Financial Sector as Catalyst to Sustainability

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Sustainability is gaining traction in the financial sector

Key developments observed

Governance & strategy

- Board & senior management increasingly understand importance & urgency of sustainability

Policy & framework

- Formulation of long-term sustainability strategies
- Integration of climate-related considerations into risk management framework & practices

Product development & solutions

- Offering of new sustainable or green financial products
- Assistance to customers to adopt sustainable practices

List

Reporting & disclosure

- Progressing towards adoption of TCFD* recommendations & better quality disclosure

Talent

- Creating staff awareness & building technical capabilities

More financial institutions have become signatories to UNEP FI Principles for Responsible Banking & Principles for Sustainable Insurance

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* Task Force on Climate-Related Financial Disclosures

Whole of sector approach through JC3 to ensure orderly transition to low-carbon economy - Minimises economic exclusion & societal displacement

Joint Committee on Climate Change (JC3)

Co-chairs:
Bank Negara Malaysia &
Securities Commission Malaysia
Members: Bursa Malaysia & 19 FIs

Sub-Committee 1: Risk Management

- Facilitate development of climate-related prudential standards and risk management policy
- Identify and formulate appropriate response to climate-related issues and risks

Sub-Committee 2: Governance & Disclosure

- Promote the adoption of TCFD recommendations
- Recommend strategies, initiatives and relevant best practices for financial institutions, including measures to mitigate risks of greenwashing

Sub-Committee 3: Product & Innovation

- Identify key impediments and gaps in demand and supply of green financing, investment and protection solutions to facilitate an orderly transition to a low-carbon economy
- Explore intermediation structures that embed consideration for climate risks and financial solutions
- Explore measures to increase supply of financing and protection solutions that support climate risks mitigation and adaptation

Sub-Committee 4: Engagement & Capacity Building

- Interface with non-financial services sectors, their key institutions and agencies to increase climate risks awareness
- Implement capacity building strategies and initiatives to upskill financial institutions in managing climate and transition-related risks and opportunities
- Promote alignment through engagements with key stakeholders on climate and transition initiatives

Sub-Committee 5: Bridging Data Gaps

- Identify crucial data and the relevant data sources
- Explore potential solutions to bridge the data gaps, for purposes of managing climate and environment-related risks within the financial sector and structuring of green finance solutions

Sources:
https://www.bnm.gov.my/-/inaugural-meeting-of-joint-committee-on-climate-change
https://www.bnm.gov.my/-/joint-statement-by-bank-negara-malaysia-and-securities-commission-malaysia-accelerating-climate-action-through-the-financial-sector
https://www.bnm.gov.my/-/joint-statement-bnm-sc-greening-the-financial-sector

JC3's immediate priorities to build a conducive sustainable finance ecosystem

- Climate Change and Principle-based Taxonomy (CCPT)[1]
- Guides for Climate Risk Management and Scenario Analysis & TCFD Application Guide
- VBIAF sectoral guides[2] on renewable energy, energy efficiency and palm oil & manufacturing, oil & gas, and construction & infrastructure
- Actions to bridge data gaps for business strategies & risk management
- Industry-wide climate change stress test (CCST)
- Mandatory climate-risk disclosures by FIs
- Scaling up green & transition finance solutions
  - Partnerships between FIs & business leaders to help & nurture SMEs in value chain to transition
- Scaling up capacity building programmes
- Engagements with Government & agencies

Sources:
1 https://www.bnm.gov.my/-/climate-change-principle-based-taxonomy
2 https://aibim.com/value-based-intermediation

Key features of Climate Change and Principle-based Taxonomy (CCPT)

Main Considerations

1. Provides a framework that facilitates robust and consistent assessments of economic activities and their associated **impacts on climate and the broader environment**
2. Considers the state of economic development and **different stages of transitioning** across economic agents
3. **Supports transition** of economic activities that currently do not contribute to climate change objectives

5 Guiding Principles (GP)

1. **Climate Change Mitigation (GP1)**
2. **Climate Change Adaptation (GP2)**
3. **No Significant Harm to the Environment (GP3)**
4. **Remedial Measures to Transition (GP4)**
5. **Prohibited Activities (GP5)**

Progressive classification system to acknowledge concrete transition efforts and commitments

Classification		Economic Activity		Overall Business	
		GP1	GP2	GP3	GP4
Supporting Activities with positive impacts on climate change, and causing no significant harm to the environment	**C1**	GP1 or GP2 or both		✓	
Transitioning Activities causing significant harm to the environment but remedial measures taken to reduce harm	**C2**	GP1 or GP2 or both		✗	✓
	C3	✗		✗	✓
Watchlist Activities causing significant harm to the environment and no remedial measures taken to reduce harm	**C4**	GP1 or GP2 or both		✗	✗
	C5	✗		✗	✗

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Source:
https://www.bnm.gov.my/-/climate-change-principle-based-taxonomy

Use case 1: Financing fossil-fuel related activities

Background	Transaction Level	Overall Business Level
• Customer involved in both upstream and downstream • Good track record in terms of demonstrating commitments in addressing climate change and the associated environmental impacts • Demonstrated a clear sustainability strategy e.g. to achieve net zero carbon emissions by 2050 • Commitment to reduce GHG emissions, focusing on liquefied natural gas while transitioning towards renewable energy solutions. • Complies to EQA 1974 and ISO 14001:2003 Environmental Management Systems certification for 80% of its exploration with target to achieve 100% by a committed timeline	**Scenario 1 (Bond Issuance)** GP1 GP2 • Purpose – to facilitate diversification on renewal energy. • Meets GP1 as directly supports climate change mitigation but not adaptation. **Scenario 2 (Revolving Credit)** GP1 GP2 • Purpose – facilitate expansion of upstream business • Do not contribute to climate change mitigation or adaptation objective	**Scenario 1 (Bond Issuance)** GP3 GP4 • Customer engages in other upstream and downstream oil and gas activities that do have potential negative effects on the environment. • However, customer has clear plans and practices in place to support transition efforts towards a low carbon and climate resilient economy. → C2 **Scenario 2 (Revolving Credit)** GP3 GP4 • Customer's activities do have potential negative effects on the environment. • Nonetheless, customer has clear plans and is adopting sustainable practices to support the transition efforts towards a low carbon and climate resilient economy such as commitment to reduce GHG emissions and focus on supplying low carbon fuels. → C3

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Source:
https://www.bnm.gov.my/-/climate-change-principle-based-taxonomy

Legend :
- Meets GP (green)
- Does not meet GP (red)

Use case 2 : Financing expansion of oil palm plantation

Background

- Mid-sized customer requests for project financing to fund new cultivation on existing agriculture land and implement measures to support the adoption of sustainable practices.
- Has obtained MSPO certification covering 7 MGP* for oil palm plantation and 6 MGP for its oil palm mills as follows:
  - ✓ Management commitment & responsibility
  - ✓ Transparency
  - ✓ Comply with legal req.
  - ✓ Social responsibility, health, safety and employment conditions
  - ✓ Environment, natural resources, biodiversity and ecosystem services
  - ✓ Best practices
  - ✓ Development of new planting

Transaction level

GP1 **GP2**

MSPO certified and has taken measures to reduce GHG emissions:

i) Systematically collect, accumulate and transfer oil palm biomass for processing by biofuel producer

ii) Use of hybrid vehicles for maintenance work and transportation of palm fruits

Has also taken measures to increase climate resilience:

i) Install water harvesting system (e.g. redirecting water from drainage and storage of rainwater as contingency for dry spells periods)

*MGP – Malaysian Sustainable Palm Oil General Principles

Overall Business Level

GP3 **GP4** **Scenario 1**

Taken actions on remedial actions to reduce harm to the environment and subjected to periodic due diligence on progress of actions.

i) No use of open burning for cultivation and waste disposal

ii) Management of water table in existing peat areas to reduce peat subsidence rate i.e. release of GHG emission from peat soil

iii) Use palm oil mill effluent as a substitute for inorganic fertiliser

C2

GP3 **GP4** **Scenario 2**

On top of the remedial actions above, customer is also implementing international best practices to substantially limit harm to environment**:**

i) No new deforestation and no new cultivation on peatland

ii) Maintain a ground cover of natural vegetation in existing peatland to keep surface moist, minimize irreversible drying and reduce GHG emission

iii) Construct water management and drainage systems to maintain acceptable level of water table for existing peatland

iv) No new cultivation on steep terrains (slope of 25 degree or more)

v) Conduct periodic soil testing to determine its organic matter and pH structure, and maintain soil fertility

C1

Legend : Meets GP

Does not meet GP

VBIAF Sectoral Guides as ESG-risk management toolkit on selected sectors

VBIAF Sectoral Guides in development

- Oil & gas
- Manufacturing
- Construction & infrastructure

VBIAF Sectoral Guides issued

- Palm oil
- Renewable energy
- Energy efficiency

**Issued on 31 March 2021*

Key components of VBIAF Sectoral Guides

1 Scope

Covers upstream, downstream/supply chain of a sector

2 Sector context

Provide snapshots of key national policies & targets to inform on sector relevance in contributing to national sustainable growth

3 Commercial proposition

Information to inform commercial viability of sector and/or certainty of project/ companies

4 Impact-based risk management

Salient ESG risks relevant to the sector, its risk transmission, metrics, mitigation reporting & monitoring

1. Expectation for FIs to set **internal policy statement** to set clear commitment to support these sectors/ activities through a nurturing approach.
2. Key **ESG risks and risk transmission** are provided including:
    1. Environment – land access, land-use, land-use change & acquisition, biodiversity loss & deforestation, climate/ GHG emissions, water, pollution prevention & resource use efficiency.
    2. Social – labour rights & working conditions, occupational safety & health, human rights & community relations.
    3. Governance – governance mechanism for sustainability & corruption.
3. **Customer on-boarding checklist** based on key impact categories & potential risk transmission channels.
4. **Transaction-level risk metrics & risk score** for each risk categories are provided to guide FIs in measuring the risks.
5. **Certifications** to facilitate FIs' due diligence process.
6. **GHG calculator/methodology** listed for FIs to measure & consider to disclose finance emissions & related risks of their counterparties in line with TCFD recommendations.

Thank You

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Offerings by financial sector - sustainable & green financial products

Banking

- **Sustainability-linked loans**
  - CIMB
- **Green deposits**
  - CIMB EcoSave Savings Account-I
- **Preferential rates for hybrid vehicle & certified green residential properties**
  - CIMB
- **Green Loans**
  - Green Technology Financing Scheme
  - Renewable Energy Financing (Maybank, CIMB, Hong Leong)

Insurance

- **Solar PV insurance**
  - SolarPro All Risk Insurance by Allianz Malaysia Bhd via Anora Agency Sdn Bhd
- **Environmental Impairment Liability Insurance**
  - AIG Malaysia
  - Chubb Insurance Malaysia

Capital Markets

- **Green Bonds/SRI Sukuk**
- **SDG Bonds/Sukuk**
  - CIMB SDG bond
  - HSBC Amanah SDG Sukuk
- **Sustainability Sukuk**
- SME Bank
- **ESG Funds/SRI Funds**
  - BIMB ESG Sukuk Fund
  - Public Mutual e-Islamic Sustainable Millennial Fund

Source: RAM Sustainability