



COMCEC

Standing Committee
For Economic and Commercial Cooperation
of the Organization of Islamic Cooperation

CAPITAL MARKET
REGULATORS FORUM

Update by Islamic Finance Task Force

COMCEC Capital Market Regulators Forum Meeting

Ankara, Turkey

8 November 2018



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Agenda



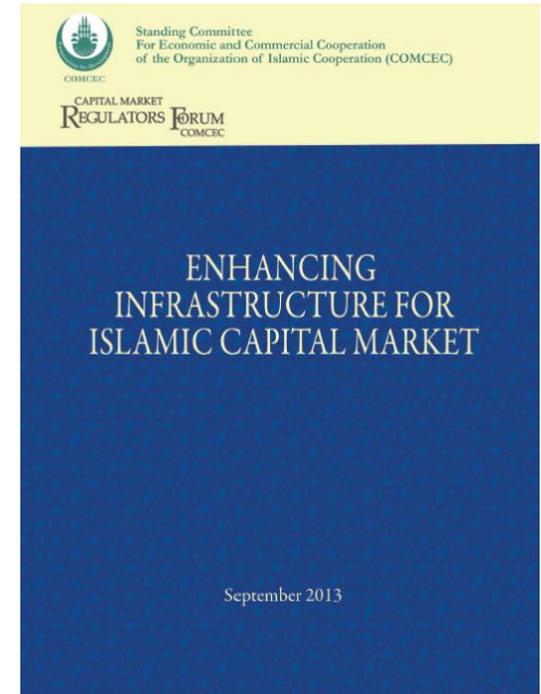
- **Islamic Finance Task Force – Past Initiatives**
- **Overview of Islamic Green Finance**
- **Islamic Finance Task Force: What's Next**

Islamic Finance Task Force

- Past Initiatives



- In September 2013, Islamic Finance Task Force published a report on **“Enhancing Infrastructure for Islamic Capital Market”** covering the following topics:
 - Legal, Regulatory & Tax Framework;
 - Shariáh Governance;
 - Products & Services; and
 - Talent Development.
- Main Objectives:
 - To examine key elements on infrastructural development for ICM;
 - To enable Member Authorities to review their advancement and benchmark their progress in developing ICM.
- The report proposed a total of **12 recommendations** for developing the ICM;
 - Out of 12 recommendations, the report highlighted **six (6) recommendations** that could present opportunity for cooperation and collaboration among the Member Countries in pursuing the development agenda for ICM



Islamic Capital Market Capacity Building Programme



COMCEC Project Funding

- **Name:**

Islamic Capital Market Capacity Building Programme (2014-MALFINAN-006)



- **Objective:**

- Aimed at developing ICM development strategy, strengthening capacity, promoting awareness as well as identifying issues or gaps in ICM.
- Provide opportunities for the participants to share knowledge and experiences, and discuss potential policy recommendations on the development of ICM infrastructure in their respective countries.

- **Project Output:**

- ICM Workshops: Level 1 (Beginner) & Level 2 (Intermediate): 31 May – 4 June 2015
- Publication of the Workshop Report and Recommendations

- **A total of 17 countries participated in the 2 workshops - represented by 47 participants from 23 organisations.**

Overview of Islamic Green Finance

Global Policy Shifts Requiring Funding for Sustainable and Development Goals

UN Sustainable Development Goals (SDGs)

- Identified 17 global goals to achieve integrated sustainable development by 2030 (covering economic, social and environment)
- UN estimated **US\$11.5 trillion a year or US\$172.5 trillion over 15 years to fund the 17 SDGs**

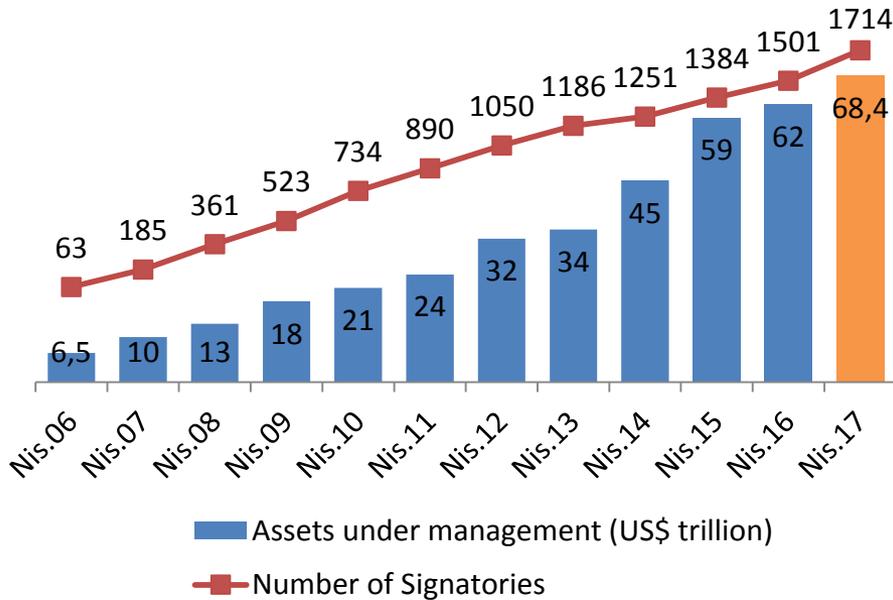


Paris Agreement on Climate Change

- Global climate agreement to limit global warming to below 2°C
- Will come into effect in 2020
- **US\$100 billion per year by 2020** to help Developing Countries cope with climate change

Growing Commitments towards Sustainable and Responsible Investments (SRI) at the Global Stage

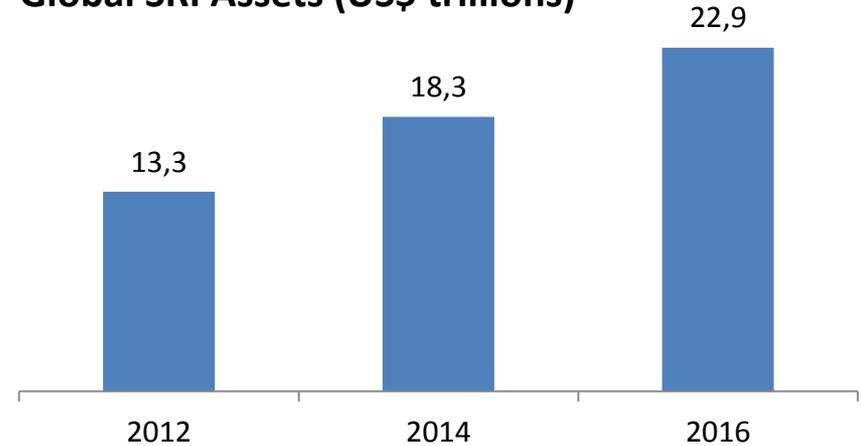
No. of UN's Principles for Responsible Investing (UNPRI) Signatories



Source: UN PRI

- As at Apr 2017, est. US\$68.4 trillion assets managed by 1,700+ signatories to the UNPRI
- More investors are integrating Environment, Social and Governance (ESG) factors in investments

Global SRI Assets (US\$ trillions)



Source: Global Sustainable Investment Alliance, 2016

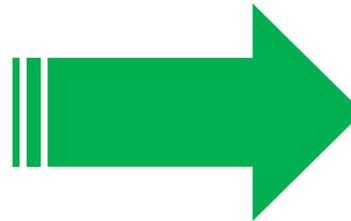
- As at 2016, US\$22.89 trillion assets professionally managed under SRI strategies (growth of 12% over 2 years)
- SRI now stands at 26% of all professionally managed assets globally

Green finance is finance for a sustainable planet. It covers the gamut of financial services, institutional arrangements, country initiatives and policies, and products (debt, equity, insurance, or guarantees) designed to promote the flow of finance towards economic activities and projects

– *Asian Development Bank*

Green finance products:

- ✓ green bonds
- ✓ green lending guidelines
- ✓ green banks
- ✓ carbon finance
- ✓ green insurance
- ✓ green IPOs
- ✓ green stock indices
- ✓ green credit
- ✓ green asset securitization



Opportunities for
Islamic finance

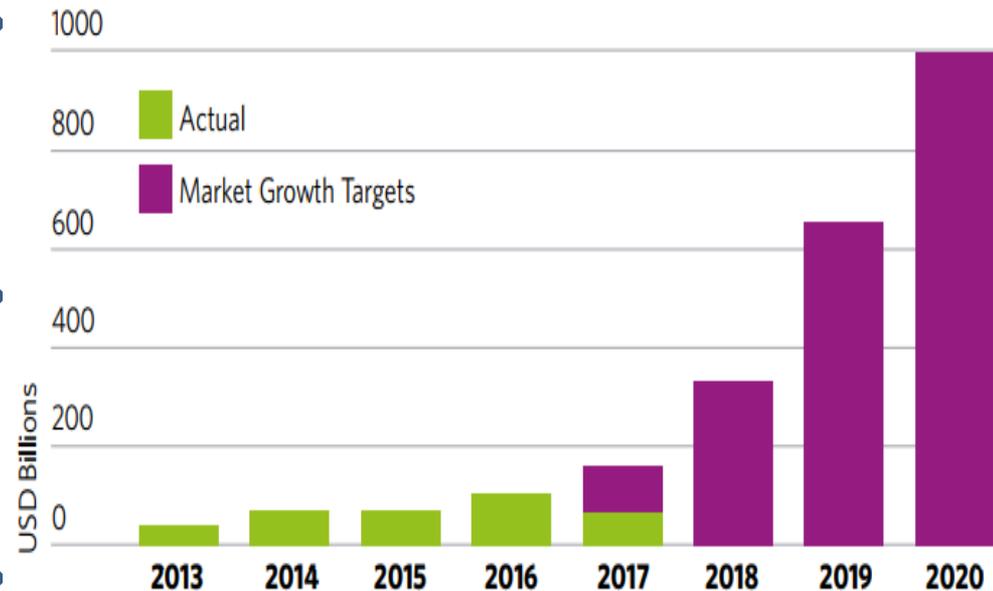
Source: ADB

Upward Trajectory of Green Bonds Issuances Globally

UN and G20 reported that green finance is an important instrument to fund the global policy changes

Introduction of Green Bond Principles (GBP) by International Capital Market Association in 2010 provided more transparency

Global green bonds issuance increased by 95% (2013-2016) and expected to increase to US\$1 trillion by 2020



Source: Climate Bonds Initiative

Green Growth is a Key Priority for Malaysia

- Malaysia undergone policy reforms toward sustainable development
- The 11th Malaysia Plan - one of the strategic thrust is to strengthen the enabling environment for green growth
- Malaysia introduced the national blueprint - **the Green Technology Master Plan** - a framework that catalyzes green growth toward sustainable development and positions Malaysia as a green technology hub by 2030;
 - The **Green Technology Financing Scheme** (GTFS) was introduced to provide financing to companies that supply and utilize green technology.
- To strengthen the development of green technology, Malaysia provides various **tax incentives**:
 - investment tax allowance for the purchase of green technology assets;
 - income tax exemption for the use of green technology services and system.

- Islamic finance and green finance **share common values**
- Islamic finance's approach is to ensure sustainability as it serves the real economy and promotes financial stability, economic growth, poverty alleviation, wealth creation and distribution, financial and social inclusion and protection of the environment
 - Protection of the environment is classified under protection of *maal* or property under the objectives of the Shariah.
- Islamic finance has the necessary requirements to enhance the development of green finance
 - Moving forward, Islamic finance has **to include positive impacts of investment on the environment**

SRI Sukuk Framework



Utilisation of Proceeds

Proceeds must be utilised only for eligible SRI projects



Eligible SRI Projects

Eligible SRI projects includes natural resources, renewable energy and energy efficiency; community and economic development and waqf properties/assets



Assessment

An independent assessor may be appointed to undertake an assessment of the eligible SRI projects



Reporting

Annual reporting on the status of the eligible SRI projects to the investors

Eligible Requirements for an Issuance of SRI Sukuk

- Preserve and protect environment and natural resources;
- Conserve the use energy;
- Promote the use of renewable energy;
- Reduce greenhouse emission; or
- Improve the quality of life for the society

Eligible Projects under SC's SRI Sukuk Framework

✓ Water infrastructure; treatment and recycling; sustainable forestry or agriculture; sustainable waste management

✓ New or existing renewable energy (solar, wind, hydro etc.); efficient power generation and transmission systems



Renewable
Energy &
Energy
Efficiency



Natural
Resources

✓ Development of waqf properties or assets



Waqf
Properties /
Assets



Community &
Economic
Development

✓ Public hospital / medical services; public educational services; sustainable building projects; affordable housing

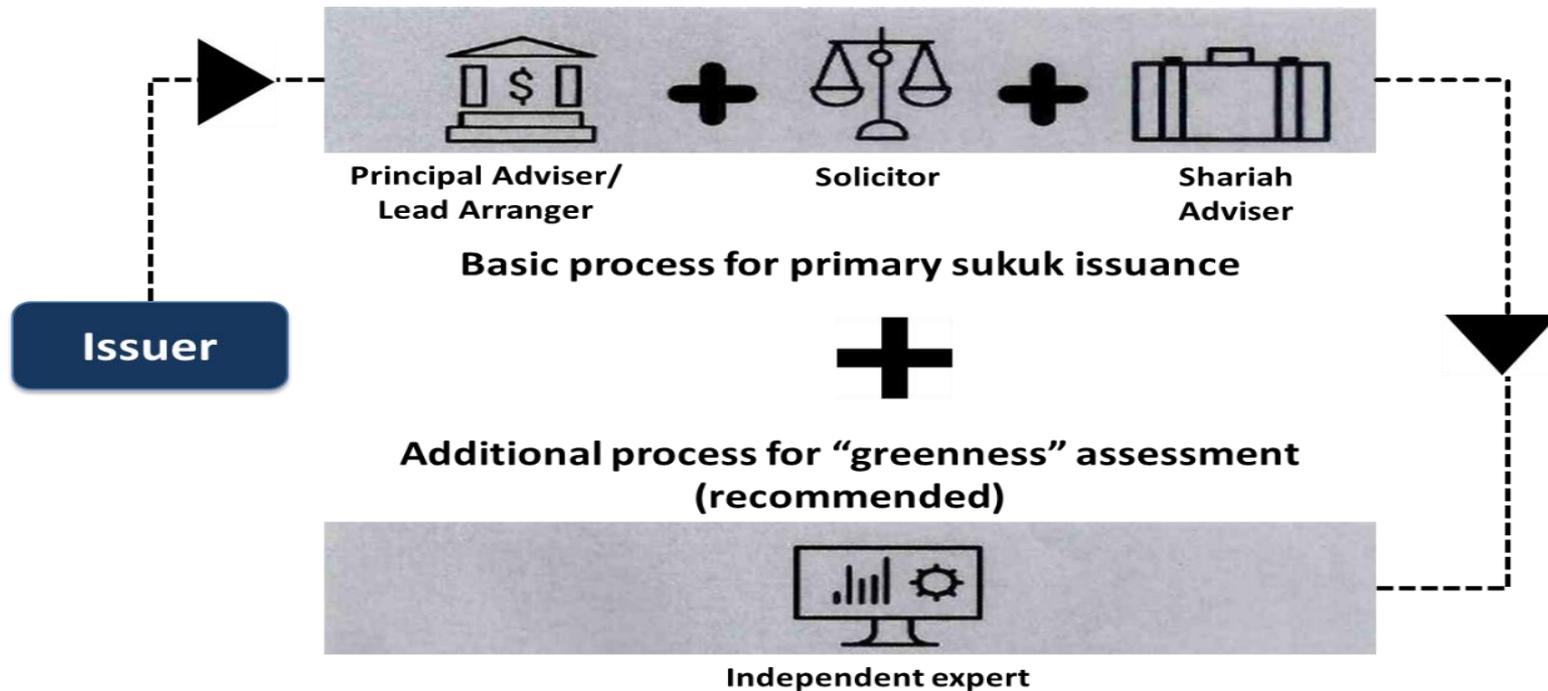
Incentives Introduced in Malaysia to Attract Green Issuers

Tax deduction until year of assessment 2020 on issuance costs of SRI sukuk approved or authorised by or lodged with the SC

MYR6 million **Green SRI Sukuk Grant Scheme** administered by Capital Markets Malaysia, to defray independent expert review costs incurred by sukuk issuers

Tax exemption for recipients under the Green SRI Sukuk Grant Scheme from year of assessment 2018 to 2020

Green Sukuk Issuing Process



One of the additional process involves in the green sukuk is the “greenness” assessment by an **independent external reviewer**

- to show the eligibility of the green projects and promote best practices for the green issuance.
- to ensure that issuers meet all the requirements of green project selection and management based on international standards and best practices.

Issuance of World's First Green SRI Sukuk



Green SRI Sukuk is a new financing tool for funding gaps in green financing



In July 2017, Tadau Energy issued the first green SRI sukuk to finance solar project of 50MW in Sabah



The sukuk was rated AA3 by Rating Agency Malaysia



World Bank Group recognised Malaysia's pioneering role in harnessing the capital markets, and in particular Islamic finance, for climate friendly investments.



The sukuk will strengthen Malaysia's position as a leading Islamic finance marketplace and its value proposition as a centre for SRI

List of Green SRI Sukuk lodged with SC

	Issuer	Programme Size (MYR Mil)	Issue Date	Utilisation of Proceeds
1	Tadau Energy	250.00 (USD60m)	27 Jul 2017	To part finance a large scale solar project
2	Quantum Solar Park (Semenanjung)	1,000.00 (USD240m)	6 Oct 2017	To construct three solar power plants
3	Sinar Kamiri	245.00 (USD59m)	30 Jan 2018	To part finance the solar photovoltaic power plant
4	PNB Merdeka Ventures	2,000.00 (USD480m)	29 Dec 2017	To fund an 83-storey office tower forming part of the Merdeka PNB118 tower project
5	UiTM Solar Power	240.00 (USD58m)	27 Apr 2018	To part finance solar power plant

Capacity Building

- *International Conference on Islamic Green Finance 2018*



- Date:** 14 – 15 May 2018
- Title:** Harnessing Islamic Finance for a Green Future
- Organizers:** Securities Commission Malaysia, World Bank Group & IOSCO Asia Pacific Hub
- Objective:**
- 1) To explore the use of Islamic finance to support climate mitigation efforts, including the use of Islamic finance instruments to finance renewable energy and energy efficiency projects.
 - 2) To explore policy, regulatory and institutional elements required for the sustainable use of Islamic finance to address climate change.

SESSIONS:

- Session 1:** Overview of Islamic Green Finance Development
- Session 2:** Towards an Enabling Environment for Islamic Green Finance: Developing Guidelines & Standards
- Session 3:** Developing a Successful Green Sukuk Program: Opportunities And Challenges
- Session 4:** Case Studies on Green Sukuk
- Session 5:** Accelerating Growth in the Green Sector: Policy and Incentives for Green Projects
- Session 6:** Engaging the Private Sector: Role of Institutional Investors in Islamic Green Finance
- Session 7:** Prospects for Islamic Green Finance

Islamic Finance Task Force: What's Next

- *For discussion*

THANK YOU