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FINANCE & INVESTMENT

ISFI Annual Report 2022

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Translating words into actions

NATO can be frustrating. And no, I'm not referring to the North Atlantic Treaty Organization; I'm talking about the acronym NATO used in some vernacular – 'No Action, Talk Only'.

As with any cynical journalist, it is not uncommon (in fact, it is expected of us) to view announcements as mere lip service and to take any commitments made by governments and stakeholders with a pinch of salt – NATO. This state of incredulity also applied as far as Islamic sustainable finance is concerned. For years, it was NATO.

Until five years ago. Fast forward to 2022, the Islamic finance industry proved it is indeed putting money where its mouth is: it continues to chip away at this skepticism with meaningful actions.

In every meeting room, every Islamic finance conference, every industry dialogue, ESG and sustainability made an appearance, if not dominated the discussions. This is likely to continue.

What is heartening is that the industry is actually walking the talk: Islamic financial institutions, corporates and policymakers have concrete measures, products and initiatives to show for it. We see the Islamic sustainable finance mix include social and impact Sukuk, rather than being exclusively green-focused, and we see a stronger push for Islamic sustainable banking and insurance products, rather than it being mainly a capital markets play.

Make no mistake – the road ahead is long, and the room for improvement is large. But these signs are encouraging. As these pages will tell you: the advocacy to better infuse ESG into Islamic finance to meet the SDGs is strong. Good work is being done, and will continue as we venture on this journey together.

The Islamic Sustainable Finance and Investment Report is an industry-driven initiative to contribute to the industry knowledge body with specially curated exclusive content by market leaders in Shariah sustainable finance.

This report would not have materialized without the unwavering support of our partners:

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- Islamic Development Bank Group
- Islamic Financial Services Board
- Labuan International Business and Financial CentreBFC
- Malaysian Sustainable Finance Institute
- Old Mutual
- Prestige Funds
- Responsible Finance & Investment Foundation
- SME Bank
- United Nations Global Compact
- UOB Asset Management

If 2022 is any indication of the industry's drive to embed sustainability into its Islamic finance DNA, then I am hopeful (and excited) for the things we will achieve in 2023.

Vineeta Tan,
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IMPROVING **LIVES.**

VISION

ITFC is the leading provider of trade solutions for OIC Member Countries' needs

MISSION

ITFC is a catalyst for trade development among OIC Member Countries and beyond

The International Islamic Trade Finance Corporation (ITFC) is a member of the Islamic Development Bank (IsDB) Group. It was established with the primary objective of advancing trade among Organization of Islamic Cooperation (OIC) member countries, which would ultimately contribute to the overarching goal of improving the socio-economic conditions of the people across the world. Commencing operations in January 2008, ITFC has provided more than US$62 billion of financing to OIC member countries, making it the leading provider of trade solutions for these member countries' needs. With a mission to become a catalyst for trade development for OIC member countries and beyond, the Corporation helps entities in member countries gain better access to trade finance and provides them with trade-related technical assistance Programs, which would enable them to have the necessary tools to successfully compete in the global market.

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Islamic sustainable finance in 2022: Walking the talk

For the best part of the last decade, Islamic sustainable finance, which mainly took the form of green Sukuk, was the talking point of the industry. But that was all it was – talk. Despite loud aspirations, Islamic ESG activities remained largely muted. But there have been signs in 2022 which perhaps indicated that we are at the cusp of a real, meaningful shift. The question is: have we turned the corner? VINEETA TAN explores.

Slow start

It took 10 years for the Islamic finance industry to produce its first green Sukuk after the conventional market made their debut. This is despite years of Islamic finance practitioners touting the natural synergy between Islamic finance and ESG principles. Some have chalked up this delay to weak political and industry will.

While perhaps there is some truth to that (then), a complex array of hurdles continues to stand in the way of Islamic sustainable finance. Conflicting climate action regimes and green taxonomies (or the lack thereof), the lack of technical expertise, bureaucracy and the absence of enabling regulations are just a handful of pain points.

Since the first ever green Sukuk offering was made in 2017, the industry has been playing catch-up. EU data values green, social and sustainable bonds at over US$2 trillion in October 2022, double the amount in 2021. On the Islamic side, green and sustainable Sukuk scratched US$15 billion last year.

It may be easy to pick apart how we are seemingly falling behind, even within the Islamic finance microcosm – after all, sustainable finance only accounts for less than 1% of total industry assets.

Diversity sprouting

But there is merit in appreciating how far we have come. Since the 2017 green Sukuk offering out of Malaysia, serious foundational groundwork has been laid out. This has paved the way for sovereigns in Southeast Asia to tap climate related and social Sukuk and even attracted the elusive issuances out of the Middle East.

More notably, that work has germinated into further promising progress seen this last year. Most significantly, in the diversity of Shariah compliant ESG-aligned instruments.

Make no mistake – Sukuk remain the industry's showpiece. Some US$4.3 billion was raised through sustainability and green Sukuk in the first six months of 2022 (outstanding related Sukuk stood at US$19.3 billion). For the full year of 2021, that number was US$6.1 billion.

In fact, in the second half of 2022, several landmark offerings were made including Dubai Islamic Bank's US$750 million sustainability **debut** (one of the largest international offerings out of the GCC this year), the Malaysian government's **first** ringgit-denominated RM4.5 billion (US$968.5 million) sustainability Sukuk, as well as several smaller-scale but big-impact green and agricultural papers from the likes of Turkiye's Emlak Katilim Bankasi and Tarfin, and South African firm Agrarius.

But other flavors of ESG have also emerged, if not gaining greater popularity.

As the Islamic debt capital market took a backseat this year, bank and syndicated financing took off in the Islamic finance realm, and this also seeped into the Shariah sustainability sphere. Banking giant Al Rajhi closed a US$1.16 billion commodity Murabahah facility which complied with the Loan Market Association's Green Loan Principles – an industry **first**. Arab Petroleum Investments Corporation **signed** a US$75 million Murabahah agreement in favor of UK's Hartree Partners Power & Gas Company to fund voluntary carbon offsets. Maybank Islamic executed a sustainability-linked Islamic profit rate swap with Axis REIT.

More banks such as CIMB Islamic and Standard Chartered are cashing in on the trend with Shariah compliant sustainable **investment** and deposit accounts. In fact, CIMB Islamic and Standard Chartered Saadiq Malaysia also **entered** a RM1 billion (US$224.74 million) sustainable collateralized commodity Murabahah deal, a mechanism about four years in the making. In the UK, Gatehouse Bank **rolled** out the country's first Halal green home financing products.

Investment managers are also building on the momentum: HSBC Asset Management **launched** an Islamic ESG exchange-traded fund on the London Stock Exchange, with four others in the pipeline while Malaysia's RHB Banking Group **introduced** its Islamic Structured Investment Linked to Index, which takes into consideration ESG parameters, targeting institutional investors.

Credit to carbon credits

Despite doubts, controversies and scandals, the largely unregulated carbon credits universe is making a splash in Islamic finance.

The carbon credit market is on a phenomenal run: it more than tripled in valued from US$310 million in 2020 to US$1 billion last year and it looks like its heading into another record year. McKinsey & Co estimated that the market could be worth US$50 billion by 2030. The Islamic finance industry wants a slice of that pie.

The Malaysian bourse **unveiled** the world's first Shariah compliant voluntary carbon market exchange right before 2022 closed its curtain; the first carbon auction is set for early next year. Multilateral financier International Islamic Trade Finance Corporation (ITFC) and the Saudi-backed Regional Voluntary Carbon Market Co **facilitated** the issuance of the first-ever Fatwa for carbon credits.

This follows the ITFC's **participation** in the world's largest carbon credit sale by Saudi's Public Investment Fund, which auctioned 1.4 million tons of carbon credits. The ITFC **intends** to launch carbon offset offerings in 2023.

Islamic markets are paying serious attention: Indonesia, Saudi Arabia and the UAE are among those looking at launching carbon exchanges, making Islamic carbon credits an asset class to watch out for in 2023.

Sustaining momentum

To the optimist, we are making good progress on our promise to channel finance for good, as required of Islam. To the skeptics, our sustainability journey is riddled with flaws and gaps and missed opportunities.

Take COP27 for example. The UN Climate Change Conference, which took place in Egypt this year, to some practitioners fell short this year. Some expected more Islamic finance initiatives and for the industry to have a bigger voice in this global narrative, especially considering the Muslim-majority host country, but that was largely absent. Some thought that the historic loss and damage fund could have had an Islamic component, but that boat has sailed.

However, the IsDB doubled down on its sustainability commitments: it intends to fully align its sovereign operations with the Paris Agreement by the end of 2023. Islamic finance giants Saudi Arabia and the UAE have committed billions toward energy transition. The industry expects a good portion will be Shariah compliant. And, of course, many are holding out hope that the UAE's presidency of COP28 will translate into an impetus for Islamic finance to play a bigger role in the fight against climate change.

There is no denying that the needs are pressing: devastating floods, debilitating droughts and destructive wildfires demand meaningful actions from financial institutions. Beyond that, it is also a business decision: investors and stakeholders want their investments to do good. A Lombard Odier 2022 survey of high-net-worth individuals found that 91% are already investing in a Shariah compliant manner and 88% plan to increase their allocation to sustainable assets – the opportunity is immense.

The year 2022 witnessed the sector beginning to reap the earlier seeds sowed: the industry is mobilizing Islamic sustainable efforts at a level never seen before. Islamic financial institutions are equipping themselves with the right frameworks to support their sustainability ambitions. Regulators are putting together policies to prop the market. Market players are engineering new products.

The hope is, we will see this pace picking up next year, and diversity of products and structures ramping up.

Islamic Sustainable Finance and Investment Survey 2022 results

From August to October 2022, ISFI surveyed over 100 Islamic finance industry practitioners to understand how their respective organizations are adopting Islamic sustainable finance and investment. MARLENA KAREEM analyzes the results.

KEY INSIGHTS

77% of surveyed practitioners see greenwashing as an issue in the Islamic ESG space

49% of surveyed practitioners attribute a desire to make a positive impact as the main factor driving ESG adoption for their institution

6% of respondents attributed pressure from industry peers and the main reason for ESG adoption in its financial institution

60% of surveyed practitioners attribute a lack of robust ESG data as the main challenge their institution faces in ESG adoption

54% of surveyed practitioners think Islamic institutions should consider a company's stance on LGBTQ+ [lesbian, gay, bisexual, transgender, queer and others] issues when making investment decisions

Why are institutions adopting ESG practices?

The industry is seeing a shift toward sustainability. What are the deciding factors Islamic financial institutions consider when adapting ESG practices? Based on our findings, a number of factors come into play, ranging from market demand, financial returns and the regulatory landscape to keeping on par with competitors' best practice and generating positive environmental and sustainability-related outcomes.

"I think it is economic proposition at the end of the day. The commercial banks are concerned with their bottom line," said one respondent.

Additionally, the potential of ESG adoption to provide insights on a financial institution's risks has also been highlighted.

"Adopting ESG gives good insight into the risks a bank faces. In addition, minimizing regulatory and legal interventions, reducing costs, meeting client needs and requests about environmentally-friendly products and positive reputation are deciding factors," noted one market practitioner.

"We chose to use ESG, because it improves the control of company processes and practices, establishing high management standards for the business and assisting in compliance with local and global regulations," said another industry player.

Thirty percent of survey respondents attribute a desire to make a positive impact as the main factor driving ESG adoption for their institution, beating the second reason for adoption, a desire to meet client needs and request which was at 19%, by a landslide. Only 6% of respondents attributed pressure from industry peers as the main reason for ESG adaptation in their financial institution.

Greenwashing concerns holding Islamic financial institutions back?

While there are many factors driving ESG practices for Islamic financial institutions, institutions face several challenges in embracing ESG. Greenwashing is a significant concern for Islamic financial institutions with 77% of surveyed practitioners seeing greenwashing as an issue in the Islamic ESG space.

This finding raises concerns as to whether Islamic financial institutions are approaching ESG practices superficially to 'cash in' on the current sustainability trend. Moreover, the concerns over greenwashing within the space also suggest that greenwashing claims are a possibility, in which case Islamic financial institutions would be exposed to reputational risk.

While the concerns over greenwashing are significant, it is by no means the only challenge faced by Islamic financial institutions. Sixty percent of practitioners reported the lack of robust ESG data as one of the top two challenges their institution face in ESG adoption. Approximately 35% singled out additional costs, a lack of suitable products and the complex and confusing regulatory landscape as their top challenges.

Chart 1: What are the two main driving factors driving your institution to adopt and offer ESG products?

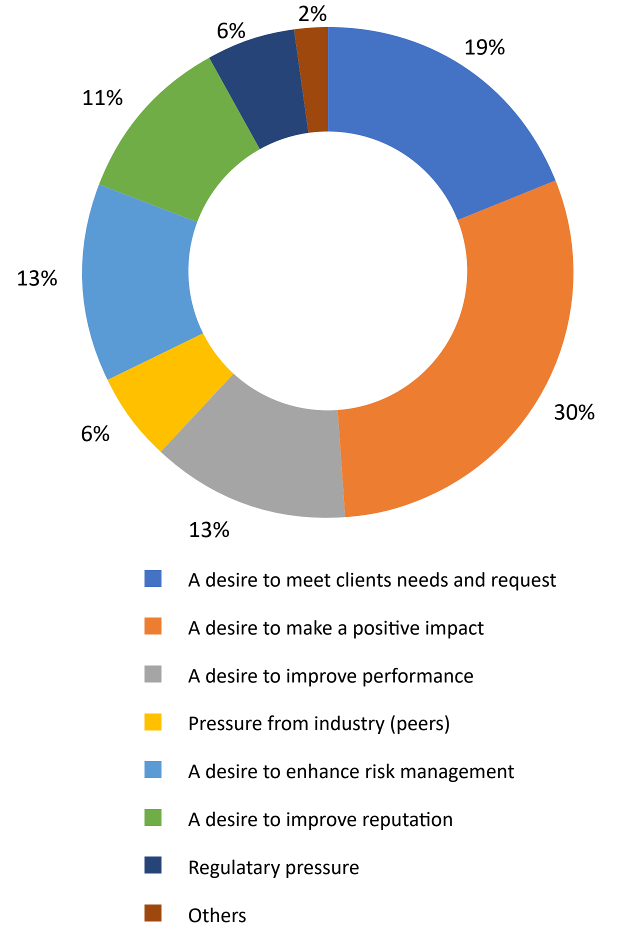
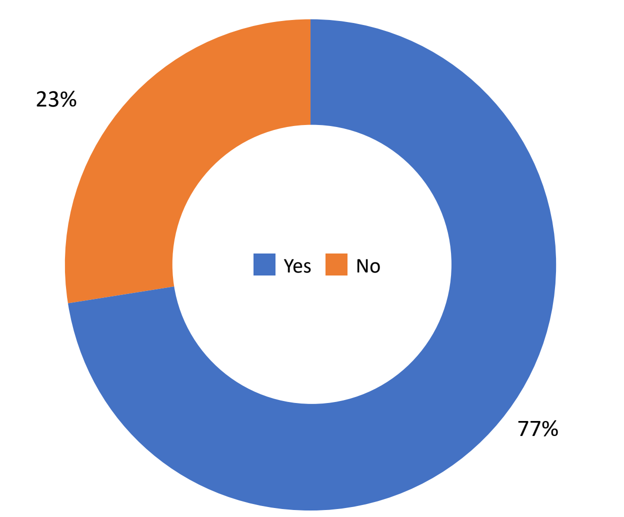


Chart 2: Do you see greenwashing as an issue in the Islamic ESG space?



Zero hunger not a priority

According to our survey results, the SDGs are relatively equally represented by respondents with SDG 14 of life underwater being the least prioritized. Interestingly, SDG 2 of zero hunger was given the second-lowest priority. This result is surprising considering how, according to the Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation, 48.75% of least developed countries are member countries of the OIC. Moreover, 21% of the population of the OIC lives on under US$1.9 per day.

'Name and shame'?

With regards to concerns over integrity and greenwashing within the Islamic ESG space, we asked industry practitioners how financial institutions should be held responsible in ESG mismanagement and non-compliance.

Several survey respondents proposed naming and shaming as a response to ESG mismanagement. While this may act as a deterrent to prevent institutions from ESG mismanagement, it does not provide actionable insights on how mismanagement can be avoided. Other approaches including fining were also proposed by industry player respondents.

"Constant review and measurement. It should be proactive not retroactive. Investors are at liberty to review relationships with such institutions," one respondent commented. Several respondents, alternatively, proposed proactive measures to mitigate ESG mismanagement including a robust regulatory landscape, incentives for ESG compliant practices, as well as transparent disclosure practices from financial institutions.

Further, defining terms and having good ESG literacy have also been highlighted as key factors to prevent ESG non-compliance.

"The first thing is the awareness and understanding of ESG itself within financial institutions. [It] should be encouraged to all and not just a specific department ... When everyone is on the same page, the risk in mismanagement and non-compliance of ESG will be reduced," opined one practitioner.

Do we consider LGBTQ+ issues?

While we as an industry often highlight the synergies between the SDGs and Islamic sustainability, there are some gray areas as well as areas where the two diverge. SDG 5 of gender equality is clear on its stance of gender inclusivity and LGBTQ+ matters. From an Islamic perspective, however, this is a tricky area.

We asked industry practitioners if Islamic institutions should consider a company's stance on LGBTQ+ issues when making investment decisions and we got very interesting responses. Over half (54%) said that it should be a consideration. Based on this view, a company's stock should be excluded from a Shariah compliant fund based on its LGBTQ+ policy.

Chart 3: Which SDGs does your institution prioritize?

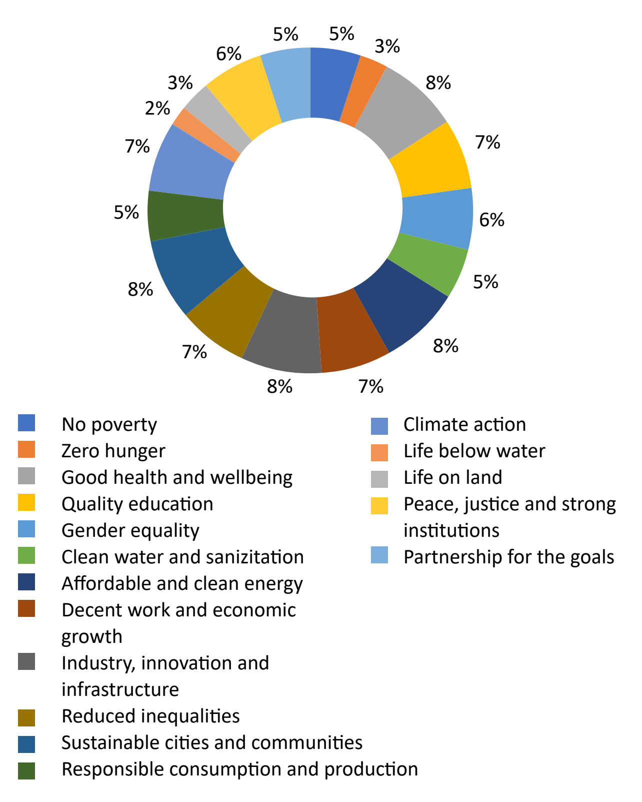
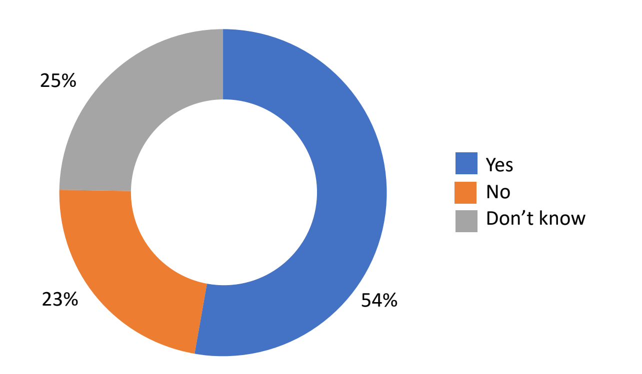


Chart 4: Should Islamic institutions consider a company's stance on LGBTQ+ issues when making investment decisions?



With 25% answering that they do not know if LGBTQ+ issues should be a consideration, this suggest that the industry may need clear guidelines and directives on where Islamic sustainability stands in relation to its conventional counterpart.

Moreover, with 21% of respondents answering that LGBTQ+ issues should not be a consideration, does this mean that, in addition to differing Shariah compliance screening methodologies, this factor further adds to the disparity of 'investible' assets from institution to institution?

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Lack of standardization curbing Islamic sustainable finance growth in Malaysia and Indonesia, says legal community

In August 2022, ISFI interviewed leading Islamic finance lawyers in Malaysia and Indonesia to gauge the state of Islamic sustainable finance in the region. LOUIS EDMONDES reports.

Malaysia and Indonesia stand as the two largest issuers of Sukuk in Southeast Asia as well as the second- and third-largest in the world respectively, behind Saudi Arabia. Both countries have situated themselves as leaders in the recent shift toward sustainability in Islamic finance. Regulations and standardization, or the lack thereof, are often cited as barriers to the growth of Islamic sustainable finance. To understand the landscape, we engaged a select group of Islamic finance lawyers from leading law firms in Malaysia and Indonesia on regulatory and legislative issues.

Interest in and demand for Shariah compliant sustainable financial services are steadily growing as evident by increasing queries from clients, particularly over the last two years as more clients are keen to tap the growing pool of liquidity held by investors that are placing a greater emphasis on sustainability when making investment decisions.

"Of late, we have noticed more demand for Islamic sustainable financing, in particular, sustainability Sukuk issuances in the Malaysian debt capital market space. Issuers/borrowers are more inclined to explore such issuances with the increasing focus on sustainability initiatives and to support their commitment towards sustainable operations in their businesses," remarked Gan Kok Ling, a partner at Adnan Sundra & Low.

Azlin Ahmad, a partner at Herbert Smith Freehills, believes that: "The demand within the Islamic finance space will be proportionate to, if not more enthusiastic than, the demand in the conventional financing space."

Fitch Ratings projects the growth of ESG Sukuk to grow 2.6% to 5% of global outstanding Sukuk over the next five years and up to 15% in the medium term. However, clients may not be ready to fully embrace the new asset class due to perceived high barriers to entry such as stringent reporting requirements and compliance cost.

"Despite the fact there is significant overlap between Islamic finance and sustainable finance principles, the figures show that Islamic finance participants are lagging behind their conventional counterparts when it comes to sustainable financing," shared Elias Moubarak, a partner at Trowers & Hamlins. "We have been advising in relation to structuring and documenting Shariah compliant sustainable financing products, particularly Sukuk, but to date, not many of those have come to market."

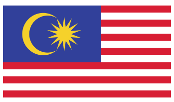
The first green bond was issued in 2007 by the European Investment Bank, which set off a chain reaction of ESG financing that has bloomed into a market worth over a trillion dollars, while the first-ever green Sukuk offering only debuted a full decade later in 2017.

Aside from the late start, the growth of ESG Sukuk relative to conventional ESG bonds has also been handicapped due to the extra complexities and costs associated with Shariah compliance.

"Based on my experience, clients are not really ready to strictly comply with the covenants and requirements expected of them when they obtain sustainable finance. There are lots of reporting obligations, obligation to appoint independent consultants to verify and report from time to time and, overall, extra costs to be incurred, sometimes in modifying the project to ensure compliance with the ESG guidelines, eg level of carbon emissions," observed one partner at a leading Malaysia-based legal firm who requested anonymity.

There is significant overlap between the principles of Islamic finance and sustainable finance, thus giving Islamic finance practitioners the opportunity to demonstrate success and grow the market. Clients still need to be educated on both Islamic and sustainable finance instruments, including understanding the true cost and benefits of adopting such products.

Country comparison

	**Malaysia** launched its SRI Sukuk Framework in 2014, seeing the first-ever green corporate Sukuk in 2017. Malaysia currently lags behind Indonesia in the issuance of sovereign green Sukuk yet, unlike Indonesia, has a significant number of corporate Sukuk issuers, and is in fact the largest manufacturer of green/SRI corporate Sukuk offerings.
	**Indonesia** launched its Green Bond and Green Sukuk Framework in 2017 and in 2021 obtained the Climate Bonds Award for the biggest issuer of green Sukuk (in the amount of US$750 million). Earlier this year, Indonesia issued the world's largest-ever global green Sukuk tranche (US$3.25 billion).

Legal practitioners interviewed were unanimous on the urgent need to develop clear, practical and transparent guidelines that would help investors understand what is required from an SDG viewpoint and how they can transition to sustainable finance.

"Existing guidelines tend to be deliberately vague on enforcement and adverse consequences, not least as most of the attention in a sustainable financing transaction is focused at the entry level rather [than] throughout the lifespan of the financing facility itself," noted Azlin.

However, the extent that such guidelines be standardized across regional or international lines is up for debate. Azlin stipulated that guidelines should be "adaptable to the ecosystem which fulfills domestic needs in a manner that allows effective and realistic enforcement … ASEAN should not be seen as a collective individual but rather a group of smaller components working together given the variant states of development in this field."

Jal Othman, a partner at Shook Lin & Bok, concurred that regulations must be kept relevant to context as: "Sustainability is a relative concept. Issuers must be measured against the industry and business environment that they are operating in."

Yet greater regional standardization would "allow for a wider and deeper sustainable financing ecosystem", noted Elias.

There are elements of both regional standardization and variation in the current format. Green Sukuk issued in Malaysia and Indonesia are responsible to the ASEAN Green Bond Standards launched in 2020 and both countries also have their respective frameworks.

However, regulators "should keep in mind that green bonds/ Sukuk are tradeable" and thus "to be palatable to foreign investors … standards should be consistent with [the] international level", noted our anonymous Malaysia-based lawyer.

These concerns are already evident in the discrepancies in practice between local and international banks in Malaysia and Indonesia as local banks have yet to modify their financing documentation to include extensive ESG covenants. International or global banks — which are signatories to the Equator Principles — on the other hand will not grant the financing unless the clients have agreed to include in their financing documents and to comply with ESG requirements.

While regional variation may be necessary in the short term, there will continue to be pushes and pulls toward the international line. Regulators should be aware of this tension and continue to update guidelines and regulations and respond to developments in markets and international legislative practices.

In 2021, Securities and Exchange Commission Malaysia announced that its framework had been revised in order to better align with international standards.

Call to action:

- Develop clear and transparent guidelines that are appropriate and flexible enough to be properly adopted in the relevant jurisdiction.
- Ensure guidelines are responsive to international developments to ease and ensure trade.

Taxonomies

The debate over standardization equally applies to the development of taxonomies and labels that will help classify good practice and push companies and investors toward sustainable financing.

Version 1 of the ASEAN Taxonomy for Sustainable Finance was issued last November with labels grading from green to red with an intermediary 'amber' label allowing for companies in a polluting-industry to transition to environmental responsibility around the principle of 'Do No Significant Harm' (DNSH):

> ***Flexible taxonomies and provision of incentives will help encourage SDG compliance***

"An economic activity is generally location- and context-specific, and interacts directly or indirectly with the surrounding environment. While the economic activity may contribute towards environmental objectives, the economic activity may cause unintended harm to the broader environment."

Azlin commended ASEAN for this 'traffic light' approach to compliance/non-compliance, with its 'granular' taxonomy, as opposed to the EU's dichotomous grading where assets are either green or red. She points out that: "The EU Taxonomy Regulations (2020) do not include or recognize the importance of transition-enabling activities ... Many industries, such as the oil and gas sectors, do not have the infrastructure to transition into a sustainable activity. Investing in transition-enabling activities allows for the research and production of infrastructure that will ensure sectors operate at net-zero emissions in the future."

This 'granular' taxonomy is reflected in the Indonesian Financial Services Authority's 'Green Taxonomy Edition 1.0' launched earlier this year which includes an 'amber' transitional label. Mirza Karim, a partner at KarimSyah, noted that the strategic objective of the document is "to encourage innovation in developing green products/projects/initiatives".

Three lawyers based in Jakarta concurred that taxonomies should account for "'assets in transition' to enable them to shift from 'brown' to 'green', and that such grading should be relevant to Indonesia."

As emerging markets, regulators in Malaysia and Indonesia must find ways of encouraging growth while insisting on SDG principles and enforcing compliance.

However, again there is the issue that with regional variation there may also be a restricted market and greater difficulty in collaborating with international financial bodies.

Echoing the comments of our anonymous Malaysia-based lawyer in the previous section, Elias opined that: "Taxonomies should be in line with those in the conventional finance space in order to allow for the greatest possible demand for Shariah compliant products."

Regional variation in taxonomy may confuse and/or disrupt transnational business, as what is 'amber' in one region may be 'red' in another, making it difficult to track SDG compliance past the national level or regional level.

"Having transparent environmental targets can assist the Green Taxonomy users to assess whether the environmental performance of an activity is consistent with the environmental objectives. This requires a common measurement metric that can provide an overview of environmental impacts," noted several lawyers in Indonesia.

The ASEAN taxonomy states that: "In developing the criteria for DNSH going forward, ASEAN will take into consideration parallel activities elsewhere, including the EU." Likewise, while transitional labels may be necessary instruments for progress towards SDG goals, regulators must not forget that the ultimate aim is to get all 'amber'-labeled companies to 'green'. Mirza noted that: "Among the 919 subsectors/groups/business activities mapped and clarified by Indonesian technical industries, 904 are not yet able to be directly categorized as a green sector."

Incentives

SDG compliance places a financial burden on companies and financial bodies. As discussed above, one way of lowering costs is by implementing clear and transparent guidelines, which Gan of Adnan Sundra & Low claimed will "ensure that compliance [is] easily executed without excessive and onerous obligations on the part of the issuers/borrowers".Another way of reducing compliance cost is through the provision of incentives such as tax reductions and green grants.

"At this moment, it is not entirely clear if there is a real sufficient incentive for the borrower or issuer to do any ESG/green-related financing (for both conventional and Shariah) as there is no certain discount being provided to them," noted Andrew and his colleagues in Jakarta.

Mirza concurred that in Indonesia "until now there is no specific regulation to push business actors to prioritize the issuance of green Sukuk".

The Malaysian regulator, particularly Securities Commission Malaysia, has led by example. On the 23rd August, the commission announced an expansion of the SRI Sukuk and

Bond Scheme grant which enabled eligible SRI-linked Sukuk issuers to offset up to 90% of external review costs from a maximum of RM77,000 (US$17,224.1) to a new maximum of RM300,000 (US$67,106.7). The scheme also provides a five-year income tax exemption for recipients of the grant.

Such grants allow green Sukuk issuers to offset the cost of the requirements for external review. The Malaysian framework also provides tax-incentives, as opposed to Indonesia, which contributed to the growth of corporate green Sukuk issuance in Malaysia.

Jal Othman noted that in Malaysia there is "an increasing buy in to the attractive concept that sustainable practices are rewarded by investors and financiers either in the form of cheaper cost of funds or flexible and favorable repayment terms including write-off of debts".

Call to action

- Develop robust taxonomies for measuring, tracking and reporting the impacts of investments that are suitable for the ASEAN region.
- Ensure that taxonomies are updated and responsive to changing circumstances both regionally and internationally.
- Implement legislation that incentivizes sustainability-focused or linked initiatives and projects that can then be financed in a Shariah compliant manner.

While clearer guidelines, flexible taxonomies and provision of incentives would help encourage SDG compliance, they may also encourage greenwashing. To prevent this, all lawyers consulted agreed on the need for, in the words of Jal Othman, "independent and credible verification and validation".
"To avoid the bad rep coming out of greenwashing [it is] critical to advance the Shariah Maqasid principles driving sustainability. Just as much as we are doing the same for non-Riba principles," opined Jal.

Another Kuala Lumpur-based lawyer elaborated that: "In Malaysia, there is currently no hard enforcement ... If a customer does not comply with ESG covenants under their financing documents, it does not trigger an event of default."

To mitigate this, regulators should continue to monitor and update the development of a financial industry reporting system, according to Andrew Mohamed, Nadzar and Risnan.

Azlin added that: "Companies should report their sustainable initiatives alongside their other business activities to allow for an assessment of their sustainability as a whole, instead of having a company's green reputation be inflated due to one sustainable project that may not have even impacted the company's carbon emissions as a whole." She pointed to the International Organization of Securities Commissions's recommendations that "regulators should have supervisory tools to monitor and assess compliance with regulatory requirements and enforcement tools to address any breaches of such requirements". She also alluded to the need for developing a consistent international standard of reporting.

However, the manner and method of enforcement comes with its own complications. As Elias stated: "Regulators must walk a fine line between implementing effective and robust standards (which should curb 'greenwashing') but on the other hand overly ridged disclosure frameworks that might risk undermining the development of green bonds and other sustainability-linked products."

These measures will inevitably lead to increased costs. Thought has to be given as to how these costs are to be managed and the effect they would have on the pricing point

Mirza agreed that regulators should ensure that any standard and label is "dynamic/living" and "flexible in nature".

"These measures will inevitably lead to increased costs. Thought has to be given as to how these costs are to be managed and the effect they would have on the pricing point," commented Azlin.

As discussed above, grants and incentives will help offset the costs of switching to green and the costs of implementing transparent and independent review processes. Securities Commission Malaysia's expansion of the Bond Scheme grant enabling eligible SRI-linked Sukuk issuers to offset up to 90% of external review costs to the new maximum of RM300,000 is welcome news. Lastly, these review bodies should be given power to enforce breaches as well as continually update the market on required practice based on changing international market and scientific conditions.

Call to action

- Implement mandatory detailed reporting on sustainability performance and targets.
- Develop independent reporting bodies that can continually update and instruct on guidelines and changing conditions.
- Implement legislation that penalizes greenwashing and incentivizes compliance with reporting bodies.

The dynamics, challenges and potential for Islamic green finance and Sukuk

Oussama Kaissi, CEO of the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), writes that the shift toward increasing investment and financing to support a sustainable and inclusive development agenda has progressed steadily over the last two decades. These are in line with achieving the targets set by the 2015 Paris Climate Agreement of Net Zero Carbon Emissions by 2050 and the 17 UN SDGs by 2030.

During this time, a body of converging financing initiatives, sometimes termed blended finance, continues to gain traction in global markets to support transformation toward a green economy. They include ethical, green, sustainability and ESG finance, green, social, sustainable, and sustainability-linked (GSSS) bonds, socially responsible investments (SRI), and, of course, faith-based alternative financial intermediation, of which Islamic finance is the pre-eminent example in terms of market size, depth, and range of instruments, including Sukuk.

The broad scope of these initiatives involves financing investments that generate just benefits to the environment, society, equality, and diversity with the aim of achieving inclusive, resilient, and sustainable development. These initiatives have essentially become a core new component of economic, financial, and social inclusion.

Against a global background of a stalled recovery or 'normalization' from the ongoing COVID-19 pandemic, and even before events in Ukraine unfolded, the global economy had already shown signs of large-scale shocks, including rising fuel and food prices and inflation, subdued GDP growth, a cost-of-living crisis, burgeoning unemployment, and sovereign debt levels which have seen six countries default thus far in 2022, rising levels of inequality and food and energy insecurity and poverty – all of which have intensified underlying vulnerabilities in emerging markets and developing economies, many of which are member states of the IsDB Group.

Not surprisingly, dealing with the above impacts is a global policy priority, especially in the transition to clean and just energy, in resilience in climate adaptation, in promoting food security and in better health systems.

Regulators all over are rushing to adopt sustainable and green finance taxonomies and are rewriting the playbook for political and market demands that companies report their environmental and social impact. The EU introduced Phase l of its Sustainable Finance Disclosure Regulations (SFDR), requiring asset managers and financial advisors to reveal ESG information to encourage more private funds into green investing and to pre-empt green and sustainability washing.

Judging by the rhetoric of aspiration tempered with desperation emergent from the final hours of COP27 [the 27th UN Climate Change conference] negotiations in Sharm El Sheikh, that holy grail toward meeting the Paris and SDG targets remains elusive. Even the proposed new funding arrangement on loss and damage – a pooled fund for countries most affected by climate change – has failed to see even a single dollar of commitment and comes with too many unknowns.

What was bereft in the COP27 text was no progress nor follow-up on phasing out fossil fuels, especially coal and crude oil, and no mention of emissions peaking before 2025, as the science tells us is necessary. Instead, there is a sharp U-turn in the language around fossil fuels, which now refers to "low emission and renewable energy" that could allow for the development of further gas resources, as gas produces less emissions than coal.

"The world needs some US$90 trillion worth of infrastructure investment by 2030 and US$5-7 trillion annually to meet the SDG targets by 2030 – but there is a persistent financing gap of US$2.5 trillion each year"

Even climate activists are divided – some believe that the goal of achieving 1.5C is on 'life support', while others optimistically stress that "the spirit of 1.5C is strong, even if the COP27 final text is weak".

The figures on gaps in SDG financing, climate financing, related infrastructure, food security, rebuilding health systems, and social safety nets are piling up into trillions of dollars over the next five decades. Public investment through national budget allocations can only meet some of the rising costs. Much will have to come from private investment, blended finance, public-private partnerships (PPPs), philanthropy, and innovative new structures

Oussama Kaissi, CEO of ICIEC

with requisite risk mitigation and credit enhancement wraps provided by export credit agencies and credit and investment insurers.

Business case for green finance

As a signatory to the Principles for Responsible Insurance (PRI) and the ICIEC being the only Shariah compliant multilateral insurer, sustainable investment is firmly embedded in our due diligence process through linking all new business and other queries with SDG, food and energy security, and climate action indicators.

Insurers are regarded as green economy enablers because they are also risk absorbers. According to Fitch Ratings: "A long-term investment focus means insurers are well placed to channel investment into infrastructure projects, notably in renewable energy. Insurance solutions can reduce risks inherent in infrastructure projects and increase their attraction to investors. The ability to help channel investment into sustainable projects is a sizeable growth opportunity for the sector."

The business case for increased green finance is clear. According to the UN and IMF, the world needs some US$90 trillion worth of infrastructure investment by 2030 and US$5-7 trillion annually to meet the SDG targets by 2030 – but there is a persistent financing gap of US$2.5 trillion each year. As such, the issuance of green, social and sustainable debt instruments have proliferated. In 2021, a record US$1 trillion of green, social, and sustainable bonds were issued globally. This figure, according to the EU, has already surpassed US$2 trillion by October 2022.

A lagging Islamic green finance and Sukuk footprint

In contrast, total green and sustainable Sukuk, according to Fitch Ratings, reached US$15 billion in 2021, led by sovereign and corporate issuers in Indonesia, Malaysia, and the GCC states. Core Islamic finance markets, however, have failed to capitalize given that Sukuk remains the preferred format for ESG-linked debt in these markets. According to the IMF, climate Islamic finance (in the form of green Sukuk issuance) stood at US$2.56 billion in 2020. It fell to US$869 million in 2021, even as global green Bond issuance rose to US$517 billion in 2021 from US$297 billion in 2020.

In a recent paper on mobilizing private climate finance, the IMF maintains that "despite the constraints and risks, there are several opportunities for private sector finance to play a bigger role in climate finance, including through employing new innovative financial instruments. Several financial tools have already been used in climate financing in recent years, including commercial bank lending with climate considerations, green bonds and green loans, sustainability-linked bonds and sustainability-linked loans, social bonds, green asset-backed securities, private equity and venture-based investments in climate-related companies, and others. Green Sukuk that were first launched by Malaysia in 2017 and were used to exclusively finance green projects, have seen issuances in a few countries over the past few years, including Indonesia and the UAE."

Similarly, the global Islamic finance industry, according to S&P Global, is projected to have assets under management (AUM) in excess of US$3.6 trillion by 2025. And yet, the industry's green, ESG and sustainable finance footprint lag significantly compared with the conventional finance industry.

Paul Horrocks, the head of the private finance for sustainable development unit for the OECD, and Alissa Kruger, a policy analyst in the same unit, in a recent article on how GSSS bonds can be important blended finance instruments that can effectively support the SDGs through scale and impact, noted that: "Global Islamic finance with a total market value of US$2.2 trillion, is considerable and supports the financing needs of approximately a quarter of the world's population. The Middle East, Africa, and South Asia (MEASA) region plays a key role in driving its expansion.

"The industry-wide growth means that the global value of Sukuk issuances is expected to have reached US$155 billion in 2021, up from US$149 billion in 2020, as both corporates and governments tap into Islamic finance. S&P highlighted in its recent report the likelihood of more frequent issuance of dedicated social Islamic finance instruments and green Sukuk as the financial actors in the region further align with ESG values to be significant. This is also in keeping with the agenda of many countries that use Islamic finance towards an energy transition pathway."

Across the Islamic finance industry region, there have been some green Sukuk transactions, including in countries such as Indonesia. However, they maintain that "for a long-term market to be established and for greenium levels to develop in regard to pricing a number of factors will need to be put in place such as the right regulatory framework, a flow of transactions by both sovereign and corporate issuers and awareness and interest by private sector investors in GSSS bonds." Greenium, or green premium, here means the saving an issuer can enjoy on its cost of borrowing, because it is issuing a green bond – or other green instruments such as Sukuk – rather than a conventional instrument.

The consensus is that the potential for Sukuk in funding sustainable investment and infrastructure development is huge. The questions remain: why are the issuance volumes, its regularity, product diversity, market depth, and reach muted, given that the rhetoric of aspirations is so loud and clear? How can the issuance of green Sukuk be impactfully upscaled through facilitating government and institutional policy commitment, political will, best practice enabling regulatory frameworks for issuance, product innovation, market education, risk mitigation solutions, disclosure standards, inadequate independent data flows, poor messaging, and fragmented communications?

Islamic finance and sustainable investment have connectivity steeped in our faith principles. To gain traction in green finance and Sukuk, we need to reset the industry's role to achieve greater policy coordination, the structure of processes, standardization of taxonomies, and regulatory, reporting and disclosure standards. The OIC, the IsDB, and the Islamic finance industry are in urgent need of a unified Islamic green and sustainable finance and investment vision 2050, of which a holistic Shariah compliant taxonomy and roadmap for sustainable and green finance must be a central plank.

Currently, the Islamic green finance and Sukuk ecosystem is too piecemeal, fragmented, and ad hoc, underpinned by unreliable, dated, non-independent, and, in many instances, incomplete and unverifiable data, which makes investment decisions even more difficult.

Green shoots of hope

The ethos of Islamic finance, especially the principles of Fiqh Al Muamalat (Islamic principles relating to financial transactions), in general, is consistent with the objectives of the SDG agenda, climate action, ESG, poverty alleviation, gender empowerment and equality, and food security to promote the wellbeing of citizens.

Green finance has essentially become a core component of economic, financial, and social development and inclusion. Regulators and corporates all over are rushing to adopt green finance taxonomies and frameworks and are rewriting the playbook for political, market, and societal demands that companies report their environmental and social impact. Islamic green finance has the same aspirations. The stark reality is that all governments, irrespective of economic status, cannot afford to finance pre-emptive and mitigation initiatives out of national budgets alone and will rely heavily on contributions from multilaterals and, in particular private investment, which is seen to be the major driver of sustainable development action.

Islamic finance is increasingly adopting sustainability criteria, so it is well-positioned to maximize social impact and address the SDGs. "The SDGs require unprecedented mobilization of funds to support their implementation. Islamic finance, with its focus on the real economy, offers an effective non-traditional means of financing sustainable development activities and projects in developing countries. Many countries have started to reap the benefits offered by Islamic financing options, which lowers their debt-to-equity ratios for capital-intensive projects. Over the next few years, Islamic finance will be considered as one of the primary financing strategies, especially for Egypt," stressed Dr Hala El Said, the Egyptian minister for planning and economic development.

> ***ICIEC actively targets real impact and change in all its financing, insurance policies it underwrites, and projects it supports, and acts as a catalyst for private sector capital mobilization toward achieving the SDGs***

The pandemic also focused attention on SDG, ESG, SRI, Sustainability, and ethical finance, and the agenda was also promoted by Islamic finance markets. Moody's Investors Service, in a recent survey of GCC fund managers, forecast strong growth over the next year, supported by growing demand for Islamic products and ESG investment.

Green Sukuk issuance will accelerate as governments promote sustainable policy agendas and as demand for sustainable investments encourages new issuers to consider green Sukuk as an alternative financing tool. According to Fitch Ratings, the volume of green and sustainable Sukuk outstanding increased by 31.7% in the first quarter of 2021 to reach US$11 billion, representing 9% of the total Sukuk portfolio. There has also been a measured proliferation of ESG funds, Waqf-featured funds, and leveraging Islamic philanthropic instruments such as Zakat, Sadaqah, and Waqf for the development of the Islamic social finance sector.

The IsDB Group is a major player in contributing to the sustainable finance ecosystem. The ICIEC, the group's insurance arm, has proposed the establishment of a Climate Action Finance Trust Fund with institutional partners, peer multilaterals, and export credit agencies in the member states and beyond, which would offer a discount to the insurance premiums needed for the financing of climate action projects in the member states that are not investment grade.

ICIEC actively targets real impact and change in all its financing, insurance policies it underwrites, and projects it supports, and acts as a catalyst for private sector capital mobilization toward achieving the SDGs. Cumulatively, over 28 years, the ICIEC has insured more than US$92.4 billion in trade and investment and US$1.3 billion in support of foreign direct investment at the end of October 2022. Its activities were directed to specific sectors – US$37.2 billion to energy, US$26.1 billion to manufacturing, US$6.3 billion to infrastructure, US$2.3 billion to healthcare, and US$1.5 billion to agriculture. The IsDB Group's current renewable energy financing totals about US$3.4 billion, and the ICIEC, as the group's insurance arm, has provided US$470 million in insurance for renewable energy projects in member states.

Moodys', in its 2022 Islamic finance cross-sector outlook, maintains that it expects the Sukuk market to remain on a positive growth trajectory in the long term, mainly driven by the entrance of new participants to the market, combined with and supported by rising demand for green and sustainable Sukuk.

"We expect green Sukuk issuance will also accelerate as governments promote sustainable policy agendas and demand for sustainable investments encourages new issuers to consider green Islamic instruments as a financing alternative. In addition, Sukuk instruments already fill some of the ESG requirements and make them even more compatible with sustainable investment. Increasing appetite for such instruments is underpinned by the strong growth of green and sustainable Sukuk in the last five years, with issuances nearing US$8 billion in 2021 compared with less than US$1 billion in 2017."

New issuers seeking to diversify their funding sources are also joining the market as Sukuk becomes widely accepted. The low penetration rate of Islamic products in several Muslim-majority countries also offers additional growth opportunities for Sukuk. This potential, says Moody's, has been identified by several governments across the MENA and Southeast Asian regions, who have accordingly implemented favorable regulations and issued sovereign Sukuk to support market growth.

This is particularly true in the case of Turkiye, where the authorities have played a prominent role in the creation of

Islamic banks and taken on issuing Sukuk on a regular basis. It is also the case in Saudi Arabia, where the government used its debt refinancing in the 2022 financial year as an opportunity to further increase the share of Sukuk in its debt mix, although the Kingdom has yet to issue a sustainability or green Sukuk.

"It is important to note that most Muslim-majority countries benefit from strong demographic and economic growth potential that will provide Islamic debt markets with a growing economic base to continue to expand in the coming years. The global Muslim population is projected to rise from 25% of the world's population currently to 30% in 2050," observed Moody's.

> ***There is much aspirational rhetoric about green Sukuk and its faith-based ethos and suitability to SDG and sustainable finance, but unfortunately, it is not matched by market activity in the 57 member states of the IsDB***

Green Sukuk market activity in 2022

Sukuk issuances linked to sustainability, ESG, SRI, and green finance continue to gain momentum in the global Islamic capital market, albeit the pace, size, and diversity of Sukuk structures need to be far more urgent given the huge challenges OIC states are faced with in terms of climate adaptation costs and finance and transition to just clean energy.

Sukuk, according to the G20, has a huge potential to finance climate-related projects, especially in key sectors, including infrastructure, renewable energy, primary healthcare, and agriculture.

The green Sukuk market is nascent and despite its alignment with the principles of Islamic financial intermediation, it has been slow to take off on any meaningful growth trajectory.

There is much aspirational rhetoric about green Sukuk and its faith-based ethos and suitability to SDG and sustainable finance, but unfortunately, it is not matched by market activity in the 57 member states of the IsDB. Not surprisingly, projections of its growth trajectory are equally optimistic. The Islamic Finance Council UK (UKIFC), for instance, estimates "an additional US$30-50 billion of capital towards the SDGs can be raised by 2025 through green and sustainability Sukuk. This will require focused efforts and targeted initiatives by institutions such as United Nations Development Programme, PRI and the IsDB along with multiple governments".

The reasons for this green Sukuk inertia are manifold – Sukuk policy deficit from governments, absence or dearth of green Sukuk issuance frameworks and enabling legislation, lack of secondary trading of Sukuk certificates due to limited listings in stock exchanges, lack of awareness in general of the green debt market, risk averseness of issuers, lack of market makers – both sovereign and corporate, the need for third party certification of the green asset pool, lack of suitable assets to securitize and political and ideological reluctance to allocate state-owned assets to Sukuk asset pools, the unfamiliarity of large swathes of sovereign and corporate issuers with Sukuk structures albeit this is steadily receding through market education and technical workshops, lack of credit enhancement and third party guarantees especially for developing countries' issuers which are not investment grade rated, a limited investor base and failure to democratize Sukuk issuances by also making them accessible to ultra-retail investors.

Green Sukuk have been issued for a few years now, pioneered by Indonesia, the most proactive sovereign issuer of green Sukuk. Similarly, Malaysia, Turkiye, Pakistan and a host of multilaterals such as the IsDB, banks, corporates, government-linked companies have issued green, ESG, SRI, and sustainability Sukuk in the last few years.

Jakarta's latest offering in June 2022, a two-tranche US$3.25 billion Sukuk Wakalah, according to the Directorate of Islamic Financing at the Directorate General of Budget Financing and Risk Management, Indonesian Ministry of Finance, is the largest single global green Sukuk transaction ever issued by the Republic. The issuance comprised a US$1.75 billion five-year tranche maturing in June 2027 and a US$1.5 billion 10-year year (Green) Reg S/144A Trust Certificate tranche due in June 2032. The proceeds from the green Sukuk, according to the Directorate General, "will be used to finance or refinance expenditure directly related to 'eligible green projects' as defined in Indonesia's Green Bond & Green Sukuk Framework".

We have also seen small green Sukuk issuances in Türkiye, Malaysia, and South Africa in the agricultural, construction, and renewable energy sectors.

Global Sukuk market dynamics

Refinitiv projects a stable outlook for Sukuk supply despite global headwinds. "Following a five-year record streak," stresses Refinitiv, "global Sukuk issuance is set to moderate in 2022. The Refinitiv Sukuk supply and demand model projects Sukuk issuance to settle at US$185bn by the end of the year. Sukuk supply, as defined by the total Sukuk outstanding, reached US$726.8bn in FH 2022 and is projected to increase to US$742.3bn by the end of the year. Refinitiv projects Sukuk issuance to grow at an estimated compounded annual growth rate of 6.8% over the next five years, reaching US$257bn in 2027. The size of the Sukuk market is expected to reach US$1.1 trillion in 2027, growing at a compounded 7.9% annual growth rate.

It maintains that new issuers seeking to diversify their funding sources are joining the market as Sukuk becomes widely accepted. It predicts that the issuance of Green Sukuk will also accelerate as governments promote sustainable policy agendas and demand for sustainable investments encourages new issuers to consider Green Sukuk as an alternative financing tool.

Sukuk regulatory resilience

The main regulatory development governing SRI and sustainability Sukuk in 2021 thus far has been the SRI-linked Sukuk Framework launched in June by the Securities Commission Malaysia (SC) to facilitate fundraising by companies in addressing sustainability concerns such as climate change or social agenda, with features that relate to the issuer's sustainability performance commitments. With the accelerated shift toward developing a climate-resilient future, high-emitting industries are at a high risk of being phased out. The SRI-linked Sukuk will enable companies in these, as well as other industries, to transition into a low-carbon or net zero economy.

The new framework is an extension of the initiatives under the SRI Roadmap that was introduced in 2019 to broaden SRI product offerings. More significantly, this initiative reflects the SC's commitment to expand the reach of the Islamic capital market (ICM) to the broader stakeholders of the economy and build an enabling ICM ecosystem for the sustainability agenda. According to SC Chairman Dr Awang Adek Hussin: "The SRI-linked Sukuk Framework will encourage the greater mobilization of the private sector and issuers' financing toward sustainable development and meet the increasing global demand for sustainable financing. This is in line with the initiatives outlined in Capital Market Masterplan 3 to reinforce Malaysia's value proposition as the regional center for Shariah compliant SRI."

The SC recognizes that there are significant opportunities for the market to attract a more diverse issuer and investor base and undertake a wide range of sustainable projects. Malaysia is currently one of the top hubs for sustainable and responsible investment in the world, especially in the Shariah complaint space, in which social and financial inclusion values and goals are firmly embedded, in addition to the market and financial returns. Measures to grow the domestic SRI ecosystem focus on enhancing awareness and appreciation of sustainability and facilitating green and SRI product offerings. As such, the SC recently released a consultation paper on the principles-based SRI taxonomy for the Malaysian capital market.

Mortgage securitization – Sustainability and green Sukuk for housing

Affordable housing stock and concomitant mortgage finance is a major social and economic development deficit in all economies partly because of aberrant housing policies, which has seen the sector starved of investment, demographic changes, an over-concentration on a high-end luxury development, and the vagaries of the mortgage finance market in changing interest or profit rate environments. The flip side to the housing and mortgage market is mortgage securitization, of which Cagamas, the National Mortgage Corporation of Malaysia, is one of the most prolific issuers of Sukuk (and conventional bonds), including sustainability, SRI, and green Sukuk.

Proceeds from Cagamas's Sukuk are used to fund purchases of eligible housing assets from the financial system by issuing bonds or Sukuk. Cagamas is by far the most experienced and prolific issuer and originator of Sukuk and continues to be an innovator in the mortgage finance and securitization market. In the last two years, the corporation has enhanced its green and sustainability Sukuk issuance credentials. In early November 2022, Cagamas issued a RM500 million (US$108.7 million) ASEAN social SRI Sukuk through a private placement.

"The social SRI Sukuk demonstrates our continued efforts to facilitate an emerging sustainable asset class and to promote the growth of a sustainable market ecosystem," explained Chung Chee Leong, the president and CEO of Cagamas.

Sukuk guarantees and credit enhancement

Credit enhancement and third-party guarantees are virtually bereft from the Sukuk landscape, at least in terms of potential demand. A major development, however, is the imminent role of ICIEC's Sukuk Insurance Policy (SIP) for a project in Sharjah. SIP is a credit enhancement and third-party guarantee instrument aimed initially at promoting sovereign domestic issuances by member states that are rated below investment grade. The SIP allows issuers to better attract capital for 'green' projects. The SIP is valuable for issuers in low-income and developing member states, which are below investment grade rated and consequently attract less private capital for sustainable development projects.

The rollout of SIP could expedite the issuance of sovereign and quasi-sovereign issuances, especially from the least developed ICIEC member states in Asia and Africa, which can then be extended to corporate offerings, bearing in mind the credit enhancement base is very low.

The only institution that has guaranteed Sukuk issuances in 2022 thus far is Danajamin Nasional, Malaysia'a first financial guarantee insurer. KAB has four guarantee products, including a Green Technology Financing Scheme, which is intended to encourage SRI that achieves green, social, and sustainable standards in Malaysia. To date, Danajamin's financial guarantees have assisted 48 issuances, with a total guaranteed size of RM11.4 billion (US$2.58 billion). The total market impact of these deals, through risk-sharing collaboration with partner banks, stands at RM24.2 billion (US$5.48 billion).

Resilience tempered with the rhetoric of aspiration

The Islamic finance industry has shown remarkable resilience in the wake of global uncertainties over the last three years, especially in its response to the COVID-19 pandemic and in its growth trajectory. This trend is especially encouraging in the two largest Islamic finance markets by far – Malaysia and Saudi Arabia. The importance of the Islamic banking industry to the economy cannot be overstated. In Malaysia, for instance, the industry contribution to the national GDP in 2021 totaled 1.23%.

The growth dynamics suggest an upward trajectory over the next few years. S&P Global projects the industry to reach assets under management (AUM) of over US$3.6 trillion by 2025. Refinitiv, in its Islamic Finance Development Report 2021, reports a steady increase in total AUM from US$2.96 trillion in 2019 to US$3.37 trillion in 2020 to reach a projected US$4.94 trillion in 2025.

In Malaysia, according to Bank Negara Malaysia (BNM), Islamic financing in 2021 totaled US$198.88 billion – up from US$183.36 billion in 2020. This trajectory continued in the first four months of 2022 when Islamic banking assets of the total banking system assets reached 30.42% compared with 30.66% at the end of December 2021. Total Islamic banking AUM at the end of April 2022 reached US$219.56 billion – up from the US$214.48 billion at the end of 2021. In Saudi Arabia, Islamic banking AUM is well on its way to breaking the US$1 trillion barrier. According to the Saudi Central Bank, Islamic AUM reached over US$565 billion in the first quarter of 2021.

The green and climate taxonomy conundrum

While several OIC member states and corporates are starting to adopt green taxonomies and ESG and climate action frameworks and strategies, they remain 'works in progress.' Climate action – finance, mitigation, and adaptation, is hampered by a cornucopia of structural constraints, apart from the usual lack of resources, policy deficits, lack of technical expertise and the market vagaries of decarbonization, carbon pricing, capture, and storage.

A forum organized by OMFIF, the UK-based independent central banking think tank, identified several constraints, including "unnecessary bureaucracy", excessive risk aversion, lack of harmonization of disclosure standards for sustainable finance, proliferation of worldwide fragmented green taxonomies for guiding sustainable investments, and the need to achieve an appropriate framework for public and private investors and financial institutions to channel private investments into the vast opportunities for sustainable and green finance.

Worldwide regulatory agencies need to harmonize disclosure standards for sustainable finance to reduce unnecessary bureaucracy and maximize capital flows into investments countering climate change. Currently, there are several different definitions of ESG, sustainable investments, and impact investment. Similarly, the proliferation of worldwide taxonomy schemes for guiding sustainable investments is causing confusion and inefficiency. What is required is a regulatory system that is diverse enough to handle the complexity of sustainable finance initiatives and the multiplicity of organizations promoting them yet sufficiently simple to improve transparency and enforceability.

The danger, according to the forum consensus, is that a failure to harmonize climate action regimes and green taxonomies may lead to competition between jurisdictions and some investors migrating to regions such as the US and Asia, where opportunities for scaled-up investment may deemed to be greater and perhaps even more lax.

Malaysia, which is well into developing its own comprehensive green and climate taxonomy both under its own national strategy and under an ASEAN initiative, is strongly promoting climate action reporting by the financial services industry. The Joint Committee on Climate Change (JC3) of BNM and the SC, for instance, reviewed in August the progress of financial institutions, including the countries 14 or so Islamic banks, are making in strengthening their response to climate risk. The two regulators have launched the Climate Change and Principle-based Taxonomy (CCPT), under which financial institutions are required to transition to the taxonomy and to report their progress toward achieving this.

JC3 is also cooperating with Capital Markets Malaysia, an affiliate of the SC, to develop an ESG disclosure guide tailored to Malaysian SMEs. The SC also released a consultation paper on the principles-based SRI taxonomy for the Malaysian capital market. The SRI taxonomy aims to guide companies with transition finance needs, facilitate investment allocation and promote the growth of SRI assets. In terms of Islamic social finance, there was continued traction in Waqf-featured funds, thus providing investors with an instrument to achieve both financial and socially impactful outcomes.

Sustainability and climate action for OIC member states is a complex policy challenge. Most OIC member states face particular climate threats due to declining agricultural productivity, weather volatility, and receding water levels and quality. These threats are exacerbated in some countries by political instability, conflict, corruption, and low adaptation capacities due to technological and financial impediments.

Together they make member states most vulnerable because of their dependence on high climate-sensitive natural resources. Many OIC states are primary commodities producers and processors, including oil, gas, coal, palm oil, and other agri products. Transitioning to clean energy will be a difficult and lengthy process.

> ***Philanthropic capital can contribute effectively toward climate change mitigation and adaptation, especially through PPP mechanisms and related projects***

As such, the transition has to be well thought out and pragmatic, balancing the demands of climate change with those of economic development agendas and resource mobilization. The arbitrary divestment and decommissioning of the above sectors are not realistic because of the devastation it can potentially cause to the economy per se and its resultant impact on the lives and livelihoods of the
the general public may be bigger than the actual disruption caused by climate change itself.

It is not surprising that the Islamic finance industry, like the mainstream sector, is subject to the same unintended anomalies or dichotomies.

Sustainable commodity and retail finance

Commodity Murabahah and retail finance are the two largest directions of financing in the global Islamic finance sector. While there is no reliable aggregate independent, up-to-date data about the volumes directed towards that corpus of financing called Islamic ESG, SRI, green, ethical and sustainable finance, some ad hoc financings continue to flourish in the market.

In September, for instance, Saudi Arabia's Al Rajhi Bank, successfully concluded a three-year dual-tranche US$1 billion sustainability commodity Murabaha facility, which will be directed toward sustainability financing for corporate clients and projects. This transaction is considered as the largest Shariah compliant syndication in the Middle East that complies with ESG standards and practices.

The fact that the Murabahah syndication was well received in the international and regional markets with the orderbook well oversubscribed, which prompted Al Rajhi Bank to upsize the value of the facility from the initially offered amount, suggests a strong latent investor appetite for ESG and climate related offerings. The transaction is the first ESG syndication in accordance with the bank's sustainable financing framework, which was established to facilitate the financing in accordance with global ESG standards and principles.

In the retail sector, Affin Islamic Bank recently launched the AFFIN Solar Financing-i product, a first-of-a-kind Shariah compliant sustainable and personal financing plan for the banks' retail customers to purchase and install solar photovoltaic System at residential and non-residential properties.

Philanthropy in the climate finance mix

Philanthropy is well entrenched in the ethos and playbook of Islamic finance. Waqf, Zakat, Sadaqah, Qard Hassan, Fidyah, and other instruments are well established, albeit their existence, structures, regulation, and oversight remain fragmented, sometimes politically abused, sometimes subject to mismanagement and even corruption – thus undermining their impact.

We are optimistically told that their aggregate AUM total billions of dollars. The reality is that despite various national, regional, and institutional attempts, there is still no reliable, independent central data repository to support the above claims.

Nevertheless, where Islamic philanthropy is active, it has managed in delivering impressive outcomes in primary healthcare, housing, MSMEs, education, gender empowerment and entrepreneurship, drug rehabilitation, financial literacy for children, and so on. The challenge is how these achievements can be upscaled into a coordinated regional and global initiative that capitalizes on resource mobilization, technical expertise, research and development, product innovation, governance, transparency, and so on.

Philanthropists globally are estimated to spend a total of US$730 billion each year on good causes, yet just 2% of this finds its way toward climate change mitigation. In the Islamic philanthropic finance space, the situation is no different. Philanthropic capital can contribute effectively toward climate change mitigation and adaptation, especially through PPP mechanisms and related projects.

AAOIFI keeps pace with sustainable financing developments

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is the leading international standard-setting body primarily responsible for the development and issuance of standards for the global Islamic finance industry. The specific characteristics of the Islamic financial transactions require standards that cater to the needs of the stakeholders. Therefore, 31 years ago AAOIFI was established to address challenges that face the Islamic finance industry. ZAHRA JASSIM writes.

AAOIFI's vision is to safeguard the integrity of the Islamic finance industry. This is primarily done through the standardization of best practices in Shariah, accounting, auditing, governance and ethics.

This article provides an update on AAOIFI's efforts and role in standardization and governance related to responsible financing, specifically, the progress and development of AAOIFI's Governance Standard on Responsible Financing.

Governance Standard 7 'Corporate Social Responsibility, Conduct and Disclosure for Islamic Financial Institutions'

In April 2009, AAOIFI issued Governance Standard 7 (GS 7) 'Corporate Social Responsibility, Conduct and Disclosure for Islamic Financial Institutions'. The Accounting and Auditing Standards Board started the standard development process in 2006 and multiple meetings were held to discuss the preliminary study and exposure draft.

The standard was developed to provide specific guidance to Islamic financial institutions (IFIs) to engage in productive corporate social responsibility activities and disclose the nature of these activities to their stakeholders. Given that there is no comparable standard specifically for IFIs, this standard is crucial for the preservation of the Islamic finance industry's reputation.

AAOIFI is aware of the fact the IFIs need to keep pace with the recent market developments to persist and thrive. In this regard, the AAOIFI Governance and Ethics Board (AGEB/board) approved the initiation of a governance standard on sustainable financing in 2020. More details on the role of the AGEB and the update of the standard development process will follow.

AGEB — introduction, formation and role

The role of governance is essential in ensuring that the underlying principles are implemented in line with global best practices. At the end of 2015, AAOIFI's General Assembly decided to establish a technical board for governance and ethics standards. The governance standards ensure that the implementation of respective standards is true to their purpose by translating theory into practice.

In January 2020, AAOIFI's Board of Trustees announced the formation of its new technical boards and the names of the appointed members for a four-year term.

For AGEB, AAOIFI has appointed 15 members from 11 nationalities, consisting of representatives of Islamic financial institutions, central banks and regulatory authorities, accounting and auditing firms, governance-related professions and the academia.

The newly formed AGEB held its first meeting on the 24th and the 25th March 2020 via video conference. As the main agenda item, the secretariat presented and the members discussed at length the board's strategy and the four-year plan related to development, dissemination and adoption of AAOIFI governance and ethics standards. The new plan included a number of new governance and ethics standards, as well as research projects within the scope of the board's mandate. The members also reviewed the existing projects in the pipeline and approved the overall work plan in addition to its plan for the year 2020. Moreover, working groups were formed from among board members to carry out the development process on these projects. Also, experts in the industry were nominated to be part of the working groups. The approved plan included the development of a governance standard on sustainable financing.

The development of a governance standard on sustainable financing

The need for a governance standard on sustainable financing

As a standard-setting body, AAOIFI is mindful that it needs to promote sustainable development in the industry by supporting IFIs in integrating sustainability in their business models by considering environmental, social and economic objectives.

The growing awareness and the urgent need to address the global sustainability issues have driven increasing numbers of IFIs to integrate environmental and social considerations into investment and strategic decisions. The board was of the view that a governance standard is needed to play a fundamental role in harmonizing the relevant practices.

Development process preview — MoU with RFI

Following the approval of the AGEB, the secretariat initiated the development process. In March 2021, AAOIFI signed an MoU with the Responsible Finance and Investment Foundation (the RFI Foundation). The RFI Foundation acts as a catalyst to link together Islamic and responsible finance, bringing the most valuable perspective from each to advance the adoption of responsible finance. Over the last months, several meetings were held between AAOIFI's secretariat and the RFI's management represented by CEO Blake Goud to discuss the development process.

During the meetings, it was agreed that the standard should focus on financing and investment activities. In other words, the plan is to develop a focused standard on the activities and the disclosure. The standard should focus on:

a) What is sustainable financing?
b) What are the features of sustainable financing?
c) What is the role of Islamic finance in sustainable financing?
d) What should be the disclosure requirements of sustainable financing?

After due deliberations, the first draft of the preliminary study was prepared to be presented to the relevant working group and board.

Development process preview — working group input

The working group of the governance standard on sustainable financing is chaired by Ibtihal Al-Shamali, the head of corporate governance (governance manager) at the Capital Markets Authority of Kuwait. It consists of 17 members from more than eight countries including the UK, the US, Turkey, Kuwait, Syria, Malaysia, Pakistan, Bahrain, etc.

The preliminary study was presented to the working group on the 15th February 2022. The members thoroughly discussed the suggested name, scope and main structure of the standard.

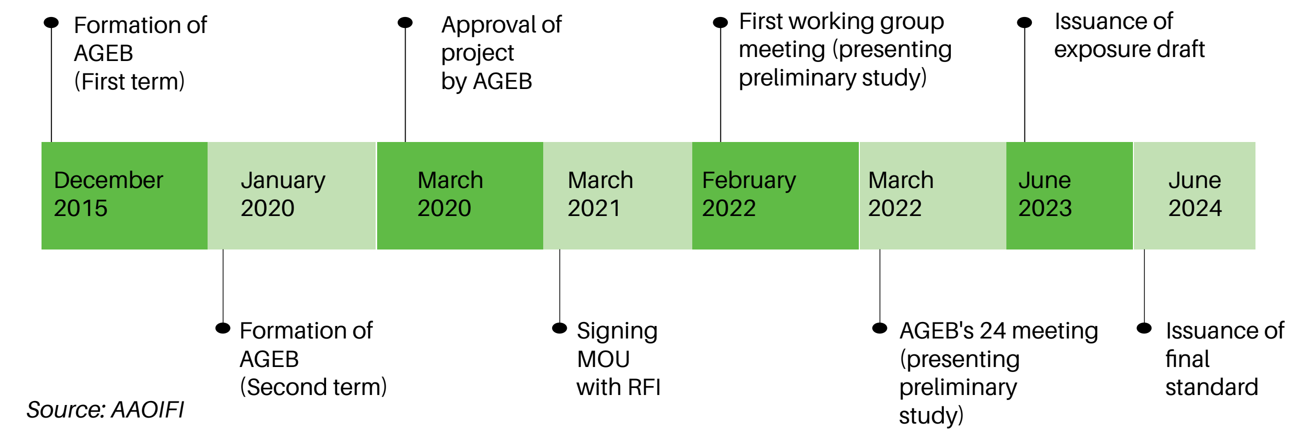
Multiple names for the standard were suggested including 'responsible finance' or 'sustainable finance' or 'impact investment'. After due deliberation, it was decided to use 'responsible finance'. The members were of the view that the term 'responsible' has an additional aspect which is

Table 1: AAOIFI's Contribution to the Social/ Responsible Financing field

No.	Standard	Issuing board	Years of development
1	Governance standard 7 "Corporate social responsibility, conduct and disclosure for Islamic financial institutions"	AAOIFI's Accounting and Auditing Board	2006-2009
2	Governance standard "Responsible Financing"	AAOIFI's Governance 2020-2024 and Ethics Board (AGEB)	2020-2024

Source: AAOIFI

Graph 1: Timeline for the Development Process of the Responsible Financing Standard



Source: AAOIFI

very specific to Islam and Islamic finance, which is the responsibility toward Allah.

With regards to the scope, given that GS 7 was issued in 2009, the members discussed whether the new standard should be comprehensive (includes content from GS 7) or replace GS 7. After lengthy discussions, it was agreed that this standard should be comprehensive.

The overall structure was also discussed. The members were of the view that social financing, UN Sustainable Development Goals and compatible financing should be considered. It was also agreed that the standard should cover investments, operations and strategies.

Other matters such as making sustainability reporting mandatory and adding requirements for auditors and rating agencies were briefly discussed.

The recommendations of the working group were minted to be raised and presented to the AGEB.

Development process preview — AGEB input

The preliminary study was presented to the AGEB in its 24th meeting held on the 3rd March 2022 via videoconferencing.

The secretariat presented two options for the members with regards to the development of the standard and presented the recommendations of the working group.

The board members agreed with the recommendation of the working group to turn GS 7 into a comprehensive standard that covers the existing content of GS 7 (and to update where necessary), in addition to the main aspects of sustainable financing.

AAOIFI's approach in writing this standard is to observe developments of sustainable financing in the conventional finance industry closely and carefully. Afterward, AAOIFI may adapt the goals to the extent in which they align with Islamic values, and in case of any violation of such values, AAOIFI can make its own intervention.

Development process — way forward and timeline

The secretariat and the RFI are working together to develop the first version of the exposure draft. During the second quarter (Q2) of 2023, the exposure draft will be presented to both the working group and the AGEB to be reviewed for issuance to the public. It is expected that the final standard will be issued in Q2 2024.

Conclusion

There is no doubt in the genuine integration of Islamic finance with responsible finance. The need to integrate sustainability is transforming business models and strategies and the relevant considerations have come to dominate many decisions in the past years.

We believe that the development of a new and comprehensive standard on responsible financing by AAOIFI is a timely initiative and will prepare the IFIs for the new age Islamic finance.

AAOIFI as a standard-setting body has been and will continue to take the lead in developing standards that will cater to the growing needs of Islamic finance markets around the globe to harmonize and standardize the Islamic finance industry practices in compliance with Shariah principles and rules.

Finally, as the Islamic finance industry gradually makes inroads into global economies, it will be important for the regulatory bodies, multinational financial institutions and global audit firms to adapt to such changes and developments.

Zahra Jassim is the executive manager of the Professional Standards Development team at AAOIFI.

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Sustainable and Responsible Investment (SRI) initiatives in the Malaysian capital market

2014

- Launch of the SRI Sukuk Framework
- Launch of FTSE4Good Bursa Malaysia Index
- Launch of the 5i-Strategy, an overarching framework for the development of the SRI ecosystem
- Issuance of Malaysian Code for Institutional Investors

2015

- First social impact sukuk issued in Malaysia, RM1b SRI sukuk utilized for education
- Introduction of Sustainability Reporting through Bursa Malaysia Listing Requirements

2016

- Tax incentives introduced for SRI sukuk issuers

2017

- Launch of Islamic Fund and Wealth Management Blueprint
- Issuance of Guidelines on SRI Funds
- Issuance of Malaysian Code on Corporate Governance (MCCG)
- Introduction of tax incentive for SRI funds
- Issuance of the world's first green sukuk in Malaysia under the SRI Sukuk Framework

2018

- Establishment of the Green SRI Sukuk Grant Scheme

2019

- Launch of SRI Roadmap for the Malaysian Capital Market
- SC and Bank Negara Malaysia (BNM) establish the Joint Committee on Climate Change (JC3)

2020

- Launch of Waqf Featured Fund Framework
- Establishment of the Centre for Sustainable Corporations and the Malaysian Sustainable Finance Initiative
- Launch of the SRI Center, a central repository on SRI sukuk and ASEAN bond issuances in Malaysia

2021

- Expansion of Green SRI Sukuk Grant Scheme, renamed the SRI Sukuk and Bond Grant Scheme
- Release of public consultation paper on Principles-based SRI Taxonomy
- Issuance of world's first sovereign US dollar-denominated Sustainability Sukuk by the Government of Malaysia
- Establishment of the Sustainable Investment Platform
- Launch of Capital Market Masterplan 3 (2021-2025) reinforcing commitment to climate action, and capital mobilization for transition to a low-carbon economy
- Launch of Bursa Malaysia FTSE4Good Shariah Index
- Launch of Climate Change and Principle-Based Taxonomy

2022

- Launch of the Financial Sector Blueprint (2022 – 2026), which includes integration of climate-related and environmental risks in prudential regulation and supervision
- Launch of the SRI-linked Sukuk Framework
- Issuance of the Guidance Note on Managing ESG Risks for Fund Management Companies
- Enhancement of Bursa Malaysia Listing Requirements on Sustainability Reporting

Sustainability and Islamic finance: Addressing regulatory and supervisory gaps

Transitioning to sustainable development economies and mitigating climate change are major issues that are currently at the forefront of the global consciousness. DR BELLO LAWAL DANBATTA, the secretary-general of the Islamic Financial Services Board (IFSB), explores the role of regulatory and supervisory bodies in supporting financial institutions through this transition.

In recent years, there has been an increase in the efforts to promote more sustainable development, both within the public and the private sectors, including through the financial markets, reflecting a growing recognition of the potential economic and financial impact of climate change and environmental, governance or social risks. Accordingly, investment instruments designed to be, or labelled as, sustainable has increased significantly in recent years.

Some jurisdictions, including core Islamic finance jurisdictions, are taking policy or regulatory steps to enhance the role of the financial system in the transition toward sustainable development. There has also been increasing recognition of climate-related risks as a source of financial risk that can affect not only specific firms or sectors but more broadly the stability of the financial system. This has increased the focus by prudential

regulators on these issues within their mandate of ensuring the resiliency of the financial system to material risks.

Islamic finance regulators can play a key role in the transition toward sustainable investments and a sustainable economy by promoting transparency in markets through the disclosure of material information that allows investors and market participants to identify and assess sustainability-related risks and opportunities and to make investment choices based on that information. Access to such information, when material, is fundamental for investor protection, efficient risk management and transparency. As the market for sustainable investing grows rapidly, such disclosures can become crucial for the credibility of investments that claim to pursue sustainability objectives.

These issues tie in with the IFSB's mandate of ensuring stability and resilience in the Islamic financial services industry. Sustainability issues in general, and the more specific climate-related issues, pose important challenges in meeting this mandate, in relation to how they are applied to the unique aspects of Islamic finance, making these issues highly relevant. In particular, given that Islamic finance instruments are structured differently from conventional financial instruments, and the additional layers of governance involved in Islamic finance, there is a need for identifying how principles related to sustainability apply to the peculiarities of Islamic finance.

With its real economy approach to financing, Islamic finance provides a strong proposition as a solution for achieving commitments under the climate change agreements as well as the UN SDGs. The principles of Shariah impose a positive obligation of enhancing welfare and preventing harm. This includes environmental stewardship and conservation, protection of human health and welfare, and economic inclusion. Accordingly, Islamic finance has embraced the trend toward sustainable investing, including increasing green and social Sukuk issuances by several originators both public and corporate as well as sustainability-related Islamic funds in some jurisdictions.

International guidance, or common frameworks on application of sustainable finance principles such as the work being done by the International Sustainability Standards Board (ISSB), can support the integrity of sustainable finance in Islamic finance. The IFSB's ongoing work in this area seeks to complement the work of the ISSB by recognizing the specific structural differences between the Islamic financial services industry and the conventional market. Adequately addressing the gaps in Islamic finance that are not addressed within conventional frameworks is important in encouraging the growth of sustainability-related Islamic finance products and providing the necessary confidence to the markets in Shariah compliant Islamic financing mechanisms.

The principles and recommendations for sustainable finance in the conventional market provide a relevant starting point for sustainable Islamic finance. However, although the conventional principles provide a baseline of procedures, there are Islamic finance-specific elements that warrant a separate set of procedural guidance. For example, one difference in procedures relevant to a green Sukuk offering is the requirement for Shariah opinion on the elements of the issuance. Another difference is the nuanced structural requirements of various forms of Sukuk instruments, including the role of trustees. There are other issues, such as the relationship between the underlying assets and the use of proceeds. For example, underlying assets that are detrimental to the environment cannot be used to fund a "green" project. The variety of configurations for sustainable Islamic finance instruments, as well as the different purposes for which the instruments are used, presents the need for a set of consistent procedural guidelines for sustainability-related practices and disclosures for Islamic finance.

The IFSB's standard-setting work in this respect aims to provide guidance and highlight best practices sustainability-related issues specific to the Islamic finance by providing guidance on unique sustainability-related issues, including regulatory and supervisory issues related to governance and structural differences in Islamic finance; providing guidance on sustainability-related disclosures requirements specific to Islamic finance; and promoting the harmonization of sustainability-related regulation and supervision across Islamic finance jurisdictions.

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Islamic sustainable finance has an opportunity to focus on the 'real economy' dimension of climate-related financial risks

With climate talks and the G20 both being hosted in Islamic markets this year, Islamic sustainable finance has a unique opportunity to extend the connection of Islamic finance as an integral part of the broader responsible finance market, according to BLAKE GOUD, CEO of RFI Foundation. Indonesia hosted the G20 and Egypt hosted COP27 [2022 United Nations Climate Change Conference] in 2022 and the UAE will host COP28 in 2023.

There has always been an opening for Islamic finance to thrive on the back of rising concerns for ESG issues, especially relating to climate change. Now that the forum for discussions around these topics is moving into Islamic markets themselves, Islamic sustainable finance needs to do more to seize this opportunity. The opportunity is amplified by regulators signaling their interest in climate-related risks.

For Islamic sustainable finance, the response to climate change starts with understanding where the risks are concentrated, but it should not end there. Islamic finance should look deeper than just the direct high-emission exposures in its own balance sheet and focus on everything it facilitates in the real economy which will be impacted by climate-related risks materializing. A focus on finance as a means to support the real economy rather than an end in itself will prove to become a valuable asset as climate-related risks become more embedded in regulation.

As a starting point, when a bank, investor or financial institution looks to define its risk from climate change or any other risk, it is reasonable to start by defining a threshold for when a risk factor becomes significant and then quantifying how and what types of exposures exist beyond that threshold. With climate change, this often takes the form of analyzing the sectors or customers receiving financing whose direct business exceeds a specific emission threshold.

However, this type of methodology is not very useful in fully appreciating the dynamic nature of climate-related risks, especially transition-related risks. The actions that would naturally follow from identifying the highest emission sectors would be to reduce the risks, often by exiting funding over time to reduce the exposure to the risk being managed. That will make a financial institution's metrics for financed emissions fall over time, which could benefit it directly, but on its own it will be an ineffective step for creating change within the real economy.

High-emission sectors account for a relatively small share of the total financing of banks. The share of 'green' financing for alternatives within those sectors is an even smaller share of their financing assets. By limiting most of their response to climate-related risks to these few sectors, and ignoring the interlinkages between high-emitting sectors and other sectors in the economy, financial institutions' power to fund the climate transition is limited unnecessarily.

One concern that may arise for financial institutions that recognize the real-economy linkages between high-emitting sectors and other sectors throughout a financial institution's assets is how to analyze the problem. Data is already scarce in most Islamic markets, and it can be difficult to get precise counterparty-level data on the direct emissions of high-emission sectors, let alone full value chain emission data.

That often leads to financial institution myopia toward climate risk focused only on the highest emitting sectors that are pulled to the top of the list for measurement purposes. However, for Islamic sustainable finance to step ahead, it should return to the focus on the real economy and recognize that even though precise data may be lacking, it can use the data that is available to improve the breadth of response to climate-related risks and commit to improving its approach progressively over time.

There are two reasons why this can be justified in practice. First, the Basel Committee on Banking Supervision has stated and reiterated that recognition of the data issue will lead to evolving practices. Most recently, in an **FAQ** on its earlier '**Principles of Effective Risk Management and Supervision of Climate-Related Financial Risks', the Basel Committee stated that** "the responses explicitly acknowledge data limitations and recognise practices will evolve iteratively over time [and they intend] to allow for flexibility while also encouraging banks to continuously develop their measurement and mitigation of climate-related financial risks".

Second, both the International Sustainability Standards Board (ISSB) draft Climate Standard and the Partnership for Carbon Accounting Financials (PCAF) set disclosure expectations that are broader than just direct emissions. For the ISSB draft standard, the 'financed emissions' disclosure requirement follows the GHG Protocol, which includes only customers' indirect emissions from purchased heat and electricity (customer Scope 2 emissions).

PCAF is broader in its expectation and, in addition to customer Scope 3 emissions, also incorporates in a phased-in way disclosures by financial institutions of customer Scope 3 emissions as well. Although those customer indirect (Scope 3) emissions are limited to only the customer's value-chain emissions from high-emission sectors, disclosure will expand over time. By 2026, PCAF signatories may be required to report financed emissions inclusive of all customer Scope 3 emissions.

Amid the concerns about data quality, there is a reasonable question about whether this expanded analysis as well as

Blake Goud,
CEO,
RFI Foundation

disclosure is feasible to expect. RFI Foundation has been researching the question about whether existing bottom-up data on financed emissions, and links between high-emission and other sectors, can be supplemented with top-down estimates across Islamic markets.

RFI's findings so far are that 'order of magnitude' estimates can complement bottom-up data available, and we have released reports summarizing findings relating to six Islamic markets and our work continues. But the importance should not be lost across Islamic markets, including Islamic financial institutions. The message from regulators and disclosure standard-setters is to extend focus on the entirety of the real economy and not just on portfolio metrics related to high-emission sectors only. That will require measurement and mitigation of climate-related impacts across their whole balance sheet and Islamic sustainable finance should view that as an opportunity.

Prior to joining RFI, Blake was the community leader for the Thomson Reuters Islamic Finance Gateway from 2012 to 2015.Blake has more than a 15 years of experience researching Islamic finance and working in a compliance and investment officer role in the finance industry. His published research covers a variety of topics in Islamic finance relating to ESG, social finance, climate-related risks, fintech and public finance. He received his Bachelor of Arts degree in economics from Reed College in 2003.

RFI FOUNDATION

Advancing climate finance in Malaysia: 2022 in review

Malaysia's climate finance ecosystem has seen significant development in the past 12 months, driven by political will, regulatory leadership and private sector actions. NAVINA BALASINGAM provides an overview.

Government-led initiatives

In September 2022, Malaysia's National Energy Policy 2022–2040 was launched reflecting the role of energy as a significant contributor to enable other key economic sectors to thrive. Embedded within this policy is the country's Low Carbon Nation Aspiration 2040 which seeks to achieve, among others, the following by 2040 (from 2018 benchmarks):

- Increase in percentage of the electric vehicle (EV) share from less than 1% to 38%
- Increase in total installed capacity of renewable energy (RE) from 7,597 MW to 18,431 MW
- Decrease in percentage of coal in installed capacity from 31.4% to 18.6%, and
- Increase in percentage of RE in the Total Primary Energy Supply from 7.2% to 17%.

In 2021, Malaysia strengthened its climate ambition by announcing its strongest Nationally Determined Contributions to date. Relative to 2005 levels, Malaysia now aims for an unconditional reduction in the economy-wide carbon intensity of GDP by 45% by 2030, a step up from the previous target of a 35% reduction.

The government is expanding existing funding programs and extending tax incentives to encourage the adoption of green technology in the country. It proposes to extend the application period for the Green Investment Tax Allowance and Green Income Tax Exemption to 2025 and to improve the Green Technology Financing Scheme (GTFS) by increasing the guaranteed value to RM3 billion (US$683.37 million) up to 2025, and expanding the scope of the guarantee to the EV sector. Financing guarantees for the waste management sector will be increased up to 80% under the GTFS.

The government has also announced its intention to introduce a carbon tax and examine the feasibility of setting up a carbon pricing mechanism.

The Malaysian government has successfully tapped into the domestic capital market in 2022 with an inaugural issuance of Sustainability Malaysian Government Investment Issues (Sustainability MGII) of RM4.5 billion (US$1.03 billion) in nominal value. Strong demand for the issuance was evidenced by the Sustainability MGII's oversubscription of 2.38 times.

Government-linked companies (GLCs) and government-linked investment companies (GLICs)

The government has launched a sustainability framework that requires GLCs and GLICs to set targets to achieve portfolios that are fully compliant with ESG standards as well as carbon-neutral operations. These entities will also be required to undertake green procurements worth RM330 million (US$75.17 million) to drive its sustainability agenda forward, as well as provide EV infrastructure in the country.

We are already beginning to witness traction in this space.

- National oil company PETRONAS has set up a subsidiary called Gentari to pioneer the clean energy industry in the country. Gentari is committed to installing solar panels at government and commercial facilities with a cumulative PV capacity of three megawatts, as well as providing 500 units of EV-charging facilities throughout the country by 2024.
- Tenaga Nasional, Malaysia's national energy company, is also committed to installing rooftop solar panels, as well as providing EV-charging facilities with an investment of RM165 million (US$37.59 million) until 2025 to support the government's sustainability agenda.
- Khazanah Nasional will provide RM150 million (US$34.17 million) for supporting the development of nature-based solutions for Malaysia's carbon markets ecosystem under its RM6 billion (US$1.37 billion) Impact Fund (Dana Impak).
- In 2022, the Principles on Good Governance for Government Linked Investment Companies were developed, setting the baseline governance and sustainability practices which consider the unique role and requirements of the different GLICs and their respective mandates, and aligning with global standards of good governance and sustainability and promoting accountability and transparency between the GLIC and its stakeholders.

Securities Commission Malaysia (SC)

Fundraising

The SC continues to prioritize the development of enabling regulations to further drive advancement in sustainable finance and investing.

In June 2022, it issued the SRI-linked Sukuk Framework and expanded the utilization of the SRI Sukuk and Bond Grant Scheme to include SRI-linked Sukuk issuances. The

framework aims to facilitate the use of Sukuk to meet their transition finance needs.

The SC recently issued the SRI Taxonomy, providing guiding principles in financing a credible transition. Importantly, the SRI Taxonomy includes social objectives, which is particularly significant in the context of ensuring a just transition.

Investing

At the same time, the SC also issued a guidance note on managing ESG risks for fund management companies (FMCs) to provide clarity and outline expectations for effective analysis and management of material ESG risks that are present in the FMC's investment portfolios.

In 2022, enhancements were made to the Malaysian Code for Institutional Investors (the Code), placing an emphasis on transparency of stewardship efforts and outcomes by introducing a Stewardship Spotlight, where signatories to the Code describe their stewardship actions and outcomes when talking to investee companies.

Corporate governance

The SC continues to focus on strengthening the corporate governance standards of listed companies through the implementation of its Corporate Governance Strategic Priorities (2021–2023).

On diversity, the SC has long prioritized better board diversity and the participation of women on boards, making it mandatory for all listed companies to have at least one woman director on the board, while encouraging a target of 30% women on boards of listed companies.

Bursa Malaysia

As the national stock exchange, Bursa Malaysia has long recognized the need to champion sustainability efforts of public listed companies (PLCs). In 2022, Bursa Malaysia launched a slew of ESG initiatives.

The Shariah compliant Voluntary Carbon Market exchange was launched in December 2022, enabling Malaysian companies to purchase voluntary carbon credits to offset their carbon emission footprint and to support financing for projects and solutions that reduce, remove or avoid greenhouse gas emissions.

Bursa also enhanced its sustainability reporting framework, requiring Main Market issuers to disclose climate change-related disclosures that are aligned with Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

In addition to existing ESG indices, this year it introduced the FTSE Bursa Malaysia Top 100 ESG Low Carbon Select Index and the FTSE Bursa Malaysia Top 100 ESG Low Carbon Select Shariah Index in partnership with FTSE Russell.

Bursa's ESG Advisory Service was launched in July 2022, designed to help small- and medium-sized PLCs improve their ESG disclosures and credentials by leveraging internationally recognized standards and peer learning of best practices from industry leaders.

Emphasis on the SME sector

Recognizing the significant role that SMEs play in Malaysia's economy, and the importance of SMEs within the supply chains of large organizations, the Ministry of Environment and Water Malaysia (KASA) and Capital Markets Malaysia (CMM) jointly launched a multiyear initiative to advance the adoption of ESG practices by SMEs in Malaysia. This includes several programs to build capacity among SMEs to become sustainable organizations and to be able to quantify and measure their carbon emissions.

KASA and CMM also plan to introduce simplified ESG disclosure guidance for SMEs. This will provide the baseline disclosures expected of SMEs in relation to ESG, and therefore encourage greater transparency on SMEs' ESG disclosures.

Bank Negara Malaysia recently launched the Greening Value Chain program aiming to assist Malaysian SMEs in implementing impactful, long-term change to green their operations. It has also allocated RM1 billion (US$227.79 million) toward a Low Carbon Transition Facility for SMEs to fund capital expenditure or working capital to initiate or facilitate the transition to low-carbon and sustainable operations.

Joint Committee for Climate Change (JC3)

In June, the JC3, co-chaired by the SC and BNM, released the TCFD Application Guide for Malaysian Financial Institutions which outlines key recommendations to facilitate the adoption of TCFD recommendations by the Malaysian financial industry.

The JC3 is also working to release a comprehensive data catalogue to address the data needs of the financial sector by pointing users to credible sources of critical climate data needed to support identified use cases.

Beyond initiatives by the government and regulators highlighted above are the numerous innovative ESG product and service offerings being developed by Malaysia's financial sector, both in the Islamic and conventional finance space. In achieving our 2050 climate ambitions, complementarity between government initiatives and policies and private sector actions will be crucial, and we must collectively move toward a whole-of-society approach to ensure this can be achieved.

Navina Balasingam is the general manager of Capital Markets Malaysia.

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Weighing up the conundrums of war and geopolitics through an ethical investment lens

With the world already undergoing critical changes off the back of the COVID-19 pandemic, Russia's invasion of Ukraine and the subsequent war in the country have set off a chain of events as many countries jostle for position in a power play dynamic. MAHIR JAKOET weighs in on how geopolitical uncertainties impact investment decisions.

As a result of these events, the global environment is currently one of accelerated inflation, where rising prices are straining the budgets of consumers. Monetary policies are being triggered to counter inflation, resulting in a greater debt burden for countries, while continued lockdowns, particularly in China, have created bottlenecks regarding supply chains. On top of this, geopolitical turbulence has led to countries focusing inward, resulting in a protectionist stance, which slows trade, decreases cross-border opportunities and keeps out foreign investment.

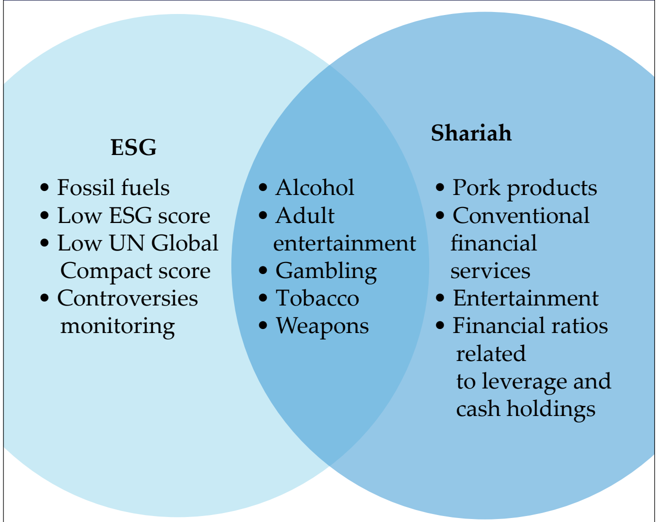
Within this context, investment professionals find themselves at a consequential moment, trying to navigate through a volatile global environment against the backdrop of the heartbreaking human suffering of the Russian-Ukrainian war, which will have significant and far-reaching consequences.

War and investment opportunity

The term coined in 1800, "Buy on the cannons, sell on the trumpets", attributed to London financier Nathan Rothschild, suggests that the start of a war is a good time to invest in the stock market, while the end is a good time to sell. Historical data shows that the start of most wars would be an opportune time to get into the stock market, bar one, the Yom-Kippur war, which occurred during a period of accelerated inflation and was also followed by high oil prices. This environment

Historical data shows that the start of most wars would be an opportune time to get into the stock market, bar one, the Yom-Kippur war, which occurred during a period of accelerated inflation and was also followed by high oil prices

Figure 1: Unpacking the Shariah/ESG and investment problem



Source: S&P Dow Jones Indices. Chart is provided for illustrative purposes. Screens shown are commonly used in ESG and Islamic index methodologies and do not reflect a specific methodology employed by S&P DJI.

rings a bell, and while the Russia–Ukraine war may prove to be different, it is having an ongoing impact on energy, global security and food security, with dramatic effects throughout the global economy.

Buying on the cannon certainly has credibility, but the investment opportunity from the Shariah and ESG vantage points is the challenge that we currently battle with. This is where we find investment and ethical stances at a crossroads.

While there is a strong intersection of Shariah and ESG investing, there are important differences. The broad definition of ESG investment is to observe, during investment decision-making, how ESG risks and opportunities can cause material impacts on a company's performance. Shariah investment, on the other hand, is based on Shariah financial principles of Islamic finance, which have remained unchanged historically since their development over 1,400 years ago. The universe excludes weapons, alcohol, tobacco, gambling, conventional financial services and pork — which are not considered problematic in general ESG strategies; however, it does not exclude fossil fuels. Ethical investing requires hard investment decisions, but we firmly believe that ethics, in line with ESG, needs to be incorporated into all investment processes as it is the right thing to do.

How has the war inflated the problem?

ESG investing increasingly sees environmental concerns intersecting with social issues. For example, two of this year's best-performing groups in global markets are energy (E risk) and defense (S risk), presenting challenges to the performance of an ESG-inclusive framework, which are exacerbated by increasing defense budgets and sanctions on Russian oil. Therefore, including ESG in an investment framework that underweighs/excludes fossil fuels and weapons may create more pain in 2022.

Geopolitical events present not just a performance conundrum for ESG-focused or ethical institutional investors, but a philosophical one as well, as the narrative around defense appears to be shifting from 'manufacturers of harmful weaponry' to 'preservation of human rights'. The current conflict has governments committed to spending more than 2% of GDP on defense and the Bank of America estimates that US defense spending could rise to at least 3.5%, reaching as much as 4% of GDP (from 2.8% currently).

Stick to your process and do the right thing

While the current war may have a more severe impact on many markets, many stock markets have already recovered to pre-invasion levels. Markets have been conditioned to react to geopolitical shocks and our investment process emphasizes quality companies anchored by robust balance sheets and high cash flow generation.

Our disciplined investment framework incorporates ESG in an already highly ethical universe (Shariah and ESG funds). We use a rigorous risk analysis process and partner with an in-house responsible investment (RI) team, which gives us incredible insights and a competitive advantage for our pursuit of investment excellence.

Our RI team provides granular ESG expertise and strong relationships with investee companies, coupled with active stewardship. This helps to see around corners and prepares the investment team and the broader business for possible dilemmas or challenges that may lie ahead. With their guidance, we regularly engage with companies to seek investments that provide our funds with an ESG profile premium and lower carbon footprint.

While the ESG process can be subjective, there is growing pressure for listed companies to adopt ESG approaches, which we believe will have structural tailwinds for these businesses in the hope of better performance over the long term.

Maahir Jakoet is a portfolio manager at Old Mutual Investment Group.

Fintechs in an ESG-focused world

Introduction

DDCAP Group (DDCAP), an industry-leading market intermediary and financial system solutions provider, connects the global Islamic marketplace responsibly via its proprietary system, ETHOS Asset Facilitation Platform (ETHOS AFP). DDCAP aspires to be a best-in-class responsible and sustainable fintech and supports awareness of the business and ethical case for responsible finance. DDCAP is headquartered in London with representative offices in the Dubai International Financial Centre, Manama and Kuala Lumpur, providing a global footprint and connecting into ESG initiatives across the GCC and Southeast Asia.

In tandem with its core offering, DDCAP seeks to invest within Halal economy businesses with exceptional fintech strategies. DDCAP's leadership believes that Islamic fintech SMEs like itself, and those within the wider Halal economy, have great potential to embed SRI practices across the wider industry and DDCAP sees such investments as a natural complement to its own ESG initiatives and industry goals.

Accordingly, DDCAP works to these same standards itself. Through DDCAP's Sustainable and Responsible Actions (SRA) Programme, by which ESG considerations are addressed, DDCAP has made the public commitment to develop a more sustainable, equitable and prosperous world and supports the view that those in business must adopt strategies to deliver not only financial results but also social and environmental outcomes. In furtherance of this, DDCAP became a service provider signatory to the UN Principles for Responsible Investment in 2016 and a stakeholder endorser of the UN Principles for Responsible Banking in 2020.

ESG considerations as a fintech

In the last few years, the world has had an awakening to the ESG agenda and, consequently, conversations have become more active and urgent around how businesses can intervene to ameliorate a growing number of issues. Within this dialogue are unique considerations for the potentially energy-intensive businesses of fintechs, as the digital world counts for 3% of global emissions (more than the global aviation industry). Such considerations have been central to building and developing DDCAP's automated platform, ETHOS AFP, to ensure that ESG principles are embedded across its functionality.

In 2021, DDCAP committed resources from its existing SRA governance structure to build upon its environmental achievements to date and develop a more formalized environmental policy to support both its commercial activities and internal operations. While DDCAP's progress in this area had already put it ahead of many of its industry peers, DDCAP recognized that focusing on an environmental strategy ahead of any government or regulatory requirements would enable DDCAP to:

- Potentially gain a competitive advantage from its SRA initiative
- Increase engagement with staff and raise its profile with potential new hires
- Preserve and promote its reputation as a 'first mover' in its space, and
- Prepare to engage with stakeholders and clients who are asking more questions, more frequently, about the sustainability of their value chains.

As part of this initiative, DDCAP achieved the following:

- Engaging a third-party service provider to assist in measuring its environmental footprint and in setting plans to monitor and reduce this footprint and improve ESG performance generally
- Forming an eco-partnership with a tree-focused charity to provide not only staff volunteering opportunities but also, through its carbon-offset program, the ability to offset its carbon footprint through the development of urban greenspaces in underprivileged areas and improving urban air quality
- Committing to renewable energy where possible. For example, DDCAP's London office uses only renewable energy and its hosted servers are supported through energy generated 100% from renewable sources, and
- Reviewing the carbon efficiency of the DDCAP Group websites as well as reviewing email etiquette and in-box maintenance policies to reduce preventable emissions.

Conclusion

DDCAP has 25 years of experience championing best practice and as part of its commitments made and achievements hard-won, DDCAP recognizes that it must continue these proactive steps to ensure that it continues its sustainability journey. For emerging fintech companies, they can leverage their own ability to respond to these issues by partnering with appropriately validated ESG-focused initiatives, whose services and actions align with their individual Shariah and responsible practices and can be shared with other participant firms practising within our wider industry to create capacity and scale. Together, existing leaders and new market entrants can support the broader Islamic finance industry to make the transition to a more ESG-focused way of business.

DDCAP Group™

Investors bet on alternatives and impact-focused opportunities as the world moves to sustainability and energy freedom

Bad news for markets is good news for alternative investments

A volatile stock market, four-decade high inflation, raising interest rates and geopolitical tensions this year have stunted the global market and contributed toward a dramatically changing role of alternative investments. Investors relying on the traditional game have experienced a serious decline in their portfolios and now have to refocus on alternatives to further diversify portfolios and protect against stubborn inflation and possible recession. While stocks usually go down during recession, alternative assets can successfully protect capital in down markets and potentially reduce overall portfolio risk as well as increase in value, which will provide steady income and maximize returns. In this light, why are they 'alternative'? These should be core investment opportunities particularly with the world focused on conversion to renewable energy and sustainability.

Impact-focused projects are just that, intended to make a difference; with global opinion looking for new technologies, the investment landscape is changing dramatically.

Focus on impact investing and green energy

Impact investing, defined as the intention to generate measurable social and environmental impact alongside a financial return, is on the rise. The Global Impact Investing Network estimated the global impact investing market to top the US$1 trillion mark. The enormous demand for impactful projects related to energy transition is fueled by new laws and regulations, carbon targets and shifting consumer behavior toward sustainability. However, despite the growth, there is still an enormous need for capital. Such shortage brings new investment opportunities in renewable asset classes, for example, green hydrogen.

Al Waseelah, a fully Shariah compliant Sukuk issuance platform, with the help of Shariah advisor Yasaar Research, has helped to create the Orestes Hybrid Hydrogen Opportunities, an actively managed impact portfolio of IPCEI-qualified companies that operate in green and turquoise hydrogen markets. IPCEIs are 'important projects of common European interest' and have been selected by the EU as companies which merit direct investment because of their potential for high impact.

The result? A Shariah compliant special purpose acquisition company-like portfolio which will use a green impact investment strategy to scale up the hydrogen economy. It is a market-first financial instrument dedicated to scaling up 'Hydrogen Valleys' in Europe by investing in emerging hygrogen tech (H2 tech).

Investing for energy freedom by 2030

The EU has established a first major goal to commercialize H2 tech in line with the European Hydrogen Backbone by 2030. The European Climate Law, which is a part of the Green Deal (a long-term growth plan to make Europe climate-neutral by 2050), is a legally binding commitment to reduce net greenhouse gas emissions by at least 55% by 2030. Europe is a climate frontrunner and progressive on expanding the green energy sector, and sets a model for the rest of the world. New technologies require particular expertise to make them successful. The EU designation as an IPCEI is an important step in the recognition of potential future market leaders. In addition, Orestes has engaged with leading technical analyst Natural Power to assist in identifying those companies which have the greatest potential to make the biggest impact. The investments which will form the Orestes portfolio will also be able to provide their technologies to the global marketplace to further the progress of hydrogen delivery. With an initial focus on mobility solutions, Orestes will play a major role in supporting the global goals for renewable energy. This is a global matter; Australia has a number of initiatives and most notably, Saudi Arabia plans to become the largest global supplier of hydrogen with the UAE intending to compete.

Providing access to impact-focused opportunities

The impetus for a rapid clean energy transition has never been stronger. Hydrogen, particularly green hydrogen, can play a strategic role in the decarbonization of the global energy supply, complementing direct electrification. Investing in hydrogen is a long-term investment in the future of an energy-efficient world and 'Orestes Hydrogen Hybrid Opportunities' is the only product in the market that provides access to what will be the biggest energy investment opportunity in Europe. With a subsequent focus on liquidity and inflation-linked performance, the actively managed portfolio provides investors with the most efficient and cost-effective way to gain exposure to a diversified pool of high-impact companies. Investing in the future has never been more important.

Al Waseelah

The Prestige Premium Alziraea Fund: Shariah compliant project finance in green energy

Prestige Funds is a specialist direct lending fund manager which leverages the expertise of our lending partners in the UK. For over 15 years now we have provided investors with a means to access the dynamic economics of the SME sector in the UK, including the growing clean energy sector. CRAIG REEVES explains.

The UK has signed into law that it will be carbon-neutral by 2050. Currently, the UK puts more than 10 million tons of food waste into landfill sites which results in millions of tons of methane gas emissions escaping into the atmosphere. Methane gas is approximately 25 times more toxic than carbon emissions and approximately one quarter of global warming is attributed to this[1].

The UK is an acknowledged world leader in clean energy technology and is in the process of transforming its economy to meet its net-zero emission commitments in 2050. This revolution in the energy sector is also creating much-needed jobs in rural communities.

While the UK already has the world's largest offshore wind farm (and is currently building a second), our renewables partner, Privilege Finance, provides project finance to biogas (anaerobic digestion) plants, which aid farms, food, agri-businesses and increasingly local communities in processing non-human organic waste into clean energy including natural gas at a time when gas prices are trading at a premium.

Through our discussions with many existing and prospective clients in the Islamic world, especially the Middle East, we realized there was a demand for an Islamic fund which specifically targeted this area of our work. Investors were interested in a fund which had the uncorrelated performance characteristics of a private debt fund and the underlying exposure to green energy projects, but which also met Islamic criteria.

Early in 2022, we launched the Premium Alziraea Fund (the Fund), a Shariah compliant real assets and project financing fund targeted at the renewables and agricultural sector in the UK. Seeded by an institutional investor in the Middle East, the Fund targets capital appreciation of 5–7% per annum (net) with target annualized volatility of 1% and operates without using leverage or performance fees.

[1] *US Environmental Protection Agency - Importance of Methane | US EPA*

The Fund's Shariah advisor is Sheikh Dr Mohamed Ali Elgari, a former professor of Islamic economics and a former director of the Center for Research in Islamic Economics at King Abdulaziz University, Jeddah, Saudi Arabia. He is a member of numerous Shariah boards of Islamic banks and Takaful companies worldwide.

Intesa Sanapaolo Private Bank (Suisse) Morval is the Islamic finance/arranger for the Fund.

The Cayman Islands-domiciled Fund invests in a diversified portfolio of secured asset and project-based finance projects, many of which may be or are backed by the UK government. The Fund's strategy has a low correlation to traditional public market equities, bonds or commodities.

"The Fund has been designed to meet the requirements of allocators seeking Shariah investments with impact characteristics"

The Fund has been designed to meet the requirements of allocators seeking Shariah investments with impact characteristics. It complies with established Shariah finance principles; the projects it backs are specifically screened to ensure that they comply with these principles.

The Fund operates as an open-ended Islamic finance vehicle although it has a one-year lockup and monthly/quarterly liquidity on 90–180 days dependent on the share class. It is aimed at Islamic institutional investors looking to diversify their investment portfolios and is available in accumulation and distribution share classes in GBP/US$/EUR currencies. The current investible opportunity pipeline stands at approximately GBP500–600 million/US$600–700 million over the next one to three years.

The Fund will follow a similar project/financing investment strategy as that managed by the Prestige Funds Group which has often generated positive, consistent, uncorrelated returns for more than 14 years and has approximately US$900 million of group strategy assets. The underlying portfolio has been screened to meet the criteria required for Islamic investments.

The Fund leverages the combined expertise of both the Prestige Funds Group and the considerable team of rural infrastructure financing experts at Privilege Finance. Based in Cambridge in the UK, Privilege draws on a team of more than 70 people with extensive commercial banking backgrounds and represents a considerable center of expertise for agricultural/renewable energy and waste-to-energy financing.

Privilege already backs one of the largest portfolios of on-farm clean energy projects in the UK in what is a small and specialist financing market. It is recognized as an expert in the field of bringing biogas projects online and is an active member of the UK Anaerobic Digestion and Biogas Association. The company celebrated its 20th birthday last year and has a proud track record of lending to businesses in the agricultural sector in the UK.

Privilege is recognized as a center of expertise within the UK anaerobic digestion space and has developed a consultancy arm called Eco Verde Energy which provides ongoing support and expertise for UK biogas projects. It is pioneering further work with the carbon capture and closed-circuit gas production sector of the economy.

With a strong focus on energy transition and energy security in the UK and across Europe, the Fund is well positioned to capture more of these opportunities.

Craig Reeves is the founder of Prestige Funds.

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Prestige Funds

A new approach to ASEAN ESG investing

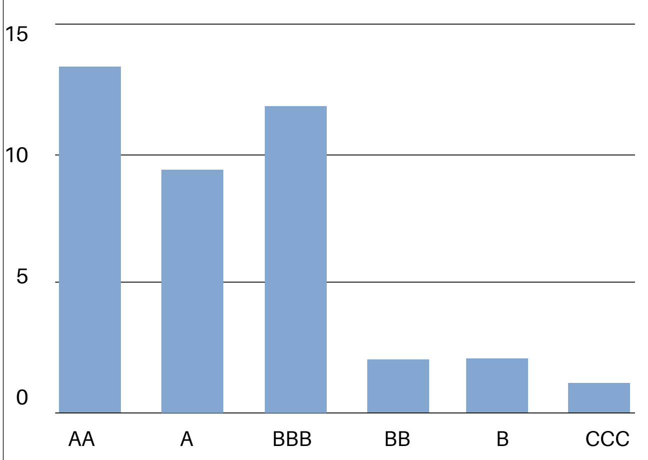
With the advent of the COVID-19 pandemic, ESG investing has taken a front seat in investors' minds. Similarly, Islamic investors, seeing the benefits and similarities of ESG with Islamic investing, have embarked on a journey to imbed ESG into their Shariah portfolios. However, similar challenges that bewildered the Islamic sector in the early years also affect the ESG arena, namely that it is led by big businesses and the absence of data. ASEAN is also not exempted from this predicament.

ESG embraced by big business

A year ago at COP26 [2021 United Nations Climate Change Conference], more than 110 countries, including eight from the ASEAN region, committed to net-zero emissions by 2050. But given the tough year we have had, including the war in Ukraine and rising global inflation, many countries have not made much headway.

In the lead-up to COP27, only 24 had kept their promise to submit updated plans. Similarly, most ASEAN governments are yet to announce firm measures that align to their net-zero targets. On the other hand, private companies seem to be faring better. Of the 50 largest businesses based in the ASEAN region, 40 carry MSCI ESG ratings with the majority rated by MSCI to be 'AA', 'A' and 'BBB'.

Figure 1: MSCI ESG rating of top 50 enterprises domiciled in ASEAN-6 (Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam)



Source: ***AIBP, March 2022***

Smaller businesses lack ESG transparency

It appears that, at least among well-established firms, ESG objectives have come to the fore in recent years. The same cannot be said of smaller enterprises and newly-listed companies, not because they are less sustainability-focused, but often because analysts are simply not aware. While ASEAN regulators have worked hard to establish local sustainability disclosure guidelines, these are not easily applied across borders. Current requirements on ASEAN businesses to disclose detailed sustainability-related data are also more limited. As a result, it is difficult to compare companies against regional peers or global benchmarks. This also means global data and rating providers tend to stay away.

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- Everyone can invest in **Shariah-compliant** securities.
- More than 700 **Shariah-compliant** securities on Bursa Malaysia.
- **Shariah Average Daily Trading Value (ADV)** represents 72.4%* of overall market ADV.
- **FBM EMAS Shariah Index** generally outperformed the FBM EMAS Index.
- The 10 top traded Shariah-compliant stocks favoured by foreign investors have a combined inflow of close to **RM3.8 billion***.

**Year-to-date September 2022*

Join our Telegram for more Shariah Research Reports @bursamalaysiaofficial

An innovative man + machine solution

The result is an inability to identify future sustainability leaders in ASEAN — clearly, a major weakness for a fund manager!

To overcome this challenge, UOB Asset Management (UOBAM) has developed a 'man + machine' framework for company sustainability assessments. This leverages the firm's extensive presence in, and expert understanding of, ASEAN markets. By maintaining dedicated in-country ESG resources, we are able to have both deep and wide-ranging engagements with local companies.

But beyond this, UOBAM also applies an artificial intelligence-machine learning (AI-ML) ESG model called the 'ESG Analyser'. The ESG Analyser enables us to track company news and controversies in real time and track their ESG impact. This is incorporated with our proprietary materiality map of key ESG issues in order to generate three research models: ESG News, ESG Scores and ESG Reports.

Process consistency is key

It is important that we follow a standard process for all companies being assessed, whether big or small. First, we complete a preliminary ESG scorecard based on internal plus third-party data. We then make adjustments to ensure the manual score is consistent with scores generated by the ESG Analyser.

We further enhance our overall scoring methodology by maintaining a good line of communication with companies on broad ESG themes, local ESG issues and any specific ESG controversies.

The consistent application of our ESG Analyser, ESG Materiality Map and third-party data allows us to assess companies more consistently, reduce potential human biases and ultimately create more robust ESG profiles. A secondary benefit of this approach is that companies are encouraged to improve their ESG disclosure while we continue to monitor their sustainability progress over the long term.

Expanded investment universe and improved forecasting

Since instituting this framework, we have been able to add nearly 400 more ASEAN companies into our assessment universe. Our most dramatic improvement is in Vietnam where our ESG coverage has increased from near-zero to 60% of the market.

Meanwhile in Indonesia, our coverage has risen from 40% to 89% and in Thailand we have widened our universe from 30% to 95%. We are also very pleased that in Malaysia, our ESG coverage has risen from 55% based solely on third party data to 100%.

But better coverage is futile if our assessments do not lead to better investment decisions. So we were delighted to find that, based on our internal analysis, there is a positive relationship between UOBAM's Analyser-enhanced ESG ratings and market performance.

Using our proprietary A to D ratings scale, we found that compared with the D-rated companies, A-rated companies demonstrated lower volatility, lower maximum drawdowns and higher risk-adjusted returns. This suggests to us that company risk-taking can be at least partially offset by its ESG initiatives and that our ESG ratings provide a useful indicator of superior performance.

> ***It is important that we follow a standard process for all companies being assessed, whether big or small***

The PRI awards are a sharing opportunity

The Principles for Responsible Investment (PRI) was formed in 2006 and supported by the UN following an invitation to some of the world's largest institutional investors to help develop the PRI. Since then, the PRI has grown from a handful to nearly 4,000 signatories, of which UOBAM is one.

The PRI awards, according to its website, "recognize individually excellent projects conducted by signatories of all sizes, specialisms and levels of development". They are said to be "a great opportunity for all signatories to learn from each other's successes".

Previous winners and shortlists of the ESG Incorporation Initiative of the Year Award include Rockefeller Asset Management, JPMorgan Asset Management and BNP Paribas Asset Management. We are proud indeed to be the first ASEAN-based manager to be shortlisted for this award, especially as this is based on a solution designed to meet the specific challenges of ESG investing in ASEAN.

* *The article above from UOB Asset Management (UOBAM) impressed the Principles for Responsible Investment (PRI) judges and was shortlisted for the PRI's ESG Incorporation Initiative of the Year Award 2022, the first-time ever for an ASEAN-based fund manager. UOB Islamic Asset Management similarly adopts the same ESG processes in incorporating its Islamic ESG solutions.*

Cagamas Berhad

National Mortgage Corporation of Malaysia

Globally and locally acknowledged as a provider of liquidity to primary financiers at a reasonable cost, making financing home ownership more affordable and accessible to Malaysians.

Issues competitively priced corporate bonds and sukuk that will encourage primary lenders of mortgages to further expand financing for houses at an affordable cost.

Global rating of A3 by Moody's Investors Service which is on par with Malaysia's sovereign ratings.

Concluded innovative and award-winning transactions including the world's first Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm) and Sukuk Musharakah Residential Mortgage-Backed Securities (RMBS), ASEAN's first Synthetic Securitisation of SME Loans as well as Malaysia's first ASEAN Sustainability SRI Sukuk for affordable housing.

Second-largest issuer of corporate bonds and sukuk after the Government of Malaysia, and one of the largest issuers of AAA-rated corporate bonds and sukuk in the Malaysian capital market.

Regarded by the World Bank as the most successful secondary mortgage liquidity facility model.

Cagamas Berhad 198601008739 (157931-A)

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Cagamas

National Mortgage Corporation of Malaysia

HSBC Amanah: Embedding sustainability

Introduction

The global move to incorporate ESG characteristics and principles into the decisions made by businesses represents a necessary and significant change for the long-term sustainability of our world. At HSBC, we are committed to building a business for the long term, developing relationships that last. We want to be a well-managed organization that people are proud to work for, has the trust of our clients and the communities we serve and minimizes its impact on the environment.

The Malaysian context

As intermediaries of capital, we as Islamic banking, finance and investment professionals have to recognize the impact we have on the economy, the people and businesses we serve and the planet we share. In Malaysia, we can be proud to say that Islamic financial institutions have been pioneers in this regard.

The foresight of our regulators — Bank Negara Malaysia and Securities Commission Malaysia — has spearheaded the move toward sustainability in line with the Maqasid Shariah or its ultimate intent with regard to the attainment of benefit and prevention of harm. This has resulted in the formulation of guidance, co-developed with the industry, that has established the foundations for a vibrant and progressive Islamic financial ecosystem that has embedded sustainability characteristics into its fundamental conduct. This can be seen in the collective guidance of value-based intermediation (VBI), the Climate Change and Principles Based Taxonomy and the SRI-linked Sukuk Framework, among others.

HSBC and sustainability

At HSBC, we have an ambition to become a net-zero bank. We aim to:

- Align our financed emissions — the carbon emissions of our portfolio of customers — to the Paris Agreement goal to achieve net zero by 2050 or sooner.
- Use the Paris Agreement Capital Transition Assessment Tool to develop clear, measurable pathways to net zero.
- Make regular, transparent disclosures to communicate our progress in line with the Taskforce on Climate-Related Financial Disclosures (TCFD) guidelines, and encourage our customers to do the same.
- Work with our peers, central banks and industry bodies to mobilize the financial system around a globally consistent, future-proofed standard to measure financed emissions, and a functioning carbon offset market.
- Achieve net zero in our own operations and supply chain by 2030 or sooner.
- We are supporting our portfolio of customers to thrive through transition. We aim to:
    - Support our customers on their journey to lower carbon emissions, bringing together our dedicated ESG Solutions team, our award-winning products and experts across the bank to develop tailored solutions for our customers
    - Prioritize financing and investment that support our customers in all sectors to transition to lower carbon emissions
    - Increase our portfolio of transition finance solutions to help enable even the most heavy-emitting sectors to progressively decarbonize, while helping to ensure a just and stable transition to maintain economic stability, and
    - Apply a climate lens to our financing decisions, taking into account the unique conditions for our clients across developed and developing economies.
- We have an ambition to provide customers between US$750 billion and US$1 trillion of finance and investment by 2030 to help them achieve this goal.
- In line with our ambition, we have also announced targets for reducing financed emissions in two carbon-intensive sectors — oil and gas, and power and utilities — by 2030.

HSBC Amanah's sustainability journey

HSBC Amanah as a leading international Shariah compliant bank in Malaysia leverages the global expertise of HSBC combined with local insights, combining capabilities toward providing best-in-class solutions. This way, HSBC Amanah facilitates and provides financial solutions that leverage on HSBC's knowledge and experience of ESG from a global perspective and the Shariah structuring and VBI advocacy inherent to HSBC Amanah's approach to doing business. In support of HSBC's move to sustainability, we began our journey toward embedding sustainable practices in our business via our participation — alongside other Islamic financial institutions — as a founding member of the VBI Community of Practitioners in 2017.

Since that time, HSBC Amanah has been an active proponent of VBI and has played an active role in the formulation of the VBI Sectoral guides for the industry and is developing new products to deliver value- outcomes, including HSBC Amanah's issuance of the world's first UN SDG Sukuk in 2018 and the ESG charity feature enabling credit card holders to donate their points toward charities and non-profits that deliver positive impact. Most significantly, in order to ensure a meaningful and significant contribution as a value-based intermediary and facilitator of sustainable finance, HSBC Amanah launched Project Cocoon in 2020.

Project Cocoon

Project Cocoon — a 24-month transformation initiative — was launched in order to truly embed sustainability into the business of HSBC Amanah. This was undertaken from the perspective of ensuring a comprehensive approach toward delivering sustainable outcomes as an organization

— encompassing financial solutions, capacity-building and advocacy, cultural transformation and external disclosures. These thrusts were headlined by the key objective of achieving 51% of our financing and advances to be triple bottom line (TBL) or TBL assets.

In order to meet the key objective of Project Cocoon, HSBC Amanah has developed a TBL Framework in order to create a deliberate focus on delivering positive impact with regards to the environment, community and the economy. In short — the 3Ps of 'Planet, People and Prosperity'.

The TBL Framework

Guided by VBI, HSBC Amanah's TBL Framework is a comprehensive approach to classification, governance and process implementation in relation to financing assets that originate from and are managed by HSBC Amanah. The TBL Framework was formulated with reference to authoritative sources, namely the collective VBI guidance parameters from Bank Negara Malaysia, HSBC's sustainability policies and prevailing regulatory and policy directions for Islamic financial institutions in Malaysia.

HSBC Amanah's TBL Framework enables the establishment of baseline parameters for the future via a robust framework of assessment and classification that can be applied to financial activities. The TBL Framework has been developed toward ensuring integrity both in conceptualization and practical application.

A second-party opinion by United Nations Global Compact Malaysia and Brunei (UNGCMYB) with regard to the TBL Framework found that "the process that has been undertaken to develop HSBC Amanah's TBL Framework is a detailed, methodological and verifiable approach that aligns towards meeting the targeted SDGs".

TBL classification

Our TBL classification methodology is applied both at the customer and transaction levels across HSBC Amanah's lines of business, which encompass wealth and personal banking and wholesale customers (commercial banking and global banking and markets businesses).

For wealth and personal banking — a positive impact lens based on the UN SDGs is applied for consumers, who are assessed both from a customer profile and a use of proceeds level. Customers are identified from the perspective of predefined positive impact segments along with screening undertaken at the transaction level to ensure financing provides positive outcomes. These include utilization of financing for basic needs, health, first homeownership and education, among others.

For wholesale customers, we take a view on the companies we finance based on externally and internally sourced data including ESG rating thresholds, client interviews and

assessments based on a predetermined questionnaire to ensure a company can be assessed as TBL.

In addition, and in line with our agenda and commitment to finance the transition toward green, social and sustainable aims — we do look at transactions which meet internationally accepted standards in assessing whether a client is aligned to the TBL — such as Green or Social Loans Principles.[1]

Thus the TBL Framework enables a structured and ambitious context to materialize our ambition of having 51% TBL assets.

Toward sustainable outcomes

In addition to achieving the key objective of 51% TBL assets and the TBL Framework, HSBC Amanah is committed to driving a paradigm of sustainable outcomes from our activities and business. In line with this, and spearheaded via the headline ambition, HSBC Amanah via Project Cocoon has undertaken various approaches toward sustainability in the four areas of financial solutions, capacity-building and advocacy, cultural transformation and external disclosures.

Financial solutions

HSBC Amanah has spearheaded the drive toward providing sustainable finance as an originator of many firsts for Malaysian Islamic banking and capital markets. We have worked with clients to deliver a range of landmark sustainability solutions including:

- The world's first sovereign US dollar sustainability Sukuk issuance — government of Malaysia's US$800 million 10-year sustainability Sukuk and US$500 million 30-year Sukuk — joint lead manager and joint bookrunner and joint sustainable development goals structuring agent (sustainability Sukuk)
- The first Islamic international bank in Malaysia to link a charity feature to credit cards. All cards we issue, including HSBC Amanah Debit and Credit Cards, will now be made from 100% recycled plastic
- Malaysia's first sustainability linked financing — RM200 million (US$42.41 million) sustainability-linked financing for Yinson — where HSBC Amanah was the sole sustainability structuring bank
- Malaysia's first sustainability-linked Sukuk — Yinson's issuance of a RM1 billion (US$212.07 million) five-year sustainability-linked Sukuk Wakalah facility pursuant to its Islamic medium-note program of up to RM1 billion in

[1] *Green Loan Principles – LSTA and Social Loan Principles (SLP) – LSTA*

nominal value — sole principal advisor, lead arranger, lead manager and Shariah advisor for the Sukuk Wakalah program and sustainability structuring agent for the framework

- Green financing to Ikano Centres to boost sustainable development of its retail hub in Malaysia — Ikano Centres is part of Ikano Retail, which operates IKEA stores in five countries and shopping centers that IKEA anchors
- Malaysia's first green trade financing facility for sustainable cocoa sourcing in Malaysia — the green trade financing facility for Guan Chong Cocoa Manufacturer
- Lowest-ever coupon and weighted average cost of financing among 'AA3/AA'- solar power project financing Sukuk in the Malaysian ringgit market — Leader Energy's debut ASEAN Green SRI Sukuk issuance, and
- HSBC's first Social Loan Principles (SLP)- based financing in Southeast Asia for the real estate sector — supported affordable housing through HSBC Amanah's SLP- based financing for Jayyid Land.

Cultural transformation

HSBC Amanah continuously engages stakeholders from across the financial services ecosystem and beyond via its engagement through forums and talks undertaken by various ministries and stakeholder groups. We have focused our efforts on upskilling key employees in Malaysia with professional qualifications and up-to-date information on sustainability through capacity-building initiatives and standards development in collaboration with London Business School, Frankfurt School and the Cambridge Institute for Sustainability Leadership.

Supported by group resources and these additional capacity-building initiatives, our Malaysia relationship managers are able to identify opportunities as well as structuring and execution expertise for our clients from various sectors, and across businesses and corporates, toward financing their sustainable business activities and facilitating Malaysia's transition toward a low-carbon economy.

HSBC Amanah also spearheads internal engagement toward cultural transformation and sustainable living, supporting HSBC's overall net-zero ambitions. This includes a network of advocates comprising sustainability champions across various lines of businesses and functions, institutionalizing our net-zero ambitions via sourcing energy from 100% renewable sources for HSBC Amanah offices in Malaysia, introducing flexible and hybrid working practices towards work-life balance and advocacy for gender equality and empowerment with targets for representation at senior levels of the firm.

Capacity-building and engagement

HSBC Amanah has fostered engagements with stakeholders from across the financial ecosystem to enable the transition of business to more sustainable outcomes. Toward developing the platform to enable meaningful transition toward a sustainable business, HSBC Amanah was invited to become an official member of the United Nations Global Compact (UNGC) via UNGC's local chapter, UNGCMYB.

HSBC Amanah also collaborated and supported UNGCMYB to launch the 'Malaysia Businesses Sustainability Pulse Report 2022'. The report is a multi-collaborative effort to address the private sector sustainability data gap and shed light on current sustainability trends within the Malaysian business ecosystem. The report acts as a guide for decision-makers to pave the way and
craft effective policies toward improved sustainability performance within the market.

Since 2020, HSBC Amanah is also the Steering Committee 4 Chair of the 'Capacity Building and Engagement' stream of the Bank Negara Malaysia- and Securities Commission- chaired Joint Committee on Climate Change to pursue collaborative actions toward building climate resilience and sustainability into the Malaysian financial services industry. Numerous training and awareness programs have been organized for the financial industry (comprising banking, capital market and insurance players) comprising topics such as climate scenario analysis, key to net zero and TCFD workshops.

> ***HSBC Amanah has fostered engagements with stakeholders from across the financial ecosystem to enable the transition of business to more sustainable outcomes***

In February 2022, HSBC Amanah and Bursa Malaysia entered into an MoU to collaborate on #financing4ESG, an initiative aimed at improving the ESG adoption practices of Malaysian public listed companies (PLCs). Under this MoU, the exchange collaborates with HSBC Amanah in developing sustainability-linked Islamic financial products as well as ESG solutions aligned to the FTSE4Good ratings model and datasets for eligible PLCs.

Disclosures

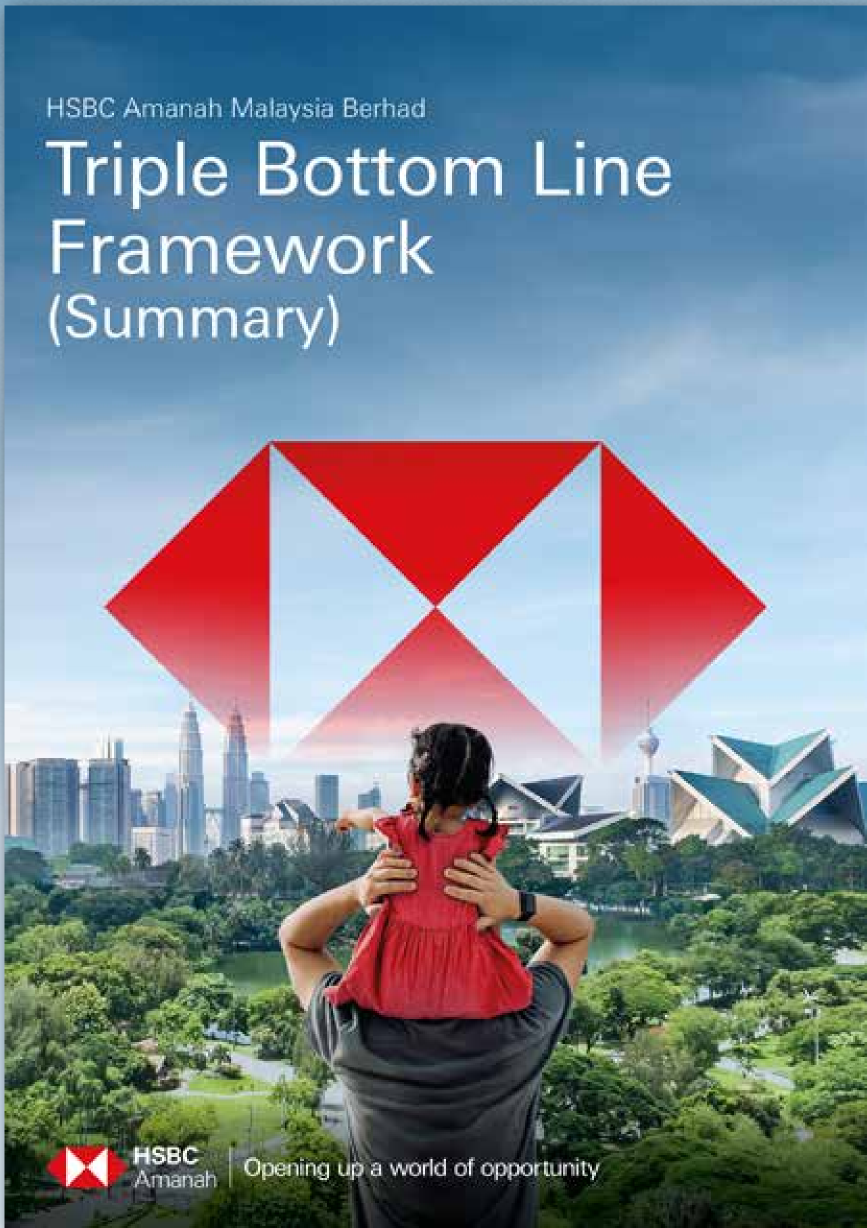
HSBC Amanah released the Malaysian Islamic financial services industry's maiden Task Force for Climate-Related Disclosures (TCFD) Report for 2020 and a second iteration for 2021. HSBC Amanah continues to be the first amongst banks in the country to issue such a report, ahead of a mandatory release for banks in 2024. HSBC Amanah has also submitted its 2nd Communication of Progress as a member of UNGCMYB.

Our journey towards sustainability

HSBC Amanah Malaysia Berhad (HSBC Amanah or the Bank) is an Islamic Financial Institution (IFI) established in Malaysia. We are committed to embedding sustainability in our business practices and operations. In 2017, HSBC Amanah became a member of the Value-based Intermediation (VBI) Community of Practitioners – one of nine representative IFIs, with the aim of developing an industry-wide VBI approach towards environmental, social and governance matters affecting stakeholder groups of Islamic Finance in Malaysia. In December 2019, HSBC Amanah announced our VBI approach. In this approach, we introduced the lens of Triple Bottom Line (TBL) – Planet, People and Prosperity.

Our Triple Bottom Line Framework (TBL Framework) is intended to be an approach to classification, governance and process implementation in relation to financing assets that are originated by and/or managed by HSBC Amanah in order to assess eligible TBL Assets. TBL Assets are financing assets that meet the parameters defined in the TBL Framework developed by HSBC Amanah. The TBL Framework is intended to further the aspirations of HSBC Amanah as a practitioner of VBI and our ambition to have more than 51% of our financing assets to be TBL Assets as a Value Based Intermediary Bank.

Scan to download the Triple Bottom Line Framework (Summary)



HSBC Amanah | Opening up a world of opportunity

Labuan IBFC – Asia's premier international financial hub

Islamic banking is one of the fastest-growing segments in the world financial system due to large investments in the Halal, infrastructure and Sukuk sectors. Globally, Islamic finance is forecast to be worth more than US$3 trillion by 2023. The industry can generally be categorized into five subsectors, namely Islamic banking; Takaful; other Islamic financial institutions such as investment or microfinance companies; Sukuk; and Islamic funds.

Islamic finance as an emerging offering by Labuan IBFC

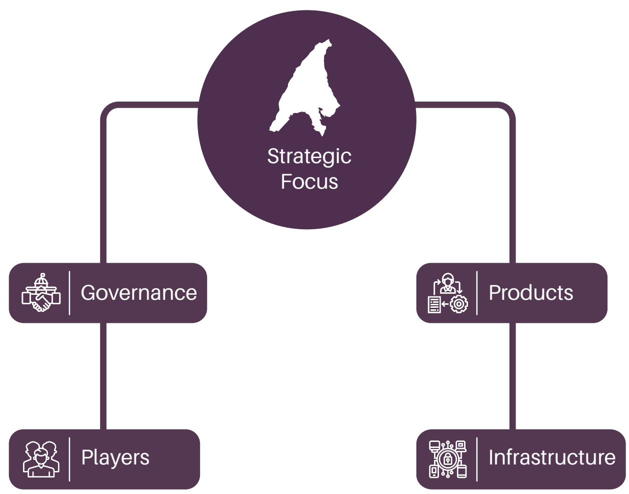
Labuan International Business and Financial Centre (Labuan IBFC), located in the center of Asia, offers global investors and businesses the benefits of being in a well-regulated and supervised jurisdiction, which adheres to international standards and best practices. The jurisdiction is regulated and supervised by Labuan Financial Services Authority, a statutory body under the Ministry of Finance of Malaysia. Labuan IBFC is home to the world's only omnibus Islamic legislation — the Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA).

The LIFSSA legislation has appointed its own Shariah Supervisory Council (SSC), which comprises renowned international and Malaysian Islamic finance scholars as the sole reference authority in matters of Islamic law to ensure Shariah compliant businesses, products and structures.

With the internationalization of Islamic finance and Malaysia's position as a leading international hub for Islamic finance, Labuan IBFC is able to support and complement Malaysia's development synergistically as a key player on the global Islamic finance stage.

In fact, Labuan IBFC is no stranger to the Sukuk market, having been home to various Sukuk issuances as well as listings of Sukuk on the Labuan International Financial Exchange originating from the year 2000. Labuan IBFC is also home to the world's first US dollar-denominated exchangeable Sukuk, which reinforces Malaysia's position as the global leader in Sukuk issuance.

Diagram 1: Labuan IBFC as a well-recognized Islamic international center



Source: Labuan IBFC

Diagram 2: Labuan IBFC Shariah compliant solutions

- Islamic banking
- Sukuk — Green, social and sustainability Sukuk, aviation Sukuk, Sukuk Wakalah and other underlying Sukuk structures such as Ijarah, Mudarabah, Musharakah and Murabahah
- Ijarah leasing
- Wealth management — Islamic trusts, foundations including Waqf foundations and Islamic private trust companies
- Takaful insurance including captive Takaful
- Digital Islamic financial services

Source: Labuan IBFC

Diagram 3: Enabling initiatives

ENABLING INITIATIVES	"22	"23	"24	"25	"26
1. Create thought leadership in the development of Shariah exchanges					
2. Attract new digital prospects in banking and other traditional financial sectors					
3. Support the vision of the government in enriching the people via digitalization					
4. Service new sectors through Takaful captives and Shariah compliant tokenization					
5. Institutionalize globally social finance via digitalization such as pension, Hajj, Waqf and Zakat					
6. Complement the global Islamic infrastructure					
7. Host international Islamic digital dialogues and associations					

Source: Labuan IBFC

Labuan IBFC Strategic Roadmap 2022-2026: A focus on Islamic finance

To maintain Labuan IBFC's growth trajectory and provide better value to all stakeholders in the ecosystem, the expansion of the Labuan Islamic finance sector will focus on enabling technology-led business diversification. Notwithstanding this, Islamic financial solution providers will also offer a range of solutions that are sustainable, value-based and competitive to conventional consumers and investors.

For the next five years, it is envisaged that the existing ecosystem of Islamic finance in Labuan IBFC will be elevated through:

- embedding digital innovations within current regulations, players, Shariah compliant offerings and infrastructure
- bringing in social reforms in topical socioeconomic agendas which include financial inclusion, transparency and value-based intermediation, in line with the Maqasid Shariah (the objectives of Shariah), and
- amalgamating Islamic pillars with fintech solutions through the implementation of digital Shariah governance in Labuan IBFC in order to attract global players, innovative Shariah compliant products and their intermediation, as well as supporting infrastructures.

Diagram 4: Why Labuan IBFC?

- Has a well-developed Islamic finance infrastructure and business supportive ecosystem with a comprehensive legal and regulatory framework developed under the LIFSSA
- Has the SSC comprising leading global Shariah scholars and practitioners, which provides advisory and issues Shariah pronouncements which may be deemed admissible in Shariah courts around the world
- Recognition of Shariah opinions issued in other jurisdictions and vice-versa
- Allows Shariah compliant division with a conventional license
- Adheres to international Islamic standards and best practices — IFSB (member) and International Islamic Financial Market (founding member)
- Access to a wide array of professional service providers in Malaysia or abroad
- A cost-efficient tax-neutral jurisdiction ideal for substance creation
- No withholding of taxes on income distributions
- No stamp duty on all instruments which are executed by a Labuan entity in connection with a Labuan business activity
- Businesses are able to establish a marketing office anywhere in Malaysia

Source: Labuan IBFC

*Visit **www.labuanibfc.com** for more information or email to **info@libfc.com** for any inquiries pertaining to Labuan IBFC*

PODCAST: Cagamas doubles down on sustainability agenda; working on framework to scale up green housing

Malaysia's second-largest issuer of corporate debt, Cagamas, intends to devise a framework to serve as guidance for property ecosystem stakeholders to boost the domestic green housing sector.

"Our stakeholders, including shareholders, would fully appreciate the fact that Cagamas is actually playing a significant role in trying to support this overall [green housing] agenda, as well as the strategic direction for Cagamas moving forward, embarking on a building-block approach in terms of the green housing agenda. Meaning, we would like to put in place a framework in which developers, financial institutions as well as buyers will be able to use in terms of fulfilling their obligations," shared Chung Chee Leong, the president/CEO of Cagamas, with IFN. "We will look at how we can help developers build more green-certified houses, how we can see financial institutions give out more green mortgages and how house buyers would benefit ultimately with perhaps lower costs of borrowing as well as lower utility costs and other costs."

Just last month, Chung at Islamic Sustainable Finance and Investment Forum 2022 at the Securities Commission Malaysia revealed that it is working on taxonomy for the green housing sector.

The national mortgage corporation is working toward achieving 10% in green assets on its balance sheet by 2030. To date, it has issued a total of RM1.7 billion (US$359.36 million) in sustainability-related bonds and Sukuk under its Sustainability Bond/Sukuk Framework. The firm intends to tap the green Sukuk and bond market to fund its stakeholders for the purpose of developing and financing green residential housing with a potential carved out for female-headed households.

Cagamas is currently undertaking a research study on the challenges for scaling up green residential mortgages in Malaysia, including for the affordable housing segment and housing in smaller towns. Asian Development Bank is providing the corporation technical assistance for the study, which is expected to be completed by October 2023. Cagamas hopes to use the findings from the research to shape its future green Sukuk/bond offerings.

"Financial institutions or Islamic financial institutions need to, to some extent, provide advisory and help its borrowers in terms of meeting their obligations. In the case of sustainability, I think financial institutions should also play a role in terms of helping their borrowers transition into this low-carbon economy," according to Chung.

Cagamas's assertive green stance is in line with the national agenda: Malaysia plans to be a carbon-neutral nation by 2050. To meet this target, environmental NGO WWF-Malaysia and Boston Consulting Group noted in a joint study that the country would need an investment of RM350–450 billion (US$73.99–95.13 billion) over the 2030–50 period.

This is an excerpt of a podcast episode with Chung Chee Leong, the president/CEO of Cagamas as part of a special sustainability podcast series in conjunction with Cagamas's 35th anniversary. To listen to the full discussion, log on to ***IFN OnAir****.*

PODCAST: Greenwashing concerns here to stay, says IdealRatings

ESG ratings play a critical role in sustainable finance and investment. To learn about the role of sustainability ratings in the Islamic sustainable finance and investment space, ISFI spoke to Magdy Eissa, the vice-president of IdealRatings, a data screening and ratings provider with a focus on sustainability and Islamic finance solutions.

Sustainability is a very broad topic and ESG is perhaps the most talked-about at the moment. Sustainability ratings and screening entail looking at various underlying inclusion activities and considerations with different rating approaches and philosophies ranging from a binary rating methodology to a more subjective approach, according to Magdy.

When assessing the ESG rating of a company, each aspect, the E, S and the G, are looked at individually and measured against key performance indicators (KPIs). The KPIs would vary across the industry of the firm and the weightage of the importance of sustainability metrics will differ. Further, under each KPI, there should be a list of indicators.

"For example, under the E side, we have to define certain KPIs like air emissions, like how the company is treating the water resources, how they are handling the waste, what are the activities relating to habitat protection and so on," Magdy detailed.

The pillars are the same for all vendors, Magdy added, while the KPIs, weighting system and the materialities considered differ from vendor to vendor. While rating methodologies vary across vendors, the ratings of large capitalization firms in developed markets are generally consistent. This is due to the regulatory landscape and robust disclosure requirements.

As such, developing markets present a challenge for rating providers as well as investors. The relevant data required to form the basis of rating assessments is often not disclosed. Once you get to emerging markets, to small- and mid-capitalization firms in frontier markets, it gets very challenging, Magdy explained.

While the developed markets are forging ahead with enhanced sustainability regulation and disclosure requirements, Magdy thinks that greenwashing is not going to be an antiquated concern in the near term.

"Greenwashing is something that will unfortunately exist for quite some time. It will phase away, of course, with increasing transparency and disclosure. It will phase away from the tightened compliance and regulatory requirements, but we cannot say that we can eliminate greenwashing entirely," Magdy shared.

*This is an excerpt from an interview with Magdy Eissa, the vice-president of IdealRatings. Listen to the full discussion on the role of sustainability ratings in the Islamic sustainable finance space on **IFN OnAir.***

PODCAST: Sustainable Islamic interbank market transactions likely to grow, says CIMB Islamic

CIMB Islamic Bank recently entered into a RM1 billion (US$224.74 million) sustainable collateralized commodity Murabahah (CCM) transaction with Standard Chartered Saadiq Malaysia. On the back of this landmark deal, ISFI spoke to Ahmad Shahriman Mohd Shariff, CEO of CIMB Islamic, to understand its structure and significance.

"[The CCM] is a very innovative and relevant solution for Islamic banks because it addresses a big problem that a number of Islamic banks have, ie the ability to tap into the liquidity of the interbank market in a credit-efficient manner," Ahmad shared. Tapping the interbank market aside, it can also be substituted by securities for the purpose of credit exposure and counterparty exposure.

In the works over the last three to four years, the CCM solution is an industry effort through the Association of Islamic Banking and Financial Institutions Malaysia, according to Ahmad. The proceeds from the transaction will be earmarked to eligible Shariah compliant assets and projects in line with CIMB Group's Sustainable Development Goals Bond and Sukuk Framework.

"Basically, the party that is tapping into the liquidity of the market will also provide collateral to substitute its own credit risk. So, for a counterparty financial institution where their credit standing is poorer or inferior, the provision of the collateral allows them to mitigate that implication and tap the market efficiently," Ahmad explained.

"There is a possibility for us to use Sukuk which are sustainability-linked but at the moment, the primary criterion for us is to use Sukuk assets which are highly rated. The main driver is the credit rating of the underlying Sukuk being used as collateral. But I think as we see more issuances in the market, especially by government entities, of Sukuk linked to sustainability targets, I think we should have more of that coming forward," Ahmad said when asked about the possibility of using sustainable Sukuk as collateral.

Ahmad further opined that similar structures may be adopted by other banks. "There is already a strong commitment by Bank Negara Malaysia (BNM) in the area of sustainability. BNM has already imposed expectations that transition financing should be half of our activities by a certain period. So naturally, the whole industry will reshape their portfolio. And as we reshape our portfolio to fund more sustainable causes, then the need to tap into the interbank market in this manner will also increase," he shared.

*This is an excerpt from an interview with Ahmad Shahriman Mohd Shariff, CEO of CIMB Islamic. Listen to the full discussion on the sustainable CCM transaction on **IFN OnAir**.*

Labuan IBFC
International Business and Financial Centre, Malaysia

LABUAN IBFC
ASIA'S PREMIER INTERNATIONAL FINANCIAL HUB

Labuan International Business and Financial Centre (Labuan IBFC), located off the North West coast of Borneo, offers global investors and businesses the benefits of being in a well-regulated jurisdiction that provides fiscal, legal and currency neutrality, in addition to being an ideal location for cost-efficient substance creation.

Labuan IBFC is a wholesale financial, risk and wealth management intermediation centre that also boasts a wide range of business structures including solutions for fintech or digital businesses. It is also home to the world's first sukuk and is acknowledged as an Islamic financial hub.

Well-supported by a robust, internationally recognised yet business-friendly legal framework, Labuan IBFC operates within comprehensive legal provisions and guidelines, enforced by a single regulator, Labuan Financial Services Authority – a statutory body under the Ministry of Finance, Malaysia.

Labuan, also known as the 'Pearl of Borneo', offers a myriad of business and leisure opportunities. It is also a hub for financial tourism as its excellent location and compact structure offer easy connectivity between the financial district, and nature offerings.

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SME Bank

SME Bank is fully committed to driving Malaysia's economic growth by providing financial assistance and playing the developmental role of SMEs through providing professional advisory services and capacity-building programs. SME Bank aims to nurture the advancement of SMEs nationwide and their ecosystem.

SME Bank plays a vital role in supporting the Malaysian government's economic and development initiatives such as the National Entrepreneurship Policy 2030 to develop an entrepreneurial ecosystem in Malaysia that will enhance the country's competitiveness in the global economy.

Case study: Al Rajhi Bank's dual tranche sustainability commodity Murabahah facility

Al Rajhi Bank concluded its US$1.16 billion three-year dual-tranche sustainability commodity Murabahah facility on the 20th September 2022. The deal was participated by 13 global investors from North America, Europe, Asia and the Middle East.

The facility was the first dual-tranche fully Shariah compliant facility based on the Loan Market Association (LMA)'s Green Loan Principles by a financial institution where the proceeds were directed toward eligible sustainability projects.

"We had a lot of interest from both local and international banks and the facility was oversubscribed. The challenge was to ensure that we meet each bank's and the obligor's internal compliance with both the sustainability elements and the commodity Murabahah structure.

"We had to draft various structure notes for both the AAOIFI and non-AAOIFI-compliant tranches and the structure was revised multiple times until we reached [a] unanimous consensus," Seyavash Rahnema, a senior associate at Norton Rose Fulbright, which acted as the legal advisor for the lenders of the facility, told ISFI.

The syndication was led by lead arrangers and bookrunners HSBC and SMBC International Bank. The facility pays profits quarterly and has a one-time bullet payment of the principal amount at maturity.

With a profit rate of 0.5% per annum, the facility will finance sustainable projects in accordance with the bank's Sustainable Finance Framework, which was issued in February 2022.

The facility is comparable to Ahli United Bank (AUB)'s US$1.1 billion sustainability-linked dual-tranche Murabahah financing facility which was concluded earlier in July 2022. Both facilities included an AAOIFI-compliant tranche

Al Rajhi Dual Tranche Sustainability Commodity Murabahah

US$1.16 billion

مصرف الراجحي
alrajhi bank

20th September 2022

Summary of terms and conditions	
Aggregate principal amount	US$1.16 billion
Type of facility	Dual-tranche commodity Murabahah
Structure	Commodity Murabahah
Use of proceeds	To finance projects which comply with Al Rajhi Bank's Sustainable Finance Framework, the Green Loan Principles and ESG practices.
Tenor	Three years
Profit rate/yield	0.5% per annum
Repayment	Bullet payment of all outstanding principal on maturity
Frequency of payment	Quarterly profit payments, one-time bullet payment of principal at maturity
Legal advisor	Norton Rose Fulbright – lenders
Governing law	English law
Investment agent	HSBC Saudi Arabia
Mandated lead arrangers, bookrunners, coordinators and sustainability coordinators	HSBC and SMBC International Bank

to accommodate participation from UAE-based financial institutions.

The key differentiating factor between the two facilities is the sustainability-linked feature where the AUB facility included a price reduction mechanism tied to pre-defined sustainability performance targets while the Al Rajhi Bank facility did not include sustainability-linked pricing features.

As such, the AUB facility was based on the LMA's Sustainability Linked Loan Principles as opposed to the Green Loan Principles, Rahnema shared.

Case study: Ekovar's waste management green Sukuk

Ankara-based Ekovar Cevre Grup Geri Donusum Atik Depolama Insaat Taahhut Sanayi Ve Ticaret has issued a TRY50 million (US$2.7 million) green Sukuk facility on the 14th September 2022. The proceeds from the issuance, arranged by Emlak Participation Bank, will be channeled to waste management company Ekovar to procure, sort and recycle waste products.

The offering is the first issuance under the Capital Markets Board of Turkiye (CMB)'s Guidelines on Green Debt Instruments, Sustainable Debt Instruments, Green Lease Certificates and Sustainable Lease Certificates which were published earlier this year on the 24th February.

The facility has a tenor of 177 days, is set to mature on the 10th March 2023 and has a 27% profit rate. Based on the Islamic principle of Wakalah, the Sukuk facility provides periodic payments with the principal amount to be redeemed at maturity at its face value of TRY10,000 (US$537.73).

The Sukuk facility was 2.2 times oversubscribed with Islamic funds representing 50% of investors, corporate investors representing 30% of investors and insurance and pension companies representing 20% of the total investors.

Ekovar has been appointed as the agent of the participation bank under the Wakalah agreement. It will utilize the Sukuk proceeds to purchase waste products as underlying assets on behalf of the bank. The outputs of the recycling process will be sold to third parties with the profit from the sale of the underlying assets to be distributed to Sukukholders on the maturity date.

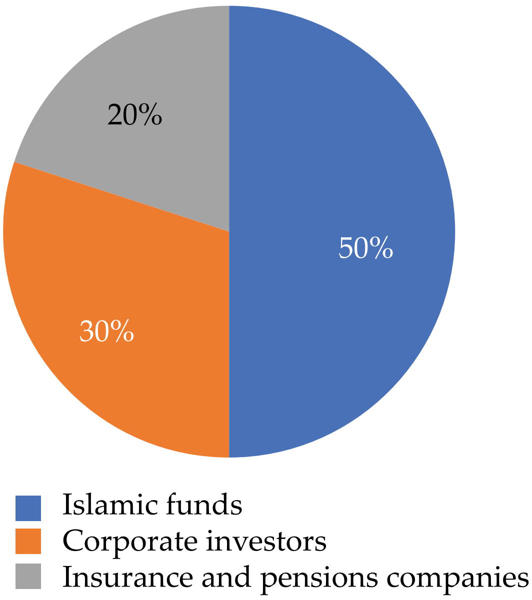
DLA Piper's Islamic finance practice

DLA Piper is one of the largest global law firms in the world, with a truly full service and global Islamic Finance practice.

DLA Piper provides specialist advice ranging from debt, real estate, asset and project finance to debt capital markets, takaful and dispute resolution and mitigation.

By combining its unique regional and international expertise, DLA Piper is able to provide clients with around-the-clock support and an in-depth understanding of the national and regional regulatory practices in which they operate.

Chart 1: Investor breakdown



Source: Emlak Participation Bank, ISFI

As the agent, Ekovar is eligible to receive an incentive fee from the profits generated in excess of the agreed-upon profit.

To issue the Sukuk under the new guidelines, the participation bank assisted in preparing the green Sukuk framework while Metsims Sustainability Consulting provided the second party opinion (SPO) for the framework. As the first Sukuk issued under the guideline, it faced several challenges.

"The SPO increased the company's total cost of the transaction despite the 50% reduction in listing and issuance fees by regulatory authorities. In addition, there is a shortage of domestic ESG-focused investors in Turkey.

"We need much more incentives (such as tax incentives, covering expenses of external reviews) for both issuers and investors in order to make the green/sustainable Sukuk market [a] more attractive financing option in Turkiye," Esma Karabulut, the head of investment banking and investor relations at Emlak Participation Bank, told ISFI.

Esma told ISFI that the participation bank has applied to the CMB to issue a sustainable/green Sukuk program worth TRY2 billion (US$107.54 million) under the new guidelines with plans to issue thematic Sukuk before the end of the year.

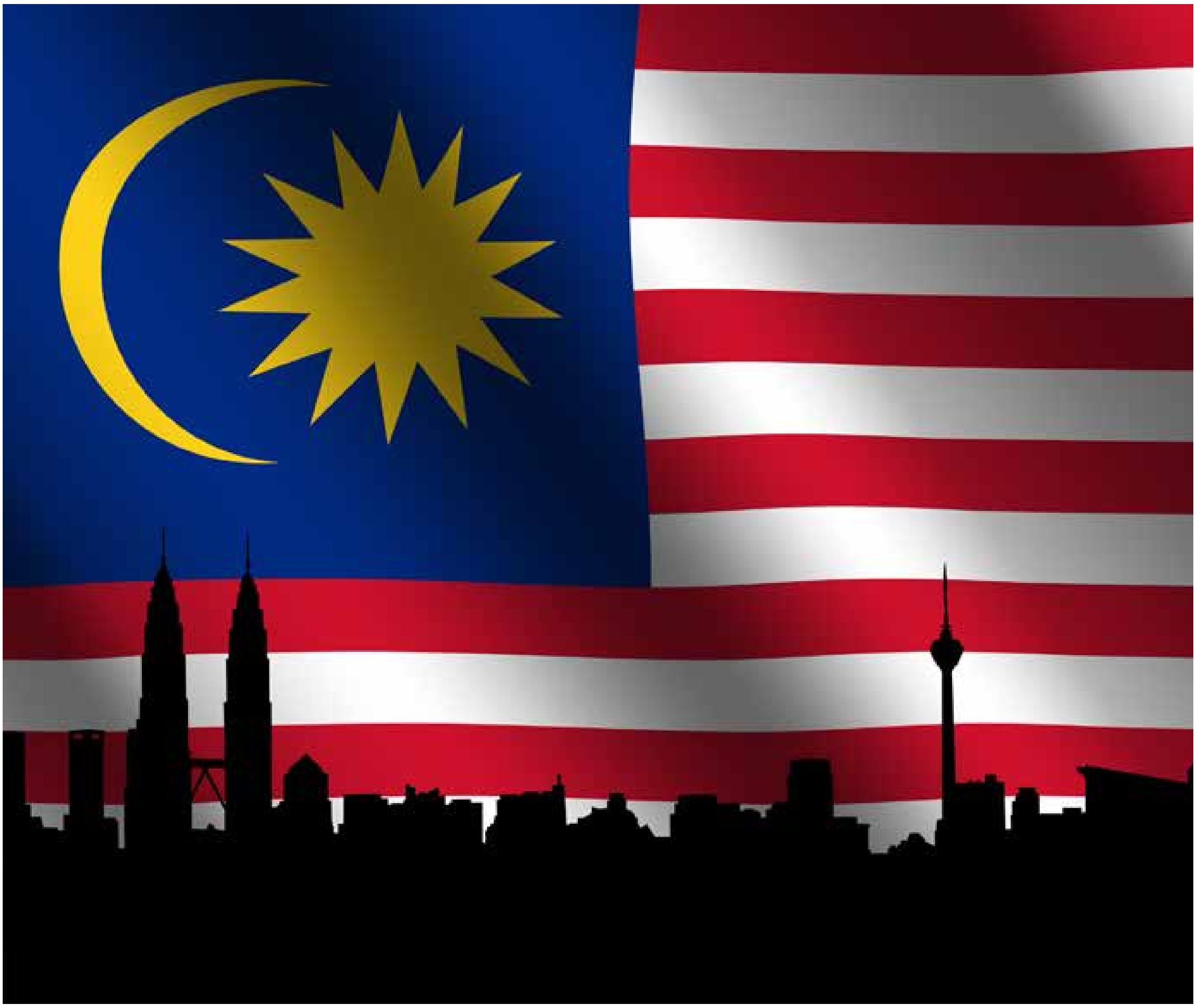
The bank hopes to continuously issue and develop sustainable and green Sukuk in the local and international markets.

Ekovar Green Sukuk Wakalah

TRY50 million (US$2.7 million)

14th September 2022

Summary of terms and conditions	
Issuer	Emlak Varlık Kiralama (100% subsidiary of Turkiye Emlak Katilim Bankasi)
Obligor	Ekovar Cevre Grup Geri Donusum Atik Depolama Insaat Taahut Sanayi Ve Ticaret (EKOVAR)
Size of issue	TRY50 million (US$2.7 million)
Mode of issue	Sale to qualified investor
Purpose	To purchase specific scraps to be recycled
Tenor	177 Days
Issue Date	14th September 2022
Maturity date	10th March 2023
Profit rate	27%
Payment	Periodic payment and principal amount will be paid at maturity
Currency	Turkish lira
Lead manager(s)	Turkiye Emlak Katilim Bankasi
Bookrunner(s)	Turkiye Emlak Katilim Bankasi
Governing law	Turkish law
Legal advisor(s)/ council	Mutlu Avukatlik Ortakligi
Islamic structure	Green Sukuk Wakalah
Listing	BIST – Istanbul Stock Exchange
Underlying asset	Non-hazardous waste to be recycled
Rating	'TR BBB+/Pozitif' by DRC Ratings
Shariah advisor(s)	Turkiye Emlak Katilim Bankasi's Shariah committee
Tradability	Yes
Face value/ minimum investment	TRY10,000 (US$537.73)
Investor breakdown	- Islamic funds 50% - Corporate investors 30% - Insurance and pension companies 20%



Case study: Malaysia's first sustainability ringgit Sukuk

The Malaysian government has issued its first ringgit-denominated sustainability Sukuk worth RM4.5 billion (US$968.5 million) on the 30th September 2022. The proceeds from the 15.5-year Sukuk facility will be utilized to finance or refinance eligible social and green projects as defined in the Malaysian government's SDG Sukuk Framework.

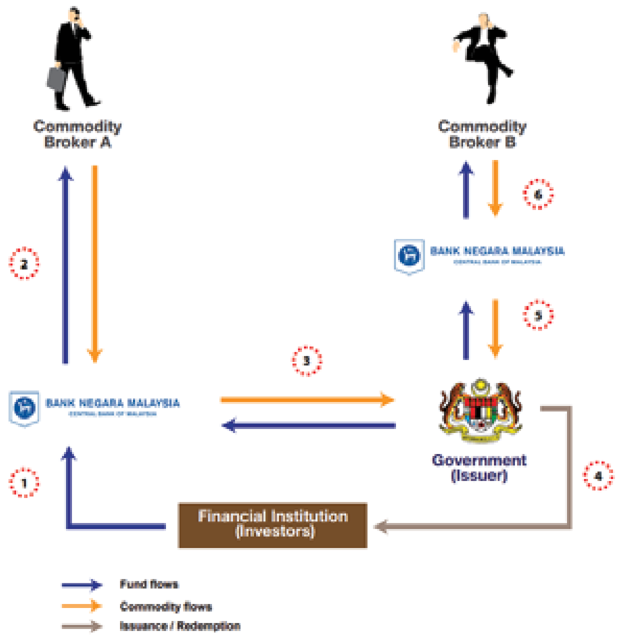
"The issuance will enable Malaysia to not only meet its commitments as a responsible nation and signatory to the Paris Agreement, but also further its efforts to advance its people's socioeconomic well-being," Tengku Zafrul Aziz, the Malaysian finance minister, said in a statement.

The Sukuk facility was issued via the Malaysian Government Investment Issues (MGII) instrument. It was offered via the first sustainable MGII issuance, which was announced in the 2022 Malaysian budget.

The facility is the government's first ringgit sustainability Sukuk, and more could potentially follow. About a week before the debut issuance, Tengku Zafrul revealed at an event that the government will issue up to RM10 billion (US$2.15 billion) in ringgit-denominated sustainability Sukuk starting in the fourth quarter of 2022.

The offering was priced at a profit rate of 4.66% and was oversubscribed by 2.38 times. It received 355 bids with total bids of RM10.7 billion (US$2.3 billion) and a cut off

Figure 1: Malaysian Government Investment Issue structure (based on Murabahah concept)

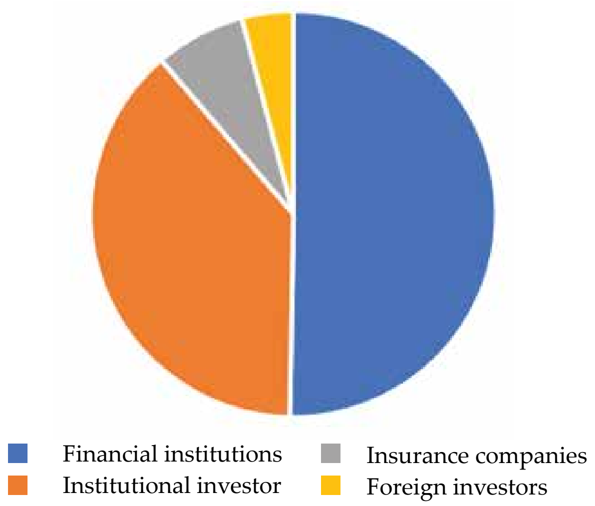


Source: Bank Negara Malaysia

rate of 80.34%. The issuance attracted investment from local financial institutions at 50.3%, institutional investors at 38.4%, insurance companies at 7.2% and foreign investors at 4.1%.

The finance minister further added that the issuance is a testament to the government's efforts in advancing climate action and accelerating the transition toward achieving a prosperous, inclusive and sustainable nation, in accordance with the 12th Malaysia Plan.

Chart 1: Investor breakdown



Source: Ministry of Finance

Malaysia's first sustaianbility ringgit Sukuk

RM4.5 billion (US$968.5 million)

30th September 2022

Summary of terms and conditions	
Issuer	Malaysian government
Size of issue	RM4.5 billion (US$968.5 million)
Mode of issue	Competitive multiple price auction and private placement
Purpose	To finance or refinance eligible social and green projects as defined in the Malaysian government's SDG Sukuk Framework.
Tenor	15.5 years
Issuance price	100%
Profit rate	4.66%
Payment	Semi-annual
Currency	Malaysian ringgit
Maturity date	31st March 2038
Principal dealer(s)	Affin Islamic Bank, AmBank Islamic, Bank Islam Malaysia, CIMB Islamic Bank, Hong Leong Islamic Bank, Maybank Islamic, RHB Islamic Bank
Governing law	Malaysian law
Islamic structure	Murabahah
Listing	Bursa Malaysia's Exempt Regime
Underlying asset	Shariah compliant commodities
Tradability	Yes
Investor breakdown	Local financial institutions 50.3%, institutional investors 38.4%, insurance companies 7.2%, and foreign investors 4.1%

Indonesia issues largest-ever global green Sukuk tranche

The Republic of Indonesia has issued its largest green Sukuk tranche to date worth US$1.5 billion on the 24th May 2022. The 10-year green tranche was issued as part of a dual-tranched US$3.25 billion issuance which included a US$1.75 billion five-year tranche. The total issuance is the country's largest-ever global US dollar Sukuk transaction issued.

The issuance met robust demand from investors, allowing the nation to upsize its transaction to a total of US$3.25 billion. The final order size for the issuance amounted to US$10.8 billion notwithstanding volatile markets, garnering strong demand from investors across Asia, the Middle East, Europe and the US. The green tranche was distributed 38% to Asia, 27% to Middle Eastern investors, 20% to the US and 15% to Europe.

The proceeds from the green tranche will be used exclusively to finance and refinance expenditures directly related to eligible SDG expenditures with a green and blue focus under Indonesia's SDGs Government Securities Framework.

The Sukuk facility was structured under the Wakalah concept with Ijarah and project assets listed under the pricing supplements. Payments of profits due under the Sukuk are funded by Ijarah payments, due from the country (as the lessee) to Perusahaan Penerbit SBSN Indonesia III (as the lessor) in respect of the lease of Ijarah assets and, when delivered, project assets.

"Payments of principal due under the Sukuk are funded by a combination of payment by Indonesia of the relevant exercise price under the purchase undertaking and a refund amount in respect of any project assets that are not delivered at the time of redemption," Xuan Jin, the counsel from White & Case, told ISFI. The firm acted as the English and New York law counsel to the arrangers and dealers on the update of the program, and to the joint lead managers on the issuance of the Sukuk.

This year's update of Indonesia's global medium-term note program, which the Sukuk facility was issued under, involved considerable amendments to the existing Islamic structure in order to bring it in line with market standards and enable the broadest distribution of the Sukuk. In particular, the regulatory developments in Shariah standards in the UAE had an impact on the structuring of this issuance. The issuance marks the first-ever Asia Pacific (APAC) precedent fully compliant with the standards set by the UAE's Higher Sharia Authority in line with AAOIFI principles.

"With the various elaborate amendments that have been introduced which include new partial loss concepts, tangibility event put rights, revisions to existing total loss event mechanics, consequential dissolution events and service agency expenses, we are confident that this milestone in the regional evolution of Sukuk documentation will set the path for future transactions in the APAC region," Husayn Reza, the counsel from Allen & Overy, told ISFI. The law firm acted as the legal advisor to the issuer and the Republic of Indonesia as to English and US law.

In addition to structural updates to the program, the green tranche is also the first-ever green tranche issued under the country's SDGs Government Securities Framework issued in 2021. The new framework has an added focus on the blue economy which promotes marine economic development to create economic growth and seeks to mitigate current and future anthropogenic damage to the marine environment.

Indonesian Global Sukuk 2022 Green Tranche

24th May 2022

Summary of terms and conditions	
Issuer	Perusahaan Penerbit SBSN Indonesia III
Obligor	Republic of Indonesia
Size of issue	US$1.5 billion
Mode of issue	Syndicated drawdowns under US$35 billion Sukuk program
Purpose	To finance and refinance expenditures directly related to 'Eligible SDGs Expenditures with Green and Blue focus' under Indonesia's SDGs Government Securities Framework.
Tenor	10 years
Issuance price	100%
Profit rate	4.7%
Payment	Semi-annual
Currency	US dollar
Maturity date	2032
Lead manager(s)	CIMB Investment Bank, Deutsche Bank, Dubai Islamic Bank, HSBC, Standard Chartered Bank
Bookrunner(s)	CIMB Investment Bank, Deutsche Bank, Dubai Islamic Bank, HSBC, Standard Chartered Bank
Co-managers(s)	BRI Danareksa Sekuritas, Trimegah Sekuritas Indonesia
Green structuring advisor(s)	HSBC, Standard Chartered Bank
Governing law	English/ Indonesian Law

Legal advisor(s)/ counsel	• Allen & Overy, legal advisor to the issuer and the ROI as to English and US law. Ary Zulfikar and Partners, legal advisor to the issuer as to Indonesian law. White & Case, legal advisor to the arrangers and dealers as to US and English law. Assegaf Hamzah & Partners, legal advisor to the arrangers and dealers as to Indonesian law. Clifford Chance, legal advisor to the delegate as to English law.
Islamic structure	Wakalah
Listing	NASDAQ Dubai and Singapore Exchange Securities Trading
Shariah opinion	Dewan Syariah Nasional of Majelis Ulama Indonesia, CIMB Islamic Bank , Khalij Islamic, Shariah advisor of Deutsche Bank AG London branch, Internal Sharia Supervisory Committee of Dubai Islamic Bank, HSBC Global Shariah Supervisory Committee, Standard Chartered Bank Global Sharia Supervisory Committee
Underlying asset	Ijarah and project assets listed under the pricing supplements
Obligor rating(s)	'Baa2/stable' (Moody's Investors Service), 'BBB/stable' (S&P Global Ratings), 'BBB/stable' (Fitch Ratings)
Face value/ minimum investment	US$200,000 and integral multiples of US$1,000 in excess thereof
Investor breakdown	**Type** Asset managers and fund managers (49%), financial institutions and banks (30%), insurance and pension funds (13%), central banks (7%), private banks (1%) **Geography** Asia (38%), the Middle East (27%), US (20%), Europe (15%)

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EVENTS 2023

ISLAMIC SUSTAINABLE FINANCE & INVESTMENT DIALOGUES 2023

ISFI Dialogues
16th March
Dubai

IFN KSA DIALOGUES 2023

IFN KSA Dialogues
29th May
Riyadh

IFN QATAR DIALOGUES 2023

IFN Qatar Dialogues
31st May
Doha

IFN UK FORUM 2023

IFN UK Forum
4th September
London

IFN OMAN FORUM 2023

IFN Oman Forum
12th September
Muscat

IFN ASIA FORUM 2023

IFN Asia Forum
2nd October
Kuala Lumpur

ISLAMIC SUSTAINABLE FINANCE & INVESTMENT FORUM 2023

ISFI Forum
3rd October
Kuala Lumpur

IFN INDONESIA DIALOGUES 2023

IFN Indonesia Dialogues
9th October
Jakarta

WORLD ISLAMIC FINANCE DIALOGUES 2023

World Islamic Finance Dialogues
12th December
Manama

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