

Opening Remarks
by Dato' Seri Dr. Awang Adek Haji Hussin
Chairman, Securities Commission Malaysia (SC)
at the SC – Securities Industry Development Corporation (SIDC)
SRI Taxonomy: Insights and Implementation
on 10 March 2023

Highlights:

As sustainable investments gain momentum, market participants are increasingly looking for more clarity and standardisation of economic activities that would qualify as sustainable investments. On 12 December 2022, the SC released the principles-based sustainable and responsible investment taxonomy for the Malaysian capital market (SRI Taxonomy).

In his opening address at today's '**SIDC SRI Taxonomy: Insights and Implementation**' Conference, SC Chairman, Dato' Seri Dr. Awang Adek Hussin said that the SRI Taxonomy offers a significant opportunity to assure standardisation and comparability of assets. Most significantly, it will aid in preventing market fragmentation and reduce the likelihood of green washing.

Here are some highlights from his speech:

- Malaysia was one of the first countries in the region to put out specific rules to help with sustainable financing and investments and to promote the growth of this market segment.
- The SC guidelines are continuously updated to meet the needs of the market.
- In February 2023, the Guidelines on SRI Funds were revised to include more requirements for disclosure and reporting. This was done to make SRI funds more transparent.
- The SRI Taxonomy will give capital market participants essential information on what is sustainable.
- The SRI Taxonomy includes a social component that will promote Malaysia's Islamic finance leadership by enhancing synergies between Islamic capital markets and SRI.
- This can boost Malaysia's market appeal and attract more investors.
- The SC will be working on the next part of the SRI Taxonomy, which will give further help in defining activities based on metrics and thresholds.

Speech:

Assalamu'alaikum warahmatullahi wabarakatuh

Salam sejahtera dan selamat pagi.

1. Saya bagi pihak Suruhanjaya Sekuriti Malaysia mengalu-alukan kehadiran tuan-tuan dan puan-puan untuk sesi Prinsip Taksonomi SRI bagi Pasaran Modal Malaysia. Perbincangan hari ini akan mendalami semua aspek Taksonomi yang baru dilancarkan Disember tahun lalu, serta kaedah pelaksanaannya. Ini penting untuk memastikan momentum agenda kemampanan berterusan.

Sustainable investing for a better future

Ladies and gentlemen,

2. The uptake of sustainable investments has been nothing short of remarkable. Globally, ESG assets under management are expected to exceed USD 53 trillion by 2025¹, an increase of 2.3 times from USD 23 trillion in 2016². This reflects investors' increasing awareness of the importance of making a positive impact on the environment, local communities and society at large.
3. The pandemic accelerated this trend further, exposing social vulnerabilities and highlighting the urgency to ensure a more sustainable and resilient future.
4. Interest in ESG has not waned despite the significant market volatility experienced last year. Even in the last quarter of 2022, global sustainable funds continued to receive investor monies, with USD 37 billion of inflows. In comparison, the wider fund universe suffered outflows over the same period.³
5. While the annual United Nations Climate Change Conferences are critical in advancing global climate action, it is even more crucial that the nation as well as local businesses step up their own action plans. This is because climate change is not just an environmental issue. It also has economic and financial implications for all.

¹ Bloomberg Intelligence, 2021, *ESG assets may hit USD 53 trillion by 2025, a third of global AUM*.

² Global Sustainable Investment Alliance, 2017, *2016 Global Sustainable Investment Review*.

³ Morningstar, 2023, *Global Sustainable Fund Flows: Q4 2022 in Review*.

6. Malaysia itself has made significant strides towards combating climate change and promoting sustainable development. Recently, the government also outlined more ambitious targets for reducing greenhouse gas emissions.
7. However, much more needs to be done to drive the transition towards a low carbon economy, and mitigate the impact of climate change. We cannot afford to be left behind as the region, and the international community, accelerate their plans towards a greener and more sustainable future.

Reinforcing the Malaysian capital market's role in accelerating Sustainable and Responsible Investments (SRI)

Ladies and gentlemen,

8. It is important to have a sound foundation in place for the country to move ahead with its sustainability agenda. This entails a common set of standards, definitions, and even data, to ensure that we are better-equipped to comprehend the issues and work together towards a shared goal. Only then can we make a difference.
9. **Malaysia was among the earliest in the region to release specific guidelines to facilitate sustainable financing and investments, as well as encourage this segment's growth.** Take for example, the SC's Guidelines on Sustainable and Responsible Investment Funds, or SRI Funds in short. Since its introduction in 2017, the number of SRI funds in the market has grown to more than 50, with a total size of RM7 billion.
10. We continue to update the guidelines to suit current market requirements. Just last month, it was revised to incorporate additional disclosure and reporting requirements to enhance the transparency of SRI funds, among others.
11. In addition, requirements to qualify for the ASEAN Sustainable and Responsible Funds Standards, or SRFS, were included. These regional standards are the work of the ASEAN Capital Markets Forum's Sustainable Finance Working Group, of which the SC is co-chair.
12. The next step forward domestically is the roll out of the SRI Taxonomy for the Malaysian capital market. This was also a key recommendation of the SC's SRI Roadmap.

13. I believe that the **SRI Taxonomy presents a significant opportunity to ensure the standardisation and comparability of SRI assets; avoiding possible market fragmentation and reducing the risk of green washing.**
14. It allows for proper and consistent identification and classification of various types of economic activities aligned with environmental, social and sustainability objectives. This will provide the necessary transparency for capital market participants on what constitutes being sustainable. Also, as it is domestically-driven, we ensured that it suits local requirements – be it for our corporate issuers or investors.
15. To make it more appealing, the environmental component of the SRI Taxonomy is aligned with the Foundation Framework of the *ASEAN Taxonomy for Sustainable Finance Version 1* and Bank Negara Malaysia's *Climate Change and Principle-Based Taxonomy* (CCPT).
16. We have also included a social component in the SRI Taxonomy. This will enhance the synergies between the Islamic capital market and SRI, as well as further strengthen Malaysia's Islamic finance leadership.
17. All these additional components can boost our market's appeal, and attract more investors, particularly those that place a premium on sustainable practices. It also ensures that capital is directed appropriately towards projects and companies that have real environmental and societal benefits.
18. On the part of the SC, we hope that the SRI taxonomy will encourage the development of new SRI products and opportunities. This will ensure that the capital market continues to meet the growing demand for sustainable investments here in Malaysia.
19. Moving forward, the SC will be working on the next phase of the SRI Taxonomy, to provide further guidance in identifying activities based on metrics and thresholds.

Conclusion

Ladies and gentlemen,

20. The shift towards a more sustainable and resilient future starts with each and every one of us. It must be a conscious effort on our part to demand more climate-friendly, green and sustainable products and practices. And it must also be a collective one to be effective.

21. This will, without doubt, accelerate sustainable and responsible growth in Malaysia, helping us achieve our climate targets and SDGs. I am confident that the Malaysian capital market is ready to play a significant role in financing and mobilising investments towards this goal.
22. Sebelum saya menamatkan ucapan ini, saya ingin menyeru para hadirin untuk mengambil peluang ini untuk memahami Taksonomi SRI secara mendalam, serta berkongsi pengalaman dan pendapat dalam sesi perbincangan nanti. Kita mesti bertekad dan bekerjasama untuk membina masa depan yang mampan untuk semua.

Sekian, terima kasih.