

Responsible Finance: Malaysia Leads the Way with New Guidelines

Feb 08, 2018 | Commentary, [Responsible Investment](#)



The Securities Commission Malaysia recently issued its 'Guidelines on Sustainable and Responsible Investment (SRI) Funds' to promote the growth of such funds in Malaysia.

These sustainable and responsible investments, as they are known, are used to contribute to advancements in social, environmental and governance practices as well as yield healthy financial returns to investors from the market.

Often termed as 'ethical' investments, SRI investments—such as community development loan funds or clean tech portfolios—not only provide benefits to society, but also encourage corporate practices that embrace environmental stewardship, consumer protection, human rights, and diversity.

The new guidelines, which enable market funds such as unit trust funds, real estate investment trust funds, exchange-traded funds, and venture capital and private equity funds to be designated as SRI funds, will widen the range of SRI products.

This will attract more investors into a growing space where Malaysia holds 30 percent share of the region's US\$52 billion SRI-related fund assets.

According to the new guidelines, the policies and strategies of SRI designated funds - including the selection, retention and realisation of investments - must adopt one or more sustainability considerations such as the UN Global Compact Principles, the Sustainable Development Goals and other environmental, social or governance factors.

Importantly, the Guidelines also introduce additional disclosure and reporting requirements to encourage more transparency.

In explaining the rationale behind the guidelines, Tan Sri Ranjit Ajit Singh, the Securities Commission Chairman, noted that capital markets play a critical role in facilitating fund raising and investments for sustainable initiatives.

The introduction of these guidelines is “another significant step towards further development of the SRI ecosystem in the Malaysian capital market, reinforcing our positioning in the regional SRI segment and global leadership in Islamic finance,” he said.

Malaysia is the world’s second largest Islamic funds market (by domicile) at 29 percent of the US\$56 billion total global asset under management.

Islamic financial assets cover banking, leasing, sukuk (securities) and equity markets, investment funds, insurance (“Takaful”) and micro finance with banking and sukuk assets representing about 95 percent of Sharia-compliant finance assets.

As the only country in the world with a framework for Islamic fund management, Malaysia houses twenty full-fledged international Islamic fund management firms.

In the wake of recent financial crises, with questions still looming as to whether banks have cleaned their act up to become more answerable in their investment activities, Islamic finance is an alluring option to boosting responsible finance.

Combined with other fund management companies operating Islamic windows, Malaysia is a primary marketplace for global Sukuk issuance, commanding 54 percent of global sukuk outstanding.

According to the World Bank, Islamic finance is one of the fastest growth sectors in the finance industry growing at 10 to 12 percent annually.

In the wake of recent financial crises, with questions still looming as to whether banks have cleaned their act up to become more answerable in their investment activities, Islamic finance is an alluring option to boosting responsible finance.

This is because Sharia law dictates that parties to a transaction explicitly share the risk, making a cogent argument that Islamic finance is, in fact, more sustainable than its western counterpart.

Sharia law furthermore sets out Islamic concepts of money and capital, the relationship between risk and profit, and the social responsibilities of financial institutions and individuals.

The Securities Commission's introduction of Guidelines strengthens the nation’s claim towards being a regional Shariah-compliant SRI centre, a strategic thrust identified under the ‘Islamic Fund and Wealth Management Blueprint’ launched earlier this year.

In 2014, the Securities Commission introduced the SRI Sukuk framework, now widely acknowledged as a pioneering regulatory development that integrates the principles of Shariah with those of SRI.

One of the many challenges faced by developing countries in tackling climate change is access to funds. In July 2017, the world’s first green Sukuk was issued in Malaysia under the Sukuk framework to fund eligible SRI projects in renewable energy and energy efficiency.

The framework underlying the green Sukuk is the result of collaboration between the Securities Commission, Bank Negara Malaysia and the World Bank Group, and augurs well in achieving outcomes as a result of combining responsible investment and Islamic finance.

Furthermore, in line with international practices, issuers are encouraged to appoint independent experts to undertake an assessment on the eligibility of the project prior to issuance of the green Sukuk.

Faris Hadad-Zervos, World Bank Representative to Malaysia noted in a recent release, that with this framework, Malaysia is playing a “pioneering role” in harnessing capital markets, and in particular Islamic finance, for climate friendly investments. This is a crucial step in financing the country’s infrastructure investments, he added.

Malaysia’s new guidelines are key to developing a robust SRI market. The combination of this growing market with Islamic finance products could be a panacea to address the lack of responsible investment in the region and hopefully augurs well to drive capital towards good causes.

Author

Thomas Tang, Director, Partnerships

Dr. Thomas Tang is Director of Partnerships for Eco-Business in Kuala Lumpur and Hong Kong.

He is an experienced corporate executive with a consulting background focused on business strategy, operations and market development. He was the former sustainability director of a multinational engineering design company where he led initiatives on leadership, sustainability, corporate social responsibility, quality and management development.

Tags : Sustainability, Responsible Investment, Islamic finance, Funds, SRI, Guidelines, Malaysia.