

ESG - CATALYSING ASIA'S SUSTAINABILITY VIA LABUAN IBFC

Environmental, social and governance (ESG) considerations were often seen as an afterthought by businesses in the past; driven by profit-making objectives and pursuits for investment gains. Today, this trend has reversed as ESG awareness amongst business entities are increasingly promoted particularly on keeping a balancing act between sustainability development vis-à-vis commercial goals. They are now broadly considered relevant for financial institutions to incorporate this as part of their corporate strategies especially to tackle the implication of climate change to their business vulnerabilities.



Conceptually, ESG tenets can be broadly explained in Diagram I below.



Diagram I: Key Components of ESG

ESG Milestones Thus Far

In pursuing the ESG agenda under the United Nations' (UN) 17 Sustainable Development Goals (SDGs) and the Paris Agreement, Malaysia is committed to achieving net zero greenhouse gas emission by 2050. As part of the initiatives to accelerate the ESG momentum, the Joint Committee on Climate Change (JC3) was established to preserve the national monetary and financial stability to be more sustainable and climate resilient. Being a regulatory body overseeing Labuan IBFC that has a fair share of domestic and international exposures, Labuan FSA supports Malaysia's initiatives by participating in JC3 together with Bank Negara Malaysia (BNM) and Securities Commission Malaysia (SCM).

The key milestones of Malaysia's commitments towards the SDGs are as illustrated in Diagram II.

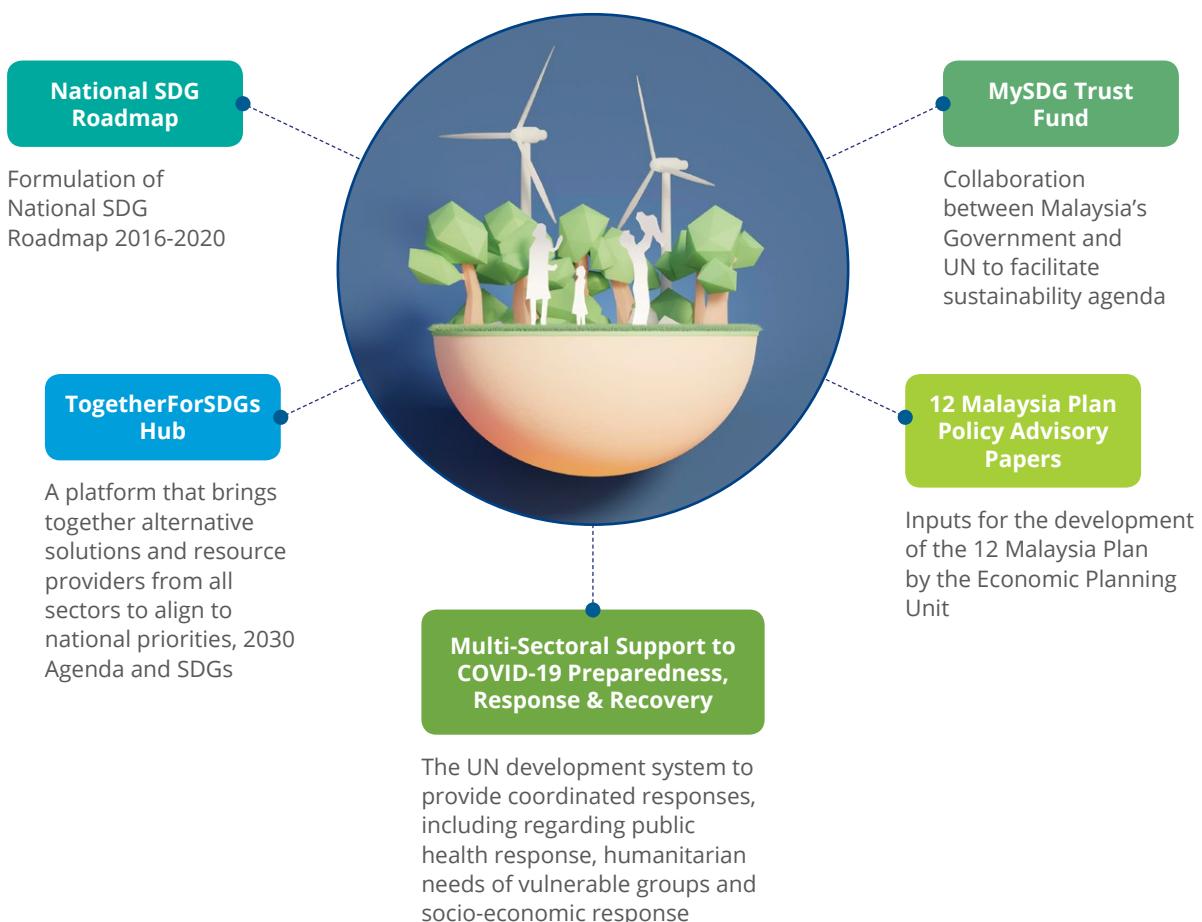


Diagram II: Key Milestones of National ESG Implementation

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Dual-Approach for Sustainability

In promulgating sustainability-sensitivity within the Centre, Labuan FSA has conceptualised broad strategies that are aimed at promoting sound practices to ensure that the Labuan financial institutions (FIs) adopt and implement ESG practices in their business decision making. In this regard, ESG-related initiatives have been overlaid within broad business development strategies under the Labuan IBFC Strategic Roadmap 2022-2026 as illustrated in Diagram III.



Diagram III: ESG Initiatives for Labuan IBFC



Thrust I: Fostering ESG Market Enablers

The immediate priority for Labuan IBFC was to ensure that it serves the ESG needs of the region that the Centre serves. This comprises:

- (i) leveraging on the Labuan's unique business structures and platforms to facilitate ESG-related propositions whether for conventional or Shariah-compliant businesses. The latter, in particular, is part of the Centre's efforts to use fintech innovations to strengthen Labuan Islamic finance's linkages to sustainability agenda;
- (ii) cultivating ESG as part of the Labuan FIs' sound corporate culture and good risk management practices; and
- (iii) promoting greater adoption of financial technologies to extend market reach to the unserved or under-served market segments as part of financial inclusion initiative.

Thrust I: Fostering ESG Market Enablers



- 1** Launching of the First Shariah and ESG-Compliant Digital Asset Exchange
Provide a supportive ecosystem to invigorate ESG driven activities in the forms of fundraising platform and exchanges.
- 2** Facilitating ESG-related Business Propositions for Sound Governance and Risk Management Practices including through Islamic Finance Offerings
Leverage on Labuan unique structures such as sukuk issuance and liquidity platform to facilitate ESG-related business propositions including social-based finance solutions such as retirement plan and religious fulfilment purposes.
- 3** Promoting the adoption of financial technologies for greater market reach to the Unserved and Underserved Segments
Collaborate with domestic agencies/ministries to support national initiatives such as disaster relief management programmes, special funds and financing schemes establishment through Labuan IBFC.

Diagram IV: Fostering ESG Market Enablers

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Thrust II: Inculcating ESG Cultures and Best Practices

In order to inculcate sound ESG cultures and best practices amongst the Labuan FIs, Labuan FSA will collaborate with domestic regulatory bodies responsible for pursuing the national ESG agenda. This will be further complemented by the development of ESG taxonomy to deepen climate risk management capabilities within the financial industry as well as integrating ESG as part of Labuan FIs' governance enhancements, investment practices and disclosure. Further details are provided under Diagram V below.



Conclusion

As a progressive, responsible international financial centre, Labuan IBFC is committal in pursuing the sustainability agenda by promulgating an ESG-conscious business environment and supporting ecosystem. The initiatives planned are intended not to only create a sustainable financial market for the Centre, but to expand Labuan IBFC's role to become a key business hub in driving the ESG agenda for Asia.