BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Value-based Intermediation Financing and Investment Impact Assessment Framework

Consultative Document

Issued on: 3 October 2018 BNM/RH/DP 034-3

The VBI Financing and Investment Impact Assessment Framework provides guidance to facilitate the implementation of an impact-based risk management system for assessing the Islamic banking institutions' (IBIs) financing and investment activities in line with their respective VBI commitment. The document is jointly developed by the Bank, the IBIs, and other key stakeholders. The document will undergo a period of public consultation before it will be finalised. In this regard, the Bank invites written feedback on this document, particularly on the specific questions raised throughout this document. Responses may include suggestions on issues/areas to be clarified or alternatives that the Bank and its collaborators should consider. To facilitate an effective consultation process, the written feedback should be supported with clear reasons including accompanying evidence or illustrations where appropriate.

Responses must be submitted to the Bank by 30 November 2018 to –

Pengarah
Jabatan Perbankan Islam dan Takaful (JPIT)
Bank Negara Malaysia
Jalan Dato' Onn
50480 Kuala Lumpur
Email: vbi@bnm.gov.my

Electronic submission is encouraged. Submissions received may be made public unless confidentiality is specifically requested for the whole or part of the submission.

In the course of providing your feedback, you may direct queries to the following officers at 03-26988044:

Shahira Zaireen Johan	ext. 8564 or zaireen@bnm.gov.my
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Overview

Overall Framework of Value-based Intermediation (VBI)

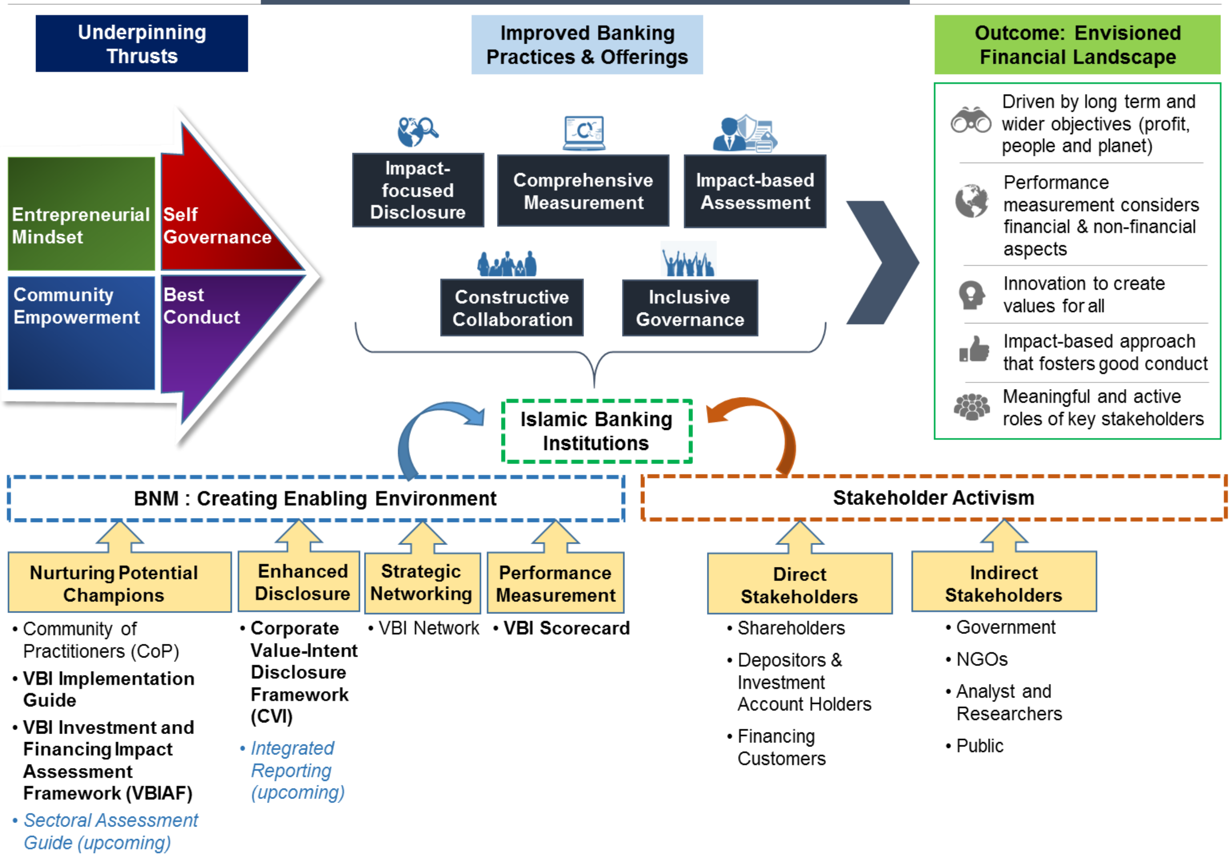
- In March 2018, a Strategy Paper on Value-based Intermediation (Strategy Paper) was finalised and issued by Bank Negara Malaysia (the Bank), in collaboration with the members of the VBI Community of Practitioners (CoP)[1].

- VBI is defined as an intermediation function that aims to deliver the intended outcomes of Shariah through practices, conduct and offerings that generate positive and sustainable impact to the economy, community and environment; consistent with the shareholders' sustainable returns and long-term interests.

- The Strategy Paper has provided a broad articulation of the underpinning thrusts of VBI as well as the implementation approach and strategies in advancing VBI as the next strategic direction for the Islamic banking industry.

- The Bank facilitates the implementation of VBI by establishing key enablers such as the CoP, VBI Network, VBI Scorecard and series of Guidance. In addition, the Bank promotes proactive transparency on the optimal set of information that aims to trigger the intended reaction (market discipline) from relevant stakeholders towards the existing banking practices and offerings.

Diagram 1: Overall Framework of Value-based Intermediation

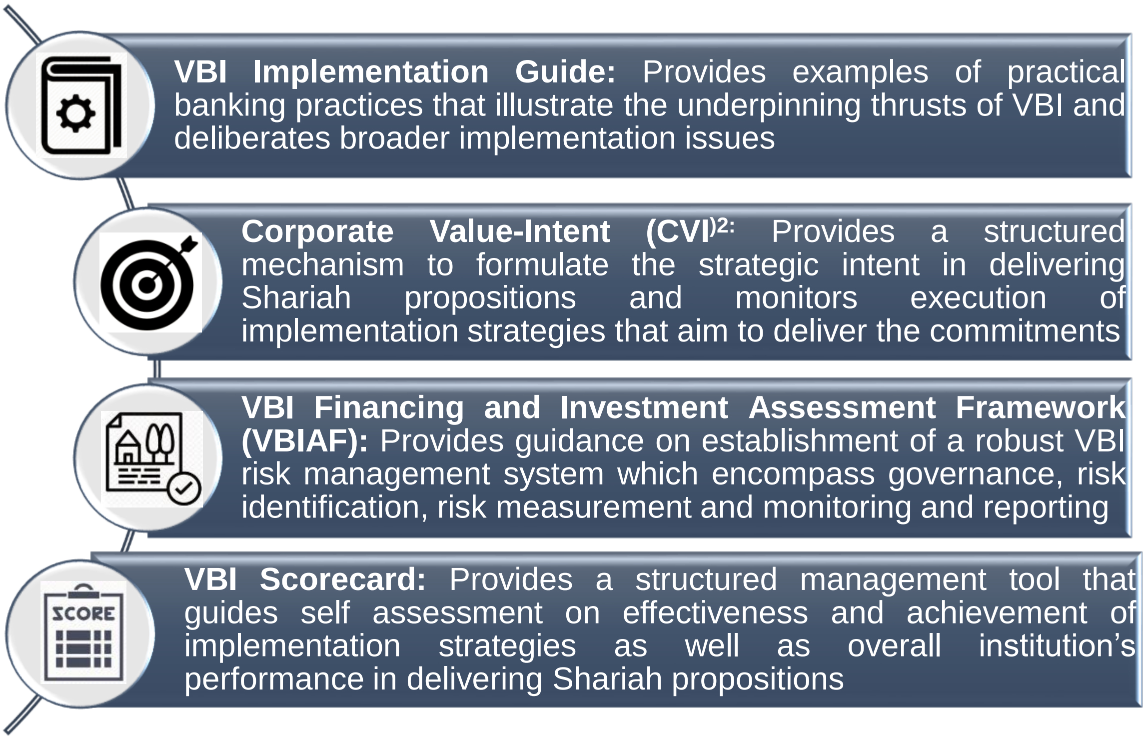


[1] Comprising of 9 Islamic banking institutions (IBIs) i.e. Bank Islam, Bank Muamalat, Agrobank, Maybank Islamic, CIMB Islamic, Ambank Islamic, Alliance Islamic, HSBC Amanah and Standard Chartered Saadiq.

Two-pronged Approach in Facilitating VBI Adoption by Industry Players

1. Creating an enabling environment through regulatory guidance

- In addition to the establishment of the CoP (including its strategic network) the following documents are produced to provide guidance on how to translate the articulation of VBI in the Strategy Paper into real banking practices and offerings:



- These documents are developed in collaboration with the members of the CoP and relevant stakeholders. These guidance are meant to facilitate the design process and make extensive use of examples to provide ideas of best practices that are evidenced globally. As such, these guidance are robust documents and may be enhanced further in the future. Beyond these documents, other guidance may also be produced as and when necessary.

2. Enhancing the quality of transparency to trigger the intended stakeholder activism

- It is crucial to promote disclosure of the optimal set of information to key stakeholders such as financial consumer, investor, government agencies and non-governmental organisations (NGOs) with an objective to generate the intended market discipline that encourages the Islamic banking institutions (IBIs) to sharpen their focus on delivering the Shariah propositions.

- At this juncture, VBI transparency expectations focus on intent/commitment (mission statement), implementation strategies and comprehensive performance reporting (which eventually will cover the impact of financial intermediation).

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[2] Further explanation on the Corporate Value-Intent Disclosure Framework is embedded in the *Implementation Guide for VBI*. There will be no separate document issued on this aspect.

Introduction

About the VBI Financing and Investment Impact Assessment Framework (VBIAF)

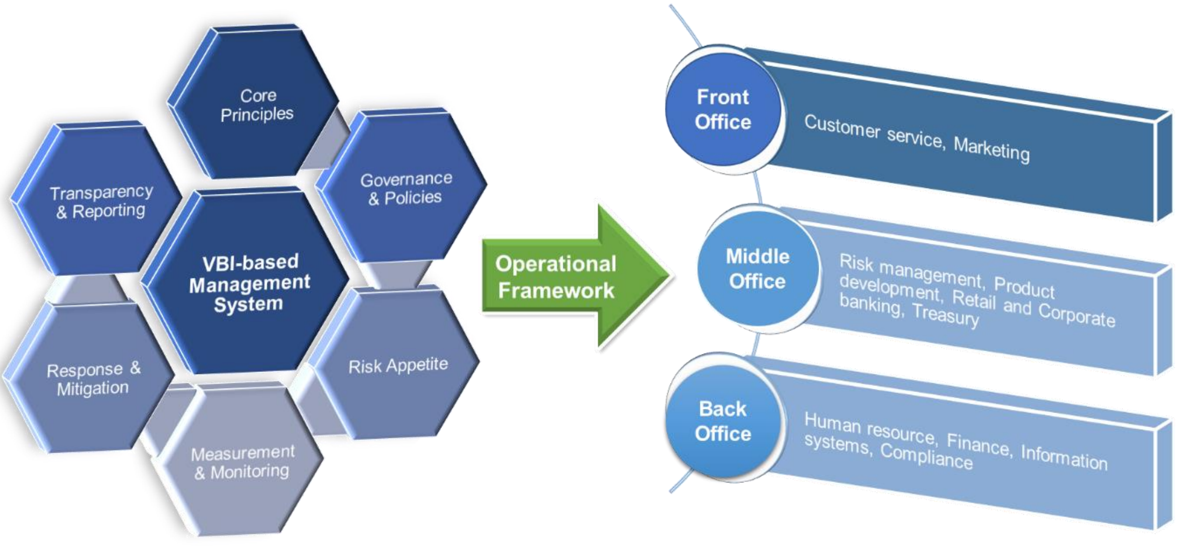
- The VBI commitment is premised on the underpinning thrusts described in the Strategy Paper and elaborated in the *Implementation Guide for VBI*. Although it is not a new concept, the key difference between VBI and initiatives such as Environmental, Social and Governance (ESG), Ethical Finance and Sustainable, Responsible Impact Financing (SRI) is the reliance on Shariah in the determination of its values, moral compass and priorities.

- The implementation of VBI will necessitate a comprehensive review of the existing business environment, essentially challenging the current Shariah compliance convention and innovating new policies and systems that can effectively embed and deliver the proposition of Shariah.

- The implementation of VBI begins with the formation of the CVI, which articulates the IBI's VBI commitment and forms the basis for the formulation of all policies and systems from the front office to the back office, including customer service, marketing, product development, risk management, treasury, compliance, finance, human resource and information technology.

- Effectively, the IBI has to re-align the current risk assessment and management systems to the VBI commitment. A VBI-based management system would set out the overarching framework that defines the guiding principles and other requirements involved to operationalise the VBI strategy and identify, measure, monitor, mitigate and report risk exposures that may arise, on a dynamic and continuous basis. The establishment of an effective management system, which commensurates with the nature and scale of the IBI's VBI implementation strategy has a direct impact on the success of its VBI commitment.

Diagram 2: VBI-based Management System is a guiding framework to Islamic bank's operations



Objective

- To facilitate the implementation of the VBI strategy, the Bank in collaboration with the International Centre for Education in Islamic Finance (INCEIF), The World Bank Group (Malaysia Office) and the CoP (referred to as "the collaborators" hereafter) have produced a guide for the implementation of a VBI Financing and Investment Impact Assessment Framework (VBIAF). The World Wide Fund for Nature (WWF) (Malaysia and Singapore offices) also made significant contribution towards the drafting of this document, especially from the environment and social aspects.

- The collaborators agreed that the provision of finance and investment are the key business activities that would be most impacted by the VBI commitment and hence would require immediate guidance. The VBIAF is intended to be a guide in setting out best practices on the establishment of an effective risk management system for financing and investment activities that integrates the VBI commitment.

Approach

- This document is developed in reference to the existing policy documents issued by the Bank, primarily *Risk Governance* and *Credit Risk,* and standards and guidance issued by the international/multi stakeholder organisations and initiatives.

- The guidance provided in this document is constructed as follows:
  - (i) each section begins by describing the principal ideas of the particular component of the document;
  - (ii) based on the collaborators' observation, guidance on key principles is provided that interprets the practical application of the principal ideas; and
  - (iii) supporting examples of best practices adopted by relevant institutions and practitioners are reproduced for a better illustration.

Scope

- The scope of implementation of the VBIAF will depend largely on the respective IBI's VBI implementation strategy[3], which may differ according to risk appetite, capacity and capabilities.

- In implementing the VBIAF, the IBI would need to consider the portfolio perspective and the business perspective. The IBI should assess the efficacy (both operationally and in the financial sense) of its implementation approach:
  - (i) from the portfolio perspective –
    - a phased/staggered approach, defined in this document as the initial application on a specific segment/portfolio of the IBI's financing business and/or investment and gradually to the entire portfolio of financing and investment; or

[3] The adoption of VBI strategy is on a voluntary basis. This document serves as a guidance for those IBIs who have indicated a commitment to the VBI strategy. Reference is made to the implementation approach elaborated in the *Implementation Guide for VBI*.

  - a bank-wide approach, defined in this document as the immediate application across all categories of the IBI's financing and investing activities; and

(ii) from the business perspective –

  - an immediate application, defined in this document as the application on all existing/on-going and new financing / investment, which may be more holistic but could result in disruption of business[4]; or
  - a prospective application, defined in this document as the application on only new financing/investment, which would be less disruptive but would eventually necessitate a review of those businesses contracted prior to the adoption of the VBI strategy to ensure the earlier businesses are aligned with the VBI commitment.

- In the end, the application of the VBIAF should be applied to all outstanding financing and investment assets.

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[4] Disruption of business could arise from losses that may be incurred from having to amend or terminate the existing contractual obligations in order to achieve the VBI goals. In this instance, when considering its implementation strategy, the IBI must take into account the legal and financial risks of the existing contractual terms and conditions and weigh-in the appropriate cost and benefit of the proposed strategy.

Principles of VBIAF

Principal ideas

1. The VBIAF should be built based on a set of guiding principles that articulates the operationalisation of the IBI's VBI commitment as described in its CVI. By first determining the guiding principles, the IBI will be able to address the implication of change in the way of doing business in a more systematic manner. From the set of guiding principles, specific policies and procedures are developed to effect the VBI strategy on the financing and investment decision-making process.

2. The set of guiding principles should be comprehensive enough and articulated in a sufficiently practical manner to facilitate effective implementation and observation of a tangible outcome.

Guidance

3. The collaborators observed that the guiding principles established by the relevant institutions and practitioners are broadly consistent with the Shariah proposition and the underpinning thrusts of the VBI. In particular, the following principles would be key to the design of the VBIAF:

(I) Attainment of benefit and prevention of harm

4. Under this principle, the IBI would define its approach to determine the positive (benefit) and negative (harm) impacts of any financing and investment activities. This includes determining its approach to measure materiality, define its priorities in conducting such activities (by sector and type of business or other) and the parameters that would govern the IBI's expectations on its counterparties (financing customers, investees etc.).

5. Any financing and investment activities undertaken by the Islamic bank would be evaluated against this premise of benefit and harm. This premise is entrenched in the requirements of Islam and is reflected in the application of Shariah. The concept of "vicegerency" on the earth is well articulated in the Quran and the teachings of Islam, which has explicitly entrusted to humankind (the believers) the custodianship of all resources of the earth (water, food, land, energy, animals and etc.) and prescribed certain rights and rules regarding the social interactions between humans and their activities.

6. In this regard, the IBI would acknowledge that there is a profound interlinkage between the success and sustainability of its business and the natural and social capital, which it employs and affects. This perspective aligns with the growing expectations from shareholders and other stakeholders that value creation by the IBI should also contribute towards supporting and improving the resilience and sustainability of the society and environment more generally, in addition to that of the IBI itself.

7. Shariah emphasises that prevention of harm may take precedence over the attainment of benefit. When constrained with the choice between two harms,

Shariah informs that the lesser of the two must be chosen. Shariah also informs that the prevention of public harm should be given priority over individual harm.

8. Ideally, the IBI should aim to maximise benefit and minimise harm. However, it is acknowledged that the quantification of positive and negative impacts is not a precise science. In this instance, the IBI would need to apply its judgement[5] based on all available data-driven evidence and consider the relevance of the impacts to the stakeholders when assessing materiality.

9. The IBI's decision-making in respect of the types and sectors of businesses that it ventures into would be guided by its CVI that encapsulate the priorities of the IBI. In developing its priorities and strategies, the IBI should first consider the national strategic interest/blueprint and local sustainable development goals[6,7]. However, the IBI should also aspire to meet the goals and objectives set by well-established international standards that best-express the ideas of sustainability such as –
   (i) international agreements and conventions on sustainability – the 2015 Sustainable Development Goals (SDGs), the Paris Agreement, The New York Declaration on Forests, the Convention on Biological Biodiversity, the UNESCO World Heritage Convention, the UN Business and Human Rights Framework, and other relevant UN agreements;
   (ii) best practice frameworks – Recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and the forthcoming Principles for Responsible Banking; and
   (iii) robust international science-based multi-stakeholder standards – soft commodities certification standards, the Context-based Water Targets and the Science based Targets Initiative etc.

Examples of best practices

BNP PARIBAS

As Sole Arranger and Lead Manager, BNP Paribas played a pivotal role in the landmark US$ 95 million Sustainability Bond issued in February by the Tropical Landscapes Finance Facility (TLFF). The transaction was ground-breaking in many ways – it was the first Sustainability Bond in ASEAN and the first Sustainability Bond in Asia to support a corporate. Through this highly structured deal, the bank is playing its role in enabling positive social, environmental and economic outcomes in the region. The project financed through the Sustainability Bond consists of the responsible management of a rubber tree plantation, the conservation of a biodiversity area and provisions to improve the livelihood of local populations in rural regions of Indonesia, contributing to several of TLFF's core objectives. In addition, in line with TLFF ESG Policy and Standards, an external environmental and social (E&S) due diligence assessment was carried out for the project. *Source: BNP Paribas website[8]*

[5] In particular where the financing or investment activities result in both positive and negative impacts.
[6] This is consistent with the United Nation's document on "Transforming Our World: the 2030 Agenda for Sustainable Development", paragraph 55, page 13.
[7] A summary of the main related policy/plan/programme in Malaysia is provided in Appendix: Resources and Tools.
[8] https://cib.bnpparibas.com/sustain/finance-of-the-future_a-3-2097.html

Yes Bank Commits USD 5 Billion for Solar Projects in India at International Solar Alliance (ISA)

Yes Bank, India's fifth largest private sector bank, made a major announcement to mobilise USD 1 billion until 2023 and USD 5 billion until 2030 towards financing the solar energy projects in India. This significant announcement is part of YES BANK's commitment to support ISA's vision of creating a robust eco-system for solar energy globally and the Government of India's target of achieving 100 GW of solar energy by 2022.

This development also comes on the back of recent USD 400 million co-finance agreement by YES Bank and European Investment Bank for construction of new solar power plants and wind farms across the country.

Source: YES Bank website[9]

Islamic banks take part in financing green energy and empowering SME and entrepreneurship

The Islamic International Arab Bank (IIAB) signed an agreement with the Central Bank of Jordan in 2015 to develop Shariah compliant alternatives for mid-term financing based on Wakalat al-Istithmar for financing of energy efficient and renewable energy projects. Under this arrangement, the maximum amount of financing is US$ 6 million and the maximum tenor is up to 120 months, with a fixed pricing based on the central bank's rediscount rate. In the effort of empowering SME and entrepreneurship, Al Baraka Turk emphasises product development that offers different financial solutions for different business sectors in the SME market. Several packages like the SME service package, dentist package and foreign commerce package have been offered by the bank to the market. This is mainly to empower small business and entrepreneurs, as well as to support SMEs to become a part of the global value chain.

Source: CIBAFI Global Islamic Bankers' Survey 2016[10]

(II) Fair and Transparent

10. Under this principle, the IBI would define its approach to ensure the appropriate transparency and disclosure, including (but not limited to) defining the users and types/content of information and the frequency and method of communication.

11. Transparent policies and procedures and effective disclosures are important measures to facilitate the necessary changes in doing business and demonstrate accountability to the VBI commitment and stakeholders.

12. Financing customers should have adequate information about the changes in policies and procedures such as the eligibility criteria, an information submission checklist and the monitoring and reporting requirements.

[9] https://www.yesbank.in/media/press-releases/yes-bank-commits-usd-5-billion-for-solar-projects-in-india-at-isa
[10] http://cibafi.org/ControlPanel/Documents/Library/Pdf/GIBSv2.pdf

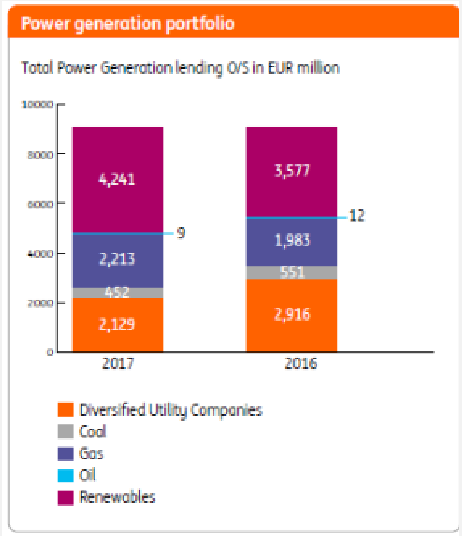
13. Appropriate and regular disclosures by the IBI are necessary to communicate the progress and impact of the VBI strategy.

14. Local and international transparency and disclosure frameworks relevant to sustainability, such as those issued by Bursa Malaysia[11], TCFD, Global Reporting Initiative (GRI), Sustainability Accounting Standard Board (SASB), should be considered when defining materiality and providing disclosure.

Examples of best practices

ING

ING publishes insights into the environmental and social (E&S) risks of its portfolio and is transparent about its E&S criteria for risk management



1. E&S framework and sector policies[12]
2. Portfolio coverage by policies[13]
3. Energy portfolio breakdown[14]
4. SDG reporting[15]

Source: ING Website[16]

BNI

Bank Negara Indonesia (BNI) disclose their loan portfolio and its progress towards achieving sustainability goal

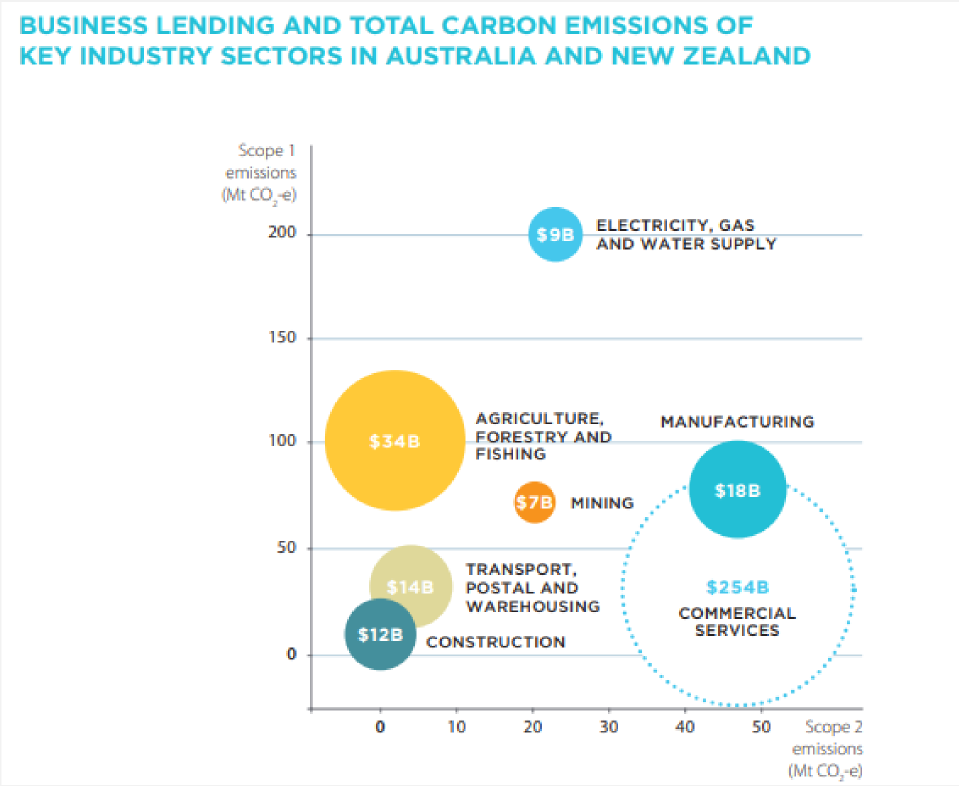
Bank Negara Indonesia (BNI) discloses the detail breakdown of their loan portfolio by sector and size category in their sustainability report. In which manufacturing and agriculture sectors being the main sectors that they finance. Besides providing a detail report on their credit exposure, BNI also reports their loan portfolio's contribution to the national development and KUR (People business credit) disbursement. The distribution of KUR reached 81.21% of the target set by the government in 2017 at Rp12,000 billion. Besides that, during 2017, BNI has distributed Rp57,646 billion in green financing for corporate segment or 30.66% of total corporate loans,

[11] The "Sustainability Reporting Guide" and accompanying "Sustainability Toolkit: Governance", "Sustainability Toolkit: Materiality Assessment" and "Sustainability Toolkit: Materiality Matrix".
[12] https://www.ing.com/web/file?uuid=5a9af88a-b6a3-4e8a-ae8d-d192e7f8d7c9&owner=b03bc017-e0db-4b5d-abbf-003b12934429&contentid=42010
[13] https://www.ing.com/web/file?uuid=984d63ab-14e4-4a37-abcd-8326d8196f76&owner=b03bc017-e0db-4b5d-abbf-003b12934429&contentid=42779
[14] https://www.ing.com/Sustainability/Our-Stance/Energy.htm
[15] https://www.ing.com/Sustainability/The-world-around-us-1/Sustainable-development-goals.htm
[16] https://www.ing.com/ING-in-society/Sustainability/Our-Stance/Transparency.htm

up from Rp21,570 billion in 2016 or 12.39% of total corporate loans and 7.54% of total BNI loans (excluding consumers).

Source: BNI Sustainability report 2017[17]

ANZ Carbon foot printing of portfolio



Source: ANZ website[18]

(III) Constructive and inclusive collaboration with stakeholders

15. Under this principle, the IBI would define its approach to undertake effective engagement including (but not limited to) identifying the relevant stakeholders, determining the purpose, frequency and method of engagement and feedback/response channel.

16. The active participation of stakeholders ensures that the decision-making process under the VBIAF is conducted based on complete and transparent information. For example engaging with –
    (i) civil society and local communities on an ongoing basis to obtain information about the actual and expected impact of the IBI's financial products and services and overall portfolio;
    (ii) NGOs to understand and develop credible science-based approaches (e.g. tools, standards) to mitigate risks;

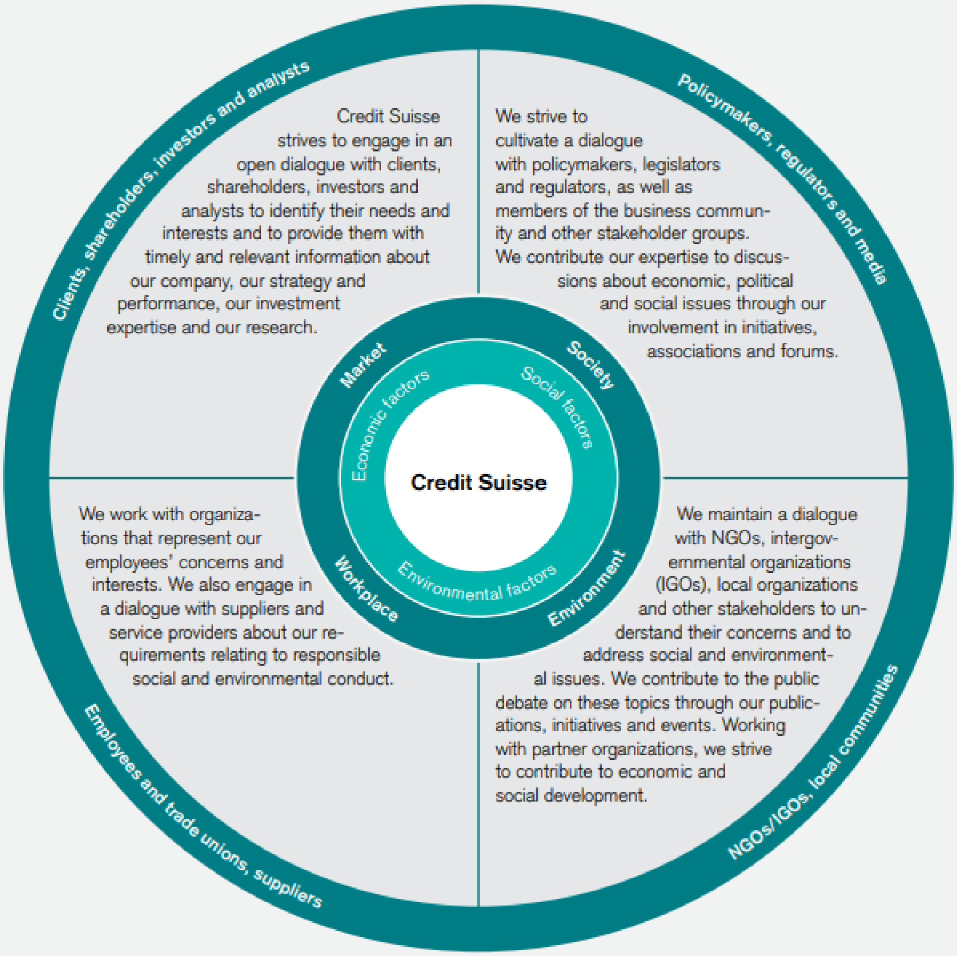
[17] http://www.bni.co.id/Portals/1/BNI/Perusahaan/Docs/BNI_SR2017_ENG.pdf
[18] http://shareholder.anz.com/sites/default/files/anz_2017_corporate_sustainability_review.pdf (page 66)

(iii) experts to gain insights about emerging trends and engaging policy makers to understand regulatory expectations; and
(iv) regulators to support the transition to sustainable finance system.

17. The engagement process may appear involved but is critical in facilitating the stakeholder on-boarding process to create awareness and gain support for the Islamic bank's VBI commitment.

Examples of best practices

Credit Suisse stakeholder engagement



Source: Credit Suisse website[19]

[19] https://www.credit-suisse.com/media/assets/corporate/docs/about-us/investor-relations/financial-disclosures/financial-reports/csg-crr-2017-en.pdf

Kasikorn Bank (K-Bank) conducts continuous stakeholders' engagement in doing business

Stakeholder engagement is key to K-Bank's ability to understand stakeholders' requirements and expectations in order to map out effective operational guidelines to prevent risks or impacts that could occur due to improper performances. Stakeholders are classified into eight groups according to their relevant business processes: Shareholders, the Board of Directors, employees, customers, counterparties, competitors, creditors, communities, environment and society. K-Bank has adopted the AA 1000 Stakeholders Engagement Standard (AA 1000SES) and created stakeholder participation via related units and designed processes to identify their needs and concerns through various forms of activities such as meetings, seminars, customer and employee surveys and in-depth interviews. The results of those efforts have been used to determine practical guidelines that should alleviate negative impacts and efficiently generate added value.

Source: Kasikorn Bank Sustainability Report 2017[20]

(IV) Integration of Shariah

18. Under this principle, the IBI would define its approach to integrate Shariah into its business strategy (i.e. VBI commitment) and operational design[21].

19. The integration of Shariah must extend beyond a compliance approach to affect real change in behaviour and culture of the IBI towards embracing the VBI strategy.

20. The design of policies and procedures and capacity and competency development should aim to enable a Shariah mind-set, which focuses on impact rather than a Shariah checklist, which focus on exceptions.

Examples of best practices

SDGs and Maqasid al-Shariah

The United Nations Development Programme (UNDP) and the Islamic Development Bank Group (IDBG) signed a Memorandum of Understanding (MoU) to strengthen the collaboration between the two leading development institutions, to support the effective implementation and achievement of the SDGs. IDBG plans to increase its financial support to SDGs realisation to more than USD150 billion over the next 15 years.

The 2030 Agenda aspires to achieve 17 high level SDGs and 169 specific targets, encompassing the social, economic and environmental dimensions of development. These aspirations for human dignity, and 'to leave no one behind', is fully in line with the principles and objectives of development from an Islamic perspective (*Maqasid Al-Shariah*).

[20] https://www.kasikornbank.com/en/sustainable-development/SDAnnualReports/2017_SD_EN.pdf

[21] The Strategy Paper has provided a broad articulation of the intended outcomes of Shariah in financial transactions or the "*Maqasid al-Shariah*". *Maqasid al-Shariah* also incorporates the determination of priorities namely, *daruriyyat* (essentials), *hajiyyat* (needs) and *tahsiniyyat* (embellishments) in the decision making process.

For example, the IDBG launched a new fund, which will provide seed money to innovative start-ups and SMEs, helping them implement development projects related to the United Nation's SDGs.

Source: Islamic Development Bank website[22]

Islamic Asset Management: Integrating ESG principles with Shariah-compliant investing

Responsible investment — an investing approach that incorporates ESG principles is making headway in the local Islamic asset management space. This gives investors who care about such issues another avenue when selecting funds.

In November 2016, BIMB Investment launched the first fund in the country to integrate Shariah and ESG principles in the investment decision-making process — the BIMB-Arabesque-i Global Dividend Fund 1. And this year, Nomura Islamic Asset Management established an in-house taskforce to enhance and refine its ESG methodology in its research and investment process.

Responsible investment is welcomed by the Islamic asset management industry as it shares similar traits with Shariah investing, which also takes into account business sustainability and social responsibility. AIIMAN and CIMB-Principal Islamic Asset Management (CPIAM) are two fund houses that have embraced the ESG trend, as they believe it will spur investor demand for Shariah-compliant funds.

Source: The Edge Market[23]

Question 1
Do you agree with the principles outlined in this section? If not, what do you believe should be the overarching principles to an effective impact-based risk management framework?

Question 2
Do you agree with the articulation of the Shariah basis of the VBIAF? If not, what do you believe should be the Shariah basis for the VBIAF?

Question 3
What are the challenges to incorporate a Shariah-focus in the impact-based risk management framework? What would be the effective solutions to such challenges?

[22] https://www.isdb.org/what-we-do/sustainable-development-goals
[23] http://www.theedgemarkets.com/article/islamic-asset-management-integrating-esg-principles-shariah-compliant-investing

Principles of Governance

Principal ideas

21. A robust and effective governance that is able to respond promptly to the changes in the IBI's business strategies and operating environment whilst preserving the financial soundness of the institution in the long-term is critical.

22. The VBIAF principles should be internalised throughout the institution to ensure that all decision-making processes are VBI-informed and reflected in the conduct of all activities[24].

23. Any enhancements to the IBI's governance structure[25,26] should commensurate with the nature, size, complexity and risk profile of the IBI's VBI strategy and continue to be consistent with the requirements of existing standards issued by the Bank on *Corporate Governance, Risk Governance* and *Shariah Governance*.

Guidance

24. The collaborators observed that best governance practices would institute the following distinct features:

(I) The articulation of enhanced role of the Board

25. Establishing accountability at the highest level is essential to demonstrate the commitment to the VBI strategy in a manner that is consistent with establishing the "tone form the top". In line with the existing expectations[27], the roles and responsibilities of the Board in respect of oversight over the implementation of VBI strategy, including the implementation of a sound impact-based risk management system should be clearly articulated in its terms of reference.

26. As part of its leadership role, the Board should also promote and support the bank-wide awareness and adoption of all aspects of the VBI strategy. This would require the Board conducting a more regular communication of the VBI strategy to internal and external stakeholders including speaking at public engagements.

27. The Board would also need to consider an effective strategy to build the capacity and expertise of the Board in the field of VBI, sustainability and impact-based

[24] This is consistent with the proposed Integrated Governance model described in the report "Integrated Governance – A New Model of Governance for Sustainability" published in June 2014 by the UNEP FI Asset Management Working Group Support. The report defines integrated governance as "the system by which companies are directed and controlled, in which sustainability issues are integrated in a way that ensures value creation for the company and beneficial results for all stakeholders in the long-term".

[25] For example, in determining the additional roles and responsibilities of the Risk Management Committee in respect of oversight over risk related to the VBI strategy and impact-based risk management, the IBI may refer to the proposals in the *Discussion paper on Responsibility Mapping* issued by the Bank in February 2018. The IBI would also need to consider its operational capacity when assessing the need to establish a separate VBI Oversight Committee.

[26] Reference is made to the journey towards integrating sustainability into Board strategy as presented in the "Sustainability Toolkit: Governance" issued in 2015 by Bursa Malaysia.

[27] At present, *Corporate Governance* has already stipulated the Board's role to promote sustainability through appropriate environmental, social and governance consideration in the IBI's business strategy. However, up to this period, it is acknowledged that the practical interpretation of this role would have been very limited.

assessments including participating in relevant initiatives/network such as the Sustainable Banking Network (SBN).

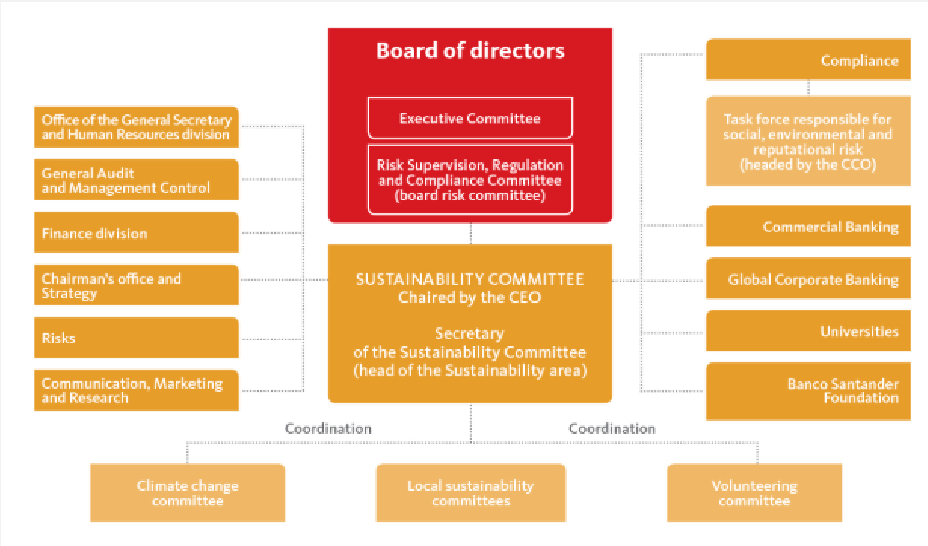
Examples of best practices

The articulation of enhanced role of the Boards

ANZ's Board has the highest level of oversight and responsibility for climate change. Two board committees and an executive committee manage the risk: The Board Environment, Sustainability and Governance Committee (ESG Committee), which is responsible for reviewing and approving our climate change related objectives, including goals and targets; The Board Risk Committee, which has formal responsibility for the overview of ANZ's management of new and emerging risks, including climate change-related risks; and The executive Responsible Business Committee (RBC), which is chaired by the CEO and provides strategic leadership on our sustainability risks and opportunities, monitors progress against our targets, and has its minutes reviewed by the Board ESG Committee.

Source: ANZ website[28]

Role of the board in sustainability framework of Santander Bank



Board's rules and regulations in relation to sustainability:

- Approves general policies and strategies relating to sustainability
- Oversees the corporate social responsibility policy
- Develops and implements group-wide sustainability strategy aiming at integrating environmental and social dimension of sustainability from a risk and opportunities perspective into the bank's core business
- Promotes bank-wide cross divisional/functional collaboration on all dimensions of sustainability
- Decides that executive committee should be regularly briefed about the progress made on the bank's main sustainability initiatives

Source: Santander Bank Sustainability Report 2015[29]

[28] http://shareholder.anz.com/sites/default/files/anz_2017_tcfd_disclosure_final.pdf
[29] https://www.santander.com

DBS Board's Responsibility in Sustainability Governance

The Board has overall responsibility for sustainability and considers ESG matters in the formulation of their strategy. ESG matters that are material to value creation are integrated into balanced scorecard, which is used to set objectives, drive behaviours, measure performance and determine remuneration for their people. The scoreboard is updated yearly and approved by the Board. The Board delegates the execution of DBS' strategy to the CEO, who heads the Group Executive Committee and is responsible for managing DBS' day-to-day operations.

The DBS Sustainability Council, chaired by the Chief Sustainability Officer and compromising senior leaders across business and support units, reports to the CEO. It is responsible for developing DBS' overarching sustainability framework, setting key performance indicators (KPIs) and targets in consultation with the relevant stakeholders, and driving sustainability initiatives across the bank. The Council also advises the CEO on material ESG matters which contribute to DBS' overall materiality assessment. This in turn informs the Board's strategic planning. The council meets monthly and provides periodic updates to the CEO, Group Management Committee and the Board.

Source: DBS website[30]

(II) Integration of Shariah governance[31]

28. The VBI strategy necessitates a more involved Shariah governance even at the development of the IBI's business and risk strategies. The Board would need to determine the roles and responsibilities of the Shariah governance functions towards the VBIAF.

29. The IBI would need to consider the most effective governance setup that would ensure timely and appropriate information on Shariah perspective during the formulation of the business and risk strategies is obtained and prompt execution of policies and procedures and rectification measures.

30. When implementing the VBIAF, the IBI may find the need to co-ordinate responses from both the credit risk and Shariah perspectives for decision-making purposes[32]. In this regard, the IBI may need to consider a more streamlined set-up to reduce probability of errors and delays and improve the efficiency of the credit and impact-based assessment process[33].

[30] https://www.dbs.com/sustainability/overview/sustainability-governance/default.page
[31] Consistent with the enhanced Shariah governance proposals issued by the Bank in November 2017.
[32] For example, when assessing the priorities from *a Maqasid al-Shariah* perspective i.e. *daruriyyat* (essentials), *hajiyyat* (needs) and *tahsiniyyat* (embellishments).
[33] Essentially, an IBI would need to assess the credit, Shariah and impact-based criteria of the financing and investment application.

(III) Integration of VBI responsibilities across key functions[34]

31. The integration of VBI responsibilities and strategies should be clearly articulated and cut across all relevant functions (including the IBI's three lines of defence) of the IBI's financing and investment activities such as credit assessment, credit administration and credit reporting. To achieve this, the IBI may consider establishing a dedicated VBIAF implementation team initially or embedding selected and trained VBIAF leaders within each functions until the intended outcome of full integration is achieved.

32. The VBIAF implementation team would serve as a control function and dedicated resource for the IBI to develop specific policies and procedures to address non-traditional credit risks arising from the VBI strategy, advise and facilitate adoption of VBIAF in other functions, and implement other VBI strategies. However, there must be adequate segregation of duties to mitigate conflict of interest and self-review issues.

33. The IBI could also select and provide targeted upskilling opportunities to its present resources or employ relevant experts to become VBIAF leaders who would facilitate the implementation of the VBIAF. The VBIAF leaders would act as resource experts for the specific functions.

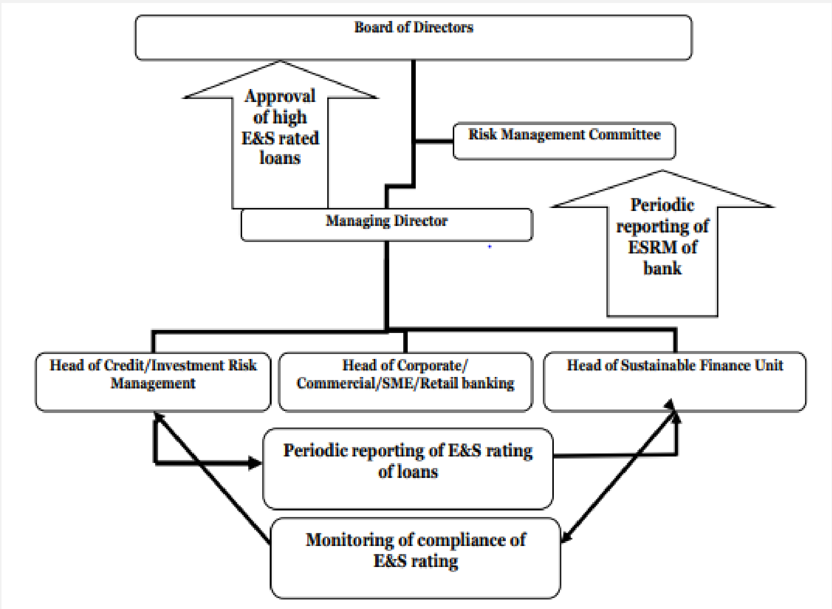
Examples of best practices

BANGLADESH BANK
Central Bank of Bangladesh

Integration of sustainability in the key functions of Bangladeshi banks

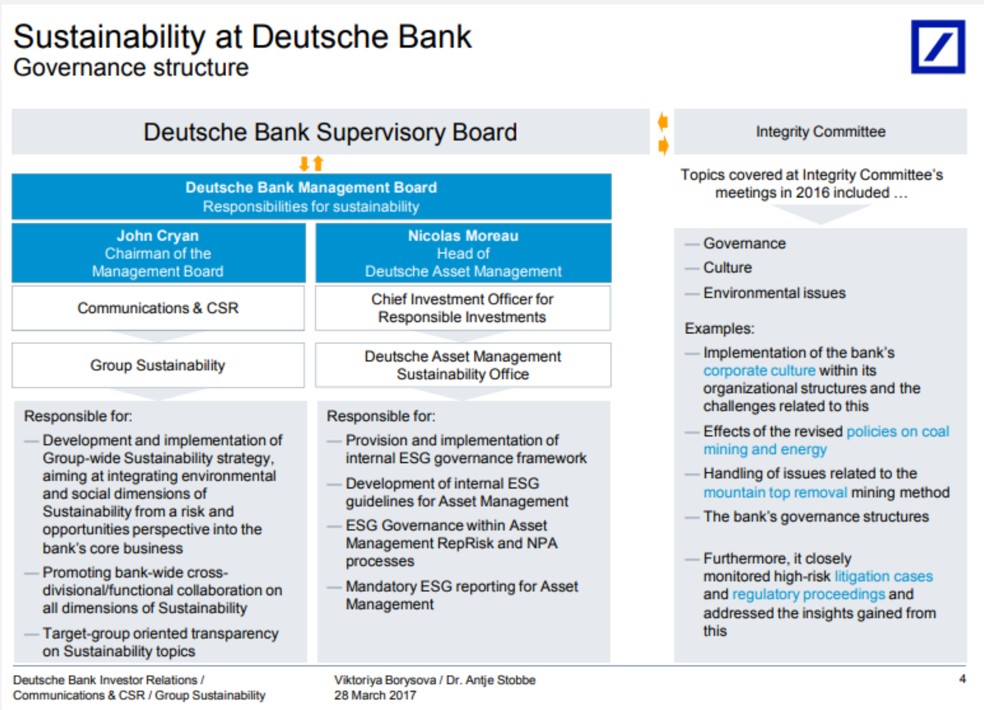
The Bangladesh Bank has issued a guideline, which requires banks to establish a Sustainable Finance Unit (SFU) that is responsible for the coordination with different departments and branches of the bank for ensuring the compliance of environmental and social risk management (ESRM) and proper implementation of environmental and social management systems (ESMS). The SFU is also responsible for updating the Board through the Sustainable Finance Committee on the status of the bank's portfolio regarding ESRM, facilitating the Board's decision-making process where there are unresolved E&S issues or non-compliance. The unit is also responsible for periodic reporting to the Bangladesh Bank and as and when required.

[34]Integration is defined in this document as "the systematic and explicit inclusion of material impact-based risk factors into the IBI's analysis and decision making process". This is consistent with the definition of ESG integration as defined by the UN Principles for Responsible Investment. Available online at https://www.unpri.org/investor-tools/what-is-esg-integration/3052.article



Source: Guidelines on Environmental and Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh[35]

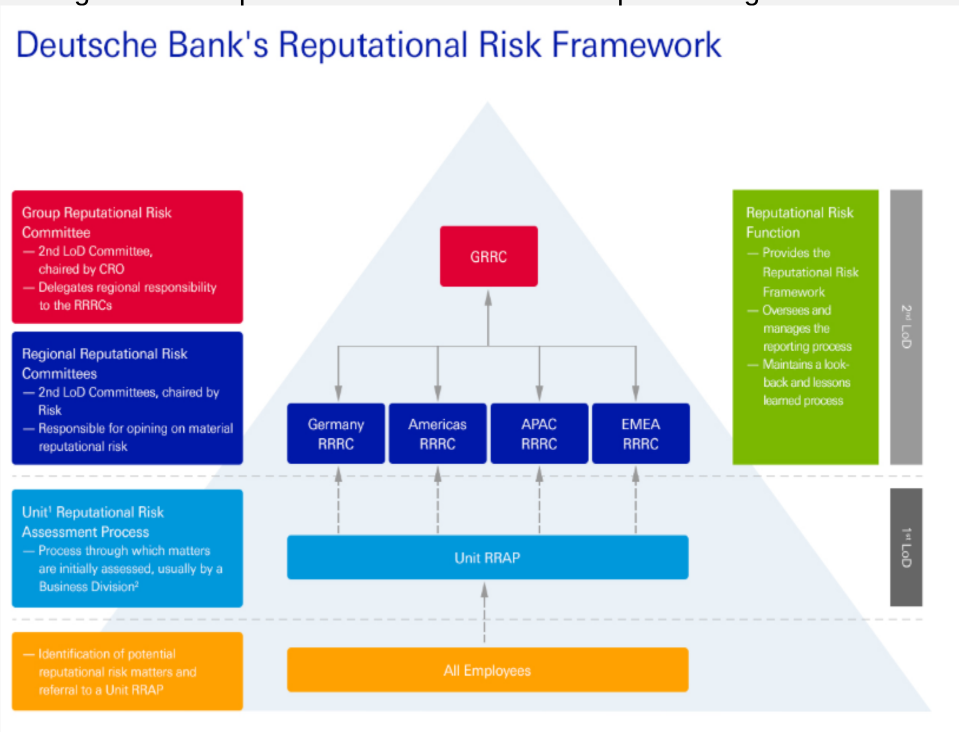
Sustainability at Deutsche Bank: Governance structure



[35] https://www.bb.org.bd/aboutus/regulationguideline/esrm_guideline_feb2017.pdf

Management of Reputational Risk Framework at Deutsche Bank

Deutsche Bank introduced a revised framework to manage reputational risk in 2015, which embodies the bank's 3 lines of defence principles. The framework is in place to manage the process through which active decisions are taken on matters, which may pose a reputational risk, and in doing so to prevent damage to Deutsche Bank's reputation wherever possible. The framework requires units to establish their own process through which reputational risk matters are initially assessed, ensuring accountability and ownership within the 1st line of defence. Matters may then be referred to the 2nd line of defence through one of four Regional Reputational Risk Committees which have been established (Germany, Americas, APAC and EMEA), as sub-committees of the Group Reputational Risk Committee, with responsibility for ensuring the oversight, governance and coordination of the management of reputational risk within their respective regions.



Source: Deutsche Bank's website[36]

(IV) Self-governance

34. As described in the VBI Strategy Paper, self-governance is defined as a culture of self-discipline, which is embedded within the operations and practices of the IBIs. This would result in greater accountability and integrity motivated by doing what is good and not merely motivated by regulatory compliance[37].

[36] https://www.db.com/cr/en/responsible-business/management--of--reputational--risks_.htm
[37] Further articulation is provided in the *Implementation Guide for VBI*.

Examples of best practices

DBS

The core of DBSs people strategy

At DBS, employees are expected to reflect PRIDE in their work and live these values — Purpose-driven (Create impact beyond banking), Relationship-led (Collaborate to win for DBS), Innovative (Embrace change), Decisive (Think. Act. Own.), and E! (Everything fun!). The bank has made conscious efforts to rally ahead of other banking institutions, wherein it aims to build a digitally savvy workforce via development opportunities for employees. DBS Asia Hub 2 (DAH2), which was set up in 2016, is enabling the bank to drive innovation, further technological capabilities across the region and support its digital banking strategy in key markets.

Source: DBS website[38]

Bank Austria

Bank Austria builds the "Bank of the Future" with feedback software

Communities represent a major trend. Since the beginning of 2013, Bank Austria created two large-scale online communities, providing its customers and employees with the chance to shape the bank's future. Launched with the slogan "Bank mitdenken, Bank mitlenken" ("Let's shape our bank together") they provide a platform for customers and employees to contribute their opinions and ideas through discussions, surveys and quick polls on topics ranging from the bank of the future, to contactless payment and mobile banking applications.

Both communities have increased engagement and provided effective insight that has helped drive change. In just over two years, a total of around 7,000 customers and employees are active in the two Bank Austria communities. Eight feedback modules have produced over 600 articles and over 16,000 completed feedback surveys, leading to constant interaction between the bank and its customers and employees. These discussions, expert blogs and real-time surveys complement Bank Austria's traditional market research methods. Opinions and ideas collected through the communities are having a major impact on the business, as feedback results from both forums are integrated into management decisions and influence the further development of Bank Austria's strategy. The communications process within the communities are not a one-way street: To ensure continual engagement, customers and employees receive exclusive updates that shows how their feedback has led to changes in the bank's operations.

Source: Case study Bank Austria by Quebec[39]

[38] https://www.dbs.com/about-us/our-values/default.page
[39] https://www.questback.com/assets/usa/case-studies/CaseStudy-BankAustria-Questback-EN-USA.pdf

Question 4 What factors do you think are barriers to effective integration of the VBI strategies considering the way your institution currently operates? What would be the effective solutions to such challenges? Question 5 Do you agree that establishing a separate VBI Oversight Committee/Impact-based Risk Management Committee is the most effective governance structure? Why or why not? Question 6 If you are a Shariah Committee member, or performs other Shariah governance functions, what challenges would you encounter to subscribe to the recommended principles? What would be your solutions or alternative proposals?

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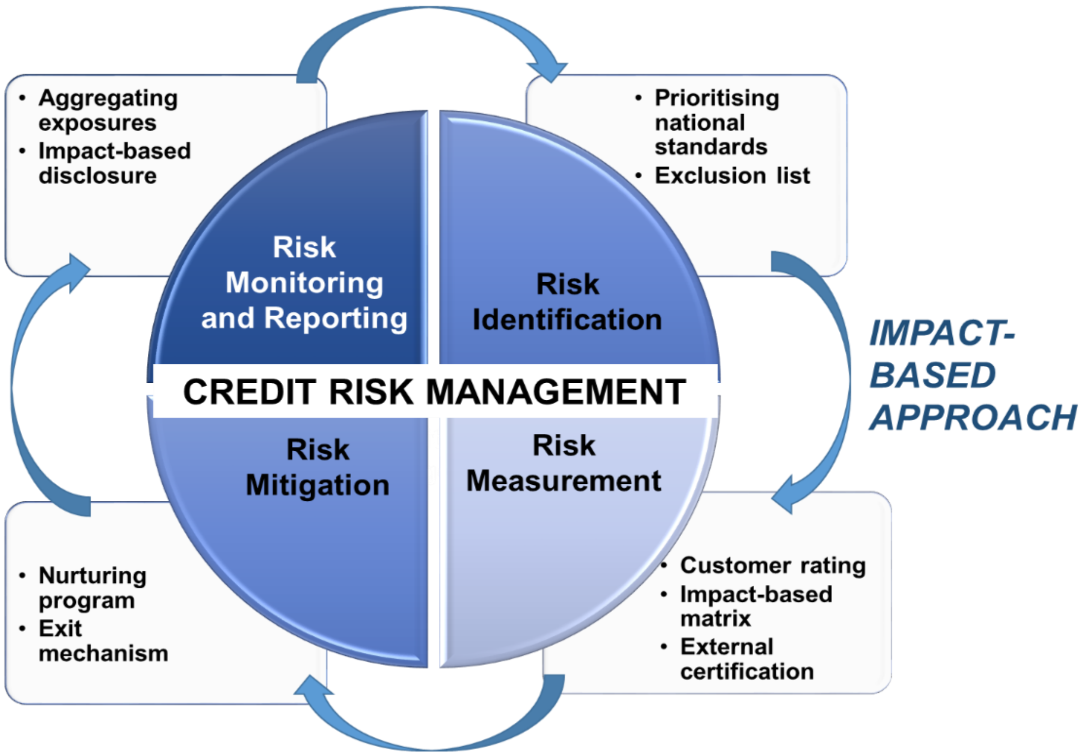
Principles of Impact-based Risk management[40]

Principal ideas

35. The VBIAF expands the existing credit risk management practices (base approach) to include an impact-based approach in order to manage risks under the VBI strategy. Credit risk (including counterparty credit risk) is defined as the risk of a counterparty failing to perform its obligations in accordance with agreed terms[41]. An impact-based approach considers the implication of the financing and investment activities funded by the IBI on the stakeholders based on the principles and strategies established in accordance with its CVI and the broader goal of a sustainable and resilient future. As far as possible, the risks identified under the impact-based approach should be appropriately quantifiable to facilitate effective measurement and monitoring of such risks.

36. The Credit Risk policy issued by the Bank is a reference point to develop the VBIAF. The IBI is expected to comply with the existing Credit Risk and supplement its credit risk management with the impact-based risk management.

Diagram 3: VBIAF – Linking Credit Risk and Impact-Based Risk Management Approaches



37. In general, comprehensive credit risk management would have entailed a sound understanding of the inter-linkages between credit risk and other risks[42]. The guidance provided in this document aims to highlight the non-traditional inter-

[40]Examples of best practices for this section are compiled in Appendix – Resources and Tools.
[41]Typically financial obligations or terms, which have financial effect e.g. collateral execution.
[42]This would include consideration of the legal and regulatory environment and government policies that may result in impairing the counterparties' ability to fulfil their credit obligation to the IBIs.

linkages[43] that would need to be considered under the impact-based approach. Such non-traditional inter-linkages increasingly result in financial impact, and failing to account for them can lead to mispriced credit risk.

38. The impact-based assessments should be developed based on the following principles –
    (i) Identifying interested parties[44]
    Impact-based approach requires input from various internal and external stakeholders such as management, risk specialists, relevant regulators/authorities and other external stakeholders, including civil society (NGOs) and local communities. The IBI would need to identify the relevant counterparties to ensure the framework is robust and incorporates significant input that would influence the achievement of its VBI strategies.

    (ii) Nurturing counterparties towards common goals
    On-boarding procedure is a critical feature of the VBIAF to facilitate support/buy-in from the counterparties and other stakeholders for common goals and sustainability of the VBI strategy.

    (iii) Data-driven and use of technology
    The decision-making process would need to be supported by appropriate and credible data-driven evidence. For this purpose, the IBI should use available and credible data providers and technology (e.g. big data) to effectively manage the amount of quantitative and qualitative information that is involved in implementing the VBIAF proper[45].

    (iv) Integrating existing risk assessment and management systems
    Efficient integration into existing infrastructure ensures implementation of the VBIAF is cost-effective and seamless. The IBI would need to consider taking a measured approach towards integrating the new design of risk management into current infrastructures e.g. adopting non-automatic tools for non-critical procedures and processes until automation can be completed.

Guidance

(I) Impact-based risk identification

39. The IBI would need to establish a comprehensive approach to identify and categorise impacts, both positive and negative to the value of the IBI's financing and/or investment assets, either through direct exposure or through feedback processes in the broader economy and society, either in the short or in the long-term[46]. This process would allow the IBI to identify those negative impacts that will

[43] Traditional inter-linkages is understood in the case where an increase in the market risk of collateral could lead to an increase in credit risk. Whilst, non-traditional inter-linkages appear in the case where a customer's poor labour relations e.g. hiring of child labour, could result in legal and reputational risks and hence lead to increased credit risk.
[44] Reference is made to the "Sustainability Toolkit: Stakeholder Prioritisation" issued in 2015 by Bursa Malaysia.
[45] In accordance with *Guidelines on Data Management* and *MIS Framework* issued by the Bank.
[46] Identification of positive and negative impacts are critical input in measuring the impact to the IBI's Triple Bottom Line (TBL). Reference is made to the *VBI Scorecard (Consultative Document)*.

require mitigation or further action by the IBI and/or customer. This will also enable the IBI to determine the most appropriate risk management tools and engagement groups and channels.

40. The IBI's customers' businesses, if not run properly, can be the source of negative impacts such as climate risk, biodiversity loss and deforestation, labour and human rights abuse, pollution, corruption etc. either directly or through their supply chain. If not managed well, the issues presented above contribute to the degradation and depletion of natural and social capital, which presents a significant threat to the long-term resilience and growth of businesses and wider economy and society[47].

Table 1: Potential negative impacts in sensitive sectors

Sector	List of most relevant ESG issues
Agriculture	• Greenhouse gas (GHG) emissions • Water use and wastewater management • Biodiversity loss and deforestation • Unsafe/prohibited pesticide/herbicide • Human rights and community relations • Labour practices, occupational health and safety (OHS) • Supply chain management
Seafood	• Uncontrolled fishing • Illegal, unregulated, unreported fishing • Impact on marine protected areas and other marine biodiversity loss • Water use • Human rights and community relations • Labour practices, OHS • Pollution • Supply chain management
Forestry	• GHG emissions • Water use and wastewater management • Biodiversity loss and deforestation • Unsafe/prohibited pesticide/herbicide • Human rights and community relations • Labour practices, OHS • Supply chain management • Illegal logging • Supply chain management
Beverages/ food manufacturers	• Sustainable raw materials • Water use and wastewater management • Packaging • GHG emissions/energy management • Labour practices, OHS • Supply chain management

[47] https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf

Sector	List of most relevant ESG issues
Mining and metals	• GHG emissions/energy management • Biodiversity loss and deforestation • Water use and wastewater management • Waste and hazardous materials management • Human rights and community relations • Labour practices, OHS • Accident and safety management • Site decommissioning and remediation
Energy	• GHG emissions • Water use • Air and water pollution • Impact on biodiversity • Human rights and community relations • Labour practices, OHS
Chemicals	• Chemical security • Employee health and safety • Impact on biodiversity • Air and water pollution • GHG emissions • Waste and hazardous materials management
Infrastructure	• Biodiversity loss and deforestation • Water use • Pollution • Community relations • Labour practices, OHS

41. Although the above impacts are generally more closely linked with customers operating in the listed sectors, customers in other sectors can also generate these impacts. For example, customers in the real estate sector may contribute to climate risk from fossil fuel-based energy consumption or to pollution if there is lack of wastewater treatment systems.

42. The IBI should also develop tools and methodologies to understand if a customer in a particular industry is at risk of causing negative impacts. Examples of tools for identifying material negative impacts at the sector and subsector level are listed below[48] –
    (i) The Environmental Quality (prescribed activities) (Environmental Impact Assessment) Order 2015 specifies a list of sector and related activities requiring an environmental impact assessment (EIA) to be conducted.
    (ii) The SASB Materiality Map is an interactive tool that can be used to identify common sets of E&S issues across different industries and sectors[49].
    (iii) The Centre for Disease Control and Prevention (CDC) Sector Profiles draw on internationally recognised good practice standards and guidance, particularly the International Finance Corporation (IFC) Performance

[48]The IBI may also utilise local regulation and standards such as that produced by the SIRIM QAS International Sdn. Bhd. and Department of Environment of Malaysia (DOE). (Refer to section on Prioritising national interest and local regulations and standards)

[49] https://materiality.sasb.org/?hsCtaTracking=28ae6e2d-2004-4a52-887f-819b72e9f70a%7C160e7227-a2ed-4f28-af33-dff50a769cf4

Standards and the World Bank Group Environmental, Health and Safety (EHS) Guidelines[50].

(iv) The TCFD framework can be used by the IBI and its customers to better understand material climate-related risks and opportunities. The framework also defines concepts of physical and transition risk that can also be applied to other E&S issues.

Table 2: TCFD Framework on climate-related risks

Type	Climate-Related Risks[32]	Potential Financial Impacts
Transition Risks	**Policy and Legal**	
	– Increased pricing of GHG emissions – Enhanced emissions-reporting obligations – Mandates on and regulation of existing products and services – Exposure to litigation	– Increased operating costs (e.g., higher compliance costs, increased insurance premiums) – Write-offs, asset impairment, and early retirement of existing assets due to policy changes – Increased costs and/or reduced demand for products and services resulting from fines and judgments
	Technology	
	– Substitution of existing products and services with lower emissions options – Unsuccessful investment in new technologies – Costs to transition to lower emissions technology	– Write-offs and early retirement of existing assets – Reduced demand for products and services – Research and development (R&D) expenditures in new and alternative technologies – Capital investments in technology development – Costs to adopt/deploy new practices and processes
	Market	
	– Changing customer behavior – Uncertainty in market signals – Increased cost of raw materials	– Reduced demand for goods and services due to shift in consumer preferences – Increased production costs due to changing input prices (e.g., energy, water) and output requirements (e.g., waste treatment) – Abrupt and unexpected shifts in energy costs – Change in revenue mix and sources, resulting in decreased revenues – Re-pricing of assets (e.g., fossil fuel reserves, land valuations, securities valuations)
	Reputation	
	– Shifts in consumer preferences – Stigmatization of sector – Increased stakeholder concern or negative stakeholder feedback	– Reduced revenue from decreased demand for goods/services – Reduced revenue from decreased production capacity (e.g., delayed planning approvals, supply chain interruptions) – Reduced revenue from negative impacts on workforce management and planning (e.g., employee attraction and retention) – Reduction in capital availability
Physical Risks	**Acute** – Increased severity of extreme weather events such as cyclones and floods **Chronic** – Changes in precipitation patterns and extreme variability in weather patterns – Rising mean temperatures – Rising sea levels	– Reduced revenue from decreased production capacity (e.g., transport difficulties, supply chain interruptions) – Reduced revenue and higher costs from negative impacts on workforce (e.g., health, safety, absenteeism) – Write-offs and early retirement of existing assets (e.g., damage to property and assets in "high-risk" locations) – Increased operating costs (e.g., inadequate water supply for hydroelectric plants or to cool nuclear and fossil fuel plants) – Increased capital costs (e.g., damage to facilities) – Reduced revenues from lower sales/output – Increased insurance premiums and potential for reduced availability of insurance on assets in "high-risk" locations

[50] http://toolkit.cdcgroup.com/

43. The IBI could address the above-mentioned issues through sector and issue-specific polices. Such policies would clearly state requirements for customers' performance and should ensure that such requirements are effective and sufficient to manage its VBI-related risks and impacts. Such performance requirements should not be limited to legal compliance, but also reference international agreements and conventions on sustainability, best practice frameworks and robust international science-based multi stakeholder standards (refer to section on Prioritising national interest and local regulations and standards) and robust multi stakeholder certification systems (refer to section on Leveraging on external certification and verification).

Prioritising national interest and local regulations and standards

44. The IBI would need to identify relevant national environmental and social standard, which includes consideration towards national strategic interest/blueprint. If relevant local regulations and standards are unavailable, the IBI should develop a comprehensive impact identification method in consultation with relevant stakeholders.

45. However, aligning with international agreements and conventions, best practice frameworks and robust international science-based multi stakeholder standards ensures that the IBI would also strive to globally accepted standards, which would promote its global competitiveness.

46. In this regard, national standards should be considered in combination with international standards. Where a national standard is not aligned with robust international standards, the IBI could play a proactive role to collaborate with local stakeholders in order to develop an action plan to facilitate alignment of with the international standard within a reasonable time.

Table 3: Key international standards

Issue	**International standards**
Climate	The Paris Agreement, TCFD of the Financial Stability Board (FSB), Science Based Target Initiative
Biodiversity and Deforestation	The Convention on Biological Diversity, Strategic Plan for Biodiversity 2011-2020, including Aichi Biodiversity Targets, New York Declaration on Forests, IFC Performance Standard 6 High Conservation Values, High Carbon Stock Approach
Labour Rights	International Labour Standards by International Labour Organizations, IFC Performance Standard 2
Human Rights	United Nations Guiding Principles for Business and Human Rights, UN Declaration on the Rights of Indigenous Peoples including Free, Prior and Informed Consent (FPIC) IFC Performance Standard 4, IFC Performance Standard 5 IFC Performance Standard 7
Pollution (Water, Air, liquid, Solid, Plastic)	IFC Performance Standard 3 The AWS International Water Stewardship Standard

Exclusion list

47. The IBI could develop a checklist of the highly sensitive areas/industries that have been accepted by universal convention, which it should not finance or provide support for. The list could be developed based on geographically location, type of biodiversity, industry and others.

48. In developing this exclusion list, the IBI would need to consider the micro and macroeconomic factors that would affect the economic development of the country. Where direct exclusion would result in a severe negative impact to the economy in the immediate period, the IBI should consider mitigation strategies including collaborating with relevant stakeholders to possibly devise a strategy that would reduce the negative impact and align the national economic agenda towards a more sustainable goals.

Table 4: Activities causing damage or negative impact

Issue / Sector	Activity
Biodiversity loss and deforestation	• World heritage sites as classified by UNESCO • Wetlands on the Ramsar list • Areas as per The International Union for Conservation of Nature (IUCN) categories I to IV • Key Biodiversity Areas • Endangered species of wild flora and fauna as per Convention on International Trade in Endangered Species (CITES), and the Convention on the Conservation of Migratory Species of Wild Animals (CMS or Bonn Convention) and IUCN Red List of Threatened Species • Logging of or trade in illegally harvested or uncertified timber as well logging in uncertified primary forest • High conservation value forests • High Carbon Stock (not applicable to high forest cover countries) • Planting on peatland • Commercial animal testing, non-healthcare related
Labour Rights	• Activities causing human rights violations including child labour, forced labour, trafficked labour
Human Rights	• Activities resulting in the infringement of the rights of indigenous and/or vulnerable groups without their Free Prior and Informed Consent (FPIC)
Water	• Activities which endanger local water security
Pollution	• Activities that cause pollution (e.g. release of untreated wastewater, pollution of soil and waterways with untreated organic content etc.)

(II) Impact-based risk measurement

49. The IBI would need to develop a robust measurement approach in order to provide itself with a complete and accurate understanding of the impact-based risks associated with the financing and investment activities.

50. The IBI should establish clearly defined criteria and factors to be considered in the impact-based measurement. The methodology should be comprehensive and consider the impact to micro and macro factors e.g. towards the customer, environment and society.

51. In measuring the positive and negative impacts, the IBI may need to utilise both quantitative and qualitative measures. As far as possible, the IBI should use data-driven measures. For quantifying the impact and decision-making, the IBI should consider positive and negative impacts from each financing or investment activity, independently, and not offsetting the two. The negative impact could serve as a baseline for the determination of acceptable activities (refer to section on Exclusion list).

52. It is acknowledged that some impact-based measures on environmental and social factors would rely heavily on scientific measures. These measures may require IBI to apply assumptions in order to quantify such impacts in a monetary sense. In this regard, any assumptions and judgment-based estimates involved in the measurement should be reviewed periodically to ensure its appropriateness and relevance.

53. The impact-based measures would provide a feedback loop of information for the IBI to consider in developing its VBI strategy, credit risk strategy and credit risk policy.

Table 5: Examples of impact metrics[51]

Issue/Sector	Impact metric at customer/transaction level[52]	Risk level[53]
General	• *Area of land indirectly and directly controlled by the organization and under sustainable cultivation or sustainable stewardship* • *Tons of certified production, % as total* • *Measured reduction in food loss and waste*	
Deforestation	• *No. of hectares sustainably managed/restored* • *No. of hectares of peatland ecosystem restored* • *Frequency and results of biodiversity-related assessments*[54] *to evaluate the biological diversity present on the land directly or indirectly controlled by the organization*	

[51] https://iris.thegiin.org/metrics/downloads
[52] A table of themes and indicators applicable to various sectors is also available in the “Sustainability Reporting Guide” published in 2015 by Bursa Malaysia.
[53] The IBI would rank the risks associated with the sector based on factors such as the materiality and concentration of the IBI’s exposure in aggregate or transactional basis and consideration of stakeholders’ interests and/or national priorities/targets.
[54] https://www.profor.info/sites/profor.info/files/ForestTrends-SBIA-Part3_0.pdf
http://www.wec.ufl.edu/academics/courses/wis4554/WebUpdate/ReadingsWIS5555/Indicators/Noss_1990_ConBio4_355.pdf

Issue/Sector	Impact metric at customer/transaction level[52]	Risk level[53]
Climate	• *GHG emissions (scope 1, scope 2 and scope 3) reduced/avoided (MT)* • *Amount of reduction in energy consumption achieved as a direct result of energy conservation and efficiency initiatives employed by the organisation during the reporting period* • *Amount of produced/purchased energy consumed by the organization from renewable sources during the reporting period*	
Water	• *Volume of water used from regions with High or Extremely High Baseline Water Stress during the reporting period* • *No. of water efficiency projects executed* • *No. of water source vulnerability assessments implemented* • *% of operational assets covered by water stewardship approach* • *No. of community watershed partnerships*	
Pollution	• *Water/soil quality improvements metrics* • *Amount of pesticides used during the reporting period on land area directly controlled by the organization* • *Amount/proportion of recycled materials used in the organization's products (including packaging) during the reporting period* • *Total reduction in waste generated by the organization* • *Proportion of waste disposed by the organization through1)reuse 2)recycling, 3)incineration,4)landfill 5)other means during the reporting period*	
Human Rights/Local Communities	• *% of smallholders engaged in training/ certification programs* • *No. of farms/farmers adopting BMPs (Better Management Practices)* • *% improvements in farms productivity and income.* • *Units/volume purchased from female individuals and individuals belonging to minority or previously excluded groups who sold to the organization during the reporting period*	
Supply chain management	• *Responsibly sourced/certified volume purchased from organizations who sold to the reporting organisation during the reporting period* • *Average agricultural yield per hectare of smallholder farmers who sold to the organisation during the reporting period*	

Customer acceptance and rating criteria

54. The IBI would also need to establish a clear customer acceptance and rating criteria to facilitate the decision-making process. The customer acceptance and rating criteria are measures to assess the customer's ability, both from a customer standpoint and transaction level, to meet the IBI's policies (e.g. sector and issue-

specific policies, exclusion list) based on the customer's present commitment, capacity and track record.

55. The categorisation of the customer's exposure (both at customer and transaction level) to the impact-based risks factors should be clearly defined and identifies the appropriate treatment or response by the IBI for each category of impact-based risk rating. Both the results of the customer and transaction-level assessments should be considered when identifying the overall risk profile of the financing or investment engagement e.g. a transaction may be risky in nature, but the customer may have the capacity (in terms of strategy, policies, governance) to manage the impact-based risks of the transaction, as well as a positive track record. In this case, a medium risk profile could be assigned.

Table 6: Example descriptions of customer-level risks

Unacceptable Risk	The customer does not meet exclusion list criteria. The customer has no management procedures in place to mitigate E&S impacts/risks and no reporting on its E&S performance. Track record includes major irreversible E&S issues. No demonstrated commitment/willingness to improve.
High Risk	The customer has limited management procedures to mitigate E&S impacts and has limited reporting on its E&S performance and poor track record. Identified gaps in performance are significant but mainly reversible.
Medium Risk	The customer actively mitigates E&S risks relevant to its own activities. Track record is normal with minor/ resolved issues.
Low Risk	A customer actively applies best E&S practices not only to its own operations, but requires the same of its suppliers. The customer is certified by robust multi stakeholder certification systems[55], which address corresponding and material risks.

Table 7: Example descriptions of transaction-level risks[56]

Unacceptable Risk	Transactions that finance an activity on the exclusion list, or with irreversible E&S impacts. No mitigative actions can be developed or taken.
High Risk	Transactions with significant adverse E&S impacts that are sensitive, diverse, or unprecedented. A potential impact is considered sensitive if it may be irreversible (such as loss of a major natural habitat), affect vulnerable groups or ethnic minorities, involve involuntary displacement and resettlement, or affect significant cultural heritage sites. The impact may be controlled and prevented if a good mitigation strategy is implemented.
Medium Risk	Transactions with specific E&S impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigative measures and international best practice. Potential adverse environmental impacts on human populations or environmentally important areas are less adverse than those of High Risk transactions.
Low Risk:	Transactions with minimal or no adverse E&S impacts.

[55] http://wwf.panda.org/our_work/markets/mti_solutions/certification/
[56] https://firstforsustainability.org/risk-management/managing-environmental-and-social-risk-2_2/components-of-an-esms/risk-categorization-and-managing-portfolio/

56. The table below demonstrates how different combinations of customer and transaction-level risks could be combined to create a single risk assignment for both. Note that in the example below, the customer-level risk, if higher, always takes precedence over the transaction-level risk.

Table 8: Example descriptions of transaction-level risks

Transaction risk	**Client risk**			
	Low risk	**Medium Risk**	**High risk**	**Unacceptable**
Low Risk	Low	Medium	High	Unacceptable
Medium Risk	Low	Medium	High	Unacceptable
High Risk	Medium	High	High	Unacceptable
Unacceptable Risk	Unacceptable	Unacceptable	Unacceptable	Unacceptable

57. Where applicable, the assessment should be implemented at the customer's group level unless subsidiaries apply policies related to the impact-based criteria differently.

58. Depending on specific situation and process flow, the following methods can be applied to assess the gaps in customer's performance against the IBI's policies –
(i) certification of customer against credible multi stakeholder certification standards;
(ii) desktop analysis of customer's public disclosures (e.g. dedicated sustainability website, sustainability policies, annual report, sustainability report);
(iii) interviews with the customer;
(iv) use of external databases e.g. Carbon Disclosure Project (CDP);
(v) analysis with use of geospatial tools e.g. World Resources Institute's (WRI) Global Forest Watch (GFW); and/or
(vi) independent third-party assessment e.g. High Conservation Value (HCV) Licensed Assessors for cases where alternatives do not provide sufficient level of due diligence.

Table 9: Examples of questions for the interview

Governance
- Describe the Board's oversight of E&S and climate-related risks and opportunities.
- Describe management's role in assessing and managing E&S and climate-related risks and opportunities.
- Please outline your internal ESG framework (group/subsidiary level)
- Is there a dedicated unit responsible for sustainability, sustainable finance, etc.?
- How many people across the organisation dedicate (part of) their work time to sustainability topics/initiatives?

Strategy
- Is sustainability part of your strategy and what are your key sustainability priorities over the next 1, 3 and 5 years?
- How does your organisation identify and assess materiality of sustainability topics/issues?
- Who are the stakeholders you engaged with on E&S issues and how do you implement stakeholder management?

- Which E&S risks and opportunities have the organisation identified over the short, medium, and long-term?
- What is the impact of E&S risks and opportunities on the organisation's businesses, strategy and financial planning?

Risk management
- Please outline your ESG policy framework (group/subsidiary level) and related procedures?
- Are your policies aligned with national, international agreements and conventions on sustainability, best practice frameworks and robust international science based multi-stakeholder standards?
- Do you maintain or generally align with any internationally recognised management systems, e.g. ISO 14001, OHSAS 18000?
- Are you currently undergoing any industry certification or external verification (e.g. commodities certifications)?
- Do you understand and assess your E&S supply chain risks and how do you manage those risks?
- Are there any areas where you need external support on E&S management, either from the financier/bank or a technical consultant?

Metrics and Targets
- Which metrics do you use to assess your E&S risk exposure?
- Do you assess your Scope 1, Scope , and Scope 3 greenhouse gas (GHG) emissions and the related risks?
- What are your key objectives and KPIs for implementing E&S policies and are those being regularly reported to the Board?
- Do you target to align your performance with scientific scenarios (e.g. a 2°C climate warming scenario) and international agreements for sustainability (e.g. the SDG)?

Table 10: Examples of external databases/ automated tools

Tools	Sector	Issues covered	Type
Sustainability Policy Transparency Toolkit (SPOTT)	Palm Oil, Timber, Pulp and Pape	Most common issues in the sector	Public disclosure
CDP	Various	Climate, Deforestation, Water	Public disclosure / survey data
Water Risk Filter	Various	Water	Geospatial
Soft Commodity Risk Platform (SCRIPT)	Palm Oil	Deforestation and human rights	Public Disclosure
WRI	Various	Deforestation, Water	Geospatial

Leveraging on external certification and verification

59. In measuring impact, the IBI may rely on independent, third party assessment, which provides a view on the impact created by the customers. In most cases, when a customer is certified against robust certification standards that address

corresponding and material E&S risks, this generally provides enough comfort that those E&S risks are well managed[57].

60. The IBI may rely on third party verification provided by local agencies such as assessments made by SIRIM QAS International Sdn. Bhd. and Department of Environment of Malaysia (DOE) (refer to section on Prioritising national interest and local regulations and standards). However, the IBI should aim to utilise robust independent multi stakeholder certifications where available. Where neither the local nor independent multi stakeholder certifications are available, the IBI may rely on other means of third party verification, such as those provided by DNV GL and Ernst & Young Sustainability Reporting Assurance. The sufficiency of such verifications should be considered on case-by-case basis.

Table 11: Examples of certification and independent verifications

Sector/Issue	Sub-sector	Certification and Independent verification
General		• MS ISO 14001: 2015 – Environmental Management Systems* • MS 1722:2011 and OHSAS 18001 – Occupational Safety and Health Management Systems* • MS 1900 Shariah-based Quality Management System Certification*
Climate		• Science Based Targets Initiative
Water		• AWS International Water Stewardship Standard • Corporate context-based water targets
Agriculture	Palm Oil	• Malaysian Standards Palm Oil (MSPO)* • Roundtable on Sustainable Palm Oil (RSPO)
	Sugar	• BONSUCRO
	Cotton	• Better Cotton Initiative
	Coffee, Tea, Cocoa	• Common Code for the Coffee Community (4C) • Tropical Commodities Coalition for Sustainable Tea Coffee and Cocoa (TCC) Ethical Tea Partnership (ETP) World Cocoa Foundation (WCF) • Rainforest Alliance
	Biomaterials	• Roundtable on Sustainable Biomaterials (RSB)
Seafood/ Fisheries		• Marine Stewardship Council (MSC) • Aquaculture Stewardship Council (ASC)
Forestry		• Malaysian Timber Certification Scheme - Programme for The Endorsement of Forest Certification (MTCS-PEFC)* • Forest Stewardship Council (FSC)
Mining and Metals		• World Gold Council Conflict-free Gold Standard • Kimberley Process Certification Scheme (KPCS) • Aluminium Stewardship Initiative (ASI) • Initiative for Responsible Mining Assurance (IRMA) • RJC Chain of Custody (CoC) Certification
Infrastructure		• The Standard for Sustainable and Resilient Infrastructure (SuRe®)

[57]Provided that this certification matches the IBI's impact-based risk appetite for the particular sector and geography that the customer is involved in, there may be no need to do conduct further due diligence on the customer's commitment, capacity and track record, and the customer may be assigned a low risk rating (refer to section on Customer acceptance and rating).

Sector/Issue	Sub-sector	Certification and Independent verification
		• GRESB • CEEQUAL
	Transport	• Greenroads Certification
	Hydropower	• Hydropower Sustainability Assessment Protocol

*denotes national certification

(III) Impact-based risk management and mitigation

61. The IBI would need to establish a comprehensive set of risk management and mitigation strategy, which include nurturing customers and exit mechanisms.

62. The IBI should undertake management and/or mitigation of the impact-based risks in a structured and targeted manner – including effective monitoring of action plans, with a focus on improving impact outcomes and providing feedback to further strengthen the IBI's VBI strategy, credit risk strategy and credit risk policy.

63. For this purpose, the IBI should clearly define the responsibilities for managing and nurturing the customers' impact-based risks vis-à-vis responsibilities for mitigating the customers' credit risk, in order to avoid conflict of interest.

64. Based on the risk level assigned (refer to section on Impact-based risk measurement), the IBI should clearly identify conditions for approval that include the development of time-bound action plans for the customers to improve their performance and align to the IBI's policies. Based on the conditions, covenants can also be included into the financing or investment agreement. The approval decision could be defined as follows –
    (i) low risk cases can be automatically approved;
    (ii) medium risk cases can be approved with conditions; and
    (iii) high risk cases should be escalated to more senior levels of approval with conditions.

65. The IBI should also consider the impact of the chosen mitigation strategy on other risks, directly or indirectly, to avoid giving rise to new unattended risks.

Nurturing programme

66. The IBI would need to develop a robust customer-nurturing strategy that would effectively support the customers' transformation towards adopting and enhancing their existing sustainability practices. Such nurturing programmes may involve –
    (i) capacity building and development and training activities for specific groups of clients e.g. small and medium enterprises (SMEs);
    (ii) facilitating collaboration with strategic partners in E&S impact areas;
    (iii) linking costs of capital and access to capital with sustainability performance through incentives and disincentives, e.g. the profit rate for financing approved, or actual disbursement is subject to improvement in customers' sustainability practices e.g. as adopted by Triodos, ING with its customer Wilmar and BNP Paribas with its customer Danone;
    (iv) providing relevant advisory and infrastructure; and
    (v) offering green financial products and services.

Exit mechanism

67. The design of an effective exit mechanism is meant to deter customers from failing to comply with the VBIAF. This would involve the IBI incorporating contractual terms and conditions that would initiate the exit process should the customers fail to meet certain impact-based criteria and/or adhere with the action plans for remedy/ rectification.

68. In designing the appropriate exit mechanism, the IBI should take into consideration the following aspects –
    (i) consideration should be given as to whether connected accounts should be closed e.g. personal accounts of individuals who own or influence a non-compliant business, depending on the severity of the reason for which the IBI is exiting the financing or investment relationship;
    (ii) exits do not extend to the personal accounts of employees of the business who are not involved in running that business;
    (iii) where an exit has exceeded the planned exit date by a designated period, the IBI should have a policy in place to identify such incidences and explain the cause of the delay, the revised exit date, the risks involved and mitigation strategies, which are relevant in the meantime.

(IV) Impact-based risk monitoring and reporting

69. The IBI would need to establish a robust monitoring and reporting process to identify changes in the impact-based risks and ensure escalation could be conducted in a timely manner to appropriately support the oversight and decision-making of the Board and senior management.

70. An effective monitoring process would enable the IBI to identify early signs of deteriorating or increasing negative impact made by the customers. The IBI should also have in place appropriate mechanism to monitor new developments in the related industries, which are exposed to impact-based risks such as, new scientific research findings on sustainability impact and new standards and regulations issued by relevant local and international authorities/agencies.

71. The frequency of monitoring the impact-based risks created by customers should commensurate with the nature of the financing or investment activities, the level and complexity of credit exposure to the IBI. In general, the IBI should monitor the customer/transaction-level exposures periodically –
    (i) as part of periodic credit reviews;
    (ii) when previously agreed remedial/ rectification action is due; and/or
    (iii) when there are material changes to the underlying business engagement e.g. negative news, change in local standards/regulations.

Aggregation – transactional versus portfolio

72. The IBI should have in place appropriate policies to facilitate the monitoring of the impact-based risks of its customers on an aggregate basis to better identify and measure the potential losses, including loss of stakeholder support, arising from the exposure of the impact-based risks.

73. The aggregation should appropriately segment the exposures based on their characteristics both at a transactional (type of financing or investment) and portfolio level (type of sector). The IBI should monitor its portfolio level exposure to key cross cutting risks e.g. deforestation, exploitation, climate risk, water risk.

74. The IBI should consider setting portfolio level targets in the context of national/local targets and/or international standards and best practices on sustainability. Such targets should focus on continuous improvement and be of a SMART nature (Specific, Measurable, Achievable, Relevant and based on science and Time bound) with the ultimate goal of aligning the IBI's portfolio and refining its VBI strategy and risk management practices to the national/local standards and ultimately international standards and best practices.

Table 12: Examples of portfolio-level targets

Issue	**Example of portfolio-level target**
General	• % of clients that are covered by time bound plans to achieve commitments (e.g. zero deforestation, no human rights, water stewardship approach, commodity certifications) • % of clients certified by credible sustainability standards
Deforestation	• Zero deforestation commitment by X date
Climate change	• Reduction of GHG emissions by X% by Y date • Allocating X RM million to renewable energy and energy efficiency solutions by Y date • % of fossil fuels in financed energy mix to decrease by X% by Y date • % of financed emissions scope1,2,3 to decrease by X% by Y date • Aligning portfolio with science based targets for climate risk
Water	• Aligning portfolio with Corporate context-based water targets
Labour and Human rights	• All clients in portfolio perform in accordance with ILO and UNGP by Y date

Impact-based risk reporting

75. The IBI should establish adequate policies and procedures for the impact-based risk reporting and disclosure where the scope, context and level of granularity and frequency of the reports/disclosure are appropriately tailored to the needs of the different groups of users of the reports (internal and external). The impact-based risk reporting policies should be embedded as part of the IBI's comprehensive reporting and disclosure framework.

76. For reporting to the Board and senior management, the IBI should ensure that the information provided includes critical insights on impact-based risks and material issues, and such information is effectively integrated into the overall credit risk reporting to ensure that the deliberation and decision-making process could be conducted with a comprehensive set of information.

77. The information included in the impact-based risk reporting may include the following[58] –
    (i) details of governance framework and staff capacity building;
    (ii) policies which state impact-based risks customer requirements in relation to cross cutting issues and in sensitive sectors;
    (iii) information about processes that incorporate impact-based risk requirements into customer acceptance decisions (i.e. methodologies and criteria underpinning the decision-making processes of customer claiming to deliver positive impact or to reduce negative impact) and client engagement and monitoring processes; and
    (iv) at the portfolio level strategy and reporting, the IBI should consider providing transparency on –
        - processes for periodical review of portfolio exposures to climate-related risks and other E&S issues e.g. deforestation or human rights risk across the portfolio, and disclose methods used;
        - strategy to manage E&S risks to align portfolio with national/local and ultimately international standards and best practices on sustainability and supporting science-based targets where applicable;
        - where such alignment is yet to be achieved, report on time bound targets and progress towards them, if applicable;
        - aggregated customer/transaction-level assessment results e.g. number of assessed transactions, escalation, approval with conditions
        - impacts achieved by the activities, projects and programs.

78. When disclosing impact-based results which are not linked to financial data e.g. employment numbers, income growth, the IBIs whenever possible should use numbers/measures that can be verified externally e.g. leveraging on quantification by third parties and/or recognised agencies.

79. The IBI should take cognisant of the importance of providing fair and transparent information for the consumption of external stakeholders to trigger intended stakeholder activism (refer to section on Overview)[59] and avoid "greenwashing"[60] or "impact washing"[61].

[58]The IBI should refer to existing international reporting frameworks such as the TCFD, the Integrated Reporting Framework, the GRI G4 Standard (Financial Sector Supplement), SASB financial sector standards and the proposed impact-based disclosures by the Islamic Financial Services Board (IFSB), published in its recent Exposure Draft on Revised Standard on Disclosures to Promote Transparency and Market Discipline for Institutions Offering Islamic Financial Services (Banking Segment).
[59]Also elaborated in the *Implementation Guide for VBI*.
[60]An entity is considered to be involved in "greenwashing" when it partakes in practices that are intended to create an impression that would result in the entity receiving a more than favourable perception about its environmental impact.
[61]An entity is considered to be involved in "impact washing" when it partakes in practices that are seen to have a positive impact in order to hide or mask other unpopular practices which create negative impact.

Question 7 Do you agree with the approach to comply with the national and international standards on impact-based risks described in this document? Why or why not? Question 8 What potential challenges do you foresee in complying with either the national and international standards on E&S risks? What would be your solutions? Question 9 Do you agree with the approach to use quantitative and qualitative measures to quantify impact-based risks as described in this document? Why or why not? Question 10 What do you foresee to be conflicts in existing credit control functions and the proposed nurturing programmes? What would be your solutions? Question 11 What do you foresee to be the unintended consequences from adopting the impact-based risk management? Question 12 If you are an IBI, who would you expect to prepare additional reports/disclosure for, and what would be the level of detail? If you are an external stakeholder, what would be the type of disclosure you consider most important?

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Appendix: Resources and tools

A. National policy/plan/programme[62]

Document	Description
Eleventh Malaysia Plan (2016-2020)	Policy initiatives in the Eleventh Malaysia Plan are formulated to shift the method of development from conventional to a greener method (Green Growth) that will ensure the socioeconomic development is pursued in a more sustainable manner. Malaysia targets to be a high-income nation by 2020 with regard to low carbon, resource efficient, and socially inclusive aspects. Environmental areas are identified in the Eleventh Malaysia Plan include, conserving natural resources for present and future generations, adopting the sustainable consumption and production concept, strengthening the enabling environment for green growth, and strengthening resilience against climate change and natural disasters.
Second National Physical Plan (NPP II, 2010-2020)	This is a long-term strategic framework for national spatial planning including measures requires shaping the direction and pattern of biodiversity conservation and development, including land-use planning. The main objectives of NPP II are to tackle climate change; conserve natural and biological resources; establishing carbon sinks, sustainable forest and water management.
National Policy on Biological Diversity	The policy aims to transform Malaysia into a leading nation in research, conservation, and utilization of tropical biological diversity by the year 2020. The main objectives of the policy are; to optimize economic benefits from sustainable utilization of biological diversity; to maintain and improve environmental stability for proper function of ecological systems; to enhance scientific knowledge and educational, social, cultural, and aesthetic values of biological diversity, to ensure long-term food security for the nation; and focuses on biosafety in the development and application of biotechnology.
National Policy on the Environment	The Cabinet approved this policy on October 2002. It was formed to continue the economic, social and cultural progress of Malaysia and enhancement of the quality of life of its people, through environmentally sound and sustainable development. The policy aims to integrate environmental considerations into development activities and in all decision-making processes, to foster long-term economic growth and human development and to protect and enhance the environment. It complements and enhances the environmental dimension of other existing national policies, such as those on forestry and industry and take cognizance of international concerns.
National Mineral Policy 2	The objectives of the National Mineral Policy 2 are: to ensure the sustainable development and optimum utilisation of mineral resources; to promote environmental stewardship that will ensure the nation's mineral resources are developed in an environmentally sound, responsible and sustainable manner; to enhance the nation's mineral sector competitiveness and advancement in the global arena; to ensure the use of local minerals and promote the further development of mineral-based products; and to encourage the recovery, recycling and reuse of metals and minerals.

[62] Extracted from the "Roadmap for System of Environmental-Economic Accounting 2016-2020, Malaysia" published February 2017 by the Department of Statistics, Malaysia. Available online at https://www.dosm.gov.my

Document	Description
National Agro-food Policy (2011-2020)	The policy was introduced which focuses on improving the efficiency of the agro-food industry along the value chain for the industry to be more productive, competitive, and knowledge-intensive. This approach consist of 8 main ideas: The ideas are food security (adequacy, availability, safety, and affordability); high-valued agriculture development; development of sustainable agriculture; cluster dynamic agriculture (maximize revenue generation); private sector investment is the catalyst for the transformation of modern agriculture; human capital and informative smart agriculture; modernization of agriculture (through research and development (R&D), innovation, and technology); and advantages of agriculture support services.
National Water Resources Policy (NWRP)	The Tenth Malaysia Plan (2011-2015) highlighted the need to have a NWRP. NWRP will adopt measures to ensure the sustainability of water resources to achieve water security. The policy requires forging of partnerships between all levels of government and stakeholders to ensure that water resources are made a national priority.
Solid Waste Management Policy	The policy's objectives are to have a cost-effective and integrated solid waste management that include transportation and collection, intermediate treatment and disposal; to reduce solid waste of domestic, commercial, institution community, industrial, and construction through 3R; cost-effective and efficient services through privatization, efficient regulation, and uniform standards; selection of technology proven to be environmentally friendly; ensuring conservation of environment and public health; and establishing institutional and legal framework for solid waste management.
National Policy on Climate Change	The Cabinet approved this policy on November of 2009. It was formed to ensure climate-resilient development to fulfil national aspirations for sustainability. The objectives are to mainstream the climate change through wise management of resources and enhance environmental conservation resulting in strengthened economic competitiveness and improved quality of life; to integrate responses into national policies, plans, and programmes to strengthen the resilience of development from arising and potential impact of climate change, and to strengthen the institution and implementation capacity to better harness opportunities to reduce negative impacts of climate change.
National Renewable Energy Policy and Action Plan	This policy document is developed to enhance the use of renewable energy resources which contributes to sustainable socioeconomic development and national electricity supply security. Five objectives of the policy are determined which include: to increase renewable energy contribution in the national power generation mix, to ensure reasonable renewable energy generation cost, to conserve the environment for future generation, to facilitate the growth of the renewable energy industry, and to enhance awareness on the role and importance of renewable energy.
Green Technology (GT) Policy	The objectives of the policy are: to minimize growth of energy consumption while enhancing economic development; to facilitate the growth of GT industry and enhance its contribution to national economy; to increase national capability and capacity for innovation in GT development and enhance Malaysia's competitiveness in global arena; to ensure sustainable development and conserve environment for future generations; to enhance public education and awareness on GT and encourage its widespread use.

B. References and toolkits

1. Sector and issues polices –

https://www.societegenerale.com/en/measuring-our-performance/csr/responsible-finance

http://www.anz.com/about-us/corporate-sustainability/customers/responsible-business-lending/policies/

https://www.sc.com/en/sustainability/position-statements/

https://www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk

2. Exclusion list –

https://www.abnamro.com/en/images/Documents/040_Sustainable_banking/060_Strategy/ABN_AMRO_Exclusion_list.pdf

3. Credible certification standards and policies –

http://wwf.panda.org/our_work/markets/mti_solutions/certification/

https://www.ing.com/web/file?uuid=5a9af88a-b6a3-4e8a-ae8d-d192e7f8d7c9&owner=b03bc017-e0db-4b5d-abbf-003b12934429&contentid=42010 (page 23)

https://www.db.com/cr/de/docs/DB-ES-Policy-Framework-English.pdf
(page 9)

Extract:

- for palm oil, we require as a minimum, that the client is a member of RSPO. Furthermore, we would expect the client's operations to be certified in accordance with RSPO or the client's time-bound commitment to achieve RSPO certification in a reasonable timeframe but not later than 2025;
- for timber, we expect clients to be certified according to the Forest Stewardship Council (FSC) (preferred) or the Programme for the Endorsement of Forest Certification (PEFC);
- for other commodities such as beef or cotton we expect clients to be guided by industry best practices and initiatives such as the Global Roundtable for Sustainable Beef, the Cattle Agreement or the Better Cotton Initiative;
- a commitment to align management systems with recommendations of the Food and Agriculture organisation of the United Nations' (FAO) Code of Conduct for Responsible Fisheries and/or plans to attain the Marine Stewardship Council certification or any other equivalent certification.

4. Customer impact-based rating –

https://www.ing.com/web/file?uuid=5a9af88a-b6a3-4e8a-ae8d-d192e7f8d7c9&owner=b03bc017-e0db-4b5d-abbf-003b12934429&contentid=42010 (page 29-32)

Positive impact rating:
http://www.unepfi.org/positive-impact/positive-impact-manifesto/

https://iris.thegiin.org/metrics/sets

Extract:

Tools for positive impact rating	Details
B Impact Assessment (and GIIRS Rating)	Metrics used by the B Impact Assessment (and GIIRS Rating) to determine an overall rating of an organization's social and environmental impact, irrespective of an organization's geography.
PRISM	PRISM leverages IRIS metrics in support of greater consistency and to reduce the overall reporting burden for relevant stakeholders. By leveraging IRIS metrics, PRISM reinforces the relevance of a global measurement standard, while enabling adoption of its holistic platform for assessing the performance of impact investment funds.

5. Nurturing programmes –

Trainings and workshops for customers
https://www.uob.com.sg/AR2017/documents/Full-Annual-Report-2017.pdf
(page 37)

Systematic E&S advice
https://www.rabobank.com/en/about-rabobank/in-society/sustainability/for-business-clients/index.html

Green products
https://www.dbs.com/sustainability/responsible-banking/sustainable-finance/default.page

Rabobank

Rabobank helping business clients becomes sustainable step by step to achieve sustainability development end route to 2020

1. Sustainable client photo.
Rabobank gives clients a clear picture of whether they are ahead or behind of their sector competitors in the area of sustainability. This 'client photo', combined with advice, provides insight into the business' strengths and weaknesses and the opportunities and threats in the market e.g., Rabobank provides relevant sustainability knowledge for the small business via mobile application.

2. Frontrunners come first.
Rabobank is doubling the scope of its services for sustainable frontrunners. Sustainable initiatives are given priority access to financing within the standard risk and return requirements. Rabobank also, on request, develops new financial solutions in partnership with frontrunners with a view to optimally supporting their business success.

3. Developing a circular economy.
We explore regional opportunities for organising the circular economy throughout the Netherlands. Another key activity involves launching, financing and taking part in initiatives that promote high-quality raw material recycling and sustainable chains.

4. Making financing sustainable.

Our clients are offered tailor-made financial solutions that help them gradually improve their sustainability performance. We introduce new products that form a direct link between our savers and investors and innovative sustainable businesses.

Source: Rabobank website[63]

ING nurtures its customer by giving loan with interest rate pegged to customer's sustainability performance

A portion of an existing US$150mn revolving credit facility has been converted, with Wilmar set to pay less if it meets targets around areas including biodiversity, greenhouse gas emissions, renewable energy, social standards, bribery and corruption, and sustainable agriculture. Wilmar's performance will be tracked by Sustainalytics - a company that does sustainability and governance rankings and research - based on environmental, social and governance indicators.

ING measures the financing provided to sustainable projects and to clients who are environmental outperformers. This is reflected in the term sustainable transitions financed, which has grown to over €35bn at year-end 2016.

Source: Online news website[64]

6. Exit policies –

https://www.ocbc.com/group/who-we-are/responsible-financing.html
In addition, we may impose covenants in our credit facilities that require the borrowers to comply with ESG requirements. If the covenants are breached or our ESG expectations are not met, we will reassess the client relationships, including turning down transactions.

https://www.dbs.com/sustainability/responsible-banking/responsible-financing/default.page
If any customer is suspected to be involved in undesirable ESG practices, we will promptly engage the customer. If the customer is not willing to take steps to adequately manage and mitigate the identified ESG risks, we are prepared to turn down the transaction or reassess the banking relationship

HSBC's Policy Compliance in Palm Oil Policy

There may be exceptional circumstances where customers meet the spirit, but not the letter of this policy, or where enquiries about a customer's compliance are incomplete. Global Businesses must exit relationships, as soon as possible, with Non-Compliant customers, including:

- Customers expelled from RSPO (including those who terminate their membership during complaints investigations) or whose certification is withdrawn.

[63] https://www.rabobank.com/en/about-rabobank/in-society/sustainability/for-business-clients/index.html
[64] https://www.todayonline.com/singapore/wilmar-becomes-first-palm-oil-company-link-bank-loan-sustainability-performance, https://www.gtreview.com/news/sustainability/ing-pegs-wilmar-loan-to-sustainability-kpis/

- Customers not on a credible path to meeting HSBC's policy deadlines.

Where a customer group also operates in other sectors, Global Businesses must:

- Not provide financial services directly supporting Non-Compliant companies;
- Actively engage with the controlling parent company, if a customer, to highlight the benefits of meeting this policy; and
- Submit a recommendation to their regional Reputational Risk and Client Selection Committee (RRCSC) as to whether HSBC should continue or close the relationship with the parent and the rest of the group. The review must take into account the scale and nature of any negative impacts and, if any relationship is continued, the restrictions proposed for any financing.

Continuing relationships will be rated Near-Compliant and subject to annual clearances and two-yearly referral to the RRCSC

Source: HSBC Agricultural Commodities Policy

7. Monitoring and portfolio targets –

Periodic monitoring transaction/client level

https://www.ocbc.com/group/who-we-are/responsible-financing.html
Under our credit evaluation process, we conduct ESG risk assessment on borrowers at least once a year throughout the financing tenor. Additional assessments are conducted if and when significant ESG events arise.

Periodic portfolio level assessment on E&S issues

https://www.uob.com.sg/AR2017/documents/Full-Annual-Report-2017.pdf
(page 37)
We review our portfolio's ESG exposure periodically. As at 31 December 2017, all the borrowers in the eight ESG-sensitive industries had undergone the ESG risk assessment with relevant risks adequately mitigated and managed. The Bank had not had a significant concentration in any of the eight ESG-sensitive sectors, which collectively accounted for approximately 10 per cent of our total loan portfolio.

Portfolio level assessment on human rights

https://www.abnamro.com/en/images/Documents/040_Sustainable_banking/080_Reporting/2016/ABN_AMRO_Human_Rights_Report_2016.pdf
(page 24)
In our role as a financier, effective management of our salient issues depends on the successful identification and mitigation of human rights risks. ABN AMRO performs two types of human rights due diligence in its lending portfolio: value chain studies and company assessments. First, the bank identifies and assesses structural human rights impacts through value chain studies on diamonds, textiles, cocoa and copper

Reporting on energy mix

https://www.ing.com/Sustainability/Our-Stance/Energy.htm

Commitment to 2-degree scenario

https://www.societegenerale.com/en/newsroom/societe-generale-strenghtens-its-commitments-in-the-fight-against-climate-change
In line with the commitments made at COP 21, Societe Generale marks a new stage in its proactive climate policy, which aims to align its activities by 2020 with the International Energy Agency (IEA) scenario to limit global warming to 2°c.

Commitment to zero deforestation

https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/sustainability/WestpacCCEActionPlan.pdf
(page 13)
Agribusiness plays a fundamental role worldwide in feeding the global population, shaping health outcomes, driving economic growth, reducing poverty, and supporting livelihoods. We recognise that transactions in this sector need to consider a range of environmental impacts, including reducing emissions from deforestation and land conversion. It is for these reasons we have committed under both the Banking Environment Initiative's (BEI) Soft Commodities Compact, and the New York Declaration on Forests, to work with other organisations associated with this sector to achieve net zero deforestation by 2020.

End of document.