

Sustainable Financing in the ASEAN Region

IN THIS ARTICLE, GOH HUI WEN LOOKS AT GREEN AND SUSTAINABLE INVESTMENTS IN THE ASEAN REGION.

The investment scene in the ASEAN region has been undergoing a transformational change in recent years as it pivots towards a green and sustainable path of development¹. Demand for sustainable investment opportunities in ASEAN is set to bloom within the next two decades, with the investment opportunity estimated to be worth a whopping USD3 trillion from 2016 to 2030².

In November 2017, the **ASEAN Capital Markets Forum** (“ACMF”) launched the **ASEAN Green Bond Standards** (“ASEAN GBS”) based on the International Capital Market Association’s Green Bond Principles to address the need to support efforts to protect the environment and help in the allocation of resources towards climate friendly investments in the region³. Since its launch in 2017, the ASEAN GBS have gained encouraging traction in the region, with three successful issuances from Malaysia and Singapore carrying the ASEAN Green Bond label⁴.

Eleven months after the introduction of the ASEAN GBS, the ACMF met in Singapore on 11 October 2018 and launched the **ASEAN Social Bond Standards** (“ASEAN SBS”) and the **ASEAN Sustainability Bond Standards** (“ASEAN SUS”) ⁵. According to the ACMF, the newly launched ASEAN SBS and ASEAN SUS together with the ASEAN GBS (collectively, “ASEAN Bond Standards”), provide “a complete suite of standards to accelerate the development of sustainable finance in the region” and are intended to “enhance transparency, consistency, and uniformity of ASEAN green, social and sustainability bonds, which will reduce due diligence cost and assist global investors to make informed investment decisions”⁶.

Much like the ASEAN GBS, the ASEAN SBS are aligned and guided by four core components, which are:

- use of proceeds;
- process for project evaluation and selection;
- management of proceeds; and
- reporting⁷.

While the ASEAN GBS caters for the financing of projects with environmental benefits, the ASEAN SBS is, on the other hand, designed for the financing of projects which aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes, including projects which provide affordable basic infrastructure or housing, access to essential services, food security, socioeconomic advancement and empowerment⁸. The ASEAN SBS also specifically excluded projects involving activities that give a negative social impact related to alcohol, gambling, tobacco and weaponry⁹.

Aside from the ASEAN GBS and the ASEAN SBS, issuers may also opt to issue bonds or sukuk under the ASEAN SUS, which is essentially a combination of both the ASEAN GBS and the ASEAN SBS. The initiative behind the development of the ASEAN SUS is driven by the recognition and understanding that certain green projects may also have social co-benefits, and that certain social projects may have environmental co-benefits¹⁰. Hence, issuers of ASEAN sustainability bonds/sukuk are required to comply with both the ASEAN GBS and the ASEAN SBS¹¹.

For example, the proceeds allocated for the projects financed by an ASEAN sustainability bond/sukuk must not be used for ineligible projects specified by the ASEAN GBS such as fossil fuel power generation projects, as well as ineligible projects specified by the ASEAN SBS such as projects involving activities that give a negative social impact related to alcohol, gambling, tobacco and weaponry.

In Malaysia, the issuance of any of the ASEAN green bond/sukuk, the ASEAN social bond/sukuk and the ASEAN sustainability bond/sukuk is subject to additional requirements set out in Chapter 8, Part 3 of the Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework (“LOLA Guidelines”) issued by Securities Commission Malaysia (“SC”)¹².

Pursuant to the LOLA Guidelines, an issuer may only name its bonds/sukuk “ASEAN Green”, “ASEAN Social” or “ASEAN Sustainability” and hold itself out as an issuer of such ASEAN bonds/sukuk if the issuance complies with the relevant ASEAN Bond Standards. Additionally, issuers may opt to issue bonds/sukuk which adopt both the ASEAN Bond Standards and SC’s Sustainable and Responsible Investment (“SRI”) sukuk framework¹³. This is illustrated by the successful issuance of the RM2 billion PNB Merdeka ASEAN Green SRI Sukuk Programme by Permodalan Nasional Berhad at the end of 2017 - which is by far the largest green sukuk to be issued in Malaysia to date¹⁴.

It is undeniable that sustainable financing carries great potential. With a complete suite of the ASEAN Bond Standards now in place, the ASEAN region is set to be the catalyst for green, sustainable and ethical investments in the market.

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¹ DBS and UN Environment (2017). Green Finance Opportunities in ASEAN. See more at www.dbs.com/newsroom/Annual_ASEAN_green_investment_needs_to_grow_400pct_to_guard_against_environmental_risks.

² Supra at 1.

³ Malaysian Islamic Capital Market Bulletin (2017). Driving Sustainable Investments Through Green Sukuk. See more at www.sc.com.my/wpcontent/uploads/eng/html/icm/17_vol12_no2_msianicm.pdf.

⁴ See more at www.thestar.com.my/business/business-news/2018/03/20/aseangreen-bond-standards-gain-traction/.

⁵ See more at www.businesstimes.com.sg/banking-finance/four-asean-nations-to-lift-barriers-to-cross-border-investment-advisory.

⁶ See more at www.asiaasset.com/news/ACMFpmfbonds-gte_1012.aspx.

⁷ See Paragraph 4.0 of the ASEAN Social Bond Standards.

⁸ See Paragraph 4.1.6 of the ASEAN Social Bond Standards for a list of categories of eligible social projects.

⁹ See Paragraph 4.1.6 of the ASEAN Social Bond Standards for a list of categories of eligible social projects.

¹⁰ See the introduction of the ASEAN Sustainability Bond Standards.

¹¹ See the content of the ASEAN Sustainability Bond Standards.

¹² The additional requirements for the issuance of the ASEAN green bond/sukuk are incorporated into the LOLA Guidelines via a revision on 8 November 2017, whereas the additional requirements for the issuance of the ASEAN social bond/sukuk and the ASEAN sustainability bond/sukuk are incorporated into the LOLA Guidelines via a revision on 11 October 2018.

¹³ See more at Chapter 7, Part 3 of the LOLA Guidelines.

¹⁴ Supra at 3.

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