



**Suruhanjaya Sekuriti**  
Securities Commission  
Malaysia

# **Sustainable and Responsible Investment Sukuk Framework**

## **An Overview**

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**DISCLAIMER**

This document aims to provide a general understanding of the subject and is not an exhaustive write-up. It is not intended to be a substitute for legal advice nor does it diminish any duty (statutory or otherwise) that may be applicable to any person under existing laws.

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**PART 1**  
**HIGHLIGHTS OF THE FRAMEWORK**



## INTRODUCTION

The Securities Commission Malaysia (SC) introduced the Sustainable and Responsible Investment (SRI) Sukuk framework (the Framework) in 2014 to facilitate the creation of an ecosystem that promotes sustainable and responsible investing for SRI investors and issuers.

The Framework is in accordance with international standards and best practices which emphasise the importance of transparency in respect of disclosure requirements.

This document serves as a reference to the relevant stakeholders, which must be read together with other requirements in the *Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework* and *Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors*, whichever applicable.

## WHAT IS SRI SUKUK?

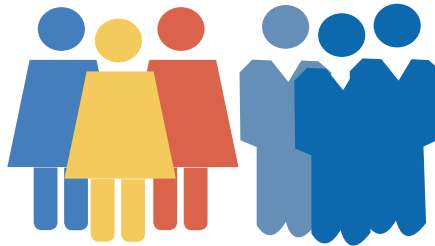
SRI sukuk is where the sukuk proceeds will be applied exclusively for funding of any activities or transactions relating to the eligible SRI projects.

## WHY SRI SUKUK?

1. Facilitate financing needs for projects that meet the United Nations Sustainable Development Goals (SDGs)



2. Investor diversification



3. Attract investors with SRI mandates to invest in:



Green



Social



Sustainable



Waqf  
properties /  
assets

# ALIGNING THE FRAMEWORK WITH THE SDGs

## 17 SDGs Descriptors

- Goal 1: No Poverty
- Goal 2: Zero Hunger
- Goal 3: Good Health and Well-Being
- Goal 4: Quality Education
- Goal 5: Gender Equality
- Goal 6: Clean Water and Sanitation
- Goal 7: Affordable and Clean Energy
- Goal 8: Decent Work and Economic Growth
- Goal 9: Industry, Innovation and Infrastructure
- Goal 10: Reduced Inequality
- Goal 11: Sustainable Cities and Communities
- Goal 12: Responsible Consumption and Production
- Goal 13: Climate Action
- Goal 14: Life Below Water
- Goal 15: Life on Land
- Goal 16: Peace, Justice and Strong Institutions
- Goal 17: Partnerships to Achieve the Goal

ELIGIBLE SRI PROJECTS	SUSTAINABLE DEVELOPMENT GOALS
<b>GREEN</b>	
Renewable energy	     
Energy efficiency	
Pollution prevention and control	  
Environmentally sustainable management of living natural resources and land use	     
Terrestrial and aquatic biodiversity conservation	
Clean transportation	
Sustainable water and wastewater management	  
Climate change adaptation	  
Eco-efficient and/ or circular economy adapted products, production technologies and processes	  

ELIGIBLE SRI PROJECTS	SUSTAINABLE DEVELOPMENT GOALS
<b>GREEN</b>	
Green buildings which meet regional, national or internationally recognised standards or certifications	
<b>SOCIAL</b>	
Affordable basic infrastructure	     
Access to essential services	       
Affordable housing	 
Employment generation including the potential effect of SME financing and microfinance	 
Food security	 
Socioeconomic advancement and empowerment	       
<b>WAQF PROPERTIES/ASSETS</b>	
Development of <i>waqf</i> properties or assets	       



## KEY COMPONENTS OF THE FRAMEWORK



### UTILISATION OF PROCEEDS

Proceeds raised from the issuance of the SRI sukuk are utilised only for the purpose of funding any activities or transactions relating to the eligible SRI projects.



### PROCESS FOR PROJECT EVALUATION AND SELECTION

Establish internal processes for evaluation and selection of the eligible SRI projects.



### MANAGEMENT OF PROCEEDS

Proceeds allocated for the eligible SRI projects are credited into a designated account or otherwise tracked in an appropriate manner.



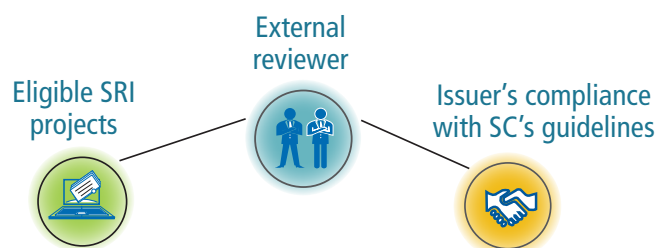
### REPORTING

Annual reporting on the following:

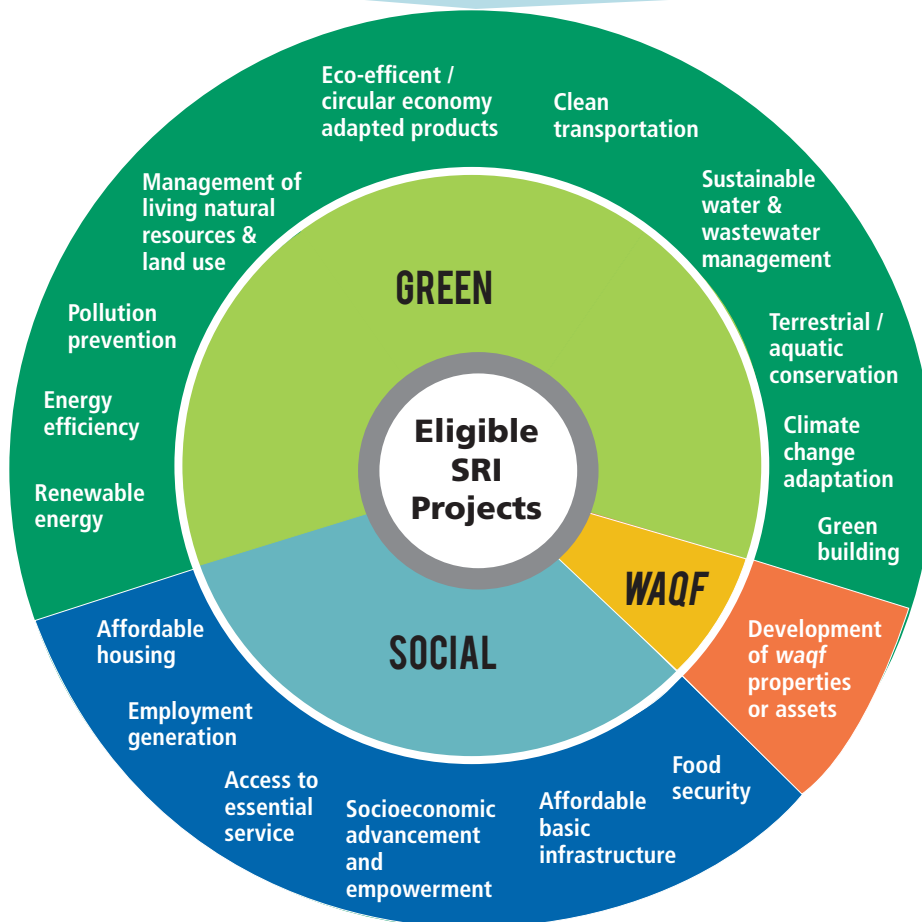
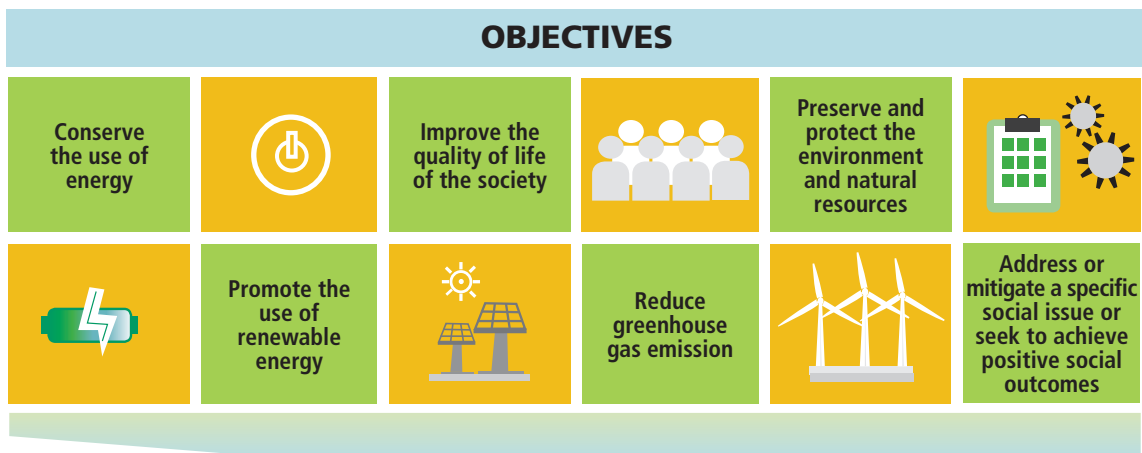
- Original amount allocated for the eligible SRI projects;
- Amount utilised for the eligible SRI projects;
- Unutilised amount and where such unutilised amount is placed or invested pending utilisation; and
- List of the eligible SRI projects in which the proceeds have been allocated to as well as brief description of the said eligible SRI projects and their impact or expected impact.

## EXTERNAL REVIEW

An external reviewer may be appointed to assess and provide report on the eligible SRI projects or the issuer's compliance with the relevant requirements as set out in the SC's guidelines.



## ELIGIBLE SRI PROJECTS



Note: There can also be a combination of green and social projects.

## INCENTIVES AND GRANT SCHEME

### 1. Tax Deduction on SRI Sukuk Issuances



- Tax deduction for the expenditure incurred on the issuance of SRI sukuk approved or authorised by or lodged with the SC until the year of assessment 2023.
- 90% of the proceeds raised are solely used for the purpose of funding SRI projects as specified in the Guidelines by the SC.

### 2. Green SRI Sukuk Grant Scheme (the Grant)



#### Objective

Extended to issuers to fund an external review cost relating to the green SRI sukuk issuance under the Framework.



#### Claim

- Issuer can claim for the Grant based on an issue or programme.
- Should there be more than one issuances requiring a separate external review, the issuer is able to claim on that review cost incurred.



#### Effective date of the Grant

From January 2018 until fully utilised.



#### Claim amount

90% of the actual external review cost subject to a maximum of RM300,000.



#### Effective date for green SRI sukuk issuance that qualifies for the Grant

From July 2017 onwards.



#### Application

- Application form is available at the Capital Markets Malaysia website – [www.capitalmarketsmalaysia.com](http://www.capitalmarketsmalaysia.com).
- The Grant will be paid on a reimbursement basis within 60 days upon complete submission.

**PART 2**

**PROVISIONS ON SUSTAINABLE AND  
RESPONSIBLE INVESTMENT SUKUK**



## CHAPTER 7

# SUSTAINABLE AND RESPONSIBLE INVESTMENT SUKUK<sup>1</sup>

- 7.01 This chapter sets out the additional requirements for an issuance of SRI sukuk.
- 7.02 For the purpose of this chapter, SRI sukuk refers to sukuk in which its proceeds will be applied exclusively for funding of any activities or transactions relating to the Eligible SRI projects.
- 7.03 An issuer must not–
- (a) use or adopt the term “SRI sukuk”; or
  - (b) hold itself out as an issuer of such SRI sukuk,
- unless the issuance of the SRI sukuk has complied with these Guidelines.
- 7.04 An issuer who wishes to issue an SRI sukuk must establish policies and processes to ensure compliance with the SRI Sukuk Framework as set out in these Guidelines.
- 7.05 The information relating to the issuer and the details of the issuer’s SRI Sukuk Framework must be made publicly accessible via a designated website to be disclosed by the issuer. Such information in the designated website must be made available at the point of issuance and throughout the tenure of the SRI sukuk.
- 7.06 Where a special purpose vehicle is an issuer, all requirements applicable to the issuer in these Guidelines shall also apply, where applicable, to the obligor.

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<sup>1</sup> This part is an extract of the *Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework*. For offering to retail investors, please refer to Chapter 20 of the *Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors*.

## Eligible SRI projects

7.07 An Eligible SRI project refers to a project that seeks to achieve any one or a combination of the following objectives:

- (a) Preserving and protecting the environment and natural resources;
- (b) Conserving the use of energy;
- (c) Promoting the use of renewable energy;
- (d) Reducing greenhouse gas emission;
- (e) Addressing or mitigating a specific social issue or seeking to achieve positive social outcomes especially but not exclusively for a target population; or
- (f) Improving the quality of life of the society.

*Guidance to subparagraph 7.07(e):*

*Examples of target populations include, but are not limited to the following:*

- (a) *Living below the poverty line;*
- (b) *Excluded and/or marginalised populations and/or communities;*
- (c) *Vulnerable groups as a result of natural disasters;*
- (d) *People with disabilities;*
- (e) *Migrants and/or displaced persons;*
- (f) *Undereducated;*
- (g) *Underserved, owing to lack of quality access to essential goods and services;*  
*or*
- (h) *Unemployed.*

7.08 The Eligible SRI projects may include, but not limited to the following:

- (a) Green projects that relate to–
  - (i) renewable energy;
  - (ii) energy efficiency;
  - (iii) pollution prevention and control;
  - (iv) environmentally sustainable management of living natural resources and land use;
  - (v) terrestrial and aquatic biodiversity conservation;
  - (vi) clean transportation;
  - (vii) sustainable water and wastewater management;
  - (viii) climate change adaptation;
  - (ix) eco-efficient and/ or circular economy adapted products, production technologies and processes; and
  - (x) green buildings which meet regional, national or internationally recognised standards or certifications;
  
- (b) Social projects that relate to–
  - (i) affordable basic infrastructure;
  - (ii) access to essential services;
  - (iii) affordable housing;
  - (iv) employment generation including the potential effect of SME financing and microfinance;
  - (v) food security; and
  - (vi) socioeconomic advancement and empowerment;

- (c) Projects which are the combination of Green and Social projects as described in (a) and (b) above; and
- (d) *Waqf* projects that relate to the development of *waqf* properties or assets.

## SRI Sukuk Framework

7.09 The core components of the SRI Sukuk Framework are set out as follows:

- (a) Utilisation of proceeds;
- (b) Process for project evaluation and selection;
- (c) Management of proceeds; and
- (d) Reporting.

### A. **Utilisation of Proceeds**

7.10 An issuer must ensure that the proceeds raised from the issuance of the SRI sukuk are utilised only for the purpose of funding any activities or transactions relating to the Eligible SRI projects as described in paragraph 7.08 above.

*Guidance to paragraph 7.10:*

*Funding of the Eligible SRI projects may include the following activities or transactions:*

- (a) *Purchase of receivables arising from the financing of an Eligible SRI project. The receivables must be Shariah compliant;*
- (b) *Acquisition of an Eligible SRI project either directly or through a company under which the Eligible SRI project is being held;*
- (c) *Refinancing of existing borrowings or financing facilities which have been utilised to fund an Eligible SRI project; or*
- (d) *Other related and supporting expenditures such as research and development, and may relate to more than one Eligible SRI projects.*



7.11 In relation to the activities or transactions that involve acquisition of a company which carries on the Eligible SRI projects, an issuer must ensure that the company that is to be acquired does not carry on any other business or projects except for the Eligible SRI projects.

**B. *Process for Project Evaluation and Selection***

7.12 An issuer must establish internal processes for evaluation and selection of the Eligible SRI projects as identified in paragraph 7.08 above.

**C. *Management of Proceeds***

7.13 An issuer must ensure that the proceeds allocated for the Eligible SRI projects are credited into a designated account or otherwise tracked in an appropriate manner.

**D. *Reporting***

7.14 An issuer must provide the following information to the sukukholders annually through a designated website:

- (a) The original amount allocated for the Eligible SRI projects;
- (b) The amount utilised for the Eligible SRI projects;
- (c) The unutilised amount and where such unutilised amount is placed or invested pending utilisation; and
- (d) The list of the Eligible SRI projects in which the SRI sukuk proceeds have been allocated to and a brief description of the said Eligible SRI projects and their impact or expected impact, including the key underlying methodology or assumptions used to determine the impact or expected impact.

*Guidance to subparagraph 7.14(d):*

*In reporting the impact or expected impact of the Eligible SRI projects, an issuer may use qualitative performance indicators and where feasible, quantitative performance measures. Examples of quantitative measures for projects that fall under the category of renewable energy or energy efficiency – energy capacity, electricity generation, greenhouse gas emissions reduced or avoided, number of people provided with access to clean power, decrease in water use or reduction in the number of cars required.*

*Examples of quantitative performance measures for projects that fall under the category of social projects include the number of beneficiaries, reduction in unemployment, increase in number of public transport users, increase in literacy rate or increase in life expectancy.*

7.15 Where an issuer is unable to make available comprehensive information as specified in paragraph 7.14 above due to confidentiality agreements or competitive considerations, such issuer may provide the information in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories).

## Disclosure requirements

7.16 For the purpose of disclosure of the details of the issuer and the SRI Sukuk Framework under paragraph 7.05 above, the following information must be included:

- (a) The overall SRI objectives that the issuer intends to achieve;
- (b) The utilisation of proceeds from the issuance of the SRI sukuk. Where all or part of the proceeds are used for refinancing, an issuer must provide the amount of proceeds being allocated for refinancing and which Eligible SRI projects to be refinanced;
- (c) The Eligible SRI projects in which the proceeds will be allocated;
- (d) The details of the Eligible SRI projects and to the extent possible, impact objectives from the Eligible SRI projects;

- (e) The processes used by the issuer to evaluate and select the Eligible SRI projects;
- (f) The criteria used by the issuer to identify and manage material environmental or social risks associated with the Eligible SRI projects;
- (g) The processes used by the issuer to manage the proceeds from the issuance of the SRI sukuk; and
- (h) A statement that the issuer has complied with the relevant environmental, social and governance standards or recognised best practices relating to the Eligible SRI projects.

### **External review**

- 7.17 If an external reviewer is appointed to assess and provide report on the Eligible SRI projects or the issuer's compliance with the requirements under these Guidelines, such external reviewer's report must be made available on the designated website.

**PART 3**  
**FREQUENTLY-ASKED QUESTIONS**



## FAQs

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1. Is the SRI Sukuk Framework aligned with the international standards?	The Framework is benchmarked against international standards and best practices.
2. What is an external review and the process of appointing an external reviewer?	<p>An external review may come in the form of a second-party opinion, verification, certification as well as rating or scoring. The scope of the external reviewer, among others, is to assess and provide report on the eligible SRI projects or the issuer's compliance with the Framework.</p> <p>The issuer has the option to appoint an external reviewer either locally from Malaysia or internationally.</p>
3. How long does the process of an external review take?	The process of an external review is dependent on the complexity of the eligible SRI projects. An external review can take anywhere from two weeks to more than a month, upon receipt of complete information. For more details on the process, the issuers and investors are encouraged to consult their external reviewer.
4. Would an issuer of a Social SRI Sukuk be entitled to apply for the Green SRI Sukuk Grant Scheme (Grant)?	No. Only an issuer of a Green SRI sukuk is entitled to apply for the Grant. The Grant is to defray the cost of external review for the eligible green projects under the Framework.
5. Are there any other additional requirements that an issuer needs to comply with in issuing the SRI sukuk?	For the offering of SRI sukuk to retail investors, an issuer must comply with the <i>Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors</i> . However, for the offering of SRI sukuk to sophisticated investors, an issuer must comply with Section B, Part 3 of the <i>Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework</i> .

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