



Keynote Address
Dato' Seri Dr. Awang Adek Hussin
Chairman, Securities Commission Malaysia
MARC Malaysian Bond & Sukuk Conference 2023
27 November 2023

Key Highlights:

In his Keynote Address, SC Chairman, Dato' Seri Dr. Awang Adek Hussin, called for market players to take more concrete actions to address climate change and promote sustainability in Malaysia.

"Credit rating agencies play a vital role in advancing ESG disclosure and reporting, aligning with the national sustainability agenda."

"As for entities responsible for issuing securities, prioritising sustainability will send a strong signal to encourage greater adoption within the industry."

Here are highlights from his Keynote Address:

1. Malaysian bond and sukuk market is well positioned to provide crucial financing towards productive and socially responsible initiatives.
2. Malaysia is the largest sukuk market with 35% of global outstanding sukuk, ahead of Saudi Arabia and Indonesia.
3. Malaysia remains the regional leader in SRI sukuk. As at end-October 2023, 3 SRI Sukuk with total programme size of RM2.2 billion have been lodged with the SC.
4. The country accounts for 27% of the US\$41 billion total issuance of ASEAN Green, Social and Sustainability bonds and sukuk.

5. Since the inception of the SRI Funds guidelines in 2017, 39 unit trust funds and 28 wholesale funds have been registered with the SC.
6. To facilitate the adoption of standards issued by the International Sustainability Standards Board in Malaysia, the Government established an inter-agency Advisory Committee on Sustainability Reporting (ACSR), chaired by the SC, to steer the implementation and adoption of the ISSB Standards by Malaysian companies in an orderly manner.

Full Speech:

Yang Bahagia Datuk Jamaludin Nasir, Group Chief Executive Officer, Malaysian Rating Corporation Berhad (MARC),

Distinguished speakers,

Honourable guests,

Ladies and gentlemen,

Assalamualaikum warahmatullahi wabarakatuh

Selamat pagi dan salam sejahtera.

1. I would like to thank MARC for once again inviting me to speak at its annual Malaysian Bonds and Sukuk Conference, this year on ESG and sustainability.
2. Last year, I discussed Malaysia's RM1.8 trillion bond market's resiliency in facing the pandemic.
3. I also elaborated on Malaysia's significant contributions in the area of sustainability. We lead SRI sukuk regionally. Malaysia issued the first sovereign US dollar sustainability sukuk in 2021 with 6.4 times bid-to-cover ratio. This was despite significant spikes in interest rates globally, and gradual reopening of the economy.
4. With sustainability as the central theme for the conference this year, in line with the concerns globally, it's time we take more concrete actions to address climate change and promote sustainability in Malaysia.

Ladies and Gentlemen,

The importance of sustainability

5. Global warming has increased the average global surface temperature from 14.1°C to 15.2°C¹.
6. While governments worldwide have pledged to address global warming, carbon emissions from energy and industry have increased by 60% since the United Nations Framework Convention on Climate Change was signed in 1992².
7. Half of the world's 2,000 biggest listed companies have set a target to get to net-zero emissions by mid-century, but only 4% meet the UN guidelines for what constitutes a quality pledge³.
8. To reach net zero emissions by 2050, annual clean energy investment worldwide will need around USD4 trillion by 2030⁴. Malaysia, alone, needs RM1.3 trillion by 2050⁵.
9. Considering the huge financing requirement, the financial sector, particularly the capital market, must continue to facilitate financing and investments in these key areas to support the Government's priorities.

The role of SC in driving sustainability agenda in capital market

10. The Malaysian bond and sukuk market, one of the most developed and largest markets in the region, should be well positioned to provide crucial financing towards productive and socially responsible initiatives.

¹ According to National Centres for Environmental Information (NCEI), statistical analysis and data through September, there is a greater than 99% chance that 2023 will rank as the warmest year on record.

² Sourced from Net Zero by 2050 A Roadmap for the Global Energy Sector (International Energy Agency)

³ Sourced from Reuters, London dated Nov 7, 2023.

⁴ Source: Global Climate Report Sept 2023 by NCEI

⁵ Recent released National Energy Transition Roadmap (NETR).

11. With a total outstanding value of RM2.0 trillion as of 31 Oct 2023, it represents more than 50% of the Malaysian capital market. Malaysia is indeed the largest sukuk market with 35% of global outstanding sukuk, ahead of Saudi Arabia and Indonesia⁶.
12. The country also remains the regional leader in sustainable and responsible investment (SRI) sukuk. In 2023 (up to Oct), three SRI Sukuk with total programme size of RM2.2 billion have been lodged with the SC.
13. It is also natural for Malaysia to take the lead in developing the SRI sukuk market, since we are recognised as a global leader in Islamic finance, which shares many commonalities and values with sustainable finance.
14. In this regard, the SC has paved the way for sustainability related initiatives since 2011, when SRI was embedded in the Capital Market Masterplan 2 (CMP2) as a key growth strategy. Under CMP3 and the SRI Roadmap⁷, the SC continues to develop a robust SRI ecosystem in Malaysia.
15. Since the launch of the SRI Sukuk Framework in 2014, the cumulative issuances of SRI sukuk have reached around RM27 billion, with over RM18 billion recognised under the SRI Sukuk Framework and ASEAN Green, Social, and Sustainability Bond Standards.
16. In 2022, the SRI-linked Sukuk Framework, which is aligned with international standards and best practices, was released. The SC has also incorporated the ASEAN Sustainability-Linked Bond Standards into our regulatory framework. These give the Malaysian capital market a complete suite of bond and sukuk standards, to help companies raise financing for transition purpose.
17. Aside from this, incentives have also been given to encourage SRI Sukuk and SRI-linked sukuk issuances:

⁶ Fitch rating Q32023 Report.

⁷ Issued in November 2019 (<https://www.sc.com.my/resources/publications-and-research/sri-roadmap>)

- a) Firstly, the Federal Budget 2024, has extended tax deductions for the expenditure incurred on the issuance of SRI sukuk approved by the SC, for four years until year of assessment 2027;
 - b) The SC has also expanded the SRI sukuk and Bond Grant Scheme to cover SRI-linked sukuk, issued under the SRI-linked sukuk framework.
18. Recent issuances revealed an increasing number of SRI sukuk issued in the renewable energy sector, accounting for 51% of total SRI sukuk issuances.
19. The largest issuance was the RM2.0 billion by TNB Power Generations, which owns and manages renewable energy terminal in Pulau Kering.

Ladies and gentlemen,

Malaysia's position within ASEAN Countries

20. In ASEAN, the ASEAN Capital Market Forum (ACMF) earlier this year developed the ASEAN Sustainability-Linked Bond Standards (ASEAN SLBS) to facilitate the use of sustainability-linked bonds for companies that contribute to sustainability.
21. Last month, The ACMF Chairs' meeting endorsed the ASEAN Transition Finance Guidance (Guidance), a common standard guidance for credible, transparent, and inclusive transition with a focus on aligning transition finance opportunities.
22. The Guidance complements the ASEAN Taxonomy, and the ACMF intends to refine the Guidance further based on stakeholder feedback.
23. Currently, Malaysia accounts for 27% of the USD41 billion total issuance of ASEAN Green, Social and Sustainability bonds and sukuk⁸.

Ladies and gentlemen,

⁸ ACMF Sustainable finance statistics dated 10 Oct 2023

Other sustainability agenda

24. The SC's sustainability agenda extends beyond bonds and sukuk, covering other market segments. It includes fund management, SRI taxonomy as well as providing frameworks for sustainability related disclosures.

SRI Fund

25. Malaysian SRI funds regulated by the SC follow specific guidelines for transparency and adherence to sustainable investment principles.
26. These funds play a crucial role in promoting sustainability and responsible investing in the Malaysian financial market.
27. Since the inception of the SRI Fund guideline in 2017, 39-unit trust funds and 28 wholesale funds have been registered with the SC.

Taxonomy

28. As sustainable investments continue to grow, a more systematic classification system is needed to facilitate comparability and alignment with environmental, social and sustainability goals.
29. The SC introduced the principles-based SRI Taxonomy for the Malaysian Capital Market (SRI Taxonomy) at the end of last year to achieve this.
30. The SRI Taxonomy helps capital market participants identify economic activities aligned with environment, social and sustainability objectives, facilitating informed and efficient decision-making for fund-raising and sustainable investments.
31. The SRI Taxonomy has been incorporated into SRI sukuk issuance in Malaysia, as we have seen in issuances such as the reNIKOLA ASEAN Green SRI Sukuk. The SC is now working on the next iteration of the SRI Taxonomy.

Ladies and gentlemen,

ACSR

32. In accelerating sustainability, the availability of comparable and consistent sustainability disclosure is critical. To facilitate the adoption of standards issued by the International Sustainability Standards Board in Malaysia, the Government has established an inter-agency Advisory Committee on Sustainability Reporting (ACSR), chaired by the SC, to steer the implementation and adoption of the ISSB⁹ Standards by Malaysian companies in an orderly manner.

NaviGate: Capital Market Green Financing Series

33. Furthermore, recognising the importance of fostering awareness and connectivity between companies and the capital markets, the SC and our affiliate, Capital Markets Malaysia (CMM), continue to organise and support capacity building and awareness programmes on capital market financing for sustainability under the SC's flagship programme, NaviGate: Capital Market Green Financing Series.
34. Since its inception in 2021, the SC has conducted 9 nationwide programmes, extending beyond KL to the states of Johor, Penang, and Sarawak. More than 700 businesses have participated in these programmes.

Ladies and Gentlemen,

Messages to credit rating agencies

35. Incorporating sustainability into the Bond and Sukuk market will not only aligns the market with the national agenda, but also ensure long-term resiliency and prosperity.
36. This will go a long way to strengthen investor's confidence, attract foreign investment, and foster innovation in industries that are pivotal for a sustainable future.

⁹ International Sustainability Standards Board

37. However, for sustainability to truly thrive in our financial ecosystem, we must all work together.
38. Market players like MARC play a vital role in advancing ESG disclosure and reporting, aligning with the national sustainability agenda.
39. Leveraging its standing as a recognised rating agency, I am pleased to note that MARC has incorporated ESG evaluations in their service offerings, prompting issuers to elevate their sustainability practices and transparency.
40. This promotes responsible investing and emphasises the significance of ethical financial considerations, which will contribute significantly to Malaysia's financial landscape.

Messages to issuers

41. Likewise, as key entities responsible for issuing securities, issuers wield significant influence over capital allocation. When issuers prioritise sustainability, they signal a strong commitment to address ESG concerns. This is a powerful signal that can encourage industry peers and stakeholders to adopt similar practices.

Ladies and Gentlemen,

Conclusion

42. The Malaysian Bond and Sukuk market stands at the crossroads of opportunity and responsibility. By championing sustainability, we not only pave the way for a more resilient and inclusive economy; we also leave behind a legacy of stewardship for generations.
43. Let us move towards a future where finance serves as a force for good, and prosperity is measured not just in monetary terms, but in the well-being of our planet and the people who live on it.
44. Thank you.

Ends/SC.