

Assessment on the ASEAN standards to support sustainable and responsible investments (SRIs) and green bonds

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ARTICLE INFO

Article history:

Received 16 April 2021

Accepted 14 May 2021

Published 31 May 2021

Keywords:

ASEAN standards

Sustainability

Investment

Green bond

DOI:

10.24191/jeeir.v9i2.13112

ABSTRACT

This paper aims to analyse the standards in promoting sustainable and responsible investment (SRIs) and green bonds among ASEAN countries. Thus, to progressively reach these objectives, this paper applied content document analysis and expert interviews. This paper discusses in detail the three ASEAN's standards issued by the ASEAN Capital Markets Forum (ACMF) to support SRIs and green bonds, namely the ASEAN Green Bond Standards 2017, the ASEAN Social Bond Standards 2018 and the ASEAN Sustainability Bond Standards 2018. Besides, this paper also explores the strengths and the weaknesses of the issuances of these ASEAN standards. The limitations of this research are that it is entirely conceptual, and its' analysis is based on secondary data sources.

1. Introduction

Sustainable and responsible investment (SRIs) and green bond is two instruments that gaining interest in the recent years. Generally, the SRIs promotes any investment activity that integrates the issues of environment, social and governance (ESGs) into their investment portfolios whereas the green bonds focus more on the financing the environmentally friendly projects (Panda, 2017; Salina and Adam, 2017). This integration investment activity happens via various approaches such as through investment decision-making, transparency, collaboration, active ownership, and the achievement of wider support for these practices from the entire financial services industry (OECD, 2007).

Currently, SRIs and green bonds have shown amazing growth around the globe. For example, the African Development Bank had issued a green bond in 2013 to finance climate change solution in Africa valued at USD500 million. In June 2015, the World Bank had issued a USD8.5 billion bond through over 100 green bond papers. Issuance grew further in 2015, with USD40 billion issued by November 2015. It is estimated that approximately USD650 billion of green bonds will be issued in the global market in 2021, which is a 32 percent increase from 2020 (Miller, 2021).

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The SRI's trend also shown the significant growth especially in developed-countries. As for example in developed-countries, SRI represents USD 6.57 trillion which is about one-sixth of funds in USA until mid-2014, when the assets were include hedge funds, private equity, and over 300 mutual funds (Joan and Thomas, 2015) that reached 76% increment since 2012 (William et al., 2016). On the global performance, UN-PRI recorded that over than 1400 signatories under their management are amounted of USD59 trillion of asset until April 2015 (UN-PRI, 2015).

Relatively, the SRIs and green bonds is a new instrument in ASEAN's finance industry although this instrument has strong demand and good potential for growth in the future. This statement in line with studies by Marwan and Rabiah (2015), the Bank Negara Malaysia's (2016) report, Salina and Adam (2017); and the Capital Markets Malaysia Report (2017), which stated the global SRI through various of their product and green bond as having a huge potential and rapidly growing demand, but still can be considered as a nascent industry. For example in Malaysia, the first SRIs was issued in mid-2015. Therefore, it can be said that the exposure to the mechanism is still limited.

Moreover, the practices and impacts of SRI and green bonds from emerging economies countries have not been sufficiently explored yet (Ruhaya a et al., 2018). For example, until early of 2019, the SRIs issuances in Malaysia still lower (valued RM882.3milions) (Securities Commission, 2018) as compared to developed countries like Europe (USD12,040 billion) in 2016, United States (USD8,723 billion) and Canada at USD1,086billion, respectively (Barclays Report, 2014). Thus, the initiative from ASEAN Capital Markets Forum (ACMF) through the issuing several standards to support the SRIs and green bonds among the ASEAN countries is play the vital role to ensure the development and sustainable growth in the future.

Besides, the reviews on current standards play are several essential implications. First, the reviews is important to identify the lack of the guidelines and the room for improvement. It is important to inform the authorities to ensure the possible steps can be taken as well as to overcome the issues arise. Second, the reviews also able to strengthen the existing standards. As known, the SRIs and green bonds practices are still nascent industry in ASEAN countries, thus timely study should be conducted to capture the demand from the potential investors.

Therefore, this paper attempts to analyse in details three standards that have been issued by ACMF as well as to identified several strength and weaknesses from those standards. The remaining of this paper has organized as follows: Section 2 explained about those three standards in term of their background until the details of the standards. Section 3 discussed about the strength and the weaknesses that can be identified from those standards while Section 4 mentioned about the conclusions part from this study.

2. ASEAN standards towards SRIs and green bonds

The literature review section discusses on three ASEAN standards issued by ASEAN Capital Markets Forum (ACMF). Basically, these standards were issued to enhance and standardised the SRI and green bond/*sukuk* issuances in ASEAN countries. The standards are:

1. ASEAN Green Bond Standards 2017
2. ASEAN Social Bond Standards 2018
3. ASEAN Sustainability Bond Standards 2018

2.1 Background of the three ASEAN standards

Our analysis covers the three standards issued by the ASEAN Capital Markets Forum (ACMF) on November 2017 (ASEAN Green Bond Standards) and October 2018 (ASEAN Social Bond Standards and ASEAN Sustainability Bond Standards). The main aim of issuing those standards was to push for a standardised set of rules for SRI and green bonds issuances across ASEAN member countries where currently, most of the ASEAN countries either having their own SRI and green bond standards or yet to

establish such standard (Wahab and Naim, 2019). In the meantime, these standards are able to assist the ASEAN countries to fulfil their commitments under both Paris Agreement and the Sustainable Development Goals (SDGs).

The first standard i.e., ASEAN Green Bond Standards (ASEAN GBS), has been developed based on International Capital Market Association (ICMA)'s Green Bond Principles (GBP) and tailored to meet the needs and commitment of ASEAN. The standard is aimed to be used only for issuers and projects related to environment friendly in the ASEAN region, but it excludes fossil fuel related project. The ASEAN GBS thus intend to enhance the transparency on issuers of green bonds, to reduce due diligence costs and to help investors making their decisions. It also provides guidance to market participants on the usage of proceed and the processes of project evaluation and selection, as well as the reporting.

On the other hand, the second standard i.e., ASEAN Social Bond Standards or ASEAN SBS, has been developed based on the ICMA's Social Bond Principles (SBP). The ASEAN SBS lay down the principles that to be fulfilled by the issuer prior to their entitlement to be labelled as ASEAN SBS. In a nutshell, the issuers who wish to issue and label their bonds as ASEAN Social Bonds must demonstrate compliance with the ASEAN SBS. In addition, ASEAN SBS is a complementary document to ASEAN Green Bond Standards (ASEAN GBS) that was first introduced on November 2017.

For the third standard, i.e., ASEAN Sustainability Bond Standards or ASEAN SUS, the standard was developed based on the ICMA's Sustainability Bond Guidelines. The ASEAN SUS is aligned with the four core components that derived from the ASEAN Green Bond Standards (ASEAN GBS) and ASEAN Social Bond Standards (ASEAN SBS). Those four components are related to the use of proceeds, the process of project evaluation and selection, the management of proceeds, and the reporting. However, the existing issuance of bond (before the creation of ASEAN SUS), either linked to SDGs, or issued by organisations that are mainly or entirely involved in sustainable activities, also can be recognised as ASEAN SUS (ICMA, 2015).

Thus, based on this study analysis, ACMF's effort show that those standards able to speed up the development and the growth of SRI and green bond issuances especially in ASEAN countries. By having this effort, it is not impossible for ASEAN countries to overcome the issue of weaknesses in offering SRI and green bond. Ruhaya et al. (2018) have pointed out this kind of weaknesses, where most of the developing and emerging economics countries have not been sufficiently explored to the practices and impacts of SRI and green bond issuances. In addition, the effort is very important to standardise SRI and green bond/*sukuk* issuances in ASEAN.

2.2 *Details of the standards*

While reviewing the standards, the study found that both standards, ASEAN Green Bond Standards and ASEAN Social Bond Standards have been divided into five subtopics shown in Figure 1 on the next page. These standards have also provided the key term definitions and introduction at the beginning of the standards. For example, under the scope of the ASEAN Green Bond Standards, this standard explained three important points as listed as follows (ACMF, 2018);

1. The ASEAN GBS is recognised is a reference for ASEAN Green Bond.
2. ASEAN GBS is also a part of GBP where in contrast, any new guidance issued by ICMA on GBP should also a part of ASEAN GBS.
3. The issuer has a right to classify their issuances as an ASEAN GBS as long as the issuances comply with the use of proceeds requirements and having social co-benefits.

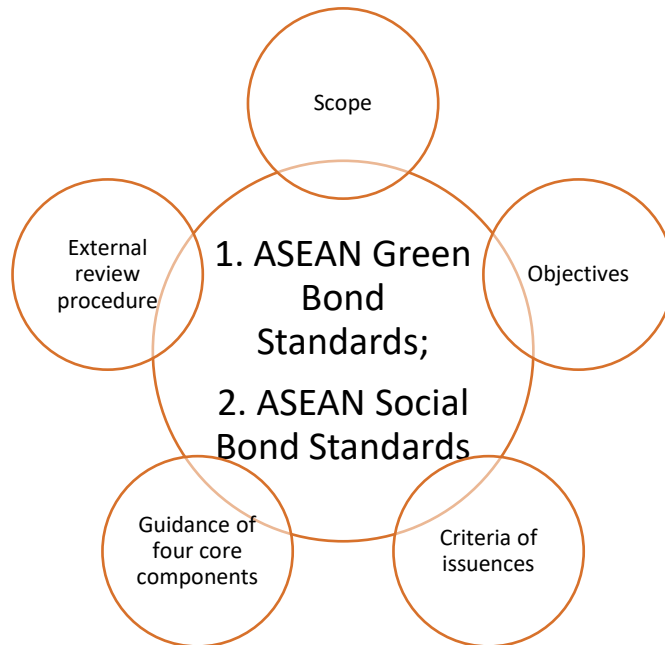


Figure 1. Elements in the ASEAN green and social bond standards

The discussion above has clearly indicated on the eligible project, which can be put under this standard. The standard having their flexibility when any new relevant principles on GBP issued by ICMA should be part of ASEAN GBS. Simultaneously, the analysis on ASEAN Social Bond Standards has also found almost the same statement with ASEAN GBS scope, where the differences are identified only in the usage of the terminology such as green and social projects.

In the context of objective and criteria's subtopics, both standards (ASEAN Green Bond Standards and ASEAN Social Bond Standards) share the same aims and goals. Basically, both standards explained that the main objectives of the standards were to provide additional guidance on the application of the SBP and GBP, as well as to enhance transparency, consistency and uniformity of ASEAN Green and Social Bonds issuances. In term of the criteria, both standard highlighted that the issuer must be from ASEAN or in the case of a non-ASEAN issuer, the eligible social/green projects must be located in any of the ASEAN countries. Whereas in criteria of issuance, those standards stated that, the issuances must be originated from any of the ASEAN member countries.

In fourth subtopic, those standards as discussed on the guidance of four core components of the SBS and GBS as follows:

Table 1. Summary of four core components in GBS and SBS.

Four core components of the SBS and GBS	Subsection on those components
The usage of proceed	<p>There are six components highlighted in GBS and nine subsections in SBS. Those important components GBS are:</p> <ol style="list-style-type: none"> i. The description of proceed utilisation should be documented of issuance of ASEAN Green Bonds. ii. Disclosure by the issuer on the following information: <ul style="list-style-type: none"> ✓ The categories of eligible green projects; and/or ✓ The information on specific green projects. iii. Clear environmental benefits that are able to be evaluated and quantified by the issuers. iv. Clear estimation on the usage of the proceed for financing and refinancing. v. Categories of eligibility for green project that contribute to environmental objective. vi. Fossil fuel power generation projects are excluded from the ASEAN GBS.
Process for project evaluation and selection	<ol style="list-style-type: none"> i. The issuer of ASEAN Green/Social Bonds must clearly inform to investors in terms of: <ul style="list-style-type: none"> ✓ The objectives of environmental/social sustainability that aims to archive; ✓ The projects that fit within the eligible green/social project categories; and ✓ The related eligibility criteria, including the exclusion criteria or any other process applied to identify the environmental and social risks associated with the green/social projects. ii. Prior of the issuance, the issuer needs to establish the documentation of process for project evaluation and selection of the ASEAN Green/Social Bonds and disclose those documentation to the investors. iii. Issuers are encouraged to release this information within the context of the issuer's objectives, strategy, policy, process and later, disclose any green/social standards or certifications referenced in project selection. iv. The issuers also encouraged to use external review as the supported to the project evaluation and selection process. v. The issuer must publish the appropriate information publicly, inter alia, the process for project evaluation, the use of proceeds and external review report on a website at the time of the issuance and throughout the tenure of ASEAN Green/Social Bonds.

Management of proceeds	<ul style="list-style-type: none"> i. Prior to the issuance of the bonds, the issuer must disclose the documentation to investors related to process of managing the net proceeds from the ASEAN Green/Social Bonds. ii. The net proceeds/equal amount of the ASEAN Green/Social Bonds must be credited into a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner. iii. The balance/outstanding of the tracked net proceeds must be periodically adjusted to match allocations to eligible green/social projects during the tenure of the bond. iv. The issuer must also disclose to investors in the documentation for the intended types of temporary placement for the balance of unallocated net proceeds. v. The auditor or other third party can be use as the supplemented to verify the internal tracking method and the allocation of funds of bonds. vi. Next, the report from the auditor or other third party must be publicly published on a website at the time of the issuance of the ASEAN Green/Social Bonds.
Reporting	<ul style="list-style-type: none"> i. The issuers were encouraged to report to the investor as often as possible or at least once a year related to list of the projects, the usage of proceeds until full allocation, a brief description of the projects and their expected impact from the issuances of ASEAN Green/Social Bonds. ii. The issuer may present the appropriate information (subject to confidentiality and competitive considerations) in generic terms or on an aggregated portfolio basis such as using percentage approach. iii. The issuers recommended to use qualitative performance indicators and disclose the key underlying methodology. However, quantitative performance also can be used for selected projects such as energy capacity, electricity generation, greenhouse gas emissions reduced/avoided and the issuer need to make the assumptions in the quantitative determination. iv. The issuer recommended to get the confirmation and approval from external reviewer related to the usage of proceeds before annual report has been release. v. The issuer responsible to provide the annual reporting and the external review on the annual reporting to the investor throughout the tenure of the ASEAN Green/Social Bonds.

In terms of the usage of proceed, it is important to be noted that the ASEAN SBS also stresses on the four components (Table 1) in order to be implemented in the social projects. Meanwhile, the fifth to nine components in ASEAN SBS stress on aim of social projects and type of projects whether they are related to afford basic infrastructure, essential services, affordable housing, employment generation, food security, socioeconomic advancement and empowerment, target population and soon and so forth. The subsection also stresses on the exclusion negative activities such as alcohol, gambling, tobacco and weaponry.

The exclusion negative activities highlighted in this component are in line with the Shariah point of views that also prohibit those such elements to be practiced. In fact, the coverage area of negative activities in Islamic perspectives are more wider including usury, ambiguity and others (Saiti and Abdullah, 2016). Those prohibited elements have been applied comprehensively as a benchmark in Shariah screening process is to approve the certain company as the Shariah-compliant company.

With regards to the process for project evaluation and selection, we argued that the points that were highlighted in the ASEAN Green Bonds are same with the points in the ASEAN Social Bonds, and the difference only appear in the term “green” that used in ASEAN Green Bonds, which is aimed to be replaced by word ‘social’ in ASEAN Social Bonds. Basically, this subsection focused on how the projects will be evaluated throughout the tenure of the bond by providing the appropriate documentations especially to the investors and to the external review.

In terms of the management of proceeds, the points that were highlighted in this section and in the ASEAN Green Bonds are similar with the points in ASEAN Social Bonds, while the differences only appear in the term used, which is the word ‘green’ in ASEAN Green Bonds will be replaced by word ‘social’ in ASEAN Social Bonds. In the management of proceed components, both standards stressed on the procedure in allocation of funds and the other party can use it in order to verify the used of funds.

Transparency is the main issue that can be highlighted in this subtopic, where those standards stress on the readiness of the issuers to disclose the related document to the investors and to the public reading. Transparency is important in order eliminate the possibility of illegal practises such as corruption and misleading in organisation. This concept also in line with the Islamic emphasis like Allah S.W.T mentioned in al-Baqarah verse 188 related to the enforcement of managing the wealth with the best manner.

Regarding the reporting component, this subsection also shares the same with points with the ASEAN Social Bonds. Basically, this subsection is discussed on requirement, where the issuers should be followed in order to fulfil the reporting standards such as frequently of report, how to report in confidential issues, requirement to the external review and others.

As for the last element (external review procedure), both standard highlighted about procedure of external review for the fund under ASEAN Green and Social Bond issuances. The procedures should be followed by the fund issuers which are:

- i. Issuers are recommended to appoint external review for their ASEAN Green/Social Bonds issuances.
- ii. The external review may cover partly or full aspect in ASEAN Green/Social Bonds’s framework by assessing alignment with all four core components as stated in the ASEAN GBS and ASEAN SBS.
- iii. The external review provider must have the relevant expertise and experience in the components of the ASEAN Green/Social Bonds which they are reviewing.
- iv. The external review provider must also disclose their relevant credentials and expertise, and the scope of the review conducted in the external review report.
- v. There are variety of ways for issuers to obtain outside input into the formulation of their ASEAN Green/Social Bonds process and there are several levels and types of review that can be conducted. For example, an issuer can seek advice from consultants and/or institutions with recognised expertise in environmental and social sustainability, or other aspects that related to the issuance.

In summary, most of the point in the both standards are same. The main differences between each standard is the ASEAN GBS are focussed on green projects whereas for ASEAN SBS is focussed on social investment projects. On the other hand, the third standard issued by ACMF which is ASEAN Sustainability Standards or ASEAN SUS are exclusively applied to finance or re-finance a combination of both green and

social projects that respectively provides benefits to the environmental and social. Thus, the issuers of an ASEAN Sustainability Bond must comply with both the ASEAN GBS and the ASEAN SBS. The proceeds allocated for the project must not be used for ineligible projects in the ASEAN GBS like fossil fuel power generation projects, as well as in the ASEAN SBS (i.e., projects which involve activities that pose a negative social impact related to alcohol, gambling, tobacco and weapons).

3. Methodology

This paper applied the qualitative research method via document content analysis and interview with experts in order to answer the objectives of the current paper progressively. This approach allows the present study to collect data from appropriate books, journals, reports, and other publications as well as views from expert. For content analysis approach, data were collected from several sources such as via recognized websites that discuss a number of issues related to the research objectives: inter alia, ASEAN's standards which are associated with the SRIs and green bonds as well as the strength and the lacks of current standards. The researchers were also engaged in seminars, forum, and various industry talks in order to further understand the subjects of the present study.

Meanwhile for interview, the contents of interview questionnaire are developed based on literature review and reading materials. Other sources for the interview questions are gathered from discussions and feedbacks from the experts. This research used in-depth interview approach to assist the researchers in obtaining the information regarding the ASEAN's standards for SRIs and green bond. This study has successfully interviewed two informants in order to complete the data collection process. They are chosen from two different organizations, which is from Securities Commission and Bank Negara Malaysia, respectively. The selection of informants based on their capability, capacity, knowledge, and experience in the area of SRI and ESG.

All informants contact information was classified as private and will not be used without the consent of the parties concerned. In addition, the identities of the informants were replaced with anonymous in the study results to protect their anonymity. The informant's names were replaced with 'Informant A' and 'Informant B'.

4. Assessment on the Standards

In overall, among the biggest advantages offered by those standards which is in term of their aims, the ACMF clearly highlighted that those standards were issued to push the standardised among the ASEAN countries in issuances SRI and Green Bond. It is important because most of the ASEAN countries right now either only rely on their own SRI and green bond standards or no bond standards at all. One of the challenges that usually faced due to lack of standardisation is difficulties to develop and growth in the market. This is in line with one of the informants that stressed on this issue, when she said, *"if we aim to offer the SRI globally, its' specific standards and framework need to be formulated immediately..."*.

Link to the above factor, standardisation able to enhance the growth of SRIs and green bonds issuing in ASEAN countries. The absence of a standardisation and specific framework will led to many issues and challenges (Ahmet & Mehmet, 2017; Rafay et al., 2016) although the demand for a certain product is high. This argument was supported by Informant A, who said, *"without proper standards in SRI, I don't think we will be able to go further..."*. It is proven that due to standardisation issue, some of the financial products have failed to be marketed globally (Belouafi & Chachi, 2011). Thus, those standards are important to avoid the similar issue faced by SRIs and green bonds practices.

Moreover, other strength for those standards is flexibility offered in term of eligible projects. As known, the eligible projects are subjected to change from time to time based on their current issues arise in the communities and countries. Informant B during touched on this issue, said *"the flexibility criteria that were*

promoted by those standards have offered huge opportunities to the industry to include their investment in the SRI and green bond projects". He also added that, *"as we have known, the ESG issues continuously change over the time, thus by using the flexibility criteria, those standards will become more comprehensive"*. Thus, based on analysis on those standards, it clearly mentioned in the use of proceed part that the standards allow the issuers to add any related eligible projects that provide positive impacts to the target populations. This initiative will give huge space for those standards to be relevant in all the time.

Besides, those standards also offered the advantage in term of sustainability, where the issuers that aims to expand their green or social bond projects can use ASEAN SUS to finance or re-finance a combination of both green and social projects that respectively provides benefits to the environmental and social. ASEAN SUS also offered initiative to the issuers to those who have the projects that is not align with any eligible projects in ASEAN GBS and ASEAN SBS but involved in sustainable activities to be included into the standards. This initiative provides huge opportunities to the existing bond's issuer to include their projects into ASEAN Sustainability Standards.

Next, the other advantage of those standards is classified in term of clarification on excluded projects. Those standards clearly mentioned the projects that prohibited to be implement under those standards such as projects involving negative social impact activities such as alcohol, gambling, tobacco and weapons. Besides, the ASEAN GBS also clarify that fossil fuel power generation projects are excluded from the standards. It will give clear indicator to the issuers and potential issuers in make their decision in adopted those standards.

The analysis on those standards also found several weaknesses. First, those standards only applicable in the ASEAN countries and not be recognise to entire world like UN-PRI standards (UN-PRI, 2015). In other word, the issuers from the ASEAN that aims to issuer the projects outside the ASEAN countries are unable to use those standards. At this point, it can be said that there is still limited coverage in term of issuances offered by those standards. However, the informant during explained this issue have the opponent views, for example the Informant A said, *"In my opinion, the aims of those standards are focused to create standardisation among the ASEAN countries in regard to the issuances SRI and Green Bond, thus I think it is appropriate to achieve the main aim of issuance"*. Furthermore, the Informant B also in line with the views by Informant A that said, *"yes, when we looked to the scope, those standards were only focused on ASEAN countries, but we must respect the effort of ICMF for the initiative"*. Thus, it can be concluded that although the scope of those standards are focused on ASEAN countries, but the initiative by ICMF should be supported and promoted.

Besides, those standards lack in fulfilling the elements in ESG especially in term of governance dimension. As known, there three elements that govern the SRI via ESG's concept which are environment, social and governance dimension. Those standards only focussed on element of environment and social project, and put aside the element of governance. This argument are supported by Informant A that explained, *"Yes, it is one of the room that needs to be improved by including more criteria in the governance projects"*, while Informant B said, *"I believe this issue (lack of governance criteria) will be overcome in the future"*. Important to be note, the projects related to the governance issues also play their vital role to create good practices in the institutions as well as in the countries (Securities Commission, 2021). Thus, it is the significant weaknesses that faced by those standards which is failed to include the governance element.

Next, those standards absence to explain in term of exit strategy and the cost incurred to the company or institution that unable to follow and perform those standards. In the other words, the standards should clearly explains what the consequences from the violation of standards. Moreover, based on Cayer et al., (1986), incorporating ESG's issues will increase the management cost of the fund, since SRIs and green bonds will acquire the extra analysis and monitoring process. Thus, the guidelines also might be explains to the parties involved the cost incurred from the termination of the standards.

5. Conclusion

Basically, this paper aims to answer two main objectives, which is to provide a review on ASEAN Standards in supporting SRIs and green bonds as well as to identify the strength and the weaknesses of those standards. Based on analysis, the three standards that govern the SRIs and green bonds in ASEAN countries, namely ASEAN Green Bond Standards 2017, ASEAN Social Bond Standards 2018 and ASEAN Sustainability Bond Standards 2018. Those guidelines issued by ASEAN Capital Market Forum (ICMF) with aim to enhance and standardized the SRI and green bond/*sukuk* issuances in ASEAN countries.

The reviews also found that there are some of strength of the standards as well as the weaknesses. Among the strength that can be highlighted are those standards play the vital role to push standardization among ASEAN countries in issuing the SRIs and green bond projects as well as able to enhance the growth of both instruments. Besides, those standards also offered the flexibility to the issuer to include any eligible projects that fulfil the standard's requirement from time-to-time into their investment portfolio. In term of sustainability, the ASEAN SUS standard allowed the issuers to expand their projects to finance or re-finance the investment that respectively provides benefits to the environmental and social issues. ASEAN SUS also offered initiative to the issuers to those who have the projects that is not align with any eligible projects in ASEAN GBS and ASEAN SBS but involved in sustainable activities to be included into the standards. Besides, this study also found some of the weaknesses from those standards. In term of scope, those standards only focussed on ASEAN countries and unable to applied to other countries outside from ASEAN. Next, those standards lack in fulfilling the governance issue in ESG's dimension. Third, those standards also absence to explain in term of exit strategy and cost incurred to those parties that unable to follow those standards.

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