HOW SUKUK CAN PLAY ITS ROLE TO DRIVE THE GROWTH **OF SUSTAINABLE AND RESPONSIBLE INVESTMENT**

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The imminent intergenerational wealth transfer from Baby Boomers to their heirs who are members of Generation Y, the Millennials, and Generation Z means that the financial institution that ignores ESG in its operations and financing does so at the risk of ignoring what matters to the bulk of its future customers. These emerging generations have made no secret of their preference that their assets generate social benefits and positively impact the environment in addition to yielding the expected financial benefits.

As a result, a responsible investment approach which integrates environmental, social and governance (ESG) information has been growing by leaps and bounds. Islamic finance, with its ethical and responsible investment approach that integrates ESG information, emphasizes alignment of finance with social good, and in the process seeks to increase the contribution of the financial sector to the real economy.

More immediately, according to Reuters, a record $32.2 billion of green bonds were issued in the second quarter of 2017, while issuance from emerging markets has jumped from $2.3 billion to $9.2 billion year-on-year, about half the total from developed markets, versus 16 percent a year ago[1]. A recent World Bank study projected that global green bond issuances could increase to US$1 trillion by 2020[2].

1 https://medium.com/fitch-blog/why-green-sukuk-could-be-a-growth-driver-for-islamic-finance-d6881f592f5c

2 Sonerud, Beate; Kidney, Sean; Tripathy Aneil; "Scaling up Green Bond Markets for Sustainable Development", Climate Bonds Initiative, in association with the UNEP Inquiry into the Design of a Sustainable Financial System, November 2015.

This is part of the SC's developmental agenda to facilitate the creation of an ecosystem conducive for SRI investors and issuers which is aligned to the rising trend of green bonds and social impact bonds that have been introduced internationally to facilitate and promote sustainable and responsible investing.

There is business to be done and Islamic finance can benefit from this exciting market opportunity.

Sukuk to Play Its Part in SRI and Green Funding

In 2014, Securities Commission Malaysia launched the Sustainable and Responsible Investment (SRI) Sukuk framework to facilitate the financing of sustainable and responsible investment initiatives. This is part of the SC's developmental agenda to facilitate the creation of an ecosystem conducive for SRI investors and issuers which is aligned to the rising trend of green bonds and social impact bonds that have been introduced internationally to facilitate and promote sustainable and responsible investing. Sukuk guidelines in the country set out that the proceeds of SRI Sukuk are to be used to preserve the environment and natural resources, conserve the use of energy, promote the use of renewable energy and reduce greenhouse gas emissions.

Recently, on 8 November 2017, the ASEAN Capital Markets Forum launched the ASEAN Green Bond Standards (AGBS), based on the International Capital Market Association's Green Bond Principles which are internationally accepted and widely used for the development of national green bond guidelines or standards. The AGBS is to be used only for issuers and projects in the region and specifically excludes fossil fuel-related projects. The Securities Commission Malaysia has complementarily updated and revised the Guidelines on Unlisted Capital Market Products and Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors to facilitate the implementation of the AGBS. Malaysian issuers of ASEAN green bonds or Sukuk must ensure that the issuance adopts the standards as prescribed under the AGBS. Elsewhere, South Africa's Cape Town, Argentina's La Rioja Province, the Brazilian Development Bank and the National Bank of Abu Dhabi have all tapped the green bond market.

Quantum Solar Park Malaysia Sdn Bhd Green SRI Sukuk
This year saw the offering of

the world's largest Green Sukuk to date. Solar power producer Quantum Solar Park Malaysia Sdn Bhd issued the country's first green Sustainable and Responsible Sukuk worth MYR 1 billion in October 2017.

The proceeds from the Sukuk issuance will be used to build three large-scale solar photovoltaic plants, to be built in the states of Kedah, Melaka and Terengganu at a total cost of approximately RM1.25 billion (US$294.81 million). Collectively, the projects are expected to generate and supply about 282,000 MWh of electricity annually to Tenaga Nasional under the respective power purchase agreements over a period of 21 years. The project will cover a combined land area of almost 600 acres.

Once completed, Quantum Solar Park (Semenanjung) will emerge as the largest solar power producer in Malaysia. The planned construction will be the largest solar power project of its kind in Southeast Asia. It is the second time such a facility is offered under the Securities Commission Malaysia's SRI Sukuk framework.

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Quantum Solar Park (Semenanjung) Sdn Bhd MYR 1 billion Green SRI Sukuk

Deal Summary	
Issuer	Quantum Solar Park (Semenanjung) Sdn Bhd ("QSP Semenanjung)
Rating	AA-by Malaysia Rating Corporation Berhad ("MARC)
Faciliting	Islamic medium term notes issuance of up to RM1.0 billion in nominal value ("Green SRI Sukuk")
Issue Size	RM1.0 billion Sukuk Murabahah
Tenor	1.5 years - 17.5 years
Issue Date	6 October 2017
Islamic Structure	Murabahah (via a Tawarruq arrangement)
Profit Rate	4.81% - 6.16%pa
CIMB's Role	Sole Principle Adviser, Lead Arranger, Lead Manager

While the guidelines may cover similar areas the specifics vary, at times widely. In addition, there may be higher costs due to time spent drafting green Sukuk structures and frameworks acceptable to governments, investors and Shariah boards.

CIMB Investment Bank acted as the Sole Principal Adviser and as Joint Lead Arranger and Joint Lead Manager for the issuance of Quantum's Sukuk facility that has been rated 'AA-IS' with a stable outlook by Malaysian Rating Corporation and floated through Quantum Solar Park Semenanjung, the SPV of Quantum Solar Park Malaysia.

The total project cost of about RM1.25 billion will be funded on an 80:20 debt-to-equity financing basis. The Projects are expected to be instrumental in helping Malaysia reach its ambition of 1 GW from large scale solar ("LSS") programmes by 2020 and contribute towards sustainable electricity supply and the reduction of carbon emission in Malaysia in line with the National Renewable Energy Policy and National Green Technology Policy of Malaysia.

The Green SRI Sukuk proceeds will be utilised to pay/advance to partially fund the respective Project Company's project development cost. QSP Semenanjung has received a Dark Green shading from the Center for International Climate Research (CICERO). The Dark Green shading is for projects and solutions which entail zero emission solutions and governance structures that integrate environmental concerns into all activities.

Ultimately, companies that actively incorporate sustainability into their businesses can benefit from cost savings, improved risk mitigation, potential tax incentives, addressing natural resource limitations, remaining competitive and developing new revenue opportunities. Those companies that engage stakeholders as industry leaders to can help shape environmental and social policies.

Challenges to Address to Develop the Market Further

While this clearly represents an opportunity, there are some issues that need to be addressed for the market to develop. The current lack of standardisation across jurisdictions may require a level of flexibility on investors' part as to the definition of what it means to be "green" or "sustainable" or "ESG" or "ethical". The market's nascent status means that market norms and standards for green bonds are still evolving. The market as it exists today is currently self-regulated and there are various voluntary guidelines. Moreover, it relies on the expectation of the issuer wishing to maintain its integrity that the proceeds are indeed utilised correctly. While the guidelines may cover similar areas the specifics vary, at times widely. In addition, there may be higher costs due to time spent drafting green Sukuk structures and frameworks acceptable to governments, investors and Shariah boards.

While these concerns are real, it is expected that solutions will emerge as the market develops. After all, these root concerns would sound familiar to those familiar with the development trajectory of Islamic finance, especially with regards to the historical development of Sukuk as financing instruments. Despite similar roadblocks, Islamic finance is still innovating, growing and evolving to meet the needs of its current and future consumers. The integration of these approaches to finance will serve to make companies more accountable to their customers, to society and to the earth.