

Issuance of Green *Sukuk* in Malaysia

IN THIS ARTICLE, CHERYL LIEW XIN YI WRITES ABOUT GREEN SRI SUKUK IN MALAYSIA.

Introduction

Environmental preservation has been the focus of renewed investor attention over the last few years, as evidenced by the growing interest in sustainable and responsible investment (“SRI”) instruments¹. Green SRI *Sukuk* (“Green SRI *Sukuk*”), a *Shariah*-compliant SRI instrument for renewable energy and other environmental sustainability projects, is an important and commendable initiative².

The primary characteristics and structure of Green SRI *Sukuk* are similar to those of Islamic bonds or *sukuk*. The key difference in feature is that Green SRI *Sukuk* looks at the impact it brings to the environment - particularly any negative impact on climate change³.

The Securities Commission Malaysia (“SCM”) revised its *sukuk* guidelines in August 2014, incorporating new requirements for the issuance of SRI *sukuk*. The introduction of the SRI *sukuk* framework not only facilitates the creation of an eco-system conducive for SRI investors and issuers, which is aligned to the rising trend of green and social impact bonds/*sukuk* that have been introduced globally to promote sustainable and responsible investing, it also assists in bridging Islamic finance with SRI and the green industry.

To complement the SRI *sukuk* framework and stimulate and promote greater utilisation of Green SRI *Sukuk* as a fundraising channel, the SCM has offered a number of incentives to attract green issuers⁴. These are:

- financing incentives under a special financing scheme, Green Technology Financing Scheme (“GTFS”) introduced in 2010, with a total fund allocation of RM5 billion until 2022 to support the development of green technology⁵. GTFS provides up to 60% government guarantee on the green component cost financed by the participating financial institutions for a particular green project and 2% per annum rebate on interest or profit⁶;
- tax incentives for green technology activities in energy, transportation, building, waste management and supporting services activities as announced in the Budget 2014. Applications for such incentives are to be submitted to the Malaysian Investment Development Authority for green technology projects and services, and to the Malaysian Green Technology Corporation for purchase of green technology assets as listed in *MyHijau* Directory⁷;
- tax deductions for five years from 2016 until 2020 on the issuance costs of SRI *Sukuk* approved or authorised by or lodged with the SCM as announced in the Budget 2016;
- RM6 million Green SRI *Sukuk* grant to Green SRI *Sukuk* issuers to finance the external review expenditure in issuing Green SRI *Sukuk* as announced in the Budget 2018 and Green SRI *Sukuk* issuers are to be given tax exemption on the receipt of such Green SRI *Sukuk* grant⁸.

To be eligible for tax deductions under the Green SRI *Sukuk* incentives, the SRI *sukuk* issuer utilising the SRI *sukuk* framework must ensure that the proceeds raised from the issuance of SRI *sukuk* are

used or utilised for the purpose of funding eligible SRI projects that aim to preserve and protect the environment and natural resources, conserve the use of energy, promote the use of renewable

energy, reduce greenhouse gas emissions and more⁹. A list of eligible SRI projects are set out in Chapter 7, Part 3, Section B of the *Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework*.

Issuance of Green *Sukuk* in Malaysia

Malaysia, being home to the world's largest *sukuk* market, has pioneered the issuance of Green SRI *Sukuk*, and the following Green SRI *Sukuk* have been issued in Malaysia since the introduction of the SRI *sukuk* framework:

- In July 2017, Tadau Energy Sdn Bhd, a Malaysian-based renewable energy and sustainable technology investment firm, issued the world's first Green SRI *Sukuk* of up to RM250 million to finance the construction of large scale solar ("LSS") photovoltaic power plants in Kudat, Sabah¹⁰.
- In October 2017, Quantum Solar Park (Semenanjung) Sdn Bhd issued one of the world's largest Green SRI *Sukuk* of up to RM1 billion for purposes of financing the construction of three large-scale solar photovoltaic plants in Kedah, Melaka and Terengganu. This is the largest solar power project of its kind in South-East Asia and will generate about 282,000MWh of electricity to Tenaga Nasional Bhd yearly for a period of 21 years¹¹.
- In December 2017, PNB Merdeka Ventures Sdn Bhd, a wholly-owned subsidiary of Permodalan Nasional Berhad, issued unrated Green SRI *Sukuk* via its *sukuk* programme of up to RM2 billion to fund the construction of the 83-storey Merdeka PNB118 Tower, the third tallest building in the world upon completion. It is the third, and largest, Green SRI *Sukuk* to be issued in Malaysia¹². The *sukuk* programme is the first adopter of the ASEAN Green Bond Standards launched by the SCM-led ASEAN Capital Markets Forum in November 2017. This *sukuk* also complies with the SRI *sukuk* framework.
- In January 2018, Sinar Kamiri Sdn Bhd, an indirect subsidiary of Mudajaya Group Berhad, issued a Green SRI *Sukuk* of up to RM245 million for purposes of financing the construction/development of a 49MW solar photovoltaic facility in Sungai Siput, Perak¹³.
- In April 2018, UiTM Solar Power Sdn Bhd, an indirect subsidiary of Universiti Teknologi Mara, issued Green SRI *Sukuk* of up to RM240 million to finance the development and operation of the 50MW utility solar power plant in Gambang, Pahang. It is the first institute of higher learning in the world to issue a Green SRI *Sukuk*¹⁴.

Prospects

It has been predicted by Moody's Investors Service¹⁵ that global green bond issuance is expected to grow about 60% to US\$250 billion in 2018¹⁶. Such growth would far exceed the US\$155 billion worth of green bonds issued in 2017¹⁷.

Awareness on the importance of climate protection has been growing across the globe, including Malaysia, and investors are also increasing their emphasis on investing in sustainable and environmental-friendly projects¹⁸. Investors, especially environment-focused investors, have found Green SRI *Sukuk* particularly attractive for the following reasons:

1. it provides investors with a high degree of certainty that their money will be used for a specific purpose as Green SRI *Sukuk* is structured to provide funds for a specified infrastructure project, such as a renewable energy project, and there is little chance the investors' money will be diverted and used for other purposes¹⁹; and

2. It is most similar to conventional fixed-income securities which could help fill the fixed-income supply gap for environmental investors to the extent the proceeds of the Green SRI *Sukuk* are earmarked for a particular environmentally beneficial purpose²⁰.

The issuance of Green SRI *Sukuk* amounting to RM250 million for Tadau Energy Sdn Bhd's solar project and Green SRI *Sukuk* amounting to RM1 billion for Quantum Solar Park (Semenanjung) Sdn Bhd, one of the world's largest green *sukuk* issuance to construct the largest solar power project of its kind in South-East Asia, has placed Malaysia as a leader in green investments²¹.

Conclusion

The future of Green SRI *Sukuk* in Malaysia is promising and the issuance of Green SRI *Sukuk* in Malaysia is expected to grow in the next few years to support more environmentally sustainable infrastructure projects. This will further strengthen Malaysia's position as the main catalyst for *Shariah*-compliant Green SRI *Sukuk*.

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¹ See more at www.nst.com.my/opinion/columnists/2018/03/346085/malaysias-green-sukuk.

² See supra note 1.

³ See more at www.capitalmarketsmalaysia.com/islamic-capital-market/sustainable-and-responsible-investments/.

⁴ See more at www.sc.com.my/post_archive/malaysias-first-green-sukuk-under-scs-sustainable-responsible-investment-sukuk-framework/.

⁵ See more at www.gtfs.my.

⁶ See more at www.themalaysianreserve.com/2018/05/04/govt-extends-rm5b-green-financing-scheme2/.

⁷ See more at www.mida.gov.my and www.greendirectory.my.

⁸ See more at www.pwc.com/my/en/assets/publications/171027-taxavvy-budget-issue1.pdf.

⁹ Paragraph 7.02, Chapter 7, Section B, Part 3 of the Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

¹⁰ Details extracted from

<http://issuance.sc.com.my/MemberAccessIssuance/documents/download/1317/PTC>.

¹¹ Details extracted from

<http://issuance.sc.com.my/MemberAccessIssuance/documents/download/1336/PTC> and

<https://themalaysianreserve.com/2017/10/09/quantum-solar-park-issue-rm1b-green-sri-sukuk/>.

¹² Details extracted from www.thesundaily.my/news/2017/11/08/pnb-issue-rm2b-green-sukuk-office-tower-project.

¹³ Details extracted from

<http://issuance.sc.com.my/MemberAccessIssuance/documents/download/1363/PTC>. and

www.ram.com.my/pressrelease/?prviewid=4412.

¹⁴ Details extracted from www.malaysiandigest.com/business/733857-uitm-becomes-world-s-first-university-to-issue-green-sri-sukuk.html.

¹⁵ Leading provider of credit ratings, research, and risk analysis.

¹⁶ See more at www.moodys.com/research/Moodys-Following-a-record-year-green-bond-issuance-is-set-PR_378972.

¹⁷ See supra note 15.

¹⁸ See more at www.thestar.com.my/business/business-news/2017/10/11/green-sukuk-seen-growing/.

¹⁹ Extracted from www.brinknews.com/asia/the-rise-of-green-islamic-bonds/.

²⁰ See supra note 16.

²¹ See more at www.nst.com.my/business/2017/10/295013/malaysias-green-islamic-sukuk-funds-green-tech-projects.

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