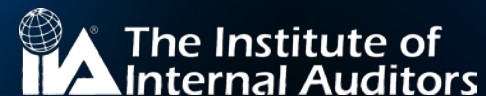


Environmental, Social and Governance (ESG)

Ms Phang Oy Cheng
(KPMG Management & Risk Consulting Sdn. Bhd)

The Institute of Internal Auditors Malaysia
(IIA Malaysia)

3 February 2020



Speaker



Phang Oy Cheng

Executive Director of Governance and Sustainability

PHANG OY CHENG is the Executive Director of **Governance & Sustainability** in KPMG Malaysia. She has **30 years** of experience in sustainability consulting and has successfully led public listed companies in Malaysia, Thailand and Australia with working exposure in Singapore, Indonesia, Philippines, Vietnam, China, India, Japan and Brunei. She successfully established and managed consulting companies, and has extensive experience in **sustainability performance improvements, corporate sustainability needs and climate mitigation.**

Exploring ESG

Environmental, Social, and Governance (ESG) includes a wide range of scoring categories and non-financial performance indicators to assess the sustainability of a business and the impact of the company's products and business practices on the planet and society.

ESG factors include (but are not limited to):

- Environmental criteria
- Social criteria
- Governance criteria

Transparency is a core element of responsible business practices and, for this, ESG provides a framework for action, measurement and reporting

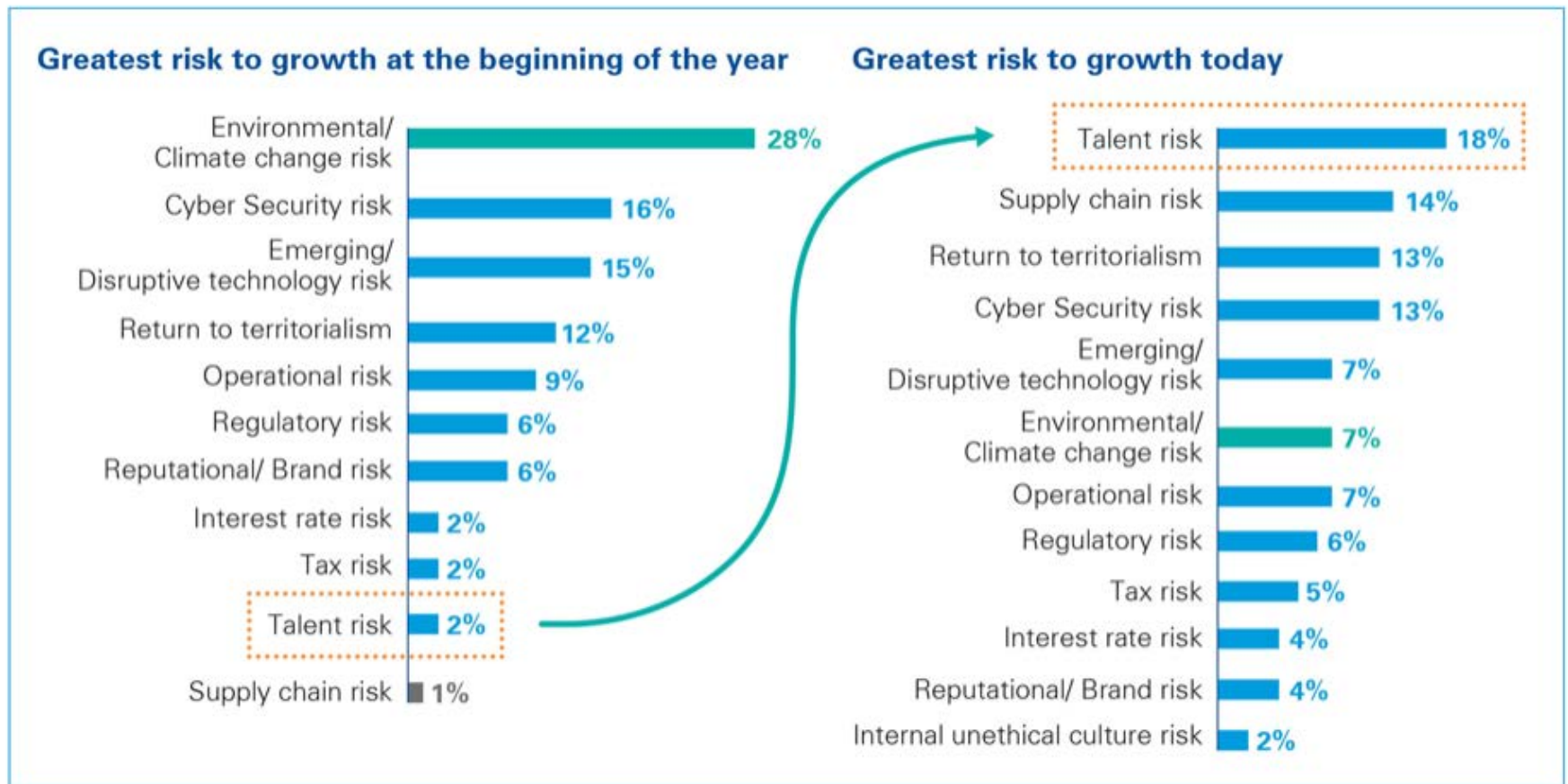


What is ESG Risk?

ESG is a subset of non-financial performance indicators which include sustainable, ethical and corporate governance issues ensuring there are systems in place to ensure accountability. They are factors in investment considerations, used in risk assessment strategies incorporated into both investment decisions and risk management processes.



The Risk Landscape Has Changed



Source: KPMG 2020 CEO Outlook: COVID-19 Special Edition - Asia Pacific highlights

Global Risk Landscape 2021



Top Risks by likelihood

by likelihood

- 1 Extreme weather
- 2 Climate action failure
- 3 Human environmental damage
- 4 Infectious diseases
- 5 Biodiversity loss
- 6 Digital power concentration
- 7 Digital inequality
- 8 Interstate relations fracture
- 9 Cybersecurity failure
- 10 Livelihood crises

Top Risks by impact

by impact

- 1 Infectious diseases
- 2 Climate action failure
- 3 Weapons of mass destruction
- 4 Biodiversity loss
- 5 Natural resource crises
- 6 Human environmental damage
- 7 Livelihood crises
- 8 Extreme weather
- 9 Debt crises
- 10 IT infrastructure breakdown

Source: WEF The Global Risks Report 2021

Rise of Human Rights Risks?

Withhold Release Orders (WRO) list issued by the U.S. Customs and Border Protection (CBP) included four companies from Malaysia as of December 2020:

- Sime Darby Plantation Berhad,
- FGV Holdings Berhad,
- Top Glove Sdn Bhd, and
- TG Medical Sdn Bhd.

CBP Issues Detention Order on Palm Oil Produced with Forced Labor in Malaysia

Release Date: September 30, 2020

WASHINGTON—Effective September 30 at all U.S. ports of entry, U.S. Customs and Border Protection (CBP) will detain palm oil and palm oil products made by FGV Holdings Berhad and its subsidiaries and joint ventures.

CBP's Office of Trade directed the issuance of a Withhold Release Order (WRO) against palm oil and palm oil products made by FGV based on information that reasonably indicates the use of forced labor. The order is the result of a year-long investigation that revealed forced labor indicators including abuse of vulnerability, deception, restriction of movement, isolation, physical and sexual violence, intimidation and threats, retention of identity documents, withholding of wages, debt bondage, abusive working and living conditions, and excessive overtime. The investigation also raised concerns that forced child labor is potentially being used in FGV's palm oil production process.

CBP Public Affairs

Contact information for Media:

Phone: (202) 344-1780

Email: [CBP Media Relations](#)

All Other
Inquiries: (202) 325-8000

Moody's: Withhold release order against Sime Darby Plantation is credit negative

Bernama / Bernama

January 07, 2021 13:23 pm +08



Back Suhakam in probes into human rights abuses, says rights group

FMT Reporters - January 29, 2021 3:02 PM

Hidden camera reveals 'appalling' conditions in overseas PPE factory supplying Canadian hospitals, expert says



Government investigating allegations of 'forced labour' following Marketplace findings

Eric Szeto, Caitlin Taylor, Asha Tomlinson - CBC News -

Posted: Jan 15, 2021 4:00 AM ET | Last Updated: January 17



Hidden camera footage inside the world's largest glove manufacturer in Malaysia shows several employees working in close quarters. Shortly after, there was a massive COVID-19 outbreak that led to nearly 6,000 infections. (Name withheld)

Why Take Action to Address Human Rights Issues?



Non-compliance with regulations and standards

- Increasing human rights legislation
- Growing pressure from international guidelines and standards such as the UN Guiding Principles on Business and Human Rights (UNGPs) and the GRI sustainability reporting standards

Achieving company's purpose

- Failure to address human rights issues undermines company purpose, culture and values



Damage to reputation and relationships

- Scrutiny from **media & NGOs** leading to brand damage and loss of market share
- Stricter **customer** demands on human rights performance
- Poor performance can lead to loss of difficulty in attracting **employees**
- Strict requirements on human rights based on the code of conduct of the **supplier**

Loss of investors and increasing lender scrutiny

- Loss of investors due to a human rights scandals (i.e. pension funds)
- Banks implementing stricter human rights lending conditions
- Stock market indices (i.e. FTSE4Good, DJSI) demanding greater transparency

Highlight

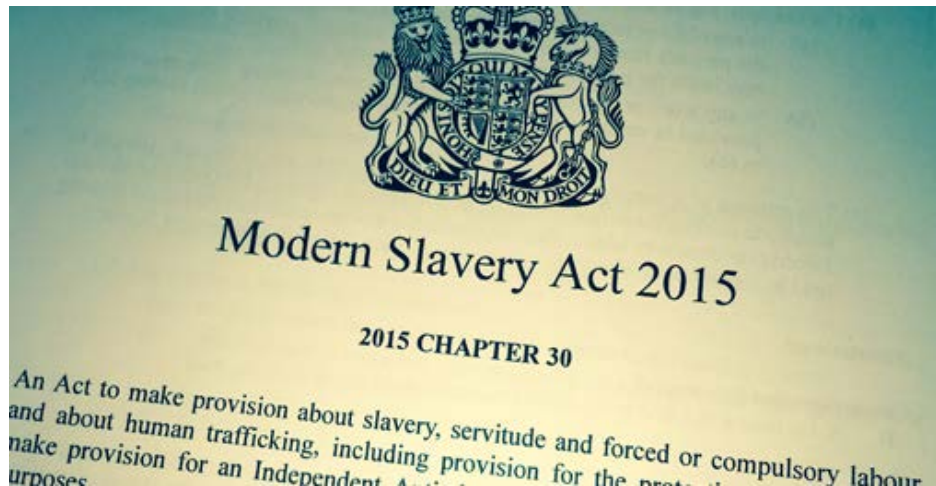
ESG issues weigh on Top Glove's valuations

Arjuna Chandran Shankar / theedgemarkets.com
December 10, 2020 16:35 pm +08



Source: KPMG Addressing Human Rights in Business – Executive Perspective

Modern Slavery Act 2015



- Modern Slavery offences include **slavery, servitude and forced or compulsory labour, human trafficking and exploitation.**
- Applicable to **G20 countries** and used as a model
- Designed to **combat modern slavery and consolidate previous offences** relating to trafficking and slavery

What is required to comply?

- Ensure **no slavery** in the organisation's structure, business and supply chains
- Have **policies** in relation to slavery and human trafficking
- **Due diligence processes** in relation to slavery and human trafficking in the business and supply chains
- **Mitigate** the parts of the business and supply chains where there is a **risk** of slavery and human trafficking, and have informed steps to assess and manage it
- Effectiveness in ensuring that slavery and human trafficking is not taking place in the business or supply chains, measured against **KPI**

Modern Slavery Regulations in Malaysia

- Malaysia is on the **Tier 2 Watch List**
- The Government of Malaysia does **not fully meet the minimum standards for the elimination of trafficking**; however, it is making significant efforts to do so
- The **Ministry of Human Resources** drafted legislative changes that would cover **domestic workers under employment laws**, but the new regulations had not been approved by the Cabinet by the end of the reporting period, and recruitment practices often exposed foreign workers to debt bondage

Malaysian Acts and Regulations:

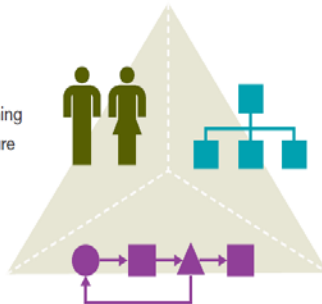
- The Malaysian government has amended the **foreign worker levy and Private Employment Agency Act** to shift debt burdens away from migrant workers
- The **2007 Anti-Trafficking in Persons Act – amended in 2010 and 2015** – criminalised labour and sex trafficking and prescribed punishments of up to 20 years imprisonment, which were sufficiently stringent
- Home Affairs Ministry heads the **Anti-Trafficking Council (MAPO)**
- **Employment Act 1955**

ESG Fundamentals for Resilience & Recovery

Organisational rethink

People

Leadership
Skills
Workforce planning
Values and culture



Processes

Decision making
End-to-end business processes
Cross-functional linkages
Performance and knowledge-management systems

Structure

Reporting lines
Roles and accountabilities
Governance structures
Geographic footprint
Partnerships

Importance of scenario planning



Risk management needs to be elevated for post COVID-19 challenges



In essence the issues which we consider now in an organisation needs to change...



GUIDELINES ON CONDUCT OF DIRECTORS OF LISTED CORPORATIONS AND THEIR SUBSIDIARIES

SC-GL/4-2020

Issued: 30 July 2020

A listed corporation and its directors must ensure there is an **adequate group wide framework** [...] [...] including oversight of group financial and **non-financial performance, business strategy and priorities, risk management including material sustainability risks**, and corporate governance policies and practices

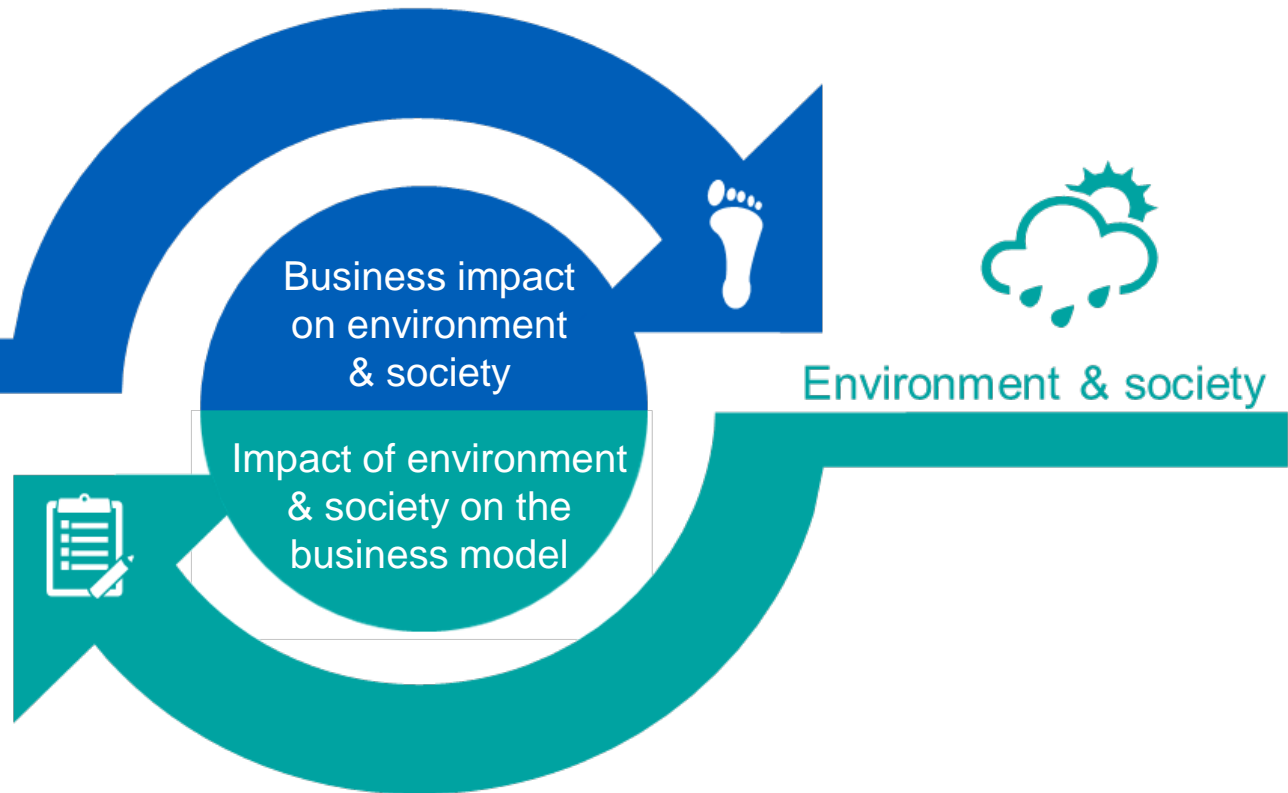
Rethinking Business Considerations

Rethink on business strategy and how to achieve this.

Inside-out
Environmental & social materiality



Business



Outside-in
Business / financial materiality

Holistic Whole of Company Feedback - Internal and External

Chief Executive Officer

How could ESG support our COVID-19 recovery and help create a more resilient and sustainable business?

Chief Sustainability Officer

What is our major challenge in accelerating our ESG strategy programme?

Chief Human Resources Officer

How do I get my entire workforce aligned to my overarching ESG strategy? What are key barriers?

Chief Financial Officer

Can I embed ESG into my debt financing and will it lower my cost of funding?

Chief Marketing Officer

How is our brand communicating our commitments to ESG & Sustainability?

Audit Committee Chair

What is the best way for us, to align and increase our internal and external engagement on ESG?

Chief Operating Officer

Do we have the appropriate internal capability (tools and technology) and expertise to deal with ESG issues?



Chief Procurement Officer

How do I engage and ensure supplier buy-in for my ESG strategy?

Chief Investment Officer

How embedded is ESG in our current investment process?

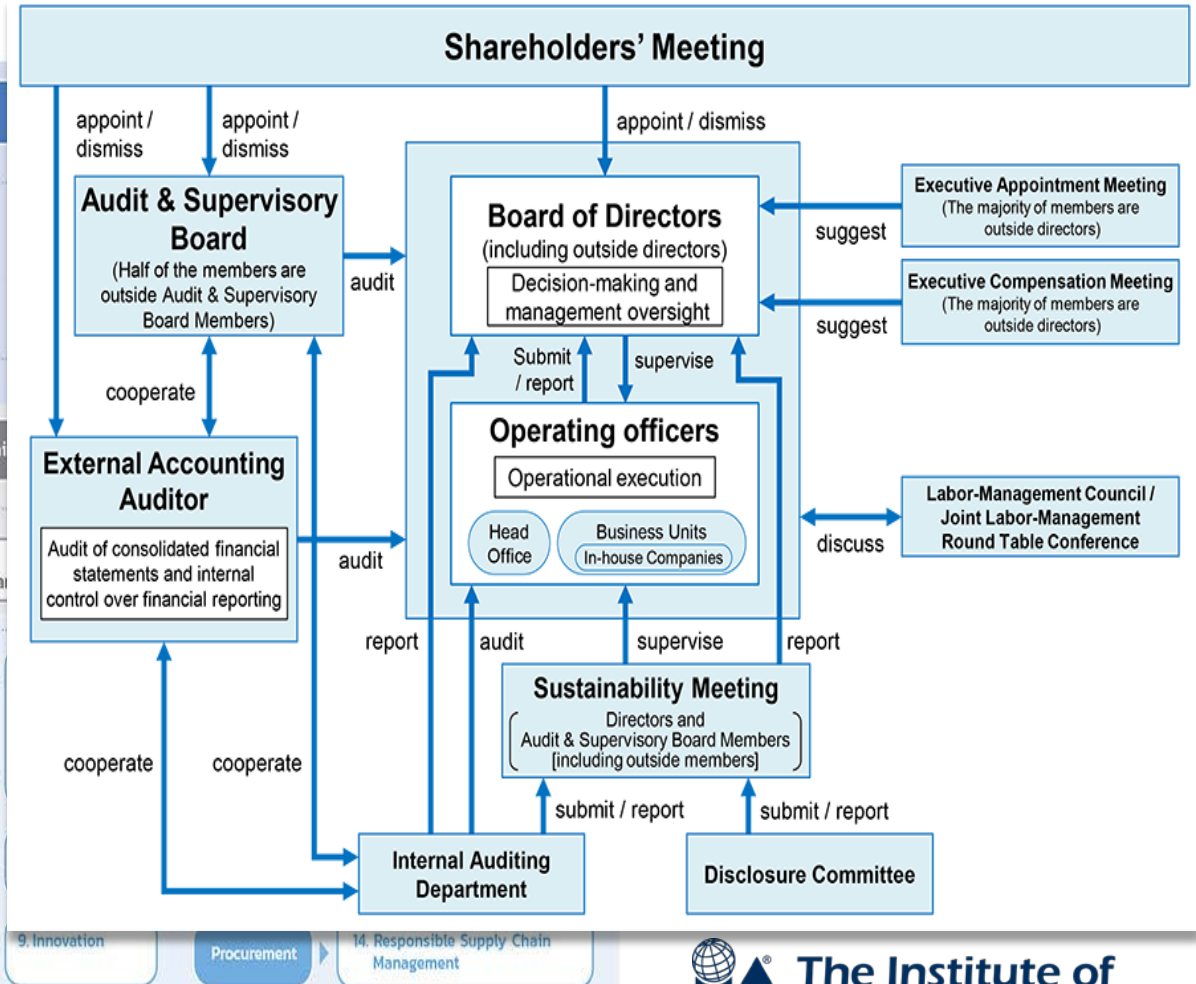
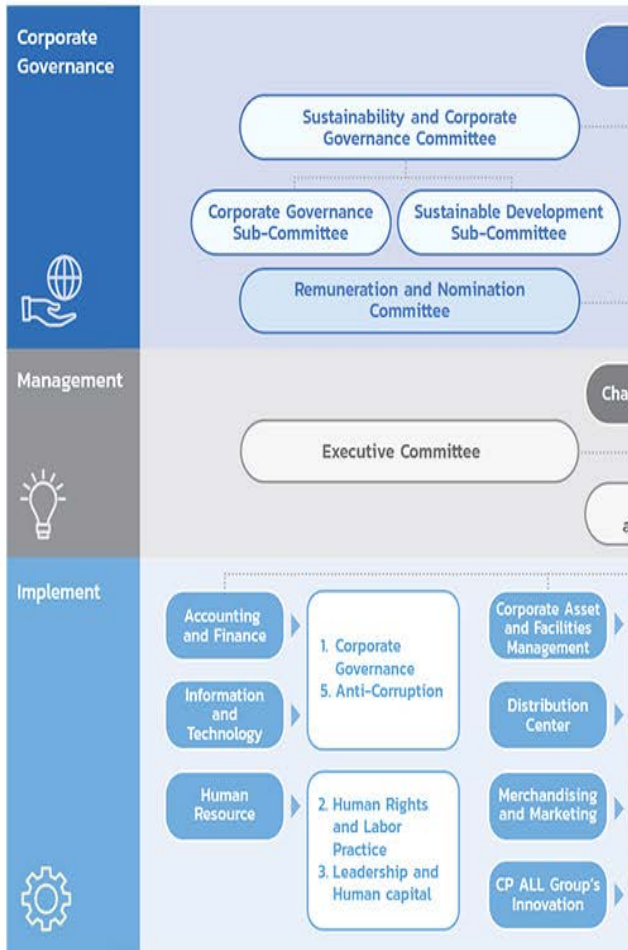
Head of Internal Audit

What type of assurance would improve our line of sight into our organisation's ESG practices?

Head of Tax

Are we making the most of new tax incentives related to ESG?

Rethinking Governance Structures



Malaysian Code on Corporate Governance on Risk



Guidance 1.1 of MCCG:

Board's roles and responsibilities, amongst others:

- ensure there is a **sound framework for internal controls and risk management**
- **understand the principal risks** of the company's business and recognise that business decisions involve the taking of appropriate risks.
- set the **risk appetite** within which the board expects management to operate and ensure that there is an appropriate risk management framework to identify, analyse, evaluate, manage and monitor **significant financial and non-financial risks**.

Practice 9.1 and 9.2 of MCCG:

- 9.1 The board should establish an **effective risk management** and internal control framework.
- 9.2 The board should **disclose the features of its risk management** and internal control framework, and the **adequacy and effectiveness** of this framework.

Risk Perception



Case Study – Climate Risk in Malaysia

9 Malaysian cities will be underwater by 2050 due to rising sea levels

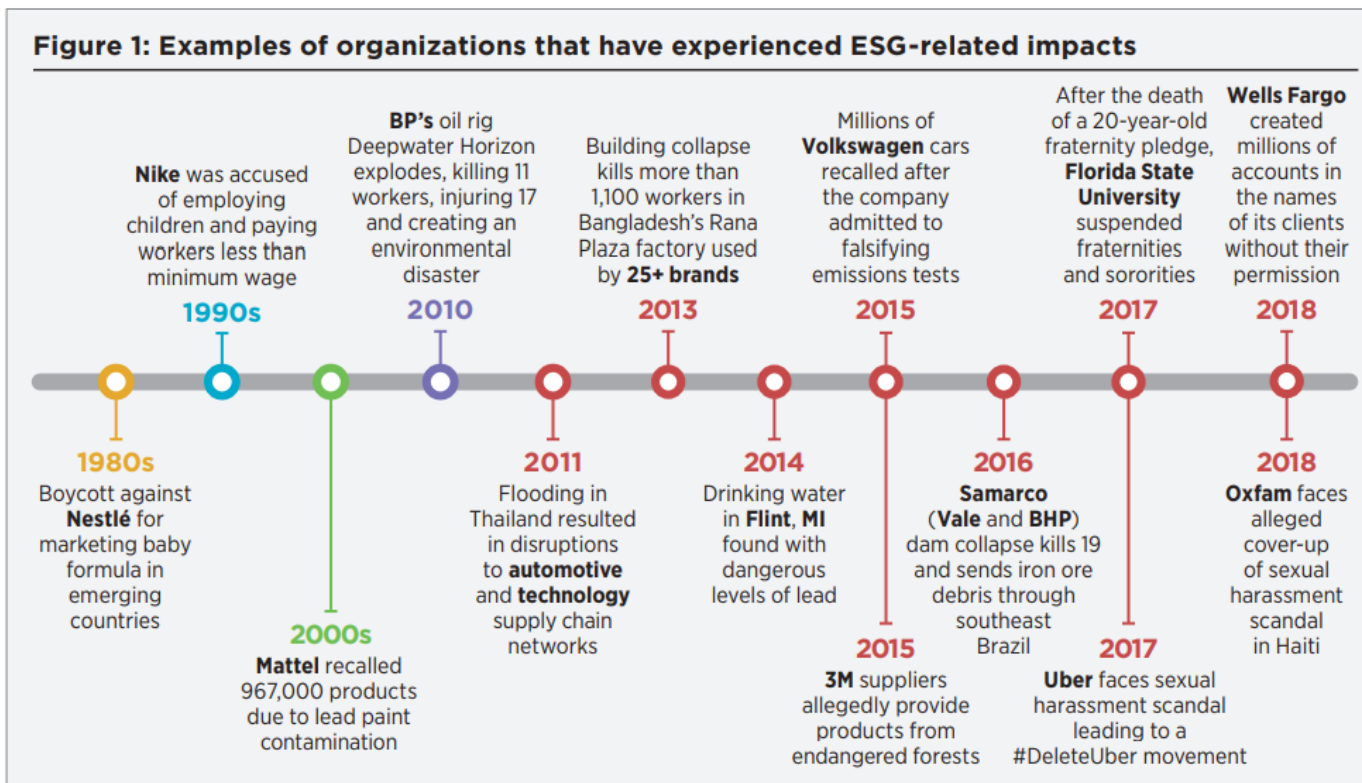
Malaysian-based research firm Centre for Governance and Political Studies (Cent-GPS) ran a digital simulation of the effects of rising sea levels in the country. The study shows that **9 major states will be affected** and **will have parts of land below sea level by 2050**.



Source: <https://www.therakyatpost.com/2019/11/06/9-msian-cities-will-be-underwater-by-2050-due-to-rising-sea-levels/>

Why ESG Risks Matter?

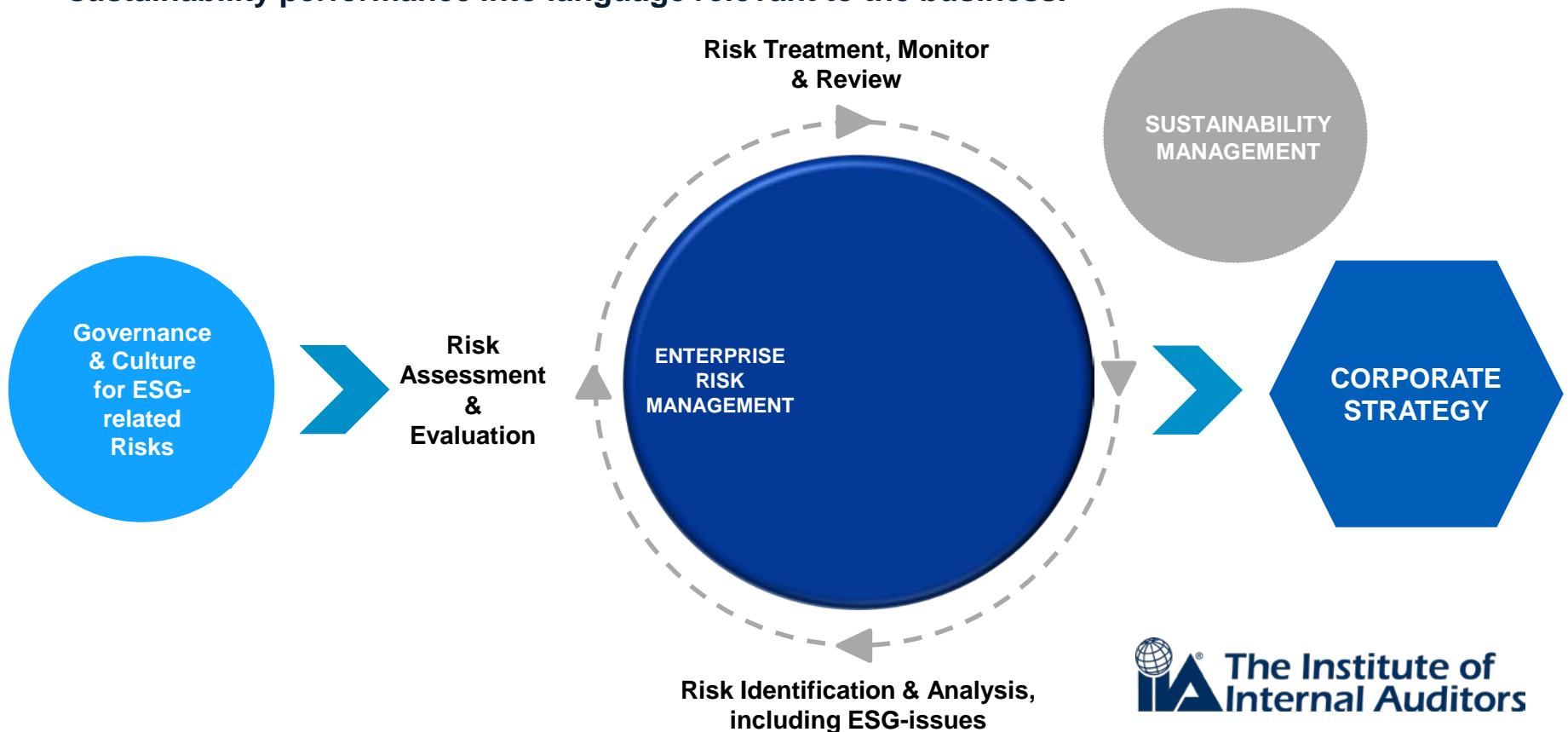
Over years, the growing pace with which other organisations have failed to manage ESG issues, leading to **impacts on reputation, customer loyalty and financial performance**. In many cases, the media, social media and other non-governmental organisation campaigns play a role in bringing these issues to the attention of civil society and the organisation.



Source: "Enterprise Risk Management Applying enterprise risk management to environmental, social and governance-related risks" WBCSD & COSO, 2018

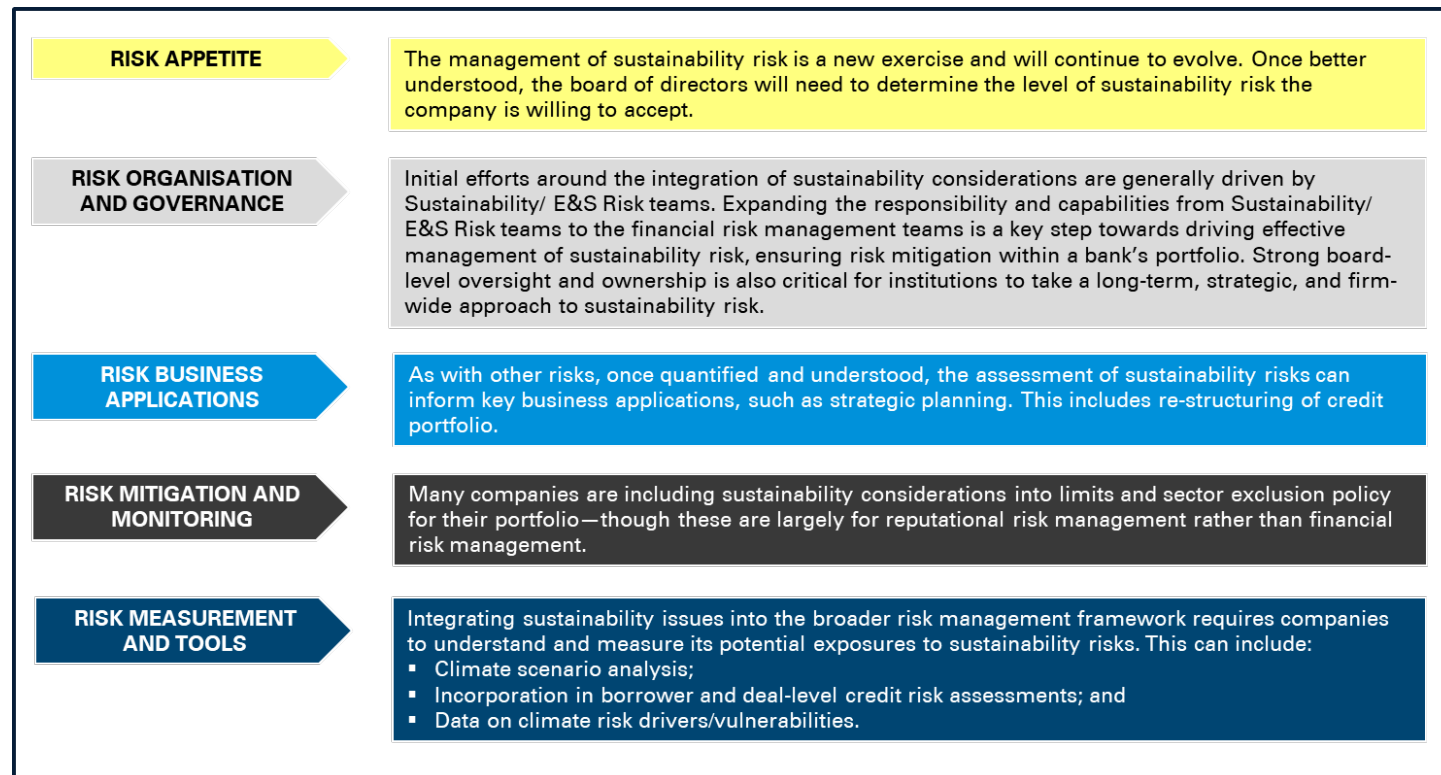
Integration of ESG-risks

Incorporating ESG into business risk analysis can strengthen a company's understanding of its full suite of risks, improve its sustainability management, and enhance overall business performance. Likewise, incorporating a business risk lens into sustainability management can help to **translate sustainability performance into language relevant to the business.**



Integration of ESG-risks into ERM Framework

- Governance, or internal oversight, establishes the manner in which decisions are made and how these decisions are executed.
- Applying ERM to ESG-related risks includes raising the board and executive management's awareness of ESG-related risks – supporting a culture of collaboration among those responsible for risk management of ESG issues.



Governance Structures : Chevron

Example: Chevron

Chevron's Governance Structure

- Chevron's Executive Committee is composed of executive officers of Chevron. The Enterprise Leadership Team (ELT) and Global Issues Committee (GIC) are subcommittees of the Executive Committee.
- ELT is responsible for managing the composition, resource allocation and strategic direction of Chevron's portfolio to achieve company's objectives. The ELT oversees ERM process, carbon cost forecasts, which are **incorporated into all business units' plans and, as appropriate, the carbon management plans**
- The GIC oversees the development of Chevron's policies and positions with respect to issues of global significance, including climate change, and recommends appropriate actions to respond.

Chevron's Risk Management and Governance

management of climate change risks within our business segments

Climate change poses different risks to each segment of our business. Potential impacts may include the following:

Existing Upstream production

Upstream resources not yet sanctioned

Upstream resources not yet acquired

Downstream (refining, marketing and chemical) operations.

mitigating risk

The Company uses mature processes to assess and mitigate risk and support decision making, including mitigation of climate change risks. These processes include the following:

Enterprise Risk Management

Strategic and business planning processes

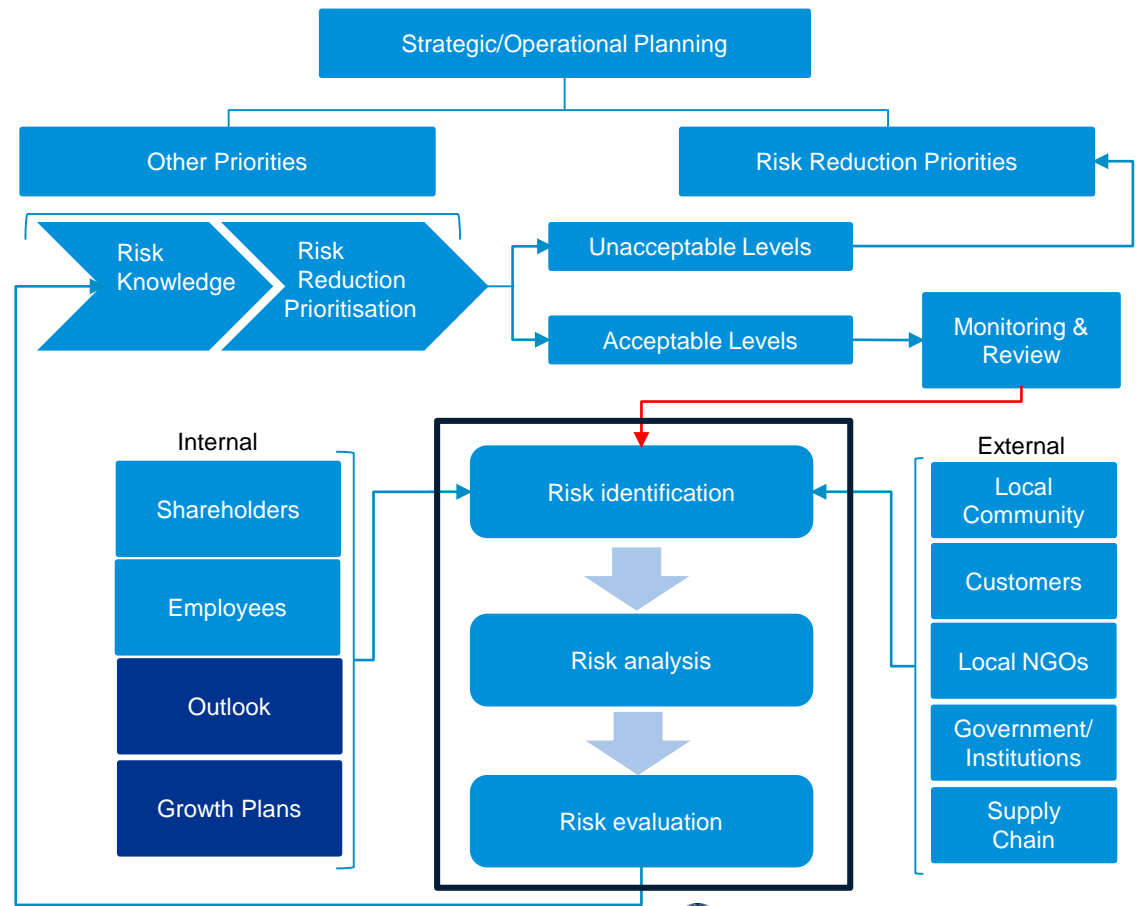
Portfolio management

Commodity pricing.

Source: Chevron Managing Climate Change Risks: A Perspective for Investors, 2020

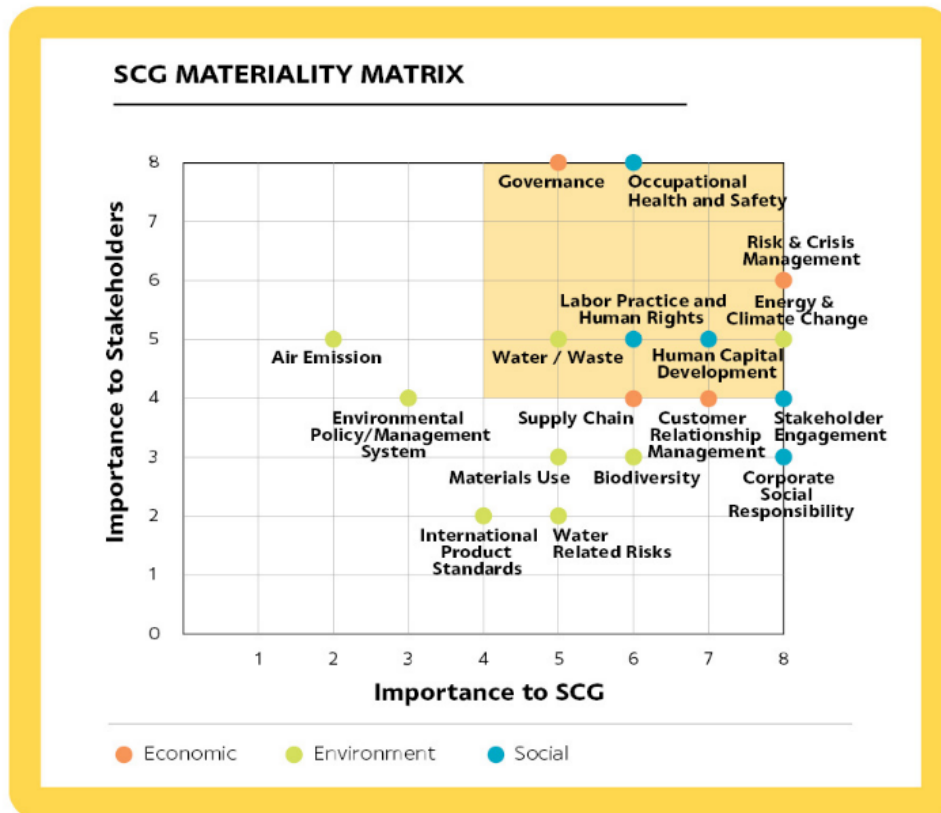
Integrated Enterprise Risk Management Framework

- Applying ERM to ESG-related risks includes **assessing risk severity in a language management can use to prioritise risks.**
- Leveraging ESG subject-matter expertise is critical **to ensure emerging or longer-term ESG-related risks** are not ignored or discounted, but instead assessed and prioritised appropriately.
- Adopting a range of **innovative and collaborative approaches** that consider the source of a risk as well as the cost and benefits of each approach supports the success of these responses.



ESG Risk Identification & Analysis

Organisations use multiple approaches for identifying ESG-related risks: megatrend analysis, SWOT analysis, impacts and dependency mapping, stakeholder engagement and ESG materiality assessments. These tools can help identify and express ESG issues in terms of how a **risk threatens achievement of an entity's strategy and business objectives**. Applying these approaches through collaboration between risk management and sustainability practitioners elevates ESG-related risks to the risk inventory and positions them for appropriate assessment and response.



	IMPORTANCE	
INFLUENCE	High / Medium	Low / Not known
High / Medium	<p>A</p> <p>These stakeholders are the most important ones for the project. The implementing organization must consider their interests and expectations in order to ensure effective coalition and support for the project.</p>	<p>B</p> <p>These stakeholders are a source of significant risk. They need careful monitoring and management.</p>
Low / Not known	<p>C</p> <p>These stakeholders should be adequately informed about the development of the project, to protect their interest, but they only require limited monitoring and management.</p>	<p>D</p> <p>These stakeholders are of low priority. They require limited monitoring and management.</p>

Importance of Stakeholder Engagement in Assessing Risk

Leading companies use **multiple approaches for identifying climate-related risks**, such as megatrend analysis, SWOT analysis, impacts and dependency mapping, stakeholder engagement and ESG materiality assessments.

These tools can help identify and express climate issues in terms of how a **risk threatens achievement of corporate strategy and business objectives**.

Stakeholder Engagement



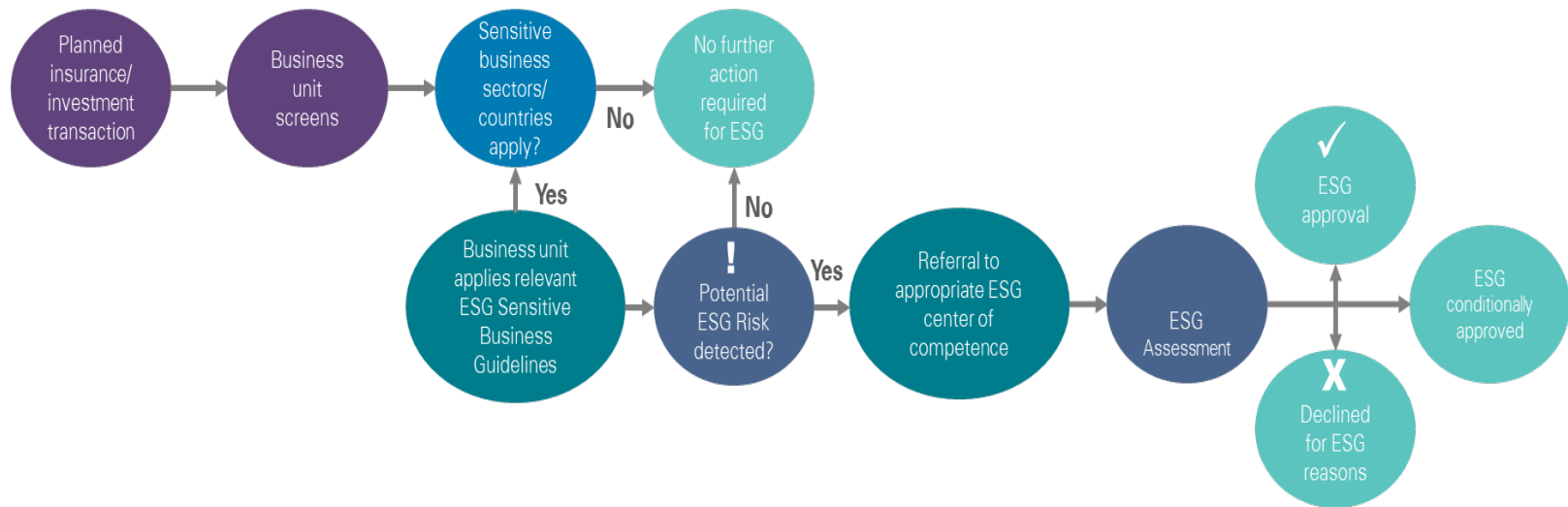
Impacts and Dependency Mapping

IMPORTANCE \ INFLUENCE	High / Medium	Low / Not known
High / Medium	<p>A</p> <p>These stakeholders are the most important ones for the project. The implementing organization must consider their interests and expectations in order to ensure effective coalition and support for the project.</p>	<p>B</p> <p>These stakeholders are a source of significant risk. They need careful monitoring and management.</p>
Low / Not known	<p>C</p> <p>These stakeholders should be adequately informed about the development of the project, to protect their interest, but they only require limited monitoring and management.</p>	<p>D</p> <p>These stakeholders are of low priority. They require limited monitoring and management.</p>

Example: Integrated Enterprise Risk Management Framework

Example: Allianz SE

Allianz has multiple instruments integrated in their investment and asset management activities, e.g. (1) ESG referral process and sensitive business guidelines, (2) ESG exclusion policies and (3) engagement and dialogue:



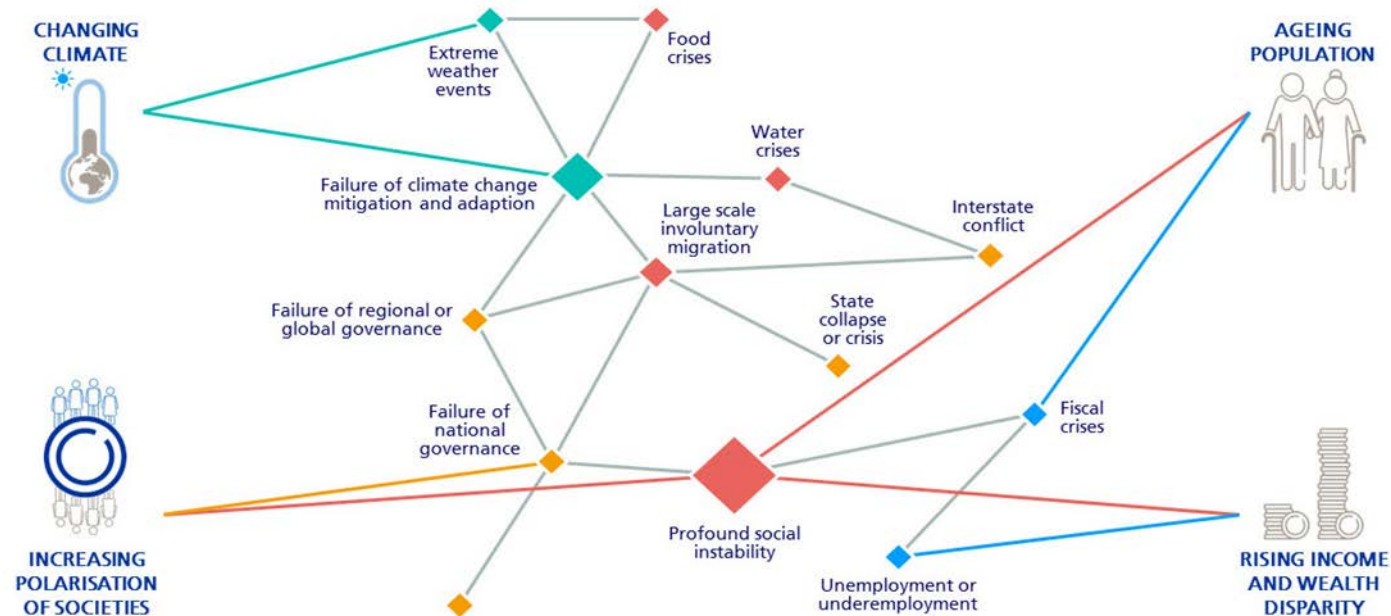
Source: Our ESG approach (Allianz), URL: <https://www.allianz.com/en/sustainability/business-integration/esg-approach.html>

Risk Interconnectivity

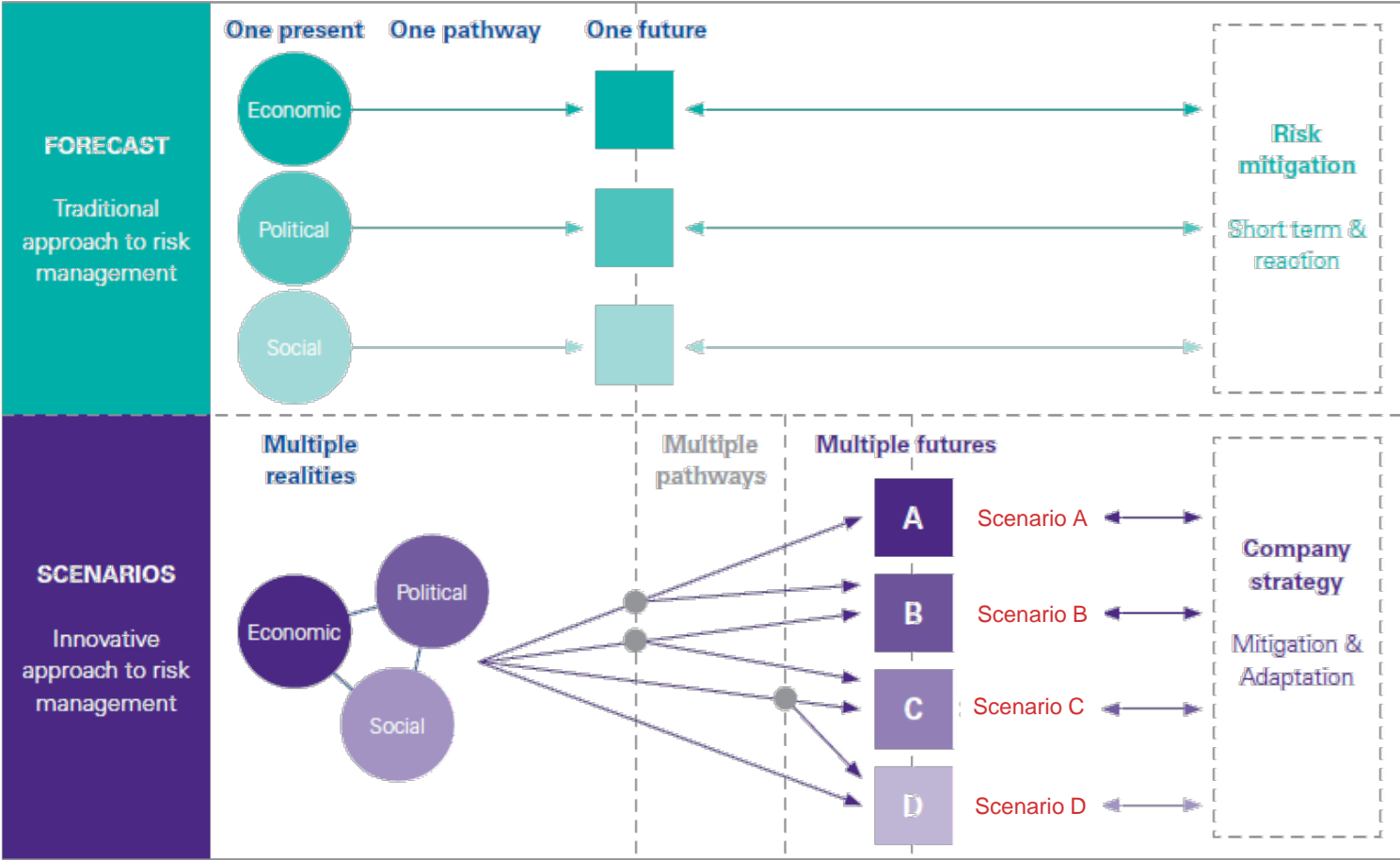
Review and revision of ERM activities are critical to evaluating their effectiveness and modifying approaches as needed. Organisations can develop specific indicators to alert management of changes that need to be reflected in risk identification, assessment and response. This information is reported to a range of internal and external stakeholders.

Assess Risk Interconnectivity

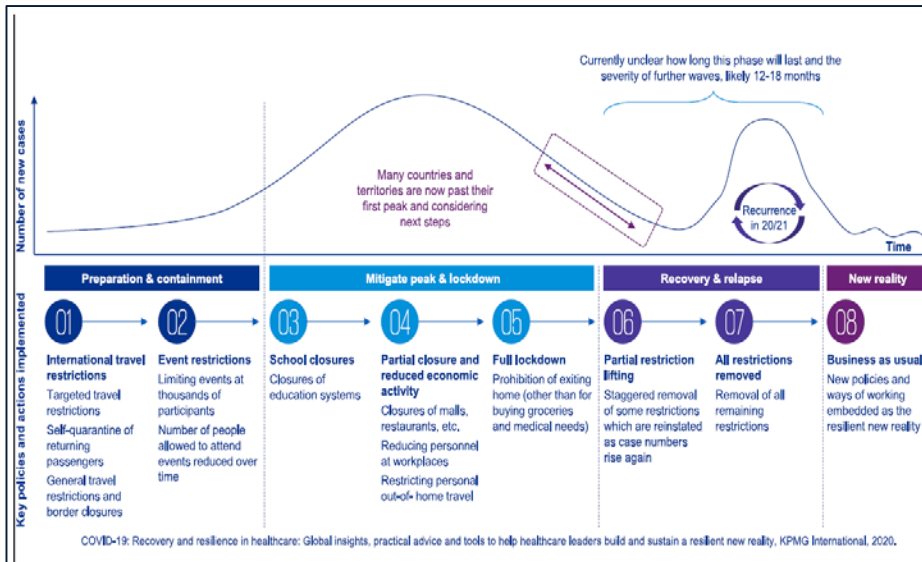
With risks highly interconnected and amplified by global trends the impact on society could be staggering



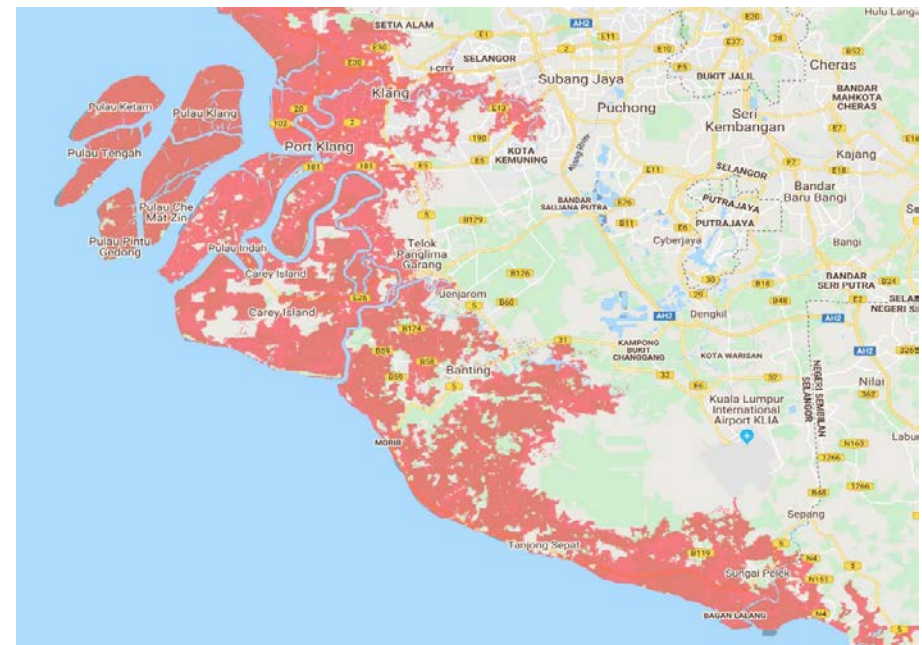
Scenario Analysis



Scenario Analysis

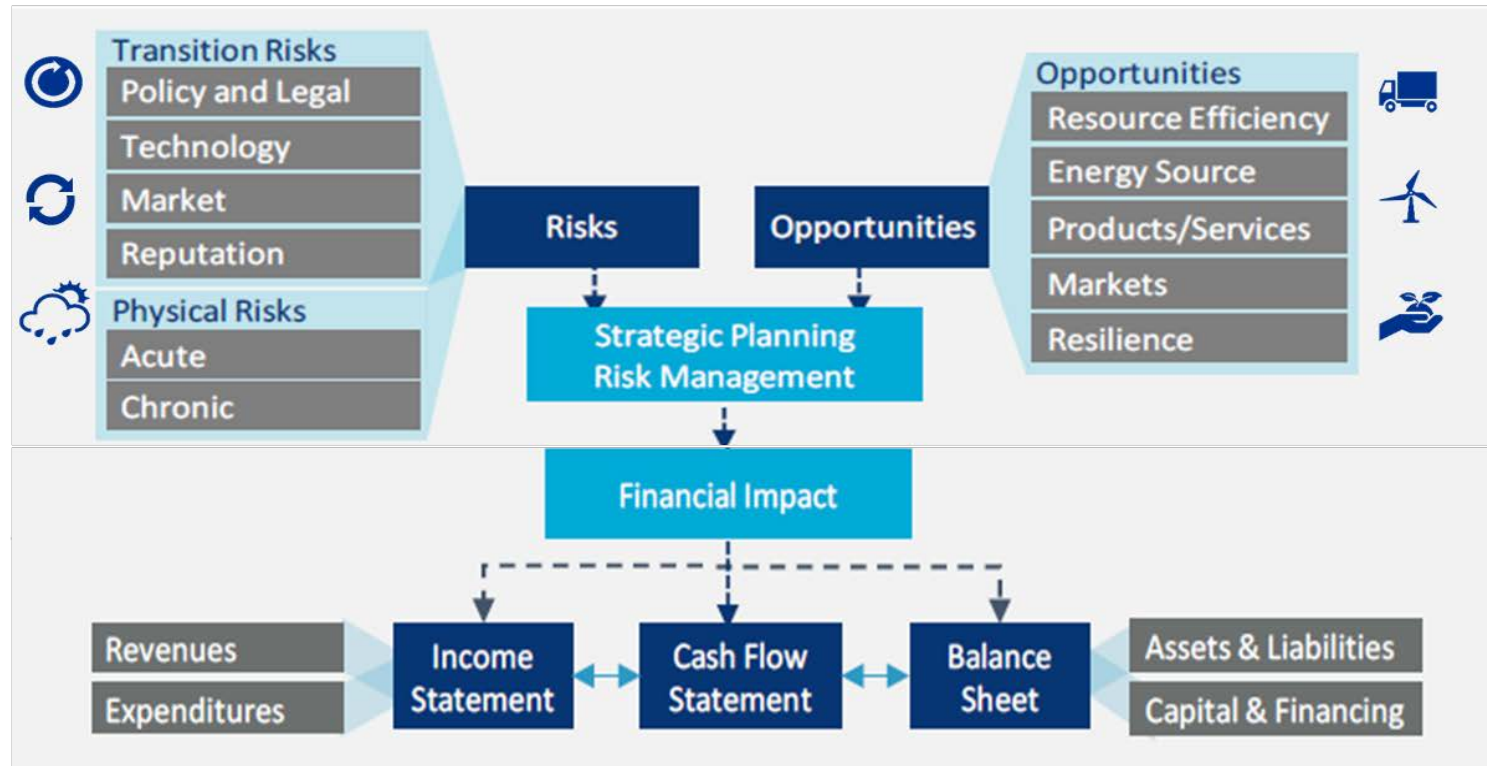


Projected impact of climate change - 2050



Source: National Water Research Institute of Malaysia (NAHRIM)

Climate-related Risks & Potential Financial Impact



Source: Adapted from the Recommendations of the Task Force on Climate-related Financial Disclosures – Final Report (2017)

Overview of Scenario Assessment Process

1 Identify objectives, material risks and stakeholders

Central banks and supervisors should ensure the scope of the exercise is focused on key exposures. This involves identifying the institution's objectives, the most material risks and the key stakeholders to involve.

Possible objectives:

- A. Assessing financial firm-specific risks
- B. Assessing financial system-wide risks
- C. Assessing macroeconomic impacts
- D. Assessing risks to central bank's own balance sheet

Identify most material risks

Assess materiality

Identify target audience

Map key stakeholders

Define appropriate time horizon

shorter time horizon ↓ uncertainty ↑ capture of long-term effects longer time horizon

Depending on scenario analysis objective and financial instruments being analysed

2 Design scenarios

Central banks and supervisors should choose scenarios that are relevant to the risks they want to explore.

Based on

- Expected scenario outcomes
- Relevance to local context
- Severity of scenario
- Time horizon of scenario

determined by

- Assumptions on:
 - Socioeconomic context
 - Climate policies
 - Technological evolution
- Type of risk to be analysed (i.e. physical vs transition)

3 Assess impacts

Central banks and supervisors should select the methods and tools needed to assess the potential macroeconomic and financial impacts.

Assess economic impacts

Specifics:

- What key variables?
- What level of granularity?
- What tools and how to use them?
- How to refine outputs?
- What are the key assumptions and sensitivities?

Level of granularity

	Economic resolution	Spatial resolution	Temporal resolution
Low			
Medium	↑ Macro to firms & households	↑ Global to sub-national	↑ Decade, year, quarter, etc.
High			

Assess financial risks

Specifics:

- Which type of exercise?
- Which method?
- Which data?
- How to recalibrate scenarios?
- What are the key assumptions and sensitivities?

Type of exercise

Top-down exercise	↑ ease of implementation	↑ granularity of outputs	Bottom-up exercise
Depending on granularity of analysis			

4 Communicate and use results

Central banks and supervisors should consider the information to disclose in order to improve firms' risk-mitigation practices and foster further research.

Communication

E.g. awareness, stimulate research and discussions

Policy actions

E.g. micro/macro-prudential, monetary, economic, fiscal

Scenario Analysis Case Study – BNP Paribas

In compliance to TCFD recommendations, BNP Paribas has conducted climate scenario analysis on its strategy, as follows:

BNP Paribas conducted scenario analysis in 2019 to **assess the resilience of its loan books to transition risks and physical risks.**

It notably examined;






- The impact of climate change on sovereign risk and the more or less significant exposure of various economic sectors to **energy transition risks and opportunities.**
- Climate risk generate financial risks not only through **direct impacts on their assets, but also in terms of indirect impacts through their supply chains and markets.**

BNP Risk Sectoral division	Operations Risk Score	Heat Stress	Water Stress	Floods	Sea Level Rise	Hurricanes & Typhoons	Market Risk Score	Supply Chain Risk Score	Total Score
Utilities	41	51	52	26	9	13	29	67	46.4
Technology Hardware & Equipment	41	39	52	25	10	22	63	60	51.8
Transportation	40	39	46	26	17	18	38	57	44.8
Semiconductors	39	39	52	24	9	18	72	66	52.5
Pharma Biotech & Life Science	37	41	45	24	9	20	62	60	47.8
Materials	36	46	45	23	8	11	55	49	43.1
Automobiles & Components	35	33	37	26	8	28	59	23	37.6
Capital Goods	33	40	44	22	6	15	59	37	38.7
Food & Staples Retailing	25	29	37	20	8	11	26	17	20.7
Total	36	40	44	24	9	18	51	45	41.5

Physical risk-weighted scores by economic sector



Risk Responses

Accept: Take no action to change the severity of the risk	Avoid: Remove the risk	Pursue: Convert risks into opportunities	Reduce: Take action to reduce the severity of the risk	Share: Transfer a portion of the risk or collaborate externally
 <ul style="list-style-type: none"> ▪ Focus on the risks that are aligned with the strategy and fall within the risk appetite and not likely to become more severe. ▪ Company may accept the risk and develop a plan for close monitoring of the assumptions that led the organisation to accept the risk 	 <ul style="list-style-type: none"> ▪ Focus on risks that the organisations may have zero tolerance for ▪ Organisations may avoid the risk entirely or at least reduce the likelihood that it will occur. 	 <ul style="list-style-type: none"> ▪ Focus on risks that can unlock value for the organisations. ▪ Organisations may innovate and develop new actions to mitigate the risks, whilst preserving its value. 	 <ul style="list-style-type: none"> ▪ Focus on risks that have higher severity than the set risk appetite. ▪ Organisations may accept some level of risk and then implement mitigation activities to reduce the residual risk to within the risk appetite. 	 <ul style="list-style-type: none"> ▪ Focus on the risks which may be too large or complex for one entity to manage. ▪ Organisations may include an industry- or issue-specific collaboration with other businesses, professional bodies, governments, NGOs, industry players.

Source: Enterprise Risk Management Applying enterprise risk management to environmental, social and governance-related risks, COSO & WBCSD, 2018

Creating a Resilient Strategy

Conventional ESG Materiality (example)



The conventional ESG materiality outlines issues that are important, but not unique to companies

Filter and supplement



Aligning material issues with business strategy and value creation



Key Elements for Companies and Boards to Work On



Strategy

- How does the company compare to peers?
- Are the products offered ready from an ESG perspective?
- Is the ESG component incorporated in the target operating model?
- Are the new ESG needs displayed by clients taken into account in the investment objectives?

Operational Effectiveness

- Is the company aware of the ESG matters across the organisation, including processes, systems and controls?
- Does the functional analysis take ESG into account?
- Is ESG considered while developing products?
- Are there any arrangements in place to include ESG in the company?
- Are ESG risks integrated in procedures and policies?

Regulatory Compliance

- Is the company ready to cope with the upcoming regulatory changes?
- What are the gaps that can already be identified?

Self-check: What is your state of readiness?

- Do you consider opportunities for embedding ESG in the company's culture and core values?
- Is the Board/ Management informed of the existing and emerging ESG-related risks?
- Do you map the operating structures, risk owners for ESG-related risks, reporting lines and end-to-end ERM and strategic planning process?
- Do you embed ESG-related skills, capabilities and knowledge in hiring and talent management to promote integration?
- How do you identify/ keep abreast of the megatrend/ emerging issues that are happening in your operating environment?
- Do you conduct the materiality assessment to describe significant ESG issues?
- Do you engage with internal and external stakeholders to understand emerging ESG trends?
- Do you consider ESG-related risks in your enterprise risk management process and/ or strategy development?
- How do you identify the ESG-related risks that may impact the organisation's strategic and operational plans? What is the impact of the ESG-related risks to you?
- Do you consider ESG-related impacts when evaluating your risks and opportunities?
- Do you evaluate risk responses at the Group-level and entity level to understand the overall impacts to the entity risk profile?
- Do you develop appropriate risk response based on entity-specific factors (e.g. location, costs and benefits and risk appetite)?
- How often do you review existing processes to identify improvements in how ESG-related risks are managed by ERM?
- Do you have a process to identify and assess internal and external changes that may substantively affect the strategy or business objectives?
- How do you communicate and report relevant ESG-related risk information externally to meet regulatory obligations and support stakeholder decision-making?

Wide Array of Opportunities in Sustainable Transformation

Understand the ESG / sustainable transformation challenges

Understand and respond to ESG / sustainability related regulations

Define strategic implications and responses of sustainable transformation

Demonstrate and innovate the business case for sustainable transformation

Integrate ESG / sustainability into financing, investments and transactions

Integrate ESG / sustainability risks into risk management

Credibility of ESG / sustainability disclosures

Improve the efficiency and sustainability of operations

Integrate ESG / sustainability into supply chains

Measure and communicate corporate value

What does it mean?

Expectations from investors and shareholders

Emerging Risks and Opportunities for the industry

Industry Regulations

Challenges in shipping industry vs other relevant industry (finance industry, Oil & Gas industry etc.)

ESG Bonds and how can the industry take advantages

Best practices from other leading industry which can be leveraged by the shipping & maritime industry

Low Carbon economy for the shipping & maritime industry

TCFD perspective from the shipping & maritime industries

Value Creation and Preservation

This pandemic is arguably the first sustainability crisis of the 21st century, and it's likely to help accelerate action among investors on long-term sustainability risks.

Olivia Albrecht,
Head of ESG Business
Strategy

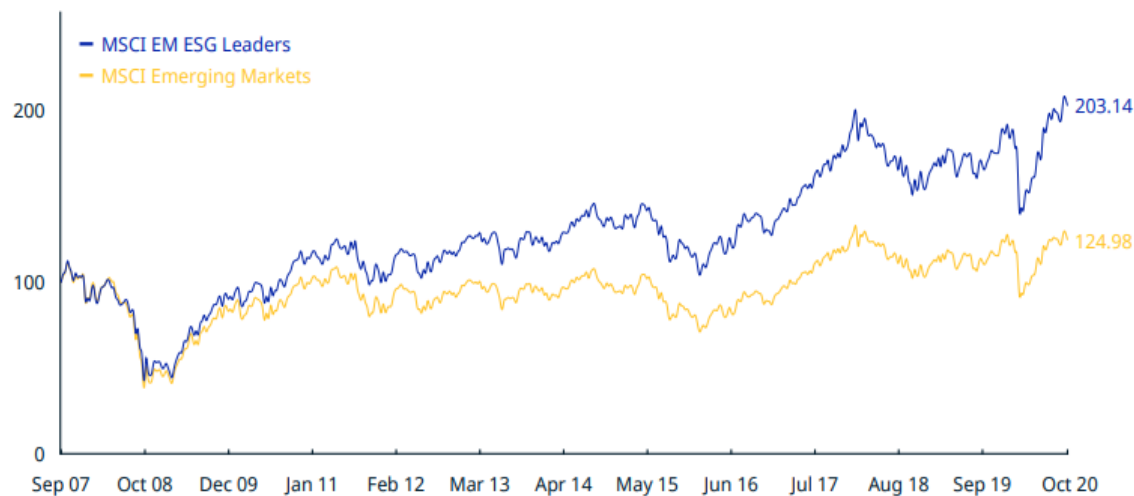
P I M C O

We believe that pandemics and environmental risks are viewed as similar in terms of impact, representing an important wake-up call for decision makers. The impacts of the COVID-19 crisis on the real economy and the financial system highlight the limits of most forecasting models.

Jean-Xavier Hecker &
Hugo Dubourg

Co-Heads of Sustainability & ESG Research
J.P. Morgan

**CUMULATIVE INDEX PERFORMANCE – NET RETURNS (USD)
(SEP 2007 – OCT 2020)**



Capitalising on ESG Initiatives - Government Incentives

Securities Capital Market Development Funds (“CMDF”) is providing **Green Sustainable and Responsible Investment (“SRI”) sukuk and bond grant scheme worth up to RM6 million.**

The usage of the grant is for the purpose of financing the external review expenses from issuance of Green SRI Sukuk and Bonds. The limit per issuance is at RM300 thousand.

The Sukuk and Bonds issuances have to comply with the requirement of either of the following national and regional standards:

- Commission Malaysia’s SRI Sukuk Framework; or
- ASEAN Green, Social or Sustainability Bond Standards



As announced in Budget 2021, Government of Malaysia is providing income **tax exemption from the grant received from CMDF** for external review expenses in issuance of Green SRI Sukuk and Bonds. This exemption are provided until 31 December 2025.

The Government will also be issuing **sustainability bond** in 2021, with the aim to finance government’s green and social initiatives.

The Government will also continue **Green Technology Financing Scheme 3.0 (GTFS 3.0)** with a fund size of RM2 billion for 2 years of up to 2022 which will be guaranteed by Danajamin to encourage the issuance of SRI sukuk.

Options for Green Financing – Green Financing Debt Instruments

1. Green Bonds / Sukuk

Green bonds refers to a fixed income instrument to raise fund via the capital market, while its **proceeds are only applicable to “green” or “sustainable” projects**, i.e. assets or business activities with an **environmental benefit**, such as **renewable energy, low carbon transport or forestry project**.

Green bonds and sukuk are mostly issued based on a reporting standards/ requirements such as the Green Bond Principles (“GBP”), ASEAN Green Bond Standards and Sustainable and Responsible Investment (“SRI”) Sukuk Framework. As at October 2020, there have been 12 issuances of green bonds in **Malaysia with issuance facility of up to RM6 billion**.



Options for Green Financing – Green Financing Debt Instruments

2. Corporate Green Loans

Green Loans is defined as any type of **loan instrument exclusively to finance or refinance, in whole or in part, new and/or existing eligible green projects.**

The classification of green loans is relatively new with the recent issuance of Green Loan Principles by the Loan Market Association in 2018. While still in its early years, **green loan issuance has amounted to about USD 60bn in 2018.** In the ASEAN region, ING Group issued the first GLP- compliant green loan to finance a portfolio of rooftop solar projects in Singapore in 2019.



Options for Green Financing – Green Financing Debt Instruments

3. Sustainability-Linked Loans (“SLL”)

SLL is a recently introduced green debt instrument, where the **proceeds from the loan are fully allocated for general corporate purposes**, rather than specific green projects.

The pricing of the loan is based on the corporate (borrower)’s **environmental, social and governance (“ESG”) score or overall sustainability achievements such as emission reductions**. It is commonly linked to a sustainability benchmark index such as the Dow Jones Sustainability Index



Q & A Session



Thank you!



Contact us

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