

Session 2 Shariah SRI: The Needed Catalyst for  
Economic Growth  
24 March 2021

Avoiding Islamic  
Markets As Safe Havens  
For Unsustainable  
Assets:  
Shariah ESG As  
Catalysts For Transition  
And Growth

Bursa Malaysia  
Shariah Investing Dialogue 2021 – Series 1 Theme

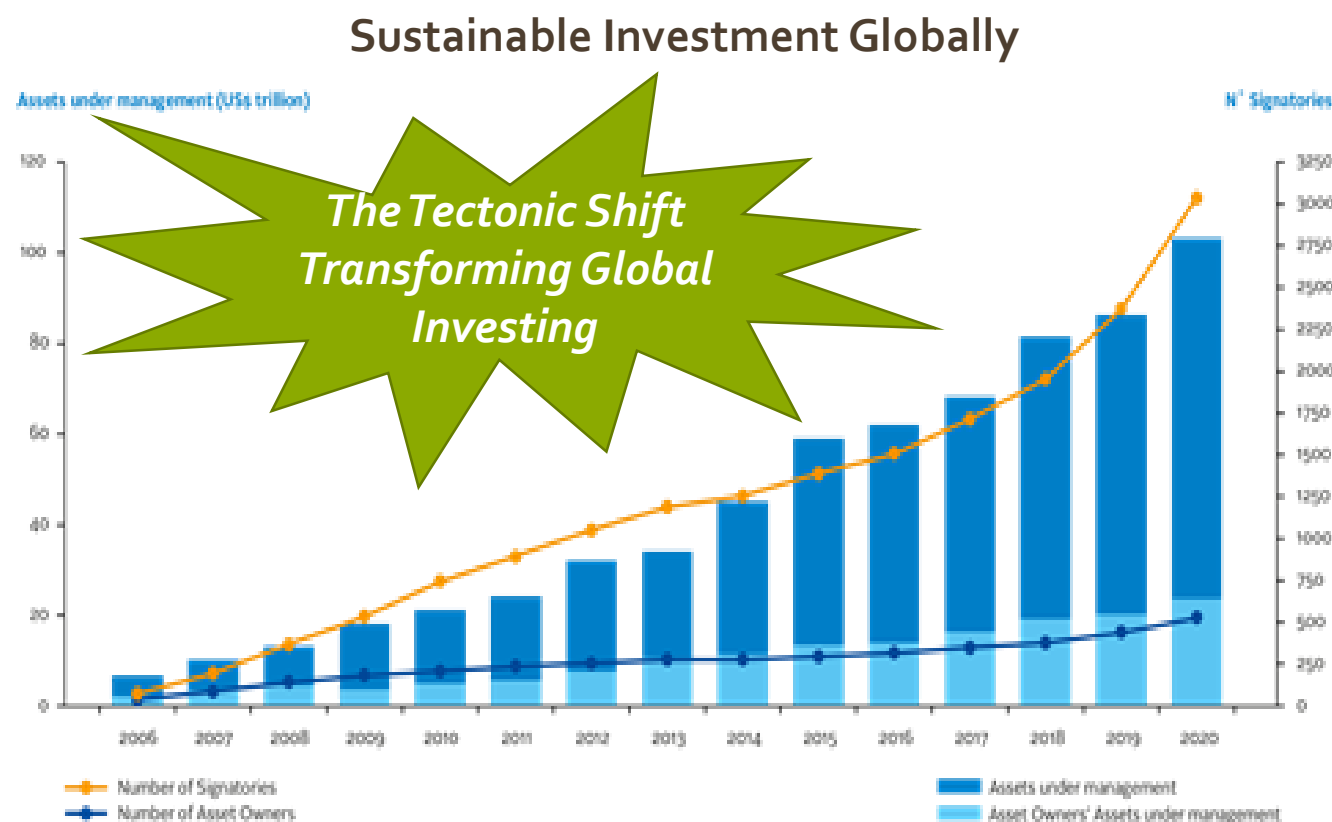
*"Sustainable and Responsible Investing Within The  
Notion of Maqasid al-Shariah"*



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# Global Sustainability Landscape & Trend: Shift Towards Sustainable Investment & Global Asset Portfolio Realignment Places Islamic Assets At Risk Of Illiquidity And Being Stranded



- PRI signatories with significant ESG integration**
- UNPRI signatories total AUM @March 2020 = USD103 trillion (with mixed funds & in transition)
  - Global SRI AUM @ USD30 trillion in 2018, posting 30% growth since 2016 (from major SRI markets).
  - UNPRI Signatories reaches 3,038 in 2020 from 63 in 2006
- Global Shariah funds without significant ESG integration**
- Global Islamic funds@ USD100 billion in 2020
  - 1,545 Islamic funds globally
  - IFSB Stability Report has no data coverage on Sustainable Finance & Investments

Source: PRI, GSIA 2018 and IFSB Stability Report 2020

# Globally, ICM Is Lagging Behind In Sustainable Investment & Finance. ICM As An Asset Class Will Be Penalised If It Continue To Ignore Contemporary Sustainability Considerations & Issues

ICM Slow Evolution & Integration Establishes Gaps Due To Lack of Alignment With Global Standards & Principles - Leads To New Emerging Risks & Challenges In Key Islamic Asset Classes



**Islamic Equity**

- ❑ Shariah screening no longer adequate. Qualitative criteria stagnation.
- ❑ A stagnant shariah taxonomy without infusion of broader islamic doctrines, legal maxim and maqasid al-Shariah
- ❑ Lack of responses, at institutional and RSAs levels: IFSB, FIMM, AAOIFI etc
- ❑ Absence of a new investment universe integrating shariah ESG, maqasid-based screening etc

**Sukuk**

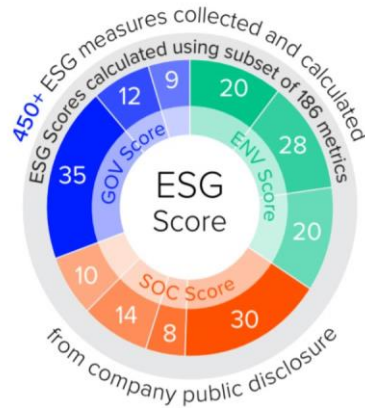
- ❑ Use of proceeds framework have not evolved
- ❑ Absence of adoption of international principles
- ❑ Sukuk proceeds continue to finance investments with low ESG score
- ❑ Lack of responses, at institutional and RSAs levels: IFSB, FIMM, AAOIFI etc

**Islamic Funds**

- ❑ Lack in-house capability on sustainable investment. Little transition out of the USD100 billion
- ❑ Lack proprietary maqasid-based or shariah ESG rule book
- ❑ Lackng in technology deployment in islamic fund value chain
- ❑ The SC shariah ESG universe/list should have ESG scores to price out ESG risk
- ❑ Lack of responses, at institutional and RSAs levels: IFSB, AAOIFI etc

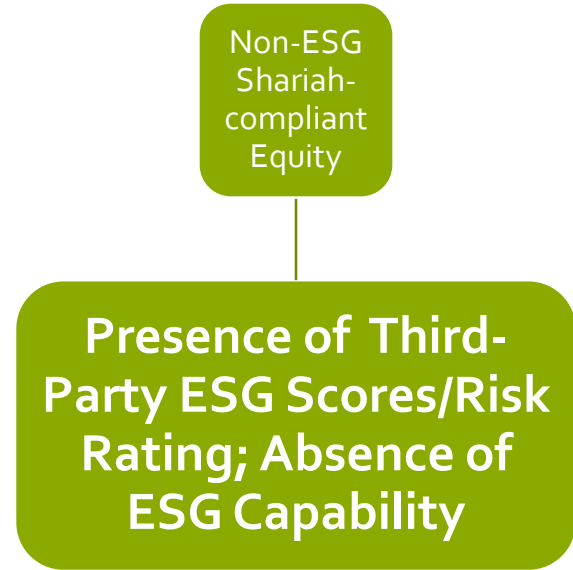
# Why Are Islamic Assets At Risk?

*ESG Risk Ratings measure the degree to which a company's economic value is at risk driven by ESG factors or, more technically speaking, the magnitude of a company's unmanaged ESG risks. The ESG measures comprise quantitative score and a risk category.*



- Environmental**
  - Resource use
  - Emissions
  - Innovation
- Social**
  - Workforce
  - Human rights
  - Community
  - Product responsibility
- Governance**
  - Management
  - Shareholders
  - CSR strategy

3<sup>rd</sup> Party ESG Scores Drive Stock Price Volatility



Non-ESG Shariah-compliant Equity

Non-SRI Sukuk

Non-SRI Islamic Fund

arabesque

**Bloomberg**

**FitchRatings**

3<sup>rd</sup> Party ESG Scores Drives Yield Volatility

**REFINITIV**  
**SUSTAINALYTICS**

- Proprietary ESG Methodology
- Investment Universe, Portfolio Construction & Management
- Technology (AI, ML & Big Data)

**BIMB INVESTMENT**  
A BANK ISLAM SUKSESAMA

# Heightened ESG Risks Obligates ICM Value Chain To Perform Fiduciary Responsibilities



IFSB, AAOIFI -  
Alignment With Global  
Principles, Standards &  
Best Practices



Establish Legal & Regulatory  
Sustainability Frameworks

Develop Internal Capability  
& Transition

Make ESG Risks Disclosure  
& Management To Clients

Create Awareness, Understanding  
and Strengthen Capability  
On Sustainability

Evolving Islamic Jurisprudence –  
Understand Expanded Shariah Taxonomy



# As we speak, Islamic Assets Already Negatively Impacted By ESG & Sustainability Consideration. More Concerning, ICM May Become Safe Havens For Unsustainable Assets



**ENVIRONMENTAL**

- climate change
- resource depletion
- waste
- pollution
- deforestation



**SOCIAL**

- human rights
- modern slavery
- child labour
- working conditions
- employee relations



**GOVERNANCE**

- bribery and corruption
- executive pay
- board diversity and structure
- political lobbying and donations
- tax strategy

Externalities  
(Positive or Negative):

Shaping The Behaviour of Business Corporation And Investor/Financier

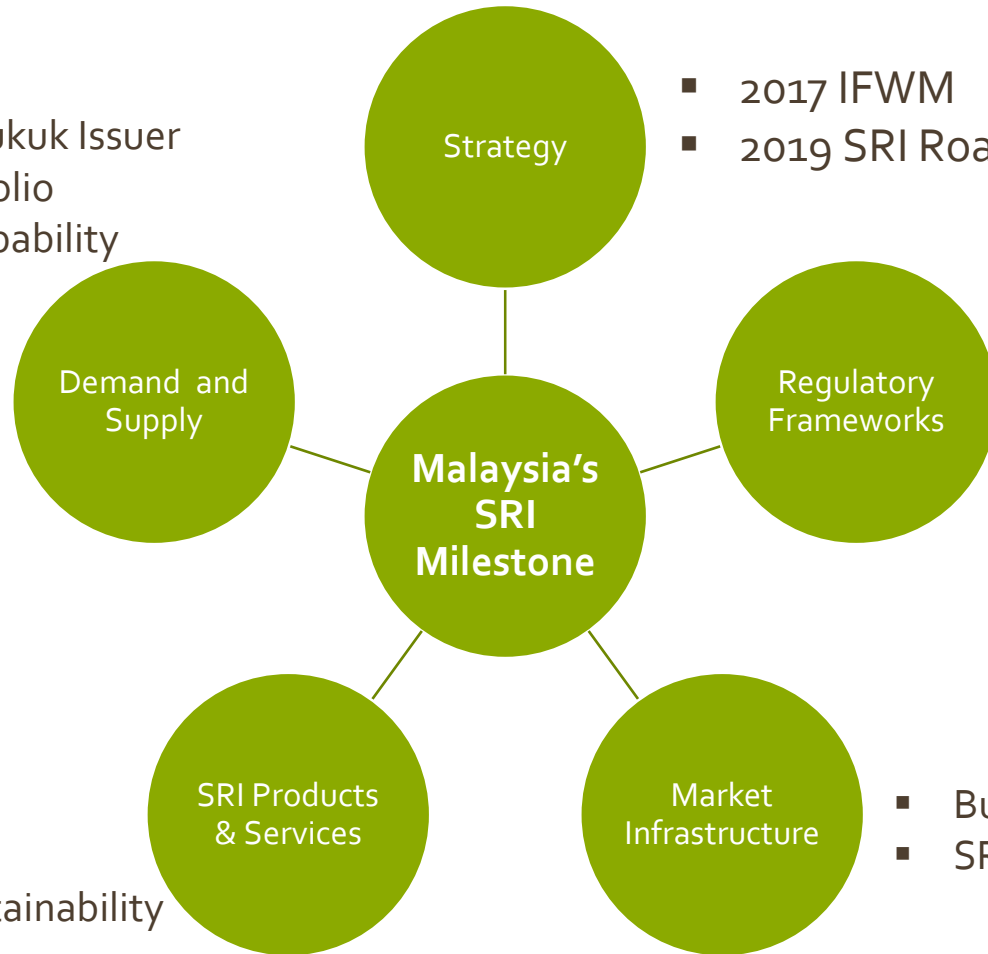
## High-profile examples of financially material ESG incidents

### Malaysia's Shariah-compliant Securities

- 2012 since FGV IPO: Myriad of corporate governance and labour rights-related issues, wiping RM12 billion in market capitalisation from IPO until to-date
- 2016: IOI Berhad RSPO suspension over rainforest destruction and social conflict and other laws in Indonesia, wiping RM billions in market capitalisation arising from market volatility and uncertainty
- 2020: Top Glove faces labour rights issues and potential ban from US Custom and Border Protection, as uncertainty wipe RM billions in capitalisation
- 2021: Sime Darby Plantation & FGV faces supply chain boycotts over labour rights issues, threatens financial performance



# Malaysia's ICM Sustainability Initiatives Made Notable Progress But More Is Needed...Urgently!



- 2017 IFWM
- 2019 SRI Roadmap

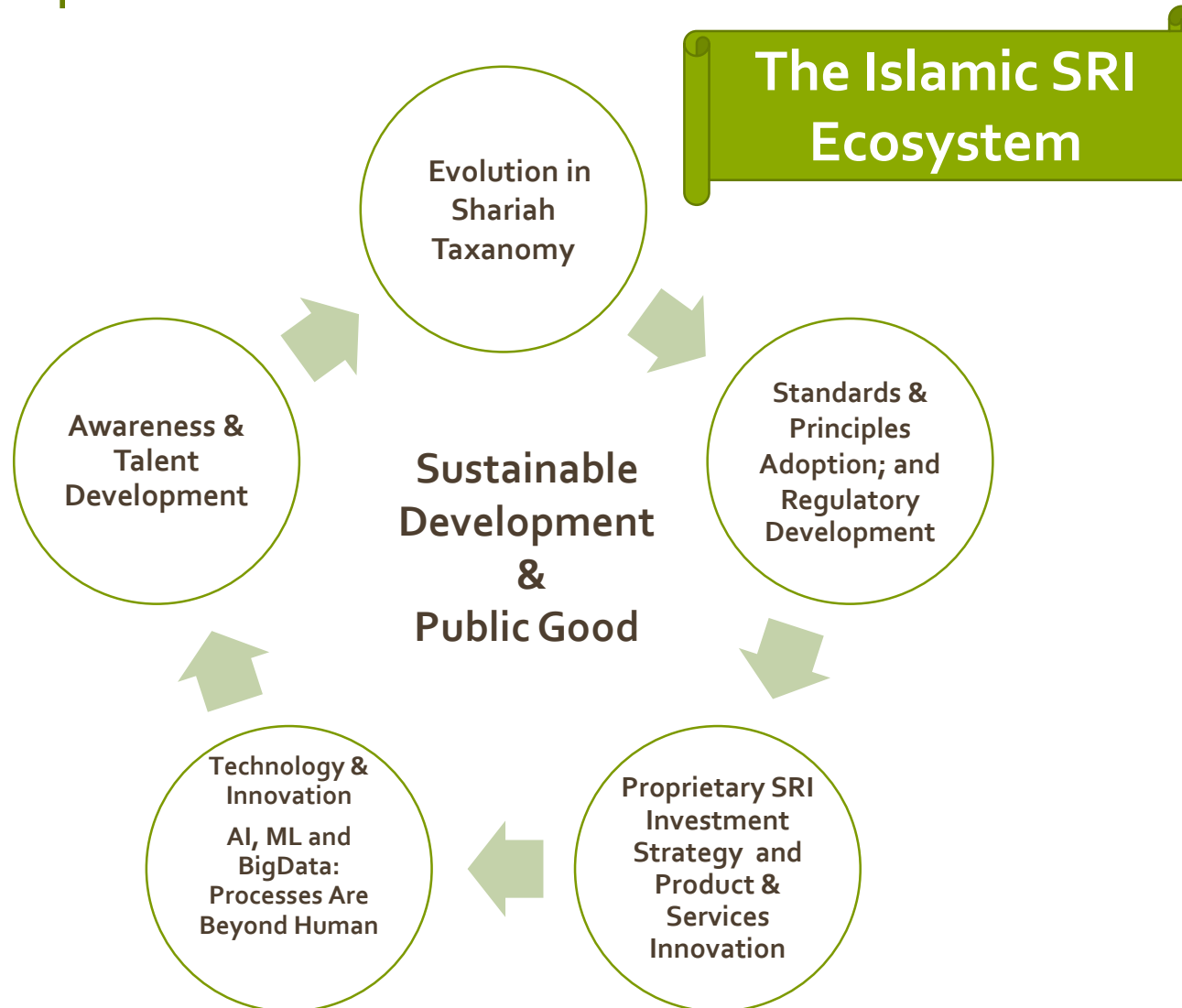
- SRI Sukuk Framework
- SRI Fund Framework
- Waqaf Framework
- Negative Screening for Islamic Equity & Sukuk

- Bursa-i
- SRI Sukuk & Bond Grant

- PRI Signatories
- Green, Social & Sustainability Sukuk Issuer
- ML & Big Data Quant ESG Portfolio
- Construction & Management Capability

- Proprietary Islamic ESG Funds
- Waqaf Unit Trusts
- SRI Sukuk – Green, Social & Sustainability
- Waqaf IPO

# ICM Must Evolve & Transition: Manage ESG/Sustainability Risk And Tap New Growth Areas



## Strategy

- ❑ The *SC IFWM Blueprint* sets the foundation for Islamic SRI growth

## Islamic Guiding Principles

- ❑ Islamic legal maxim and the Prophet's hadith (Ibnu Majah) -

***"harm shall neither be inflicted nor reciprocated"***

- ❑ Islamic legal and classical doctrines

***"maqasid al Shariah" "maslahah",***

***"justice" "khalifah"***



# Moving Forward: Envisaging An Evolving Shariah Taxonomy: The Rapid Integration of Shariah ESG & Sustainability For ICM Future Growth

## Shariah ESG From The Lens of Islamic Jurisprudence & Justice



Integrate Maqasid Shariah, Legal Maxim & Islamic Doctrine

+

Integrate Market-based Islamic Social Finance: Sadaqah, Infaq and Awqaf

The 5-year  
IFWM  
Blueprint

The  
Expanded  
Shariah  
Taxonomy



Thank You

