EXPLORING THE REGULATORY FRAMEWORK OF SUSTAINABLE FINANCE IN MALAYSIA: DRIVING FORCE FOR ESG INSTITUTIONAL INVESTORS

Normarianie Razali*
Rusni Hassan**
Nor Razinah Mohd Zain***

ABSTRACT
Since the introduction of the United Nation Millennium Development Goals (2000) and Sustainable Development Goals (2015), sustainable finance had grown exponentially via the strong support of regulators introducing a framework to support the financing of sustainable development. Malaysian regulatory bodies played an active role in pushing the sustainable agenda via its capital market, banking, and takaful sectors. The introduction of the regulatory framework for sustainable finance aims to serve as a guide for the industry players to take part in sustainable investment in these sectors. Institutional investors as the largest asset owners and financial sector players are key to reshaping the Environment, Social and Governance (ESG) development. By employing qualitative library research method, an analysis is made specifically from documents, speeches, newspaper releases, peer-reviewed journals, and texts related to sustainable finance in Malaysia. This paper provides an oversight of the historical development and Malaysian experience in developing their sustainable finance regulatory framework in the capital market, banking and takaful sectors. This paper is of the view that the development of the sustainable framework plays a significant role that acts as a driving force for the ESG institutional investors in Malaysia.

* PhD Candidate, IIUM Institute of Islamic Banking and Finance, International Islamic University Malaysia. Email: ms.mariarazali@gmail.com.
** Professor, IIUM Institute of Islamic Banking and Finance, International Islamic University Malaysia. Email: hrusni@iium.edu.my.
*** Assistant Professor, IIUM Institute of Islamic Banking and Finance, International Islamic University Malaysia. Email: mumtaz_razi@iium.edu.my.
Keywords: Sustainable Finance, ESG, Institutional Investors, Regulatory Framework.

MENEROKA RANGKA KERJA KAWAL SELIA BAGI SEKTOR KEWANGAN MAMPAN DI MALAYSIA: DAYA PEMACU PELABUR INSTITUSI ESG

ABSTRAK

Kata Kunci: Kewangan Mampan, ESG, Pelabur Institusi, Rangka Kerja Kawal Selia.
INTRODUCTION

The Millennium Development Goals (MDGs) by the United Nations were established in 2000 following the adoption of the United Nations Millennium Declaration at the United Nations Millennium Summit held in September 2000 in New York. Since becoming signatories parties to the MDGs, Malaysia had issued two Countries Report at the subnational level in 2005 and 2010 respectively to exhibit its progress and experience in upholding the MDGs. Malaysia’s MDG report published in 2015 reviewed the country’s experience with MDG focusing on three themes, i.e., sustainability, inclusiveness, and resilience. The report concluded that Malaysia’s achievements were constructed on national policies and visions, which focused on equity growth. The United Nation Sustainable Development Goals (SDGs) was later introduced on 25th September 2015 to stimulate 17 Goals, 169 Targets, and 230 Indicators into action for the next 15 years, up to 2030. The United Nations acknowledges the important role of legislative bodies of a nation in enacting laws to effectively implemented the nation’s SDGs commitments. In exhibiting Malaysia’s full commitment to implement the SDGs have been reflected in its Eleventh Malaysia Plan from 2016 to 2020, which categorised the 17 SDGs into seven pillars.

In implementing the SDGs, Malaysia needs support from its parliament, specifically its legislative body and its relevant regulatory bodies to enact and enforce a relevant law. Parliament’s role is important in localising the SDGs framework into effective national

---

4 Ibid.
6 Ibid.
policies and monitoring its implementation.\textsuperscript{7} This is in line with the parliamentary handbook by the United Nations Development Programme (UNDP) that says the parliament plays an important role in ensuring that national policies addressing the SDGs focus on the citizens’ general needs.\textsuperscript{8} Regulators, besides the parliament, also play a pivotal role in facilitating the implementation of the SDGs. In support of the SDGs implementation, regulators are expected to facilitate investment via financial products by aiding the investing flows.\textsuperscript{9}

Institutional investors are recognised as important entities due to their role as major equity holding or ownership of public equities.\textsuperscript{10} In executing their role as major shareholders, there has been an increased interest in their investments and engagement with their equity holding leading to a broader economic impact.\textsuperscript{11} A study conducted in 2014 displayed an increased interest of investors in the environment, social and governance (ESG) factors as part of the investment portfolio based specifically towards environmental and social issues.\textsuperscript{12} With an

\begin{thebibliography}{12}
\end{thebibliography}
increased interest of institutional investors in ESG factors, regulators’ role to facilitate sustainable investment also increases.

ESG should also be viewed from the context of Shari’ah. Islam emphasises the importance of protecting the environment based on the legal maxim “No Harming and No Counter-harming”.\(^\text{13}\) Protection of the \textit{Maqasid} al-Shari’ah (the objectives of Shari’ah) is used as a basis to promote the right to a healthy environment to live in.\(^\text{14}\) ESG values formed an essential component of the \textit{Maqasid} al-Shari’ah and adhering to the spirit of the Shari’ah is the core. In addition, it is part of the Shari’ah compliance which strives for the achievement of a sustainable economy as well as human welfare.\(^\text{15}\) Considering that environmental frameworks originate their force via regulatory policies adopting the \textit{tawhidic} approaches,\(^\text{16}\) it is important to identify measures taken by the parliament and its regulatory bodies to date, to ensure Malaysia is committed to implementing the 17 SDGs or Agenda 2030.

**LITERATURE GAP**

This paper is motivated on the ground that Malaysia being a signatory to the 2030 Agenda is required to take the necessary steps to enact laws for the implementation of SDGs. This section intends to identify the literature gap in available literature focusing on sustainable finance in


Malaysia and the SDGs. This exploration study is to identify whether Malaysian regulators had been active in issuing guidance and framework to facilitate sustainable investments.

Firstly, the Value-based Intermediation (VBI) strategic paper released by the Bank Negara Malaysia (BNM) provides strategies on ratification of related practices that will bring beneficial and sustainable footprint to the economy, society, and environment, which are in line with the shareholders’ viable returns and lasting interests.\(^\text{17}\) While Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market (SRI Roadmap) released by the Securities Commission Malaysia (SC) seeks to set up a smooth SRI ecosystem in driving Malaysia’s sustainable development.\(^\text{18}\) Although the regulators had laid out the sustainable frameworks, there is however an absence of literature that captures the historical development of such framework in Malaysia.

Secondly, it is indisputable that a large amount of literature and a body of works that have been established by previous literature on Malaysia and SDGs. However, most available literature focuses on specific goals and aspects, not on the evolution or development of a regulatory framework on sustainable finance in Malaysia in implementing the 2030 Agenda. For example, several works of literature focus on Goal 1 (to end poverty),\(^\text{19}\) Goal 4 (Quality education),\(^\text{20}\) Goal 3 (Health protection),\(^\text{21}\) and Goal 16 (Strong

---


Nonetheless, the above-mentioned literatures do not discuss the development of a regulatory framework for sustainable finance, which is the main discussion of this paper.

Thirdly, there is very limited literature on the historical development of sustainability in Malaysia that focuses on the financial system.

Fourthly, the study on the development of a regulatory framework for sustainable finance in Malaysia that focuses on institutional investors is very limited or absent. Several previous pieces of literatures focus on sustainable finance in Malaysia which discussed on issues and challenges of implementing the VBI and SDGs by BNM. The study concludes that regulators had provided guidelines and strategies that can be adopted by the industry players. However, for this VBI initiative to be a successful one, banks need to change their profit maximisation and compliance mindset to a value-driven paradigm. On the corporate side, one study was conducted to investigate the participation of Malaysian companies in SDGs and the results showed that such involvement is very limited. One study examined the major drivers of Malaysian economic growth such as the energy sector and its impact on the environment. The study suggested that the government policy might encourage the participation of private sectors to tap into small-scale energy sectors such as hydropower plants. However, this study does not elaborate further on the available government policy to support the funding of energy sectors. Another

---


study discussed the legal framework of shareholder activism in Malaysia and did examine the Malaysian Code for Institutional Investors (2014); however, its main discussion was on the legal theory of shareholder activism focusing on the Companies Act 2016 and not from the capital market’s perspective.26

Based on the discussion above, it is worth noting that there is limited literature that discusses the Malaysian regulatory bodies' initiatives in developing a regulatory framework on sustainable finance in implementing the 2030 Agenda. Hence, this study aims to fill these gaps by providing a historical analysis of the development of a regulatory framework for sustainable finance in Malaysia embedding the 2030 Agenda and tapping into the institutional investors. This paper begins by introducing the main regulatory bodies in Malaysia and their brief functions and objectives on sustainability. It then proceeds with the historical issuance of regulatory framework on sustainability and arranged according to the year of introduction and not according to sectors, followed by the presentation of findings and conclusion.

RESEARCH METHODOLOGY

This study presents an exploratory study that employs a qualitative method. An exploratory study in social science is defined as "an attempt to discover something new or interesting by working way through a research topic"27. According to Stebbins,28 it is systematically a research on a particular subject and in this particular study, the exploration is limited to available regulatory bodies and their affiliates, documents, speech, newspaper releases, peer-reviewed journals, and texts related to sustainable finance in Malaysia.

---


In addition, this study deploys a content analysis method in reviewing the related literature. Content analysis is a research technique for making replicable and valid interference from texts (or other meaningful matter) to the contexts of their use. Keywords such as 'sustainable finance', 'SRI', 'ESG', 'VBI', 'Taxonomy', 'Institutional investors and sustainable' were used in gathering the suitable literature. This study also adopts a comparative research method which is defined as describing and explaining similarities and differences of situations or consequences among large-scale social units such as regions, nations, societies, and cultures. Reference is made to international sustainable frameworks as a comparative method to differentiate from Malaysia’s sustainable frameworks. The objective of having such a comparison is to exhibit that Malaysia’s issuance of sustainable frameworks is in line with the global issuance of sustainable frameworks.

REGULATORY FRAMEWORK OF SUSTAINABLE FINANCE IN MALAYSIA

Malaysia Regulatory Bodies in Finance

Malaysia is led by three main regulatory bodies related to financial system, i.e., the Bank Negara Malaysia (BNM), Securities Commission Malaysia (SC) and Bursa Malaysia Berhad (Bursa Malaysia). These regulators play an important role in regulating the banking, capital market and takaful sectors in issuing frameworks and policies in Malaysia.

BNM is the main statutory body that regulates the banking and takaful sector which governed by the Central Bank of Malaysia Act 2009 since its operation on 26\textsuperscript{th} January 1959. BNM’s main objective is to provide a supportive environment for a viable development of the Malaysian economy. In addition, BNM’s objectives include overseeing and promoting financial sector durability via the development of sustainable, robust and strong financial institutions and financial

---

This may include the issuance of strategies and principles in support of sustainable finance for the banking and insurance/takaful sector and directly or indirectly implementing the 2030 Agenda.

Established on 1st March 1993 under the Securities Commission Act 1993, the SC acknowledges that regulations and frameworks are the main mechanism in developing a holistic sustainable finance and investment ecosystem. The SC via its affiliate body, i.e., the Capital Markets Malaysia (CMM) rebranded in 2014 from the Capital Markets Promotion Council (2012), has been a strong support body for the development of capital market intermediaries via various strategies focusing *inter alia* on sustainable finance and investing. CMM is a forefront entity in profiling the Malaysian capital markets’ agenda locally and internationally including the sustainable agenda.

Incorporated in 1976 and listed in 2005, Bursa Malaysia is a sole exchange holding company in Malaysia. In exhibiting its commitment to promote sustainable strategies between issuers and the marketplace, Bursa Malaysia joined the United Nations Sustainable Stock Exchanges (SSE) initiative in 2015. Bursa Malaysia, since the year 2006, had been issuing Guidance Report and strategies to facilitate the development of sustainable finance to public listed companies (PLCs) in Malaysia which they need to comply with; and as a guide, for investors to monitor their sustainable investments.

**Development of Regulatory Framework of Sustainable Finance**

The government of Malaysia's participation in the development of the 2030 Agenda commenced in late 2014 when the Economic Planning Unit was involved in the negotiation process with the United Nations member states in July 2015 before its adoption in September of the

---


33 “Launch of Bursa Malaysia’s Business Sustainability Programme: Speech by YBhg. Tun Mohamed Dzaiddin Haji Abdullah,” accessed July 12, 2022, https://www.bursamalaysia.com/sites/5bb54be15f36ca0af339077a/content_entry5bb58dd55f36ca0c2cacca34/5bb593d25f36ca0c38d995d3/files/speech_231110-1.pdf?1570701477.
same year. Financial regulators in Malaysia however had much earlier involved in the sustainability aspect since 2006 and had since then actively issued relevant sustainable frameworks and policies to exhibit the country’s commitment to implementing the SDGs.

Specifically in 2006, Malaysia’s sustainability agenda in the capital market sector commenced with the issuance of the Bursa Malaysia Corporate Social Responsibility (CSR) Framework for voluntary adoption by the PLCs. The CSR Framework outlined key focal areas and CSR initiatives focusing on the environment, community, workplace, and marketplace area. Since its introduction in 2006, a study conducted in 2015 on PLCs found a switch towards society participation and environment preservation by the companies.

In pursuit of growth objectives, the SC in April 2011 issued the Capital Market Masterplan 2 (CMP2) which laid out a comprehensive plan and strategic direction of the Malaysian capital market for 10 years. The SC under its growth strategies in the CMP2, seeks to promote socially responsible financing and investment by way of financial innovation to finance environmental projects, community infrastructure, education, healthcare, and cultural facilities. This is by way of focusing on social and environmental issues. It is important according to the SC for PLCs to participate in projects that promote sustainable development.

Continuing the growth objective from the CMP2, the SC and Minority Shareholder Watchdog Group (WSWG) in June 2014

---

38 Ibid.
launched the Malaysian Code for Institutional Investors.\(^{39}\) Although the main focus of the Code was on the governance aspects of the institutional investors, Principle 5 of the Code states that institutional investors should incorporate corporate governance and sustainability considerations into the investment decision-making process.\(^{40}\) This shows that the regulators also focus on other intermediaries and market players, other than the PLCs, in promoting the sustainable agenda. In facilitating the financing of sustainable and responsible investment initiatives, the SC in December 2014 launched the Sustainable and Responsible Investment (SRI) Sukuk Framework, which is in line with CMP2 strategies to promote socially responsible financing and investment.\(^{41}\) Datuk Ranjit Ajit Singh, Chairman of the SC said that:

"The introduction of the SRI Sukuk framework is part of the SC's developmental agenda to facilitate the creation of an eco-system conducive for SRI investors and issuers and is also in line with the rising trend of green bonds and social impact bonds that have been introduced globally to facilitate and promote sustainable and responsible investing. Combined with Malaysia's leading position in the global Sukuk market, this framework will further enhance the country's value proposition as a centre for Islamic finance and sustainable investments".\(^{42}\)

Since the issuance of the first SRI Sukuk in June 2015 known as Sukuk Ihsan by Khazanah Nasional Berhad,\(^{43}\) the study found that SRI Sukuk Framework provides a complete and exhaustive list of eligible


\(^{42}\) Ibid.

SRI projects, comprising the Environment, Social and Corporate Governance (ESG) aspects.\textsuperscript{44} Towards the end of 2014, the SC introduced the 5i-Strategy to advance a facilitative SRI ecosystem in the Malaysian capital market.\textsuperscript{45} The 5i-Strategy refers to five main elements which are instruments, investors, issuer, internal governance and information architecture. Details of this strategy are as follows:

i. Widening the range of SRI instruments - Facilitate the development of new SRI capital market products to widen and deepen the SRI asset classes;

ii. Increasing SRI investor base - On the buy side, there is a need to attract institutional and individual investors to increase the SRI investor base, and thus demand for SRI products;

iii. Building a strong SRI issuer base - On the supply side, efforts need to focus on building a strong and diversified issuer base consisting of listed and unlisted companies and multilateral organisations;

iv. Instilling strong internal governance culture – Development of metrics and disclosure to measure sustainability in facilitating investment decisions to inculcate good governance practices in the SRI space; and

v. Designing information architecture in the SRI ecosystem – Development of platforms which provide SRI data to investors, thereby enabling better assessment of investment opportunities to ensure transparency and accessibility to the SRI market.\textsuperscript{46}

\textsuperscript{44} Nazrul Hazizi Noordin et al., “Complying with the Requirements for Issuance of SRI Sukuk: The Case of Khazanah’s Sukuk Ihsan,” \textit{Journal of Islamic Accounting and Business Research} 9, no. 3 (2018): 415–33, \url{https://doi.org/10.1108/JIABR-02-2016-0024}.


Continuing the sustainability development efforts, in October 2015, Bursa Malaysia issued a Sustainable Reporting Guide to assist the public-listed issuers in preparing the sustainability statement. The Guide’s objective *inter alia* is to facilitate the issuers to:

(i) appreciate how sustainability can facilitate, support and drive corporate and societal value;

(ii) improve awareness of the risks and opportunities connected to sustainability considerations;

(iii) identify, evaluate and manage material sustainability risks and opportunities so that company can focus on what is important to the issuer(s) and their stakeholders, in creating long-term value to stakeholders and society at large; and

(iv) improve the quality and depth of sustainability information disclosed to better serve the needs and expectations of users of sustainability information.

The SC's effort to promote and support the national agenda of sustainable finance continues with the issuance of the Islamic Fund and Wealth Management Blueprint in January 2017. The Blueprint laid out several strategic thrusts to place Malaysia as an international hub for Islamic fund and wealth management. One of the aims is for Malaysia to be a regional centre for Shari’ah-compliant sustainable and responsible investment.

In the banking arena, the BNM on 20\textsuperscript{th} July 2017, released a strategy paper on the Value-based Intermediation (VBI) for the public to provide constructive feedback and suggestions. This strategy paper aims to reinforce the roles and influence of Islamic banking institutions (IBIs) on a sustainable financial system that has a comparable result with ESG, Sustainable Responsible Impact Investing

---

and ethical finance.\(^{51}\) By the end of 2017, to exhibit SC's commitment in supporting the development of sustainable funds in Malaysia, the SC issued Guidelines on Sustainable and Responsible Investment Funds in December 2017. These Guidelines are meant to broaden the range of SRI products in the Malaysian market and entice more investors in the SRI fragment.\(^{52}\)

A year after the release of the Strategy Paper on VBI, the BNM on 3\(^{rd}\) October 2018 issued three guidance documents to assist the implementation of VBI which consist of: (i) the implementation Guide for VBI\(^{53}\); (ii) the VBI financing and investment impact assessment; and (iii) the VBI scorecard.\(^{54}\) VBI was seen as the right initiative by the BNM in meeting the \textit{Maqasid al-Shari’ah}\(^{55}\). In this regard, the Islamic financial services industry will be relying on a wider scope of \textit{Maqasid}, instead of reliant solely on the SDGs\(^{56}\). This contention is supported by a study which found that VBI fulfils the five \textit{Maqasid al-Shari’ah} by


delivering fairness, creating value and boost societal accountability and VBI is also in line with the SDGs.

Sustainable Reporting Guide issued by Bursa Malaysia in 2015 was revised on 13th December 2018 to exhibit Bursa Malaysia's support of the Taskforce on Climate-Related Financial Disclosure (TCFD) and the issuance of Toolkit in addition to the Sustainable Reporting Guide. The 2018 revision is expected to benefit the listed companies that can act as a reference in the listed companies' annual reports that incorporated the up-to-date main sustainability developments, best practices, and recommendations.

The year 2019 marked another great milestone on the sustainable agenda for the capital market sector in Malaysia, when the SC launched the SRI Roadmap on 26th November 2019. This Roadmap laid out 20 tactical recommendations for the next five years to facilitate the development of SRI ecology and to further position Malaysia as an SRI centre in the region. The 20 recommendations are an extension to the 5i- Strategy that was introduced in 2014, inter alia by highlighting the important role of policymakers and regulators to boost and assist the development of SRI segment in Malaysia via the issuance of regulations and frameworks that are in line with international

practices. Since the introduction of SRI Sukuk Framework in 2014, there had been several revisions to the framework with the latest revision made in November 2021. However, for this study, only the relevant revision concerning SRI development is highlighted. The SC had on November 2019 issued a revised SRI Framework that includes a new definition of SRI Sukuk that its utilisation of proceeds is specifically to fund activities or transactions in relation to Eligible SRI projects only. After the issuance of the Implementation Guide for VBI on October 2018, the BNM on 1st November 2019 issued a second Guidance Document on VBI Financing and Investment Impact Assessment Framework (VBIAF). This VBIAF intends to assist in the application of an impact-based risk management system for assessing the financing and investment activities of Islamic financial institutions. This Guidance Document is one of three documents that was mentioned earlier in 2018. On 27th December 2019, BNM issued a discussion paper for public feedback on "Climate Change and Principle-based Taxonomy" to provide a direction for financial institutions to identify and categorise economic activities that might attribute to climate change goals.

Since the issuance of VBIAF Guidance Document, BNM in collaboration with Association of Islamic Banking and Financial Institutions Malaysia (AIBIM) and 12 other institutions known as the Working Group, issued an announcement for public feedback on the first cohort of the VBIAF Sectoral Guides on Palm Oil, Renewable Energy and Energy Efficiency on 24th August 2020. These Sectorial Guides are intended to assist the financial institutions to implement the VBIAF on specific sectors on an in-depth basis. The SC, focusing on social and social development aspects and supporting the development of Islamic social finance, on 12th November 2020, introduces a new \textit{wakf} framework to assist the issuance of Islamic funds with \textit{wakf} features. This new \textit{wakf} feature was in support of SC's Islamic Fund and Wealth Management Blueprint which was launched on 2017 and focuses on public good and wealth distribution.\footnote{“SC Introduces New Framework to Facilitate Offering of Islamic Funds with Waqf Features,” Securities Commission Malaysia, November 12, 2020, https://www.sc.com.my/resources/media/media-release/sc-introduces-new-framework-to-facilitate-offering-of-islamic-funds-with-waqf-features.} Since the introduction of this new \textit{wakf} framework, the SC had revised the Guidelines on Unit Trust Funds to include new requirements pertaining to the offering of Islamic funds with \textit{wakf} features\footnote{“Summary of Amendments to the Guidelines on Unit Trust Funds,” Securities Commission Malaysia, accessed November 12, 2020, https://www.sc.com.my/api/documentms/download.ashx?id=d7166ac2-adf9-4afa-affc-48f57542cf88.}. There was also a revision to the Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework on Islamic wholesale funds with the \textit{wakf} feature.\footnote{“Summary of Amendments to the Guidelines on Unlisted Capital Market Products Under the Lodge and Launch Framework,” Securities Commission Malaysia, accessed November 12, 2020, https://www.sc.com.my/api/documentms/download.ashx?id=d7166ac2-adf9-4afa-affc-48f57542cf88.} To date, Malaysia has yet to witness the issuance of \textit{wakf} featured Sukuk, nonetheless, there had been an academic proposal on the \textit{wakf} featured Sukuk structure such as for higher learning institutions in Malaysia.\footnote{Engku Rabiah et al., “Potential Development of SRI Sukuk Models for Higher Learning Institutions in Malaysia Based on Wakalah and Waqf,” Journal of Islamic Finance 8, (2019): 090–106.} As of 18th February 2022, there is only one \textit{wakf} Sukuk
launched by the BIMB Investment Management Berhad on 15th February 2021 which is known as *Makmur myWakaf* Fund.\(^70\)

Since the call for public feedback on VBIAF Sectorial Guide on August 2020, the BNM and AIBIM issued three specific Sectorial Guides on 31 March 2021, on the following sectors: (i) Oil Palm;\(^71\) (ii) Renewal Energy;\(^72\) and (iii) Energy Efficiency.\(^73\) These VBIAF Sectorial Guidance Documents are in pursuit for the institutions to incorporate the ESG risk considerations in their financing and investment resolution. As an outcome of a public call for feedback on Climate Change and Principle-based Taxonomy Discussion Paper in September 2020, the BNM issued the Climate Change and Principle-based Taxonomy Guidance Document on 30th April 2021.\(^74\) This Guidance Document complements the VBIAF Guidance Document issued by BNM in November 2019 and provides five guiding principles for the assessment of economic activities. These five guiding principles are: (i) Climate change mitigation; (ii) Climate change adaptation; (iii)\

---


No significant harm to the environment; (iv) Remedial measures to transition; and (v) Prohibited activities.\textsuperscript{75}

23\textsuperscript{rd} June 2021 marked a huge milestone for the launching of VBI for Takaful (VBIT) Framework at the Joint Committee on Climate Change (JC3) Conference by Datuk Nor Shamsiah Mohd Yunus, the Governor of BNM.\textsuperscript{76} Malaysia takaful industry together with the Malaysia Takaful Association welcome the VBIT Framework practices and values. It is expected to be implemented in stages by the Takaful industry, which are relevant for Family Takaful, General Takaful, and Retakaful Operators.\textsuperscript{77} Although VBIT was officially launched in 2021, the spirit of VBI was adopted by Takaful Operators offering micro-Takaful protection via Bantuan Rakyat 1-Malaysia (BRIM) that benefited 7.2 million recipients in 2018 before the launching of VBIT.\textsuperscript{78}

The SC on 21\textsuperscript{st} September 2021 launched a five-year plan strategic framework for Malaysia, which is known as the Capital Market Masterplan 3 (CMP3). The CMP3 lays out six development and regulatory drives that will support the initiatives in the Malaysian capital market.\textsuperscript{79} One of the strategic considerations is to mobilise capital to SRI businesses by enabling more companies to transition to a net-zero future. This can be achieved by introducing a plan to reduce


or avoid greenhouse gas emissions as well as investing in clean energy alternatives such as renewable energy.\textsuperscript{80} CMP3 also highlighted good corporate governance practices for companies. In the latest revised Malaysia Code on Corporate Governance (28\textsuperscript{th} April 2021), the Boards are expected to understand and incorporate the ESG considerations into their core investment decision-making processes.\textsuperscript{81} The BNM and AIBIM on 7\textsuperscript{th} October 2021 sought public feedback on the second cohort of VBIAF Sectorial Guides on Oil & Gas, Manufacturing and Construction & Infrastructure sectors.\textsuperscript{82} These Sectorial Guides are in line with the BNM's Climate Change and Principle-based Taxonomy mentioned earlier, which was also issued as a reference for financial institutions to measure and categorise economic activities that accord to climate change and expected for full guidance documents to be issued in early 2022.\textsuperscript{83}

Following BNM's pace on taxonomy issuance, the SC, on 17\textsuperscript{th} December 2021, issued a consultation paper on SRI Taxonomy for the Malaysian capital market, for public feedback due on 31\textsuperscript{st} March 2022.\textsuperscript{84} The SC in the consultation paper clearly mentioned that this principle-based SRI Taxonomy is aimed to support Malaysia's existing national laws and policies toward a meaningful climate and smooth transition.\textsuperscript{85} This consultation paper seeks feedback on the following four proposed guiding principles, namely: (i) the Environmental


\textsuperscript{83} Ibid.


component; (ii) the Principles for Financing a Credible Transition; (iii) the Social component; and (iv) the Sustainability component.\(^86\)

Eventually, BNM on 24\(^{th}\) January 2022 released the Financial Sector Blueprint 2022-2026\(^87\) that laid out five strategic thrusts with one of the thrusts focusing on the need for a fair and organised transformation to green agenda. The BNM aimed for a broader acceptance by the financial sectors on VBI serving sustainability finance for the economy, community, and environment. The Blueprint is also targeted, that by 2026 there will be more than 50% of new fund allocation for green and transformation activities. Development of regulatory for sustainable finance in Malaysia is captured in Table 1 below for ease reference.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>FRAMEWORK</th>
<th>OBJECTIVE(S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>Bursa Malaysia Corporate Social Responsibility Framework</td>
<td>Outline CSR initiative for PLCs in Bursa Malaysia</td>
</tr>
<tr>
<td>2011</td>
<td>Capital Market Masterplan 2</td>
<td>Provide 10 years of strategic direction <em>inter alia</em> promoting socially responsible financing</td>
</tr>
<tr>
<td>2014</td>
<td>Malaysian Code for Institutional Investors</td>
<td>Provide guidance for institutional investors to implement long-term sustainable exercise</td>
</tr>
<tr>
<td></td>
<td>Sustainable and Responsible</td>
<td>To facilitate and promote sustainable and responsible investing</td>
</tr>
</tbody>
</table>

\(^{86}\) Ibid.

<table>
<thead>
<tr>
<th>Year</th>
<th>Document Title</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Sustainable Reporting Guide</td>
<td>To aid PLCs in preparing the Sustainability Statement</td>
</tr>
<tr>
<td>2017</td>
<td>Islamic Fund and Wealth Management Blueprint</td>
<td>Provided medium and long-term strategic direction for Malaysia’s Islamic fund and wealth management.</td>
</tr>
<tr>
<td></td>
<td>Strategy Paper on Value-based Intermediation</td>
<td>To strengthen the roles and impact of IBIs on a sustainable financial system</td>
</tr>
<tr>
<td></td>
<td>Guidelines on Sustainable and Responsible Investment Funds</td>
<td>To expend SRI products in the Malaysian capital market</td>
</tr>
<tr>
<td>2018</td>
<td>First Implementation Guide for VBI</td>
<td>Reference for financial institutions that intend to incorporate ESG risk considerations</td>
</tr>
<tr>
<td></td>
<td>Revision of Sustainable Reporting Guide</td>
<td>Provide updated best practices and recommendations for PLCs on sustainable reporting</td>
</tr>
<tr>
<td>2019</td>
<td>SRI Roadmap</td>
<td>Provide recommendations to facilitate the development of SRI</td>
</tr>
<tr>
<td></td>
<td>Revision on Sustainable and Responsible</td>
<td>Revision to insert a new definition of SRI Sukuk</td>
</tr>
<tr>
<td>Investment Sukuk Framework</td>
<td>Second VBI Financing and Investment Impact Assessment Framework (VBIAF)</td>
<td>To support the presentation of an impact-based risk management system for Islamic financial institutions</td>
</tr>
<tr>
<td>----------------------------</td>
<td>---------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Public Paper Climate Change and Principle-based Taxonomy</td>
<td>Act as guidance for financial institutions to ascertain and classify economic activities that have climate change goal</td>
<td></td>
</tr>
<tr>
<td><strong>2020</strong></td>
<td><strong>Waqf Framework</strong></td>
<td>Facilitate the issuance of Islamic funds with <em>waqf</em> features</td>
</tr>
<tr>
<td></td>
<td>Revision to SRI Framework</td>
<td>To incorporate new requirements on Islamic wholesale funds with <em>waqf</em> feature</td>
</tr>
<tr>
<td></td>
<td>Revision to Guidelines on Unit Trust Funds</td>
<td>To incorporate new requirements on the offering of Islamic funds with <em>waqf</em> feature</td>
</tr>
<tr>
<td></td>
<td>VBIAF Sectoral Guides on Palm Oil, Renewable Energy and Energy</td>
<td>Encourage institutions to incorporate ESG risk considerations in their financing and investment resolution.</td>
</tr>
</tbody>
</table>
Regulators in Malaysia are very active in issuing frameworks and policies in support of the national agenda in implementing the 2030 Agenda. From the overall financial sectors, the development of issuance of sustainable related frameworks begins in the capital market in 2006 to 2018 (Phase 1) as indicated in Table 1 with the issuance of various sustainable related frameworks for the capital markets sectors. Whereas the issuance of sustainability frameworks in the banking
sector started from 2018 to 2019 with the introduction of VBIAF (Phase 2). Although Phase 2 was only for a short period, it is an important development phase for the banking sector. Finally, the year 2020 onwards witnessed several revisions to the current guidelines and the launching of VBI for Takaful (Phase 3) as provided in Diagram 1.

Diagram 1: Phases of sustainable framework issuance in Malaysia

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Framework issuance for capital market</td>
<td>Framework issuance for banking sector</td>
<td>Framework issuance for all sectors</td>
</tr>
</tbody>
</table>

Source: Author’s owns

STRATEGIC INITIATIVES BY THE MALAYSIAN REGULATORS

Besides the issuance of sustainable related frameworks and guidelines in achieving the 2030 Agenda, regulators in Malaysia had also taken a step further by launching key strategic initiatives to further support the development of sustainable finance. These key strategic initiatives are pivotal to be highlighted as they do not only assist the overall development of markets, they also support the ESG institutional investor in their business process decision.

On 22nd December 2014, continuing the sustainability conversation, Bursa Malaysia launched an ESG Index known as FTSE4Good Bursa Malaysia (F4GBM) in collaboration with FTSE. The F4GBM Index is used to measure the performance of companies demonstrating strong ESG practices.

Exhibiting Bursa Malaysia’s strong support for sustainability development, Bursa Malaysia had on 18th May 2015 voluntarily committed to promote sustainability transparency and performance by signing the Sustainable Stock Exchanges’ (SSE). By becoming a part of SSE, it will provide an opportunity for Bursa Malaysia to engage with other partner exchanges, investors, regulators and policymakers
globally by sharing and exchanging best practices to further promote and develop a sustainable market.\(^8^8\)

24\(^{th}\) April 2018 also marked an important milestone as Bursa Malaysia launched the BURSASUSTAIN which is an online platform that will act as a knowledge hub supported by three key pillars, i.e., corporate governance, sustainability, and responsible investment. This online platform is expected to benefit listed issuers, investors (specifically the ESG investors) and other stakeholders who are looking for the latest information on corporate governance and sustainability.\(^8^9\) The SC also in the same year established the Green SRI Sukuk Grant Scheme which managed by SC's affiliate, as a form of green financing. This Grant Scheme is seen as benefiting the issuers to cover up to 90% of the external reviewers' fee for green SRI Sukuk issued under the SC’s SRI Sukuk Framework.\(^9^0\) According to the CMM\(^9^1\), as of January 2021, eight issuers had benefited from the Grant Scheme involving sustainable projects such as green buildings and renewable energy.

In 2019, the Minister of Energy, Science, Technology, Environment and Climate Change (MESTECC) appointed the SC to establish the Malaysian Green Financing Taskforce. The Taskforce had in 2019, came up with 21 action plans and eight strategies to speed up the development of green finance focusing on renewable energy with

---


an estimated budget of RM33 billion. Pursuant to the Malaysian Budget Speech, a Joint Committee on Climate Change or known as JC3 was established on 27th September 2019, led by the BNM and the SC, and consists of 19 industry players and senior officials from Bursa Malaysia. JC3 aims to seek collaboration for the Malaysian financial sector focusing on climate resilience and guided by three decrees:

(i) building capacity through sharing of knowledge, expertise and best practices in assessing and managing climate-related risks;

(ii) identifying issues, challenges and priorities facing the financial sector in managing the transition towards a low carbon economy; and

(iii) facilitating collaboration between stakeholders in advancing coordinated solutions to address arising challenges.

To date, JC3 had six meetings (up to 9 December 2021), since the inaugural meeting in 2019 which focused on a different aspect of climate change such as the Climate Change and Principles-Based Taxonomy issued by the BNM.

The SC via its affiliate, the CMM on 4th August 2020 launched the Malaysian Sustainable Finance Initiative (MSFI) to assist in providing a platform in support of knowledge, expertise and skill sharing on ESG and sustainable financing in Malaysia. This initiative is funded by the


94 Ibid.


Capital Market Development Fund and the UK Government's Prosperity Fund ASEAN Low Carbon Energy Programme.\textsuperscript{97}

The Green SRI Sukuk Grant Scheme launched by the SC in 2018 was later expanded to all types of Sukuk, issued under the SRI Sukuk Framework or bonds issued under the ASEAN Green, Social and Sustainability Bond Standards and later renamed to SRI Sukuk and Bond Grant Scheme on 21\textsuperscript{st} January 2021.\textsuperscript{98} This expansion is pursuant to the 2021 national budget and the income tax exemption and the grand offset of 90\% for external reviewers' costs are granted until the year 2025.\textsuperscript{99} An example of the SRI sukuk that had benefited from the Grant Scheme is the PNB Merdeka Ventures Sdn Bhd which launched the Merdeka ASEAN Green SRI Sukuk Programme in 2017. From this programme, up to RM2 billion of the proceeds were utilised to fund its 83-storey office tower project, being part of the Merdeka PNB118 tower\textsuperscript{100}. Whereas, the Tadau Energy Sdn Bhd managed to issue RM250 million worth of the first green SRI Sukuk in Malaysia\textsuperscript{101}. Tadau Energy Sdn Bhd’s 16 years SRI Sukuk programme was utilized to partly finance a grand-scale solar project of 50MWac in Kudat, Sabah\textsuperscript{102}.

In support of the green agenda, the BNM as a member of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), in conjunction with the 2021 United Nations Climate Change Conference (COP26), vowed to assist the six recommendations

\textsuperscript{97}“Initiative to Spur Growth of Malaysia’s Sustainable and Responsible Financing Ecosystem ?” Capital Markets Malaysia, August 4, 2020, https://www.capitalmarketsmalaysia.com/msfi-initiatives/.
\textsuperscript{99}Ibid.
\textsuperscript{102}Ibid
by the NGFS Glasgow Declaration for COP26. On 5th July, 2021, Bursa Malaysia launched the new FTSE4Good Bursa Malaysia Shari’ah (F4GBMS) Index with the ESG-themed index that is Shari’ah-compliant. As per its pioneer FTSE4Good, this F4GBMS Index will facilitate the ESG investors who are looking for both ESG and Shari’ah compliant counters to invest in and for fund managers to develop new investment products consisting of Shari’ah-compliant equity and ESG. The strategic and initiatives that have undertaken by the regulators on sustainable finance is summarised below (see Table 2).

Table 2: Strategic Initiatives by Malaysian Regulators

<table>
<thead>
<tr>
<th>YEAR</th>
<th>STRATEGIC INITIATIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>FTSE4Good Bursa Malaysia</td>
</tr>
<tr>
<td>2015</td>
<td>Bursa commit to Sustainable Stock Exchanges’</td>
</tr>
<tr>
<td>2018</td>
<td>Launched of BURSASUSTAIN</td>
</tr>
<tr>
<td>2018</td>
<td>Green SRI Sukuk Grant Scheme</td>
</tr>
<tr>
<td>2019</td>
<td>Malaysian Green Financing Taskforce</td>
</tr>
<tr>
<td>2019</td>
<td>Joint Committee on Climate Change</td>
</tr>
<tr>
<td>2020</td>
<td>Malaysian Sustainable Finance Initiative</td>
</tr>
</tbody>
</table>


105 Ibid.
ESG INSTITUTIONAL INVESTORS AND SUSTAINABLE DEVELOPMENT

ESG investing is broadly recognised as means of investing "sustainably" taking environment and human wellbeing as consideration in investment decisions, in addition to the economic factor. Therefore, ESG investors will consider ESG issues as ways to align investments with their morals, political or religious beliefs and to exclude contentious activities such as alcohol, weapon, tobacco, gambling and fossil fuel by using the ESG screen. ESG investors which include the institutional investors play a part in the general economic growth of a nation, as they are a sizeable and sound source of financial resources. A study previously conducted found that institutional investors elevate long periods of economic growth and support Malaysia’s equity market as evidenced by sound policies and measures of the country. Institutional investors rely on the notion...
that regulators are to ensure the recommendation and best practices issues are adopted and executed by the listed companies.\textsuperscript{111} Hence, it is an undeniable fact that institutional investors play a key role in the growth of financial markets. With their huge resources, institutional investors will be looking at investments that suit their investment mandate.

Putrajaya Committee had listed the following as Government-Linked Investment Companies (GLIC), i.e., Khazanah Nasional Bhd (Khazanah), Permodalan Nasional Bhd (PNB), Employees Provident Fund (EPF), Lembaga Tabung Angkatan Tentera (LTAT) and Lembaga Tabung Haji (LTH) and the Ministry of Finance.\textsuperscript{112} However, with the latest development, the former Prime Minister of Malaysia, Tan Sri Muhyiddin Yassin in August 2021 announced the separation of GLICs into two categories. Whereby, Khazanah, Kumpulan Wang Persaraan (Diperbadankan) or KWAP, Kumpulan Wang Amanah Negara (KWAN) and the Ministry of Finance (Incorporated) are categorised as sovereign wealth funds (the first category). While, other institutional investors comprise of EPF, PNB, LTH and LTAT are categorised under the second category.\textsuperscript{113} This strategic plan is to exhibit GLICs distinct features for improved asset-liability management and strategies. For this paper, references will be made to institutional investors for all eight entities as mentioned above.

There has been an increased awareness of sustainability among institutional investors globally, as the number of United Nations Principles for Responsible Investment (PRI) increases from 445


signatories in 2010 to 4,996 as of 19th June 2022.\textsuperscript{114} To date, there are 13 signatory parties from Malaysia to the PRI with three large institutional investors. They are namely EPF, Khazanah, and KWAP.\textsuperscript{115} This is evident from a great number of large institutional investors that have openly declared to integrate ESG as part of their investment decisions.\textsuperscript{116}

As highlighted in the early part of this paper, the Malaysian government exhibited its commitment to SDGs by incorporating them as part of the Eleventh Malaysia Plan 2016-2020 into seven pillars. The Twelfth Malaysia Plan (2021-2026) continues to support the 2030 Agenda and its focus area \textit{inter alia} to create a suitable environment for sustainability, inclusive and sustained economic growth.\textsuperscript{117} In this regard, suitable policies and frameworks will be developed to fulfil the funding requirement of the sustainable agenda focusing \textit{inter alia} on national green financing and investments. It is expected that institutional investors play a role in enhancing good governance and stewardship within the capital market.\textsuperscript{118} In Malaysia, large institutional funds have been encouraged to allocate 5\% of their overall investment assets into sustainability-related investments.\textsuperscript{119} A study conducted on the relationship between institutional investors and CSR disclosure by the PLCs found that there are encouraging results

\begin{thebibliography}{9}
\bibitem{115} \textit{Ibid}.
\bibitem{118} \textit{Ibid}.
\end{thebibliography}
attracting institutional investors to Malaysian PLCs that are engaged in social doings.  

KWAP, since becoming signatories to the PRI (2018) and MCII (2015), had developed and issued numerous ESG-related guidelines such as the ESG Guidelines for Fixed Income, ESG Guidelines for Investment and Corporate Level ESG Guidelines, and established a responsible investment team to oversee ESG related investments. While EPF, since becoming a signatory party to the PRI in 2019, had set up Sustainable Investment Centre (SIC) under their Investment Operation Department to oversee and strengthen EPF’s Sustainable Investment Framework and Policy and to assist in EPF’s investment decision process.  

A survey conducted by EPF in 2018 exhibited that 78% of its members do consider ESG in their investment assessment and announced that EPF is focusing to have a full ESG-compliant investment portfolio by 2030. They also launched a sustainable investment policy on February 2021. Khazanah Nasional via its investment policy statement stated that they are committed to responsible investment practices and will actively integrate ESG.

---


consideration as part of their investment process. Taking a bold move in 2015 by issuing the first SRI Sukuk under the SRI Sukuk Framework 2014, Khazanah National exhibited their support towards both revolutions of ICM products, as well as sustainable agenda focusing on social aspects. Finally, although not a PRI signatory, Tabung Haji is another large asset owner or institutional investor in Malaysia which exhibits continuous steps to adopt and promote social instruments such as Sukuk to support the sustainable agenda.

Perkukuh Pelaburan Rakyat (PERKUKUH) launched by the Malaysian Prime Minister in August 2021 comprises 20 key initiatives that aim to refine the role of Malaysia's GLIC and institutional investors to be aligned with the national agenda. The 11th key initiative of PERKUKUH aimed for institutionalising ESG standards in the overall investment process for all GLIC to adopt. This includes influencing portfolio companies to promote the ESG agenda. On climate change, one study found that there is upward progress between issuers to issue green sukuk. Hence, PLCs or issuers that exhibit ESG commitments will likely attract greater investments from the institutional investors. The increase in the number of PLCs adopting the ESG elements is evident from the strong support of regulators on sustainable regulatory framework issuance.

FINDINGS

The historical development of the sustainable framework in Malaysia demonstrated an advanced issuance of the framework in the capital market sector in comparison with the banking and takaful sector. Firstly, this could be due to the fast and rapid development of new investment products issued in capital markets and continuous demands by the industry players. Hence the SC, together with Bursa Malaysia, being the regulator of the capital markets in Malaysia needs to keep pace with such demand. Secondly, in keeping pace with rapid new investment products issued in capital markets and demands by the industry players; the regulators play an important role in protecting the investors’ interests. The SC in CMP2 reported that there is a need to provide investor protection, similar to the acceptable global standards, and Malaysia’s regulatory framework is ranked highly for investor protection.¹²⁹

Thirdly, the issuance of sustainable related frameworks is in line with the global trend as the world witnessed the first green bond issued in 2007 and Malaysia's first tap on sustainability framework on the capital market happened in 2006 (Bursa Malaysia CSR Framework). For the Banking sector, in 2019, the United Nations Environment Programme Finance Initiative (UNEP FI) issued the Principles for Responsible Banking.¹³⁰ Meanwhile, in Malaysia, the BNM launched the VBI in 2018 for banking sectors. As for the insurance sector, UNEP FI 2012 launched the Principles for Sustainable Insurance Initiative (PSII) with an objective as the global reference for insurance sectors focusing on environmental, social, and governance challenges and prospects. Nevertheless, the framework is to be implemented voluntarily and as to date, it is not yet a legally binding framework.¹³¹

¹³¹ “PSI Principles for Sustainable Insurance,” United Nations Environment Programme (UNEP) Finance Initiative 2012,
Although the BNM had issued the VBIT in June 2021, the framework is similar to PSII, and it is not legally binding; as it is only to encourage takaful industry towards achieving sustainable growth. A comparison between global and Malaysia’s sustainable framework issuance trend is captured in Table 3 below.

Table 3: Comparison of Global and Malaysia’s sustainable framework issuance trend

<table>
<thead>
<tr>
<th>Sector</th>
<th>Global</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Market</td>
<td>2007 - First green bond issuance</td>
<td>2006 – Bursa Malaysia CSR Framework</td>
</tr>
<tr>
<td>Banking</td>
<td>2019 - UNEP FI issued Principles for Responsible Banking</td>
<td>2018 – BNM launches VBI</td>
</tr>
<tr>
<td>Insurance/Takaful</td>
<td>2012 – UNEP FI issued PSII</td>
<td>2021 – BNM launches VBIT</td>
</tr>
</tbody>
</table>

Issuance of the sustainable related framework in Malaysia is seen as a pushing factor on the increase of the ESG investments or asset allocation from the institutional investors. Khazanah in August 2021 stated that they are placing RM6 billion investment via Dana Impak related to national agendas and aspirations focusing inter alia on socioeconomics outcomes. There has also been an increase of constituents in the FTSE4GBM Index since its introduction in 2014 from 24 constituents to 80 constituents as of December 2021. Similarly, there has been an increasing number of Shari’ah-compliance constituencies in the F4GBMS in December 2021, i.e., 57 constituents from 54 constituents since its introduction in July 2021. This positive

---


development is seen as an encouraging factor for the ESG institutional investors to invest and hold equity that is with ESG standards or status as more institutional investors, or asset owners demand greater sustainable investment and implementation of ESG framework among the PLCs.\textsuperscript{134} This is evident as EPF in their statement stated that they are committed to the ESG practice and investing and aspire for 100% investment decision on the ESG elements by 2030.\textsuperscript{135}

**CONCLUSION**

Malaysia is committed to achieve the 2030 Agenda and via its regulatory bodies, has been progressively issuing frameworks and policies in addition to the important strategic initiatives in support of the development of sustainable finance for the country. In order to achieve the 2030 Agenda, stakeholders are required to strengthen their collaboration and cooperation. This will include not only the regulators, but the market players as well. The active issuance action by the Malaysian financial regulators in promoting the sustainable agenda had facilitated the PLCs and issuers in integrating the ESG elements and issuing instruments or frameworks relating to sustainability. With the increasing number of PLCs and issuers who are complying and participating in the sustainable agenda, it will attract more institutional investors with sustainable or ESG investment mandate to invest in the ESG status’s PLCs or their sustainable products.

\textsuperscript{134} “Opening Keynote - Sustainable and Responsible Investment Series,” Bursa Malaysia, February 4, 2021, https://www.bursamalaysia.com/sites/5bb54be15f36ca0af339077a/content_entry5bb58dd55f36ca0c2cacc a34/6021f80d5b711a75c0711b69/files/WBG_CFA_SRI_Series_2021_-_TSAWO_Speech_FINAL.pdf?1612839043.