021.

² Released on 10 November 2021.

the IWG had considered relevant guidance documents including International Capital Market Association (ICMA)'s *Climate Transition Finance Handbook*³ and Climate Bonds Initiative's Discussion Paper on *Transition Finance for Transforming Companies*⁴.

Meanwhile, the proposed social component of the SRI Taxonomy provides broad-based guiding principles for the Malaysian capital market constituents in managing social risks as well as unlocking opportunities to enhance social standards. In developing the social component of the principles-based SRI Taxonomy, the IWG had assessed the draft report by the Subgroup 4 of *European Union's Platform on Sustainable Finance on the Social Taxonomy*⁵. Cognisant that the development of a social sustainability agenda is less mature than the environmental agenda at the global stage, the IWG's view was that the proposed social component should be customised to focus on the Malaysian capital market's capacity and capability to promote greater transparency on social investments and impact in supporting social objectives.

The principles-based SRI Taxonomy is also aimed at contributing towards existing national climate and sustainability agenda and thereby, reinforcing the Malaysian capital market's role in supporting a meaningful climate and just transition. In this regard, the principles-based SRI Taxonomy is intended to complement and support existing national laws and policies. It will serve as a voluntary and non-binding guide for capital market participants to identify and classify sustainable economic activities based on the principles provided, which sets the strategic direction to strengthen the SRI asset class and promote greater awareness and adoption of sustainability practices within corporate Malaysia.

As Chair of the IWG, the SC welcomes constructive written feedback to improve the proposed guiding principles as set out in this consultation paper, particularly on:

- (a) The Environmental component;
- (b) The Principles for Financing a Credible Transition;
- (c) The Social component; and
- (d) The Sustainability component.

The SC also welcomes contributions of use cases which are relevant to the Malaysian capital market to be incorporated into the principles-based SRI Taxonomy.

³ Published in December 2020.

⁴ Published on 10 September 2021.

⁵ Published for consultation on 12 July 2021.

Chapter 1

INTRODUCTION

1.1. Growth of sustainable investments globally

Globally, the amount of sustainability-themed investment products have increased more than 80% from 2019 to 2020, amounting to US\$3.2 trillion in 2020 as international commitments towards sustainable development and climate goals have spurred the demand for sustainable investments despite the global economic uncertainties and the health crisis.⁶ These include sustainable funds (over US\$1.7 trillion), green bonds (over US\$1 trillion), social bonds (US\$212 billion) and mixed-sustainability bonds (US\$218 billion).⁷ In addition to this, sustainable investing assets in five major markets⁸ observed by the Global Sustainable Investment Alliance (GSIA) recorded a 12.7%⁹ increase to US\$35.3 trillion from US\$13.6 trillion between early 2012 to early 2020, which makes up 35.9% of the total professionally managed assets in these five major markets, as at 2020.¹⁰

While the unprecedented global pandemic has further heightened the importance of achieving the global goals, financing for sustainable development, particularly for developing countries, risks collapsing as the US\$2.5 trillion annual Sustainable Development Goals (SDGs) financing gap in these countries is expected to further expand due to global economic uncertainty and funding channeled towards COVID-19 recovery efforts¹¹.

In addition, the latest Intergovernmental Panel on Climate Change (IPCC) *Climate Change Report 2021* warned of the dire consequences of climate change and called for an immediate global response. It also cautioned that only strong and sustained reductions in the emissions of carbon dioxide and other greenhouse gases would limit climate change, however it could take about 20 to 30 years for global temperatures to stabilise. The global energy investments required to reach the climate goals amounts to approximately US\$2 trillion per annum, or 2.5% of global gross domestic product (GDP) as at 2020 and it is estimated that this will have to increase to US\$5 trillion, or 4.5% of GDP by 2030, with the same investments maintained until at least 2050, to reach net-zero carbon emissions by 2050¹².

1.2. Financing Malaysia's sustainable development needs

In realising Malaysia's commitments towards achieving the SDGs and climate goals, including the ambition to become carbon neutral as early as 2050, efforts will need to be intensified, including addressing financing challenges for sustainable development and climate goals.

⁶ United Nations Conference on Trade and Development, 2021, *World Investment Report 2021*.

⁷ *Ibid.*

⁸ The five major markets include Australasia, Canada, Europe, Japan and United States.

⁹ Compound Annual Growth Rate.

¹⁰ GSIA, 2021, *Global Sustainable Investment Review 2020*,

¹¹ Organisation for Economic Co-operation and Development, 2020, *Global Outlook on Financing for Sustainable Development 2021*.

¹² International Energy Agency, 2021, *Net Zero by 2050*.

A report on SDGs investment highlighted that Malaysia needs US\$3.9 billion of investments in providing greater access to clean water and sanitation, US\$14.7 billion in maintaining digital access and US\$73.7 billion to achieve significant improvements in transport infrastructure, by 2030¹³.

The sustainability agenda, which has been identified as an imperative for ensuring economic growth and prosperity, is integrated into national strategies including the *Shared Prosperity Vision 2030* and the *Twelfth Malaysia Plan 2021-2025*. These national policies also outline the commitment towards achieving sustainable social well-being for Malaysians. In addition, several other strategic documents have also been issued by various ministries and government agencies to provide greater policy guidance and direction towards creating a more sustainable Malaysia, such as the *Environmental Sustainability Strategic Plan 2020-2030*, *National Low Carbon Cities Masterplan* and the *Green Technology Masterplan Malaysia 2017-2030*.

However, the implementation of these strategies, which requires billions of dollars in investments, needs to be supported by private investments as reliance on public financing alone may no longer be sufficient. For instance, based on the *Green Infrastructure Investment Opportunities Malaysia 20202 Report* by Climate Bonds Initiative, Malaysia requires a cumulative infrastructure investment of approximately US\$460 billion from 2016 to 2040, and a majority of these investments would need to be directed at green infrastructure to meet Malaysia's Paris Agreement targets. Thus, the capital market is well positioned to facilitate financing for sustainable developments and climate goals through the issuance of various market-based financing instruments.

1.3. Scaling up Sustainable and Responsible Investments in the Malaysian capital market

Since the introduction of the 5i-Strategy¹⁴ in 2014, the SC has introduced several initiatives to develop a facilitative SRI ecosystem in Malaysia. Since 2014, the SRI segment has grown and evolved, with one of the earliest initiatives being introduced was the SRI Sukuk Framework, which led to the creation of an innovative Shariah-compliant SRI instrument to facilitate the financing of projects that would benefit the environment and society and facilitated the introduction of the world's first green sukuk in 2017.

In addition, the Guidelines on SRI Funds was released in 2017 to facilitate and encourage the introduction of SRI funds in Malaysia aimed at expanding the suite of SRI fund product offerings and encourage the development of the SRI fund management segment in the capital market. To complement this, the Waqf-Featured Fund Framework was also introduced in November 2020 to facilitate the offering of Islamic funds with *waqf* features that would enable the growth of the Islamic social finance segment, further emphasising the close alignment between SRI and Islamic finance.

¹³ Standard Chartered, 2020, *Opportunity 2030 The Standard Chartered SDG Investment Map*.

¹⁴ 5i-Strategy encompasses (i) Widening the range of SRI Instruments; (ii) Increasing SRI Investor base; (iii) Building a strong Issuer base; (iv) Instilling string Internal Governance Culture; and (v) Designing Information Architecture in the SRI ecosystem.

In scaling up SRI, the SC is also guided by the *SRI Roadmap*¹⁵ which underlines 20 recommendations aimed at strengthening the positioning of Malaysia as a regional SRI centre. Leveraging the achievements from the earlier SRI initiatives and the strategic foundations and policy direction for the development of the SRI segment, continuous efforts to enhance the existing initiatives and expand the market segments are necessary given SRI growth opportunities to be further unlocked for the Malaysian capital market.

The *Capital Market Masterplan 3*¹⁶ (CMP3) identified SRI as one of the key development thrusts for the capital market over the next five years, and highlights the importance of SRI towards shaping a more sustainable and socially inclusive stakeholder economy in Malaysia that facilitates long-term value creation beyond short term profits that would cater to broader stakeholder needs. Several key trends, including the new wave of global climate action is also expected to give rise to greater efforts surrounding SRI which are geared towards supporting Malaysia's transition to a net-zero economy, including greater integration of environmental, social and governance (ESG) considerations into investment risks, facilitating transition finance and encouraging greater transparency on sustainability-related data and reporting standards.

1.4. The need for sustainable finance taxonomy for the Malaysian capital market

The growth of sustainable investments globally has led to the need for more clarity and guidance for market actors in identifying activities that would qualify for sustainable investments. This has become more important especially as countries globally are focusing on economic activities that not only bring economic growth but also protect the planet and improve social well-being.

Concerns on the appropriate identification and classification of different types of economic activities, definition of sustainable investments, as well as the need to mitigate and address the risks of greenwashing have given rise to the development of sustainable finance taxonomies globally. Various jurisdictions, such as the European Union (EU), China and ASEAN¹⁷ have released sustainable finance-related taxonomies to further guide the development of sustainable finance in these jurisdictions. In addition, other jurisdictions such as Singapore, Indonesia, South Africa and the United Kingdom are in the midst of developing sustainable finance taxonomies.

Most of the sustainable finance taxonomies developed or being developed in other jurisdictions are focusing on the environmental aspects, with the EU currently developing the social taxonomy. Given Malaysia's global leadership position in Islamic finance and the alignment of Islamic finance with sustainability, particularly from the social and ethical investing perspectives, the development of SRI Taxonomy in Malaysia also includes the social component, in addition to the environmental component.

As the SRI segment in the Malaysian capital market continues to develop, there will be greater calls for more clarity and guidance for consistency of definition and comparability of what

¹⁵ Released in 2019.

¹⁶ CMP3, released by the SC in 2021, serves as the strategic framework for the growth of Malaysia's capital market over the next five years

¹⁷ Association of Southeast Asian Nations (ASEAN)

constitute as SRI. Thus, having a common SRI taxonomy will provide the standardisation and greater comparability to guide the capital market stakeholders in identifying economic activities that can be classified as sustainable.

The development of a SRI Taxonomy was identified as among the 20 recommendations in the SRI Roadmap. The SRI Taxonomy will serve to enhance the standardisation and comparability of sustainable investments assets, and act as a critical building block to facilitate greater product diversity. This will in turn accelerate the development of SRI as an asset class, in line with the aspiration and recommendations of the SRI Roadmap.

CHAPTER 2

OBJECTIVES AND SCOPE OF APPLICATION

The SRI Taxonomy aims to provide clarity and guidance to capital market constituents, including capital market intermediaries, issuers and investors, in identifying sustainable investment assets or activities.

As a start, a principles-based SRI Taxonomy is developed to provide guidance to identify economic activities in alignment with the environment, social and sustainability considerations. In addition, the SRI Taxonomy also provides guidance on the principles of financing a credible transition to improve transparency on transition pathways for businesses.

The development of the principles-based SRI Taxonomy is underpinned by the six guiding principles:

- Principle 1** : The SRI Taxonomy should provide guidance on classification of environmental, social and sustainability-related economic activities, including transition to low-carbon activities
- Principle 2** : The SRI Taxonomy should provide a credible framework and definitions
- Principle 3** : The SRI Taxonomy should meet the needs of the Malaysian capital market and all its constituents
- Principle 4** : The SRI Taxonomy will take into consideration widely used taxonomies and other taxonomies of relevance, as appropriate
- Principle 5** : The SRI Taxonomy shall be principles-based and its adoption shall be voluntary
- Principle 6** : Development of the SRI Taxonomy should be driven and guided by the SC, and in collaboration with industry in order to capture a diverse and comprehensive range of perspectives while taking into account developmental priorities

CHAPTER 3

ENVIRONMENTAL COMPONENT

- 3.1 The SRI Taxonomy outlines four environmental objectives, namely:
- (a) Climate change mitigation;
 - (b) Climate change adaptation;
 - (c) Protection and restoration of biodiversity and ecosystems; and
 - (d) Transition to circular economy.
- 3.2 An economic activity can be considered to support the objectives of the environmental component if:
- (a) it substantially contributes to at least one of the environmental objectives; and
 - (b) does not cause significant harm to any of the other three environmental objectives.
- 3.3 An economic activity is generally location and context-specific, and interacts directly or indirectly with the surrounding environment. While the economic activity may contribute towards environmental objectives, the economic activity may cause unintended harm to the broader environment. The principle of 'do no significant harm' (DNSH) means that an economic activity which contributes substantially to an environmental objective shall also not significantly harm any of other environmental objectives. An assessment must be undertaken to ascertain whether the economic activities are causing significant harm to the broader environment while fulfilling one or more of the environmental objectives.

Environmental Objective 1: Climate Change Mitigation

- 3.4 Climate change mitigation refers to economic activities that reduce or prevent greenhouse gas (GHG) emissions into the atmosphere.
- 3.5 An economic activity can be considered to meet the environmental objective of climate change mitigation if it substantially contributes in one or more of the following:
- (a) Avoid GHG emissions; or
 - (b) Reduce GHG emissions; or
 - (c) Enable others to avoid or reduce GHG emissions.
- 3.6 Examples of economic activities that substantially contribute towards climate change mitigation include, but are not limited to renewable energy generation, rehabilitation, retrofitting and/or replacement of energy-inefficient technology and/or production of energy-efficient technologies as well as maintenance and strengthening of land-based carbon stock and sinks, above and below ground.

- 3.7 An economic activity which is not already low or zero-emissions should demonstrate the capability of avoiding or reducing GHG emissions in line with relevant best practices compared to the baseline scenario without the mitigating action.

Environmental Objective 2: Climate Change Adaptation

- 3.8 Climate change adaptation is the process or actions taken to lower the negative effects caused by climate change and increase resilience to withstand the adverse physical impact of current and future climate changes.
- 3.9 An economic activity can be considered to meet the environmental objective of climate change adaptation if it fulfils either one or more of the following:
- (a) Implement measures to increase own resilience to climate change; or
 - (b) Enable other stakeholders to increase resilience to climate change.

The economic activity must not adversely affect adaptation efforts by others or increase the physical climate risks experienced by other stakeholders.

- 3.10 In order to demonstrate that an economic activity contributes to climate change adaptation, it is necessary to use the best available climate information and evidence to:
- (a) Identify expected negative physical effects of climate change by leveraging evidence and appropriate climate information; and
 - (b) Demonstrate how the activity or measures taken can build resilience, prevent an increase in, or shift the identified negative impact of climate change.
- 3.11 The economic activity shall positively contribute to a reduction in material physical climate risk and/or shall reasonably reduce material physical risk from current and future climate change. This can include obvious physical risks, such as flooding, but also less immediately visible effects, such as impact on health from higher temperatures. Impact assessments under a broad range of climate scenarios shall be conducted to provide better understanding and insights on the effectiveness and benefits of the adaptation activity.
- 3.12 An activity that enables adaptation of other economic activities should reduce the impact of material physical risk from other economic activities and/or reduce barriers to adaptation through the use of technology, services or products.

Environmental Objective 3: Protection and Restoration of Biodiversity and Ecosystems

- 3.13 Malaysia is one of the top 17 'megadiverse' countries, ranking at number 12 in the world in terms of biodiversity¹⁸, according to the National Biodiversity Index. Malaysia's rainforests are among the oldest forests in existence and has the highest coral diversity in the world.
- 3.14 Having a healthy biodiversity and resilient ecosystem are important to prevent threats to society and the nation's economic system.
- 3.15 This environmental objective aims to minimise or eliminate negative effects of business operations on natural ecosystem and biodiversity.
- 3.16 An economic activity can be considered to protect and restore biodiversity and ecosystems by fulfilling some or all of the following criteria, where applicable:
- (a) Enable ecosystem restoration and/or facilitate protection of ecosystems;
 - (b) Implement necessary measures to protect ecosystems and biodiversity;
 - (c) Prevent soil erosion and run-off into watercourses;
 - (d) Enforce and empower existing policies related to the protection of natural areas;
 - (e) Adopt sustainable logging practices and ensure timber products are sourced from sustainably managed forests;
 - (f) Meet the goals set by Convention on Biological Diversity 1992:
 - (i) Terrestrial and marine biodiversity conservation;
 - (ii) The sustainable use of its components;
 - (iii) The fair and equitable sharing of the benefits arising from utilisation of genetic resources;
 - (g) Business decisions take into consideration the equitable use of biodiversity and ecosystem services;
 - (h) Avoid or minimise adverse impacts on the environment by implementing pollution control mechanisms;
 - (i) Avoid or minimise emissions of short and long-lived climate pollutants;
 - (j) Avoid or minimise generation of hazardous and non-hazardous waste; and
 - (k) Minimise and manage the risks and impacts associated with pesticide use.

¹⁸ Convention on Biological Diversity, 2021.

Environmental Objective 4: Transition to circular economy

- 3.17 A circular economy has been defined as, “a model of production and consumption, which involves sharing, leasing, reusing, repairing, refurbishing, and recycling existing materials and products as long as possible”¹⁹. To achieve this, “products and production systems need to be designed for circularity, materials need to be efficiently processed, and waste needs to be sorted and recycled”²⁰.
- 3.18 The transition to a circular economy is underpinned by three important principles of circularity:
- (a) Minimising resource use;
 - (b) Optimising resource yield; and
 - (c) Closing resource loops through effective waste management
- 3.19 An economic activity can be considered to support the transition to circular economy if it fulfils one or both of the following criteria:
- (a) adjust business operations so as to conserve raw materials, energy, water, and other natural resources; and
 - (b) implement circular economy principles via adapted products, production, technologies and processes.

Question 1 : Do you agree with the proposed environmental objectives for the principles-based SRI Taxonomy? Please provide specific reasons for your views.

Question 2 : Do you have any suggestions to enhance the environmental objectives of the principles-based SRI Taxonomy? Please support your suggestions with clear justifications, examples and accompanying illustrations.

¹⁹ European Parliament, 2021.

²⁰ Economic Research Institute for ASEAN and East Asia (ERIA), 2018.

Classification of economic activities

- 3.20 As a principles-based taxonomy, the SRI Taxonomy provides qualitative assessment criteria in the classification of economic activities that contribute to the environmental objectives.
- 3.21 Economic activities can be classified into three broad categories, which are green, amber and red, based on their contribution to the environmental objectives of the SRI Taxonomy, as illustrated below:



- 3.22 Further explanation on the colour coding is provided below:

(a) **Green**

An economic activity could be classified as green if it substantially contributes to any one of the environmental objectives and does not cause significant harm to the other environmental objectives.

(b) **Amber**

An economic activity could be classified as amber in these scenarios:

- (i) The company's economic activity causes significant harm to the environmental objectives. However, the company is taking remedial efforts to support transition; or
- (ii) The company's economic activity does not substantially contribute to any of the environmental objectives. However, the company is taking remedial efforts to support transition.

Proposed actions to mitigate harm towards the environmental objectives should be assessed against the following considerations:

- (i) Actions should anticipate and avoid risks and impacts at the outset; and
- (ii) If avoidance is not possible, minimise or reduce risks and impacts to acceptable levels.

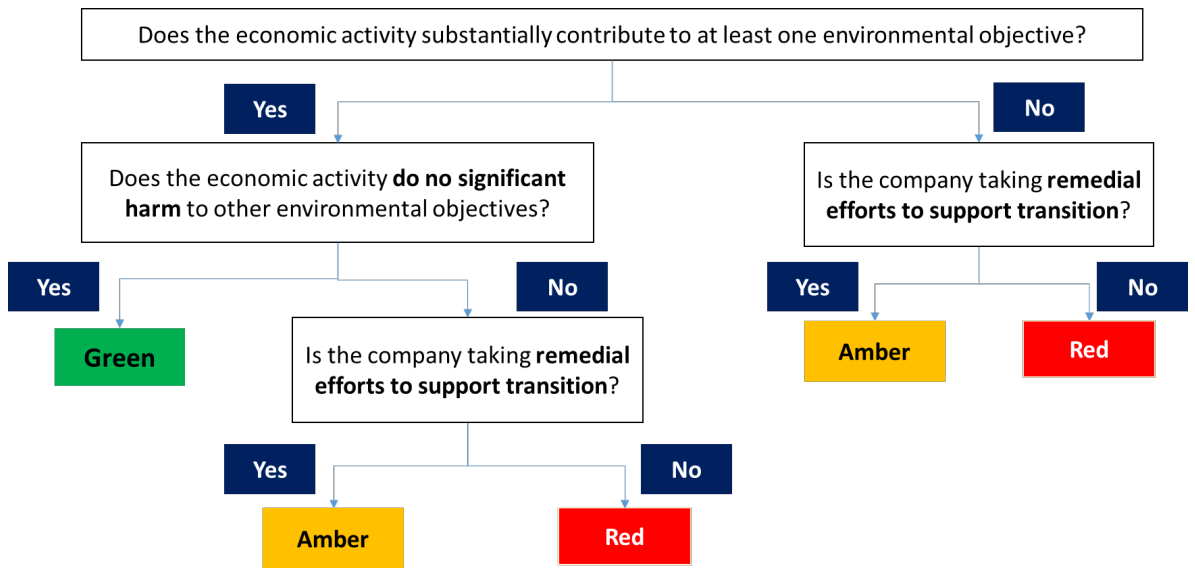
The depth and breadth of assessment should be proportionate to the scale of business operations. While due diligence may be deemed as sufficient for smaller operations, large scale projects are often subjected to more scrutiny by relevant authorities, which require businesses to conduct Environmental Impact Assessments (EIA) prior to project commencement. Any remedial actions taken

to reduce risks and impacts need to be taken at the company or activity level, namely as close as possible to the place and time at which they occur.

(c) **Red**

An economic activity could be classified as red if it does not contribute to any of the environmental objectives and/or causes significant harm to the other environmental objectives and no remedial effort is undertaken to support transition to low-carbon activities.

3.23 To provide an illustration on how economic activities can be classified according to the three broad categories, a sector agnostic decision tree is provided as guidance:



3.24 The SRI Taxonomy has been designed to assess economic activities without the use of thresholds. The nature of the decision tree allows sufficient clarity for economic activities to be generally classified accordingly, and at the same time, allow the users to apply their own internal framework and assessment methodology in complementing the assessment made under the SRI Taxonomy.

Question 3 : The proposed broad categories of green, amber and red are intended to provide an illustrative guidance on how economic activities can be classified in accordance to their respective contributions to the environmental objectives, on a qualitative basis.

Given that this is a principles-based guidance, these broad categories are not definitive or prescriptive in nature nor does it provide guidance for a quantitative assessment. Therefore, a company should perform additional technical assessments on its economic activity to validate its specific contributions towards the environmental objectives.

(a) Do you agree with the proposed broad categories of green, amber and red to serve as guidance on the qualitative assessment criteria in the classification of economic activities?

(b) Does the proposed explanation set out in paragraph 3.22 on the broad categories of green, amber and red provide sufficient broad-based guidance?

Please provide specific reasons for your views.

Question 4 : Do you have any suggestions to enhance the classification of economic activities? Please support your suggestions with clear justifications, examples and accompanying illustrations.

CHAPTER 4

PRINCIPLES FOR FINANCING A CREDIBLE TRANSITION

4.1 Any company that seeks to access transition finance should provide a credible transition pathway. In this regard, the Chapter provides guidance on the principles that can be considered in establishing a credible transition framework.

Establish a science-based transition strategy

4.2 The company should explain its transition strategy that is aligned or makes reference to science-based sectoral decarbonisation pathways, where relevant (such pathways exist) and practicable.

4.3 The transition strategy should outline the company's science-based targets that would need to be met over the short, mid-term and long-term period. These targets should be quantitatively measurable, based on a measurement methodology which is consistent over time.

4.4 Targets are considered 'science-based' if they are in line with what the latest climate science deems necessary to meet the goals of the *Paris Agreement*, which is to limit global warming to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C²¹.

4.5 The transition strategy should address the company's material emissions and explain how the company's GHG emissions covering scope 1, 2 and 3 emissions are addressed.

Set out implementation plans

4.6 The company should explain its implementation plans to achieve its science-based targets as set out in its transition strategy, including:

- (a) The current baseline;
- (b) Clear, measurable and credible key performance indicators (KPIs) which are linked to its transition strategy. The KPIs have to be meaningful and contribute significantly to the overall decarbonisation strategy;
- (c) The nature of changes required to be made to the company's business model such as divestments or diversification of businesses, governance structure and business processes;
- (d) The constraints faced by the company in order to transition towards low-carbon activities. This should be supported by clear evidence;

²¹ Extracted from *Science Based Targets Initiative (SBTi) Corporate Net Zero Standard*, October 2021.

- (e) The company's financing plan to deliver its transition strategy, such as capital expenditure, operational expenditure and research and development (R&D) expenditure; and
 - (f) Measures put in place to ensure that its business operations mitigate the harm caused to the environmental objectives of the SRI Taxonomy, to the best extent possible. Where relevant, the company should also consider how its transition strategy supports a just transition.
- 4.7 The company is recommended to appoint an external review provider to review or verify the credibility of the company's transition strategy.
- 4.8 The external review provider must have the relevant expertise and experience to perform the review exercise on the company's transition strategy.
- 4.9 If an external review provider is appointed, the external review provider's relevant credentials and expertise as well as the scope of the review conducted must be disclosed in the external review report. Such report must be made publicly available on a designated website.
- 4.10 The company should regularly monitor and recalibrate its targets to reflect the changing market and business conditions as well as the introduction of new technologies that will accelerate the company's transition strategy.

Report on performance

- 4.11 The company should track and report on its performance against its targets at least on an annual basis.
- 4.12 If the company's performance is falling behind its transition strategy, the company should provide the reasons for the under-performance, implications to the transition strategy and the mitigating actions to be taken by the company.
- 4.13 Where the company has utilised financing instruments such as green, social, or sustainability or sustainability-linked bonds to finance its transition strategy, the company should report the use of proceeds as provided in the relevant green, social, sustainability or sustainability-linked bond issuance frameworks.
- 4.14 An external review provider is recommended to be appointed to review or verify the company's progress in meeting the science-based targets on a yearly-basis.
- 4.15 If an external review provider is appointed, the external review provider's relevant credentials and expertise as well as the scope of the review conducted must be disclosed in the external review report. Such report must be made publicly available on a designated website.

Question 5 : Do you agree with the proposed principles for financing a credible transition? Please provide specific reasons for your views.

Question 6 : In relation to paragraph 4.6 on the company's implementation plans:

- a) Do you agree with the proposed items set out in this paragraph?
- b) Are these proposed items adequate to provide guidance in promoting transparency on the company's implementation plans to achieve its science-based targets?
- c) Do you have any suggestions to enhance paragraph 4.6 including examples of credible KPIs?

Please provide specific reasons for your views.

Question 7 : Just transition is a key pillar of an effective and meaningful climate transition that minimises social risks and enhances social opportunities for the wider stakeholders, including employees, consumers and other social stakeholders. In this regard, the principles-based SRI Taxonomy intends to support a just transition from the Malaysian capital market's perspective in facilitating investments towards just transition-aligned activities.

- a) Do you agree with the proposed paragraph 4.6 (f) that the company should be encouraged to consider how its transition strategy to support a just transition?
- b) Do you have any suggestions on the broad-based guiding principles for Malaysian capital market constituents to support a just transition?

Please provide specific reasons for your views and support your suggestions with clear justifications, examples and accompanying illustrations.

Question 8 : Do you agree with the recommendation to appoint an external review provider to review or verify the credibility of the company's transition strategy, as well as the company's progress in meeting the science-based targets on a yearly-basis?

Please provide specific reasons for your views.

Question 9 : Do you agree that the proposed Chapter 4 could facilitate the development of transition finance within the Malaysian capital market and provide guidance to companies in establishing a credible transition framework? Please provide specific reasons for your views.

Question 10 : Do you have any suggestions to enhance the proposed principles on financing a credible transition? Please support your suggestions with clear justifications, examples and accompanying illustrations.

CHAPTER 5

SOCIAL COMPONENT

- 5.1 The SRI Taxonomy outlines two social objectives, namely:
- (a) Promote overall social benefits and well-being; and
 - (b) Enhanced conduct towards stakeholders.
- 5.2 At the minimum, a company should ensure compliance with all relevant laws and regulations.
- 5.3 The company is encouraged to align its business strategies and practices with globally-accepted social principles and standards such as:
- (a) United Nations Global Compact;
 - (b) United Nations Guiding Principles on Business and Human Rights;
 - (c) International Labour Organization (ILO)'s Declaration on Fundamental Principles and Rights at Work; or
 - (d) Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises.
- 5.4 An economic activity can be considered to support the objectives of the social component if:
- (a) it substantially contributes to at least one of the social objectives; and
 - (b) does not cause significant harm to the other social objective.

Social Objective 1: Promote overall social benefits and well-being

- 5.5 An economic activity can be considered to promote overall social benefits and well-being if it substantially contributes to one or more of the following:
- (a) Provide or improve access to social products and services that meet basic human needs such as water, affordable housing, education and healthcare; or
 - (b) Provide or improve access to basic economic infrastructure such as transport, affordable energy, digital infrastructure and financial services.
- 5.6 This social objective addresses the social value of providing goods and/or services for adequate living conditions. Due to the nature of its businesses and products and/or services it provides, certain companies would already be providing inherent social benefits to promote overall social benefits and well-being. In this regard, such companies are encouraged to also consider additional social benefits from providing such goods and/or services in assessing whether the economic activity meets this social objective.

5.7 While the SRI Taxonomy is sector-agnostic, examples of economic activities under several sectors are provided as guidance on assessing how the activities could be considered to substantially contribute towards promoting overall social benefits and well-being, including, but not limited to:

Examples of Sectors (non-exhaustive)	Examples of economic activities (non-exhaustive)
Consumer goods, manufacturing	<ul style="list-style-type: none"> • Provide products and services which meet the needs of employees and consumers with disabilities.
Construction and real estate	<ul style="list-style-type: none"> • Build affordable and safe housing for low-income communities. • Build houses that meet energy efficiency standards and promote urban farming or smart housing initiatives. • Build communities that promote healthy living such as community centres and facilities.
Utilities and Infrastructure	<ul style="list-style-type: none"> • Design and build affordable, accessible and clean transport to connect rural and urban communities. • Upgrade waste management infrastructure like sewers and sanitation. • Build infrastructure to provide the underserved or unserved communities with physical access to basic services.
Financial services	<ul style="list-style-type: none"> • Provide micro-loans or SME financing to women-owned businesses and/or low-income entrepreneurs. • Provide student loans and housing loans to vulnerable communities. • Issue sustainability-linked loans or SRI sukuk to raise funds for social or environmental projects.
Technology and Telecommunications	<ul style="list-style-type: none"> • Invest in technology or software that reduces data breaches of financial or customer information or data surveillance. • Create access to new technology and telecommunication products for low-income customers, women, minorities and/or customers with disabilities. • Enable free or low-cost access to products and programmes in the education and health sectors, such as long-distance learning and telemedicine.

Examples of Sectors (non-exhaustive)	Examples of economic activities (non-exhaustive)
Education	<ul style="list-style-type: none"> • Build and upgrade educational facilities and provide access to essential resources to education such as books, computers, etc. • Provide students with special needs and disabilities with equal access to education. • Provide professional training programmes to teachers to improve their skills. • Encourage outcome-based learning in schools and higher education institutions.
Healthcare	<ul style="list-style-type: none"> • Provide universal access to quality essential healthcare. • Research and development of vaccines and essential medicines.

Social Objective 2: Enhanced conduct towards stakeholders

- 5.8 This social objective focuses on the social impact of a company’s conduct towards its stakeholders, including its employees, consumers and the wider community and it is sector-agnostic.
- 5.9 A company can be considered to adopt enhanced conduct towards its stakeholders if the company avoids and addresses negative impacts of its economic activities on affected stakeholder groups; and substantially integrates social governance principles such as transparency, participation and accountability into its corporate policies and procedures.
- 5.10 A company should conduct the relevant social due diligence to determine its baseline contribution towards managing specific social risks and opportunities, including social impact assessment, labour assessment or other appropriate studies using international norms and standards as well as corporate policies as reference points.
- 5.11 Once the baseline contribution has been established, the company should assess how its conduct and practices across its value chain demonstrate positive social outcomes which are clear and measurable as a result of its enhanced conduct and practices. These positive social outcomes should be assessed in terms of scale, depth and duration.
- 5.12 Examples of practices that substantially contribute towards enhancing the company’s conduct towards stakeholders include:
- (a) For employees:
 - (i) Practise non-discrimination and fair treatment for all workers;

- (ii) Ensure suitable living standards for its workers, including health and safety standards;
 - (iii) Implement an effective whistleblower policy to prevent corruption and bribery;
 - (iv) Provide counselling services for employees to protect mental health;
 - (v) Provide professional training programmes to promote life-long learning as well as upskill and/or reskill employees;
 - (vi) Increase professional development opportunities for female employees and employees with special needs or disabilities.
- (b) For consumers:
- (i) Put in a place policies and procedures that protect consumers' data privacy and prevent fraud, which go beyond local laws and regulations;
 - (ii) Implement policies that ensures consumers receive transparent and fair financial advice.
- (c) For community:
- (i) Regularly engage stakeholders and take into account stakeholders' comments and feedback in business decisions;
 - (ii) Implement policies and procedures to build a sustainable and responsible supply chain, including social audits as part of the procurement practice;
 - (iii) Integrate screening for social and governance factors when making investment decisions in listed and unlisted companies.

Question 11 : Do you agree with the proposed social objectives for the principles-based SRI Taxonomy? Please provide specific reasons for your views.

Question 12 : Do you agree with that companies should be encouraged to align its business strategies and practices with globally-accepted social principles and standards? Please provide specific reasons for your views.

Question 13 : Do you agree with the proposed paragraph 5.6 that companies, which already provide **inherent social benefits** to promote overall social benefits and well-being, should be encouraged to consider the **additional social benefits** from providing such goods and/or services?

Please provide specific reasons for your views.

Question 14 : Do you agree with the proposed guidance on assessing these companies' contribution towards the social objective to promote overall social benefits and well-being?

Please provide specific reasons for your views.

Question 15 : Do you have any suggestions to enhance the examples of economic activities to provide clearer illustration of the social objectives?

Question 16 : For the social objective on enhanced conduct towards stakeholders, do you agree that the company should conduct relevant social due diligence to determine its baseline contribution towards managing specific social risks and opportunities? Please provide specific reasons for your views.

Question 17 : For the social objective on enhanced conduct towards stakeholders, do you agree that the company's conduct and practices across its value chain should be assessed on how they demonstrate positive social outcomes which are clear and measureable as a result of its enhanced conduct and practices?

These positive social outcomes should be assessed in terms of scale, depth and duration.

Please provide specific reasons for your views.

Question 18 : The social component has two social objectives, one of which is **activity-based** (promote overall social benefits and well-being) and the other objective is **entity-based** as it applies to a company's conduct (enhanced conduct towards stakeholders).

What are your views on the application of these two social objectives?

Please provide specific reasons for your views.

Question 19 : Do you have any suggestions to enhance the social component of the principles-based SRI Taxonomy? Please support your suggestions with clear justifications, examples and accompanying illustrations.

CHAPTER 6

SUSTAINABILITY COMPONENT

Chapters 3 and 5 of the SRI Taxonomy provide broad-based guiding principles to support environmental and social objectives, respectively. These chapters may be applicable to specific users of the SRI Taxonomy, depending on the primary objective of their economic activities.

Where a company's economic activities meet the environmental and social objectives of the SRI Taxonomy, such economic activities are deemed to be sustainable. This is an important consideration to promote the linkages between the environmental and social objectives of the economic activities. Thus, a company needs to comply with both Chapters 3 and 5 of the SRI Taxonomy in order to assess if such economic activities can be deemed as sustainable.

The sustainability component of the SRI Taxonomy is aimed at encouraging greater incorporation of ESG in business practices and investment processes and meeting the needs of the wider economy in a more holistic and comprehensive manner.

Question 20 : Do you agree that a company should comply with Chapters 3 and 5 of the SRI Taxonomy in order to assess whether its economic activity can be deemed as sustainable? Please provide specific reasons for your views.

Question 21 : What are your views of the sustainability component of the principles-based SRI Taxonomy?
Please provide specific reasons for your views.

Question 22 : Do you have any suggestions to enhance the sustainability component of the principles-based SRI Taxonomy? Please support your suggestions with clear justifications, examples and accompanying illustrations.

CHAPTER 7

APPLICATION AND USE CASES

The SRI Taxonomy is applicable to all capital market constituents, as a voluntary guide on the principles to be applied in identifying and classifying economic activities that can be considered as complying with the environmental, social and sustainability considerations.

To illustrate how SRI Taxonomy may be applied, please refer to the following examples.

Use Case 1: Issuance of SRI Sukuk with use of proceeds that is aligned with SRI Taxonomy

Background:

An electric utility company that is involved in power generation and the transmission and distribution of electricity to its customers is issuing SRI sukuk for its renewable energy generation projects.

The company has committed to achieve net zero by 2050. As part of its net zero commitment, it targets to have at least 50% of its power generation from renewable energy sources as well as to phase out its coal power plants by 2050. In line with these targets, the company will not invest in any new coal power plants and instead, the company will invest in carbon sequestration technology or efforts, where possible.

The company intends to issue a SRI sukuk to increase its renewable energy generation as shown below, which substantially contribute towards climate change mitigation:

	Power projects to be financed:
1	Hydropower plant – 300MW (new)
2	Floating solar power plant – 20MW (new)
3	Biogas power plant – 5 MW (new)

Given that these three power projects use renewable energy sources and thus, have significantly lower life-cycle GHG emissions compared to a coal power plant, these projects support the company's transition towards net zero emissions.

Assessment:

Further analysis on the renewable energy projects on the contribution towards supporting the environmental objectives of the SRI Taxonomy, was carried out:

(a) The 300MW hydropower plant project

The economic activity meets one of the environmental objectives in the SRI Taxonomy on climate change mitigation by reducing GHG emissions.

However, hydropower plant of this size requires inundation of a large land area which may cause significant harm to other environmental objectives if poorly managed due to the impact on biodiversity, as well as causing methane emission, which is a GHG emission with high global warming potential. These harm will be mitigated through global best practices

in hydropower plant development by (i) meeting a power density of more than 10W/m² and a GHG emissions intensity of <50g CO₂e/kWh; (ii) conducting Hydropower Sustainability Assessment Protocol (HSAP) and the Hydropower Sustainability ESG Gap Analysis Tool (HESG) that are developed through a collaborative forum comprising the International Hydropower Association (IHA), The Nature Conservancy, The World Bank Group and The World Wide Fund for Nature (WWF); and (iii) addressing the gaps identified through an Environmental and Social Action Plan (ESAP).

The economic activity meets the SRI Taxonomy and is classified as Amber.

(b) The Floating solar power plant

The economic activity meets one of the environmental objectives in the SRI Taxonomy on climate change mitigation by avoiding GHG emissions. It does not cause significant harm to other environmental objectives as best practices are applied including conduct of site environmental impact assessment prior to project construction and implementation of health, safety and environmental policies during the operations and maintenance stage.

The economic activity meets the SRI Taxonomy and is classified as Green.

(c) The biogas power plant

The economic activity meets two of the environmental objectives in the SRI Taxonomy on climate change mitigation by reducing GHG emissions and transition to circular economy. It captures methane produced from palm oil mill effluent (POME), and is expected to remove 80% of GHG emissions that will be emitted from POME if left untreated. POME is a by-product from the palm milling process.

It does not cause significant harm to other environmental objectives as best practices are applied including conduct of site environmental impact assessment prior to project construction and implementation of health, safety and environmental policies during the operations and maintenance stage.

The economic activity meets the SRI Taxonomy and is classified as Green.

Assessment on the alignment with SRI Taxonomy:

For issuances of sukuk under the SC's SRI Sukuk Framework, the issuer needs to comply with the regulatory requirements as provided in the respective SC's guidelines. While the SRI Sukuk Framework provides lists of eligible green and social project categories, the issuer may apply the principles under the respective components of the SRI Taxonomy to assess if such issuance is aligned with the SRI Taxonomy. In addition, the considerations for the environmental objectives under Chapter 3 of the SRI Taxonomy could provide additional guidance in determining eligible green projects.

In this example, although the 300MW hydropower plant project is classified as Amber under the environmental component of the SRI Taxonomy, the project could still be financed through the issuance of the SRI sukuk because it promotes the use of renewable energy and aligned with the categories of the eligible green projects in the SRI Sukuk Framework. In addition, the company has adopted best practices to mitigate the harm caused to the environment.

Furthermore, as the other two power projects identified for the SRI sukuk issuance support the environmental objective of climate change mitigation and does not cause significant harm to the other environmental objectives as provided in Chapter 3 of the SRI Taxonomy, the issuance could be considered to be aligned with the SRI Taxonomy.

Use Case 2: Developing a portfolio that is SRI Taxonomy-aligned

Background:

- An asset owner is committed to have a fully SRI compliant portfolio by 2030 that is aligned with the principles-based SRI Taxonomy. In evaluating its investments, the asset owner has developed its own proprietary sustainable investment methodology and assessment that are consistent with the principles-based SRI Taxonomy.

Assessment:

- The first layer of assessment is to exclude companies that are involved in controversies which cause significant harm to any environmental and social objectives by adopting a norms-based screening. For this purpose, all companies in the portfolio are screened by using the screening service provided by third-party rating agencies to screen out companies that violated any United Nations Global Compact’s principles on environment, human rights, labour rights and corruption.
- The second layer of assessment is to assess the portfolio’s alignment with the environmental and social components of the principles-based SRI Taxonomy. To achieve this, the asset owner derived a set of prescriptive requirements for investee companies to comply with in order to be classified as ESG compliant, based on the SRI Taxonomy. These expectations are communicated with investee companies. Compliance to these expectations will be monitored on a yearly basis to ensure full compliance by 2030.
- In terms of assessing the portfolio’s alignment with the social component, the asset owner may adopt positive screening (best-in-class) or thematic investing approaches to prioritize companies that contribute to the SDGs for greater societal outcomes. For example, this can be done by screening for companies that provide affordable housing for low income communities or companies that operate in renewable energy in Malaysia.
- There are some examples of requirements in the form of sector-agnostic and sector-specific requirements considered by the asset owner in developing a SRI Taxonomy-aligned portfolio, in carrying out the first and second layers of assessment:

No	Sub-Issue	Requirements (non-exhaustive)
1	GHG emission	Derived not more than 30% revenue from thermal coal (<i>do not harm</i>)
2	GHG emission	Disclosure of GHG emission Scope 1 and 2 data, reduction target and initiatives to reduce. (<i>Environment Objective 1</i>)

No	Sub-Issue	Requirements (non-exhaustive)
3	Energy Management	Disclosure of energy consumption data, reduction target and initiatives to reduce. <i>(Environment Objective 1)</i>
4	Physical Climate Risk	Disclosure of assessment on the potential impact of physical climate risk scenarios to the company's operations, demand for goods and supply chain (e.g. physical office displacement from rising sea levels) <i>(Environment Objective 2)</i>
5	Biodiversity*	Disclosure of commitment to no net loss in biodiversity across whole company's operations by 2030. <i>(Environment Objective 3)</i>
6	Circular economy*	Adopt circular economy business model. <i>(Environment Objective 4)</i>
7	Diversity and Inclusion	Disclosure of workforce diversity data, improvement target and initiatives to improvement. <i>(Social Objective 2)</i>
8	Health & safety	Disclosure of health and safety policy and initiatives to improve health and safety performance <i>(Social Objective 2)</i>
9	Data Privacy*	Disclosure of policy on data privacy and security, as well as initiatives to protect consumers' data <i>(Social Objective 2)</i>
10	Governance	There is whistleblowing programme in place to prevent corruption and bribery <i>(Social Objective 2)</i>

*If relevant, depending on the results of company's materiality assessment.

- Investee companies in the portfolio that are not compliant with the above requirements shall be subject to active engagement and close monitoring by the asset owner to ensure compliance within certain time period and ultimately before 2030.
- Companies that do not show material progress in complying the requirements after series of engagement shall be divested partially or completely.

Assessment on the alignment with SRI Taxonomy:

The asset owner's portfolio can be considered to be aligned with the principle-based SRI Taxonomy as the investee companies within the portfolio are screened and assessed based on their contribution to support the environmental and social objectives of the principle-based SRI Taxonomy.

Use Case 3: Investment in a property development company

Background:

An asset management company is assessing to invest in a property development company listed on the local stock exchange.

The property development company has developed residential, commercial and retail properties worldwide, while managing total net lettable area (NLA) of approximately 5.0 million square feet, which generate stable recurring income for the group.

Assessment:

Having committed to achieve carbon neutral by 2050, the property development company has put in place various initiatives to support the development of low-carbon sustainable cities. Concerted efforts to support the environmental objectives as outlined in the principles-based SRI Taxonomy include:

(a) Climate change mitigation

- Planted trees in all its integrated development and townships within the country. Planting these trees can help cool down the cities by as much as 15°C depending on the latitude. As such, these efforts generate a combined force of 50,000 natural air-conditioners to keep the cities cool;
- Aims to have all its buildings certified green by 2050; and
- Embarked on a long-term project to reduce energy consumption from fossil fuels and switch to renewable solar energy wherever possible. Moving forward, the group plans to source at least 30% of electricity from renewable energy sources by 2030.

(b) Climate change adaptation

- Evaluate the property development division's significant impacts of design, construction and office activity on a regular basis through the Environmental Aspect and Impact Register (EAIR);
- Implement the appropriate management and controls to ensure negative impacts such as pollution are mitigated for every activity conducted. These negative impacts are evaluated based on the likelihood or severity of the impacts using risk ratings;
- Implement appropriate operational controls, such as management of chemicals, scheduled waste, solid waste (i.e. construction waste and domestic waste), fire hazards, open burning, smoke emission control, dust control, noise control and wastewater, sewage, erosion and surface run-off control, at every construction site; and
- Conduct air, water and noise monitoring on a quarterly basis in a year across all construction sites to mitigate pollution.

(c) Transition to circular economy

- Installed a rainwater harvesting system, which has enabled the company to collect sufficient rainwater for landscape maintenance and cleaning of outdoor areas, which allowed the company to save approximately 40,000 m³ of water.

Assessment on the alignment with SRI Taxonomy:

Based on these facts, the property development company could be considered to substantially contribute to at least one environmental objective, such as climate change mitigation and climate change adaptation. It also does not cause any significant harm to other environmental objectives. Therefore, this asset management company can invest in this property development company and consider this investment to be aligned with the environmental component of the SRI Taxonomy.

Use Case 4: Investment in an oil palm plantation company

Background:

An asset management company is considering to increase its portfolio exposure to the local oil palm sector in view of strong crude palm oil (CPO) prices outlook. On top of traditional financial analysis, the asset management company facts in ESG considerations as part of the decision-making process to help make better informed decisions.

Based on fundamental and technical assessments, the asset management company has identified a medium capitalisation oil palm company to be considered for additional investment, due to its strong growth potential and attractive valuations. The identified company is then assessed using both environment and social components of SRI Taxonomy.

Assessment:

(a) Environmental component

- The company has put in place targets to reduce its GHG emission by 2025 and achieve carbon neutral by 2050, as well as initiatives to achieve these targets including but are not limited to investment in biogas plants.
- The efforts in its energy management program have led to continuous decline in its GHG intensity for two consecutive years.

Based on these facts, the asset management company is of the view that the company's efforts support the environmental objectives of the SRI Taxonomy, given that the company's economic activities substantially contributes to at least one of the environmental objectives, i.e. climate change mitigation and does not cause significant harm to any of the other three environmental objectives.

(b) Social component

- The company recognises the importance of smallholders within its supply chain as they contribute 40% to its total oil palm production area. However, only a limited numbers of smallholders are Roundtable on Sustainable Palm Oil (RSPO) certified, mainly due to lack of capabilities to achieve certification.

- To address this social issue, the company has embarked on several initiatives to support the smallholders such as organising capability building programs to provide technical support and assistance in obtaining the Roundtable of Sustainable Palm Oil (RSPO) certification, which has subsequently helped the smallholders to generate higher income.
- Such initiatives are in line with SDG 1 (No Poverty), SDG 2 (Zero Hunger), and SDG 8 (Decent Work and Economic Growth).

Assessment on the alignment with SRI Taxonomy:

Based on these facts, the asset management company is of the view that the company's efforts support the social objectives of the SRI Taxonomy, in particular enhanced conduct towards stakeholders and does not cause significant harm to other social objective.

The following outlines two separate scenarios in which the asset management company makes subsequent assessments in respect of the company's contribution towards the social objectives of the SRI Taxonomy.

Scenario 1: Assessment and Decision (Clean record)

The company identified Human Rights as one of its material ESG topics based on its materiality assessment. To signal its commitment on this topic, the company announced its adherence to international standards such as United Nations (N) Guiding Principles on Business and Human Rights and ILO's Declaration on Fundamental Principles and Rights at Work. On top of having in place group-wide Human Rights policy that extends to its suppliers, the company has conducted regular assessments, interviews and spot checks to identify gaps and potential risks within its operations to avoid any exploitation of its foreign workers. In addition, it has in place independent third-party grievance mechanism and whistleblowing channels which are easily accessible through various platforms such as a toll-free number, SMS and Facebook as avenues for its workers to report on their working conditions, recruitment, safety, and other issues.

There were no ESG controversies found during the assessment.

Based on these facts, the asset management company was of the view that the company supports the social objective of enhanced conduct towards stakeholders by avoiding and addressing negative impact of its economic activities on affected stakeholder groups. It also does not cause significant harm to the other social objective. The asset management company proceeds to invest in the oil palm plantation company.

Scenario 2: Assessment and Decision (Allegation on forced labour)

The asset management company conducts subsequent assessment and found that the company has recently been involved in ESG-related controversies, whereby forced labour allegations made by a whistleblower have emerged. Such allegations, if proven true, would cause significant harm to the social objective of enhanced conduct towards stakeholders.

In this regard, the asset management company initiated stewardship initiatives by engaging with the company to better understand the company's remediation measures, including its response to regulatory authorities. Until conclusive measures have been put in place to avoid

and address negative impact on its stakeholders, including the safety of its employees, the asset manager will not invest in the company. However, the asset management company will continue to closely monitor and engage with the company to improve its social standards. New investments will only be made if the company demonstrates satisfactory progress.

Use Case 5: Investment in Assisted Living Facility

Background:

- By 2030, about 15% of Malaysian population is projected to be above 60 years old. The nation will rapidly transition towards an ageing society amidst rising life expectancy. With rising in aging population, that will lead to increase in demand for aged care facilities such as senior housing, assisted living facility, retirement village, affordable healthcare and medical support in near future.
- An asset owner based in Malaysia is assessing an opportunity to lease one of its office buildings in Klang Valley to an assisted living provider, who will repurpose and renovate the office building into an integrated facility catering for independent senior housing and assisted living. The lease will provide consistent rental income for the asset management organization.

Assessment:

- The facility aims to foster community living and improve liveability of senior citizens by offering a variety of amenities such as healthcare and medical support, library, gym, swimming pool, theatre, hair salon, restaurants and common rooms for social activity programmes.
- The aim is to provide a safe and secure living space for senior citizens that will generate opportunities for social activity and promote community engagement among the residents and promote active and independent ageing.
- The facility also indirectly supports the sustainability agenda in Malaysia. For example, by renovating and repurposing the office building, it will contribute towards the country's carbon neutral targets, as demolition of the building is avoided and the use of construction materials can be reduced significantly. From the social agenda's perspective, the senior citizens will have a safe and secure living space that will indirectly promote mental health.

Assessment on the alignment with SRI Taxonomy:

- The investment in the assisted living facility can be considered to support the social objectives of the SRI Taxonomy as the facility's activities support the social objective of promoting overall social benefits and wellbeing by providing care facilities for the elderly. This is also in line with SDG3 (Good health and well-being), SDG10 (Reduced Inequalities), and SDG11 (Sustainable Cities and Communities). It also does not cause significant harm to the other social objective.

CHAPTER 8

CONCLUSION AND WAY FORWARD

The SRI Taxonomy encapsulates all the key components of a sustainable finance taxonomy aimed to address the needs of capital market constituents while remaining credible. As it is principles-based, the SRI Taxonomy allows capital market intermediaries, issuers and institutional investors to apply it as a reference base in undertaking capital market activities and investments that can be classified as green, social and sustainable.

In the next stage of this development, the SC is considering a *Plus Standards for SRI Taxonomy* to provide additional guidance for capital market constituents to further identify and benchmark eligible green, social and sustainable activities and investments.

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ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
ATB	ASEAN Taxonomy Board
BNM	Bank Negara Malaysia
CCPT	Climate Change and Principle-Based Taxonomy
CMP3	<i>Capital Market Masterplan 3</i>
CPO	crude Palm Oil
CO2e	Carbon dioxide equivalent
DNSH	Do No Significant Harm
EAIR	Environmental Aspect and Impact Register
EIA	Environmental Impact Assessments
ERIA	Economic Research Institute for ASEAN and East Asia
ESG	environmental, social and governance
GDP	gross domestic product
GHG	greenhouse gases
ILO	International Labour Organization
IPCC	Intergovernmental Panel on Climate Change
IWG	Industry Working Group
MW	megawatt
RSPO	Roundtable on Sustainable Palm Oil
SDG	Sustainable Development Goal
SRI	Sustainable and Responsible Investment
UN	United Nations