



**Opening Remarks**  
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**Securities Commission Malaysia**  
**Expo 2020 Dubai Sustainable Finance Week**  
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Distinguished speakers, Ladies & Gentlemen,

Good afternoon or Good morning, depending on where you are dialling in from.

1. It gives me great pleasure to welcome all of you to Day 3 of Malaysia's Sustainable Finance Week at the Expo 2020 Dubai. I hope the proceedings in the first two days of this conference have provided useful insights to all the participants on the important role of Islamic finance in facilitating the development of a sustainable economy, and on some key initiatives that Malaysia has undertaken in this area. I am similarly hopeful that today's deliberations, which will focus on the role of the asset management industry in driving the growth of sustainable finance, will generate more food for thought among all the participants.
2. Personally, I am particularly pleased to be able to deliver the opening remarks today as I have spent the greater part of my working life within the asset management industry. And the theme of the ensuing Roundtable, **Innovation in Asset Management as a Driver for SRI Growth**, is especially pertinent at a time when Sustainable and Responsible Investment (or SRI) has become central in the pursuit of national and global sustainability targets including the Sustainable Development Goals and the Paris Agreement. On behalf of the Securities Commission Malaysia, I would like to express my appreciation to the Roundtable panellists who will share their informed views on this subject matter, shortly.
3. Over the last 18 months, the world has experienced the severe disruptions caused by climate change and the COVID-19 pandemic. These disruptions have had and will continue to have lasting effects on the global population's perspectives on their

economic, environmental and social impact, and consequently on the need to respond swiftly and concertedly.

4. While we are gathered virtually here today, tens of thousands of others are convening physically in Glasgow for COP26 which many have agreed is the “last opportunity” to effectively address climate change and avoid an irreversible climate catastrophe. In keeping with this realisation, over USD 130 trillion of private capital from 450 financial groups is now committed to set net-zero pledges, through the Glasgow Financial Alliance for Net Zero (GFANZ).
5. In recent years, the capital markets have experienced a transformational shift involving greater allocation of funds towards sustainable investments. The UN Conference on Trade and Development (UNCTAD), in its World Investment Report 2021, estimates that the value of sustainability-themed investment products in global capital markets amounted to USD 3.2 trillion in 2020, more than 80 percent higher than in 2019. The Report also highlighted that the assets under management (or AUM) of sustainable funds have quadrupled in the last five years, and in 2020 alone, the AUM nearly doubled to over USD 1.7 trillion (from 2019)<sup>1</sup>.
6. This substantial growth reflects the potential for capital markets to contribute towards bridging the gap in the financing required to achieve the global targets<sup>2</sup>. The asset management industry in particular is a crucial intermediary in mobilising and channelling these funds into sustainable projects and businesses, as both institutional and retail investors are increasingly seeking investment products and solutions that integrate environmental, social and governance (or ESG) factors in their underlying asset selection process.
7. Another demonstration of what can be termed as a permanent shift in preference for sustainable investments is the statistics around the Principles for Responsible Investment (or PRI). The number of PRI signatories had increased to 3,826 as at March 2021, compared to only 1,951 just three years before. Over the same period, assets under management of the signatories had grown to USD 121.3 trillion, from USD 81.7 trillion. The number of signatories has since crossed the 4,000 mark as at June. Underpinned by the commitment to integrate ESG criteria into their investment processes, these asset managers – and potentially many others – may be the catalyst to move the needle towards achieving a carbon-neutral world by 2050.

Ladies and gentlemen

8. The concept of stakeholder economy, as articulated in the Securities Commission Malaysia’s Capital Market Masterplan 3, emphasises long-term value creation, where

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<sup>1</sup> Flows for 2020 as of 30 June. Net inflows to sustainability-themed funds in 2016 was USD33 billion. Extracted from the United Nations Conference on Trade and Development (UNCTAD)’s World Investment Report 2021, *Investing in Sustainable Recovery*

<sup>2</sup> United Nations Conference on Trade and Development (UNCTAD)’s World Investment Report 2021, *Investing in Sustainable Recovery*

businesses assume greater responsibilities beyond short-term profits, and account for the needs of stakeholders, ranging from shareholders, employees and business partners to the environment, society and community.

9. This concept is very much aligned to the principles of the Islamic economic system that accentuate the rights of stakeholders across risk sharing, property rights, sanctity of contracts as well as wealth accumulation and redistribution, for a balanced and sustainable socio-economic development.
10. In practice, there is already international recognition of the alignment between Islamic and sustainable investing as Islamic funds are considered part of the sustainable investment universe by the Global Sustainable Investment Alliance (or GSIA). The PRI has also stated that ESG investing and Islamic finance are complementary investment approaches. In this regard, Malaysia – for a number of years now – has been leveraging on its position as an Islamic financial centre and enhancing its comprehensive ecosystem to enable it to offer investors an extensive array of Sustainable and Responsible Investment (or SRI) solutions. Please allow me to briefly share some of these initiatives and measures:
  - a. The SRI Sukuk framework introduced in 2014, to facilitate issuance of sukuk where the proceeds are utilised for green, social or sustainability purposes, including waqf-based projects.
  - b. The Islamic Fund and Wealth Management Blueprint issued in 2017, in which one of the strategic thrusts is to establish Malaysia as a regional centre for Shariah-compliant SRI.
  - c. Guidelines on SRI Funds issued in 2017, to enable fund managers to launch SRI-labelled funds when they meet the stipulated criteria.
  - d. The SRI Roadmap for the Malaysian Capital Market launched in 2019, to chart the strategic development of a facilitative SRI ecosystem.
  - e. Tax incentives related to issuances of SRI Sukuk and SRI Funds.
11. With the vast opportunities for the Islamic asset management industry to capitalise on, given the significant growth in the sustainable investment space, it is a natural progression that the breadth and depth of product and service offerings by asset managers need to be accelerated. As a result, asset managers' capacity and capabilities must be expanded and enhanced. At the same time, there is growing demand from investors for more efficient and cost-effective distribution channels and access to information. Inevitably greater use of technology by asset managers becomes imperative.
12. To realise the full potential, innovation is key in enabling the asset management industry to serve and meet the needs of investors seeking sustainable investments. Asset managers can and should continue to offer more sustainability-linked products that cater to different risk-return profiles of investors – institutional and retail, as well

as high net worth individuals, across different asset classes. Given the significant commonalities in the principles underlying Islamic and sustainable investing, innovation in product development can generate solutions that cater to both segments. There are clear benefits for both Shariah and ESG criteria to be incorporated into product structures as these can be offered to a wider investor base.

13. Other initiatives such as index construction can facilitate further growth of sustainable investing. Relevant indices provide useful benchmarking information and also enable product development such as Exchange-Traded Funds. For instance, Bursa Malaysia and FTSE Russell have launched the FTSE4Good Bursa Malaysia Shariah (F4GBMS) index<sup>3</sup> to meet the financial community's needs. With the convergence between ESG and Islamic investing, this new index seeks to introduce a new dimension for fund managers by embedding Shariah criteria into an ESG index. In the same vein, greater availability of ESG and relevant data will enable the market to objectively measure the ESG risks and impact of companies' operations through relevant ESG metrics, instead of solely relying on sustainability statements and commitments by the companies.
14. To further support product development efforts, it is essential that there is greater supply of Shariah-compliant SRI or ESG assets and securities that the asset managers can invest in. In this regard, asset managers can play a stronger stewardship role vis-a-vis potential and current investee companies to underscore the importance of running responsible businesses, which in turn will raise the number of companies that fulfil their investment criteria and broaden their investment universe. Adoption of ESG investment policies by asset managers will also provide greater impetus for companies to transform their business models including their financing strategies to be sustainability-focused.
15. On this note, while it is critical for the asset management industry to drive the growth of sustainable investment, the industry has to be equally mindful of the near-term impact in terms of unintended consequences of stifling the sustainability agenda if overly-strict criteria are imposed. Enabling investee companies to transition towards low or net-zero carbon based on a reasonable yet challenging timeline is an important intermediate step towards a sustainable economy. Therefore, asset managers, apart from investing in companies that have achieved the acceptable levels of sustainable practices, should also consider investing in those that are demonstrating commitment towards achieving such levels, as well as in financial products that support such transition, including green, social and sustainability bonds and sukuk. There is however a need to address and manage potential greenwashing risks.

Ladies and gentlemen

16. An area within Islamic finance that is particularly aligned with sustainable development is Islamic social finance. Mandatory and voluntary mechanisms are in place to help achieve positive outcomes that contribute to societal benefits and promote social

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<sup>3</sup> 54 constituents as of June 2021

equity. One such voluntary mechanism is *Waqf* (or Islamic endowment). In the context of today's discussions on asset management, the Securities Commission Malaysia launched the milestone *Waqf*-Featured Fund Framework at the end of 2020 to facilitate the offering of unit trust funds and wholesale funds with *waqf* features that integrate commercial and social objectives.

17. Other mechanisms to drive further development of Islamic social finance should be explored as it is a powerful tool to address some of the issues that hamper equitable and sustainable development, and in so doing, contribute towards achievement of the SDGs.
18. This brings me to another important point – Collaboration. Achieving the desired outcomes in growing sustainable investments requires the collaboration of multi stakeholders. The asset management industry is a key component of the ecosystem, but achievements would require the collective participation of other stakeholders such as Shariah advisers, rating agencies, data providers, and others. At the same time, cooperation between industry and regulator is critical to ensure development is facilitated while preserving market integrity.
19. Collaborative efforts are also essential in building awareness and capacity. The asset management industry must work in tandem with other relevant stakeholders to promote greater understanding of sustainable investment and its value proposition, and to contribute towards capacity building. In this regard, Capital Markets Malaysia (or CMM), an affiliate of the Securities Commission Malaysia, supports the SC's initiatives to develop capital market intermediaries' expertise in sustainable finance and investing through its three centres of excellence (COEs) that provide capacity development to facilitate product innovation and depth in technical expertise, as well as showcase the track records of three key stakeholder groups: corporations; asset owners and asset managers; and financial sector intermediaries.
20. One of these COEs, launched in April this year, is the Sustainable Investment Platform – a collaboration between the Institutional Investors Council Malaysia (IIC) and CMM to support asset owners and asset managers in building expertise and depth in sustainable investments. The Sustainable Investment Platform's capacity development programmes are supported by the Principles for Responsible Investment. The focus of its programmes is to share international best practices on integrating broader ESG priorities in investment standards and also to emphasize the importance of stewardship and active engagement.
21. Collaboration across borders is also important to further broaden the sustainable investment market. The ASEAN Capital Markets Forum (ACMF) has established the ASEAN Collective Investment Scheme (CIS) Framework to enable cross-border offering of CIS. While the Framework is not specifically catered for SRI funds, it can facilitate the offering of such funds especially given the growing demand. The ACMF also issued the series of ASEAN Green, Social and Sustainability Bond Standards which have helped to create a sustainable asset class within the region.

Ladies and gentlemen

22. In concluding, I wish to reiterate the important role of the asset management industry in intermediating and mobilising funds between the providers and the users of capital. This role is especially crucial in today's context of sustainable investment as substantial amount of funding is required to be channelled to businesses and projects that support the global sustainability agenda within a timeframe that is fast shrinking.
23. The clarion call for asset managers to exert more pressure on their investee companies to demonstrate greater commitment towards sustainable practices is growing ever stronger, and asset managers certainly have, not only the capacity but also the responsibility to rise up to the call. The asset management industry, especially the Islamic segment, has tremendous potential to accelerate the decarbonisation of the global economy and contribute significantly towards a more sustainable future. I therefore hope the roundtable will generate substantive and productive discussions on the way forward.
24. Last but not least, allow me to take this opportunity to invite those of you who are physically in Dubai or its vicinity, to visit the Malaysia Pavilion at the Expo 2020 Dubai, which showcases the best of Malaysia's culture in a net-zero carbon pavilion.
25. Thank you.