


**PROMOD DASS**

RAM Sustainability Sdn Bhd


**GLADYS CHUA**

RAM Sustainability Sdn Bhd

# Gradual Ripple to Energetic Wave—Malaysia’s Sustainable Finance

## Introduction

**R**ating Agency Malaysia Berhad or “RAM” has a unique vantage point on Malaysia’s sustainable finance journey to date given its pioneering roots within the Malaysian capital market as a credit rating agency and in environment, social and governance (ESG) analytics in recent years. RAM was established by Bank Negara Malaysia (BNM), the central bank of Malaysia, in November 1990 as a catalyst for the domestic debt capital market and as the nation’s first credit rating agency as part of the “institutional infrastructure” to support the development of Malaysia’s bond market. On 1 July 2007, its rating operations were novated to RAM Rating Services Berhad (RAM Ratings). RAM Ratings is a wholly owned subsidiary of the RAM Holdings Berhad. RAM Ratings has rated over USD455 billion of bonds and sukuk in various sectors since inception. On 26 May 2016, RAM Ratings joined the line-up of pioneer credit rating agency signatories to the United Nations-supported Principles for Responsible Investment’s (PRI) Statement on ESG in Credit Ratings.

RAM Sustainability Sdn Bhd, another wholly owned RAM Group subsidiary is a provider of sustainability services and ESG analytics.

## The First Few Ripples—Regulatory Vision and Islamic Finance

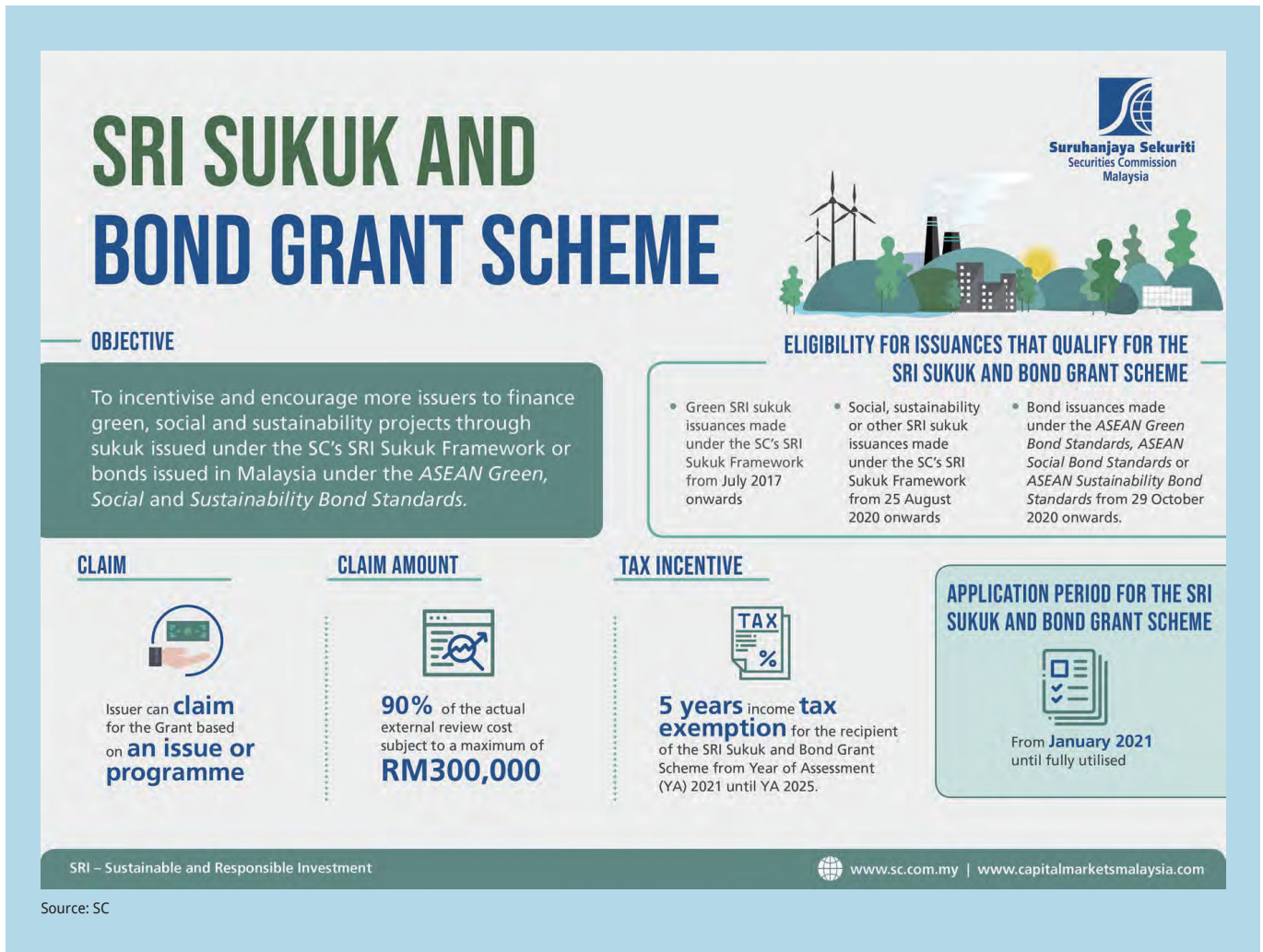
Malaysia’s visionary regulators and strong foundation in Islamic finance, proactive market players and well-established capital markets provided the foundation for sustainable finance to grow roots. Malaysia is committed to the United Nations’ Sustainable Development Goals and is also party to tackling climate change as a Paris Agreement signatory. *Chapter 5: Pursuing Green Growth for Sustainability and Resilience of the 11th Malaysia Plan*<sup>1</sup> (2016-2020) articulated the early direction of Malaysia’s green strategy. In this context, Securities Commission Malaysia’s (SC) Sustainable and Responsible Investment (SRI) Sukuk Framework, issued in 2014, had paved the way for the bond market. The government’s strategic investment fund, Khazanah Nasional Berhad (Khazanah), took the lead in 2015 and pioneered the Sukuk Ihsan, the world’s first SRI sukuk. The Malaysian stock exchange, Bursa Ma-

laysia, a member of the Sustainable Stock Exchanges Initiative, established the FTSE-4Good Bursa Malaysia Index in 2014. In another progressive step, all listed companies in Bursa Malaysia commenced sustainability disclosures in annual reports on a staggered basis spanning the 2016-2018 period according to the company’s market capitalisation. All these measures had primed the corporate sector for the green finance evolution.

The SC played a key role in the establishment of the ASEAN Green Bonds Standards (issued on 8 November 2017), through the ASEAN Capital Market Forum’s collaboration with the International Capital Market Association. This effort initiated channeling of green finance to further fuel ASEAN’s growth and create a new ASEAN fixed-income asset class. To invigorate SRI funds in Malaysia, the SC issued Guidelines on SRI Funds on 19 December 2017. This enabled funds to be designated as SRI funds and widened the range of SRI products in the market while attracting investors to the SRI segment.

Meanwhile, BNM had also detailed strategies to strengthen the role and impact of Islamic banking institutions in a sustainable financial ecosystem. BNM had guided the sector through its Strategy Paper on Value-based Intermediation which was published on 20 July 2017 and finalised on 22 March 2018. To spur the green market, the Malaysian government also introduced tax incentives, the Green Technology Financing Scheme (GTFS)<sup>2</sup> and the SRI Sukuk and Bond Grant Scheme<sup>3</sup> (Figure 1).

Figure 1: SRI Sukuk and Bond Grant Scheme



In January 2017, the World Bank, BNM and the SC formed a Technical Working Group to accelerate Malaysia's green finance thrust. This led to the issuance of the world's first green SRI sukuk by Tadau Energy Sdn Bhd on 28 July 2017. Permodalan Nasional Berhad's Merdeka ASEAN Green SRI Sukuk heralded another market first.

Malaysia continued to show strong commitment to fulfill its obligations as a signatory to the Paris Agreement.<sup>4</sup> In April 2021, the government successfully issued the world's first sovereign sustainability sukuk through two tranches totaling USD1.3 billion, with an oversubscription of 6.4 times. In 2022, the government plans to issue sustainability sukuk denominated in Malaysian Ringgit of up to RM10 billion to be channeled to eligible social or environmentally friendly projects.

## Ripple to Wave . . . SRI Sukuk Framework Kickstarted Momentum

The SRI Sukuk Framework guided Malaysian entities to issue SRI sukuk in the form of green, sustainable, and social sukuk (Figure 2). According to SC published data<sup>5</sup> analysed by RAM, as of November 2021, a total of 23 green-social-sustainability sukuk/bonds had been issued in Malaysia amounting to an estimated RM16.8 billion (Figure 3). These encompassed typically large scale solar-powered projects, green buildings, hydropower facilities, bank green/sustainable finance and education.

In efforts to create a conducive ecosystem and promote sustainable financing, several *Low-Carbon Practices Initiatives* were also included in the recent government of Malaysia (GOM) Budget 2022 as follows:

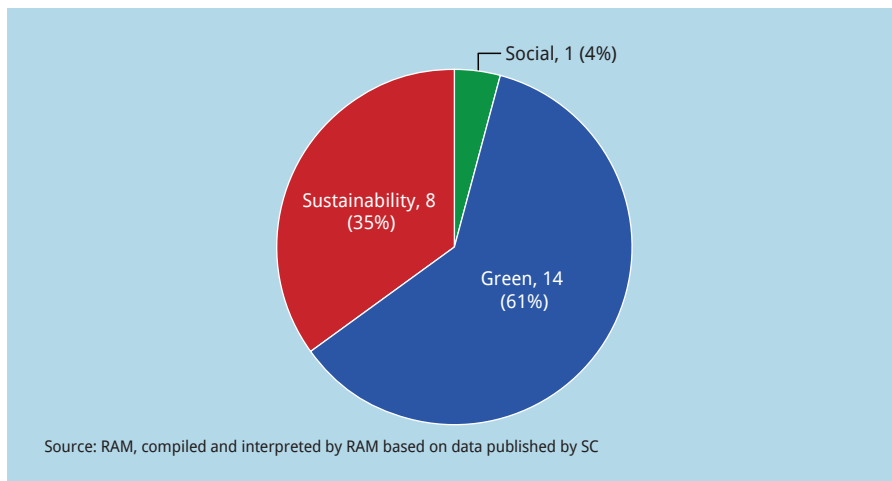
- To meet the carbon neutral target, the Voluntary Carbon Market (VCM) initiative will be launched under the advocacy of Bursa Malaysia. This initiative acts as a *voluntary platform for carbon credit trading between green asset owners and other entities transitioning towards low-carbon practices*.
- To help small and medium-sized enterprises (SMEs) adopt sustainable and low-carbon practices such as by increasing the use of sustainable raw materials and renewable energy, *BNM will provide a Low Carbon Transition Facility with a fund value*

Figure 2: SRI Sukuk Framework Summary



Source: SC

Figure 3: Mix of Green, Social and Sustainability Bonds/Sukuk in the Malaysia Market as at end-November 2021



Source: RAM, compiled and interpreted by RAM based on data published by SC

of RM1 billion which will be based on a matching fund arrangement with participating financial institutions.

## Key Institutional Investors Synergized the ESG Wave

Three prominent institutional investors, Khazanah, the Retirement Fund (Incorporated) or KWAP and the Employees Provident Fund, became PRI signatories signifying their commitment to a sustainable financial system on a global stage by end-2020. This sent a strong message to the financial ecosystem in Malaysia. The groundwork for this sustainable finance wave had been laid in 2014 when sustainable finance was incorporated into the Malaysian Institutional Investors Code. In April 2021, the SC updated the *Malaysian Code on Corporate Governance* to promote board leadership and oversight of sustainability, sounding a clarion call to the corporate sector in Malaysia.

## Visionary Regulators Catalyzing Future Transformation Waves

The formation of the *Joint Committee on Climate Change (JC3)* in September 2019 to pursue collaborative actions for building climate resilience within Malaysia's financial sector was another major milestone. The JC3 is co-chaired by BNM and SC with members comprising senior officials from Bursa Malaysia and 19 financial industry players as well as relevant experts. The JC3's initiatives and priorities are undertaken by its five sub-committees, namely Risk Management; Governance and Disclosure; Product and Innovation; Engagement and Capacity Building; and Bridging Data Gaps.

On 15 April 2021, BNM issued the *Climate Change and Principle-based Taxonomy (CCPT)*. The CCPT aims to guide financial institutions in identifying and classifying economic activities that could contribute to



climate change mitigation and adaptation.

In conjunction with the 2021 United Nations Climate Change Conference (COP26), the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) has reiterated its willingness to contribute to meeting the objectives of the Paris Agreement and to expand and strengthen the collective efforts towards greening the financial system. As a member of the NGFS Steering Committee in supporting the NGFS Glasgow Declaration for COP26, BNM pledged to undertake several initiatives<sup>6</sup> in support of the six recommendations published in the *NGFS First Comprehensive Report on A Call for Action: Climate Change as a Source of Financial Risk* in April 2019.

## Hang Tight for the Next Tubular Wave . . . . Transition Finance

Transition finance will be the next major area of growth for both the financial sector and capital markets in Malaysia to support the evolution and transformation of various sectors of the economy in line with the initiatives outlined in GOM Budget 2022 and the global market's aspirations on climate resilience and sustainability. While there is in Malaysia already some foundation in green and sustainable finance, the next 3 years would probably see many regulatory and market initiatives to support transition finance.

### Notes

- 1 <https://www.epu.gov.my/sites/default/files/2020-08/8.%20Chapter%205%20Pursuing%20Green%20Growth%20for%20Sustainability%20and%20Resilience.pdf>
- 2 <https://www.msfi.com.my/incentives-green-technology-financing-scheme-gtfs/>
- 3 <https://www.msfi.com.my/incentives-sri-sukuk-and-bond-grant-scheme/>
- 4 Source: <https://budget.mof.gov.my/pdf/2022/ucapan/bs22.pdf>
- 5 <https://esubmissions.seccom.com.my/LOLA/public/publicinfo>
- 6 <https://www.bnm.gov.my/climatechange/bnm-pledge-ngfs-glasgow-declaration>



### PROMOD DASS

CEO, RAM Sustainability Sdn Bhd

Promod Dass is the Deputy Group CEO of RAM Holdings Berhad and CEO of RAM Sustainability Sdn Bhd.

He leads RAM Group's Sustainability Services and ESG analytics. He has accumulated 25 years in the financial services industry including 21 years at RAM Group.

He is a member of PRI's Advisory Committee on Credit Ratings and is also involved in several other regulator-or industry-led sustainable finance initiatives both in Malaysia and internationally.

### GLADYS CHUA

Head of Sustainability Services, RAM Sustainability Sdn Bhd

Gladys Chua is the Head of Sustainability Services at RAM Sustainability Sdn Bhd.

She has led an innovative team driving sustainable finance services for corporate Malaysia since 2016. She has been instrumental in developing the framework for Sustainability Rating which has been used to analyse both listed and non-listed companies.

She brings with her a combination of analytical experience from financial to ESG analysis. Her team is responsible for the provision of industry and entity ESG risk analysis; Sustainability Rating for corporates; second opinion on Green, Social and Sustainability Bonds/Sukuk; climate bonds verification; and training and other tailored sustainable finance services.