

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

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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 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 are two instruments that are gaining interest in recent years. Generally, the SRIs promote any investment activity that integrates environmental, social and governance (ESG) issues into their investment portfolios, whereas the green bonds focus more on financing environmentally friendly projects (Panda, 2017; Salina and Adam, 2017). This integration of investment activity happens via various approaches such as investment decision-making, transparency, collaboration, active ownership, and the achievement of broader 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 allocated in the global market in 2021, a 32 per cent increase from 2020 (Miller, 2021).

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

The SRIs and green bonds are 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 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 et al., 2018). For example, until early 2019, the SRI's 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 ASEAN Capital Markets Forum (ACMF) initiative, through several issuing standards to support the SRIs and green bonds among the ASEAN countries, plays a vital role in ensuring development and sustainable growth in the future.

Besides, the reviews on current standards play several essential implications. First, the reviews are crucial to identify the lack of guidelines and the room for improvement. Therefore, it is necessary to inform the authorities to ensure that possible steps can be taken and overcome. Second, the reviews also able to strengthen the existing standards. Third, the SRIs and green bonds practices are still a 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 organised as follows: Section 2 explained those three standards in terms of their background until the details of the standards. Then, section 3 discussed the strengths and weaknesses that can be identified from those standards, while Section 4 mentioned the conclusions from this study.

2. ASEAN standards towards SRIs and green bonds

The literature review section discusses three ASEAN standards issued by ASEAN Capital Markets Forum (ACMF). 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) in 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 can assist the ASEAN countries in fulfilling 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 aims to be used only for issuers and projects related to environment friendly in the ASEAN region, but it excludes fossil fuel-related projects. The ASEAN GBS thus intends to enhance transparency on issuers of green bonds, reduce due diligence costs, and help investors make their decisions. It also guides market participants on the usage of proceeding and project evaluation and selection processes, and 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 to be fulfilled by the issuer before 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 in 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 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 shows that those standards can speed up the development and growth of SRI and green bond issuances, especially in ASEAN countries. Moreover, by having this effort, ASEAN countries can overcome weaknesses in offering SRI and green bond. Ruhaya et al. (2018) have pointed out this kind of weakness. Most developing and emerging economy countries have not been sufficiently explored the practices and impacts of SRI and green bond issuances. In addition, the effort is significant 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 essential points as listed as follows (ACMF, 2018);

1. The ASEAN GBS is recognised as 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 become 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.

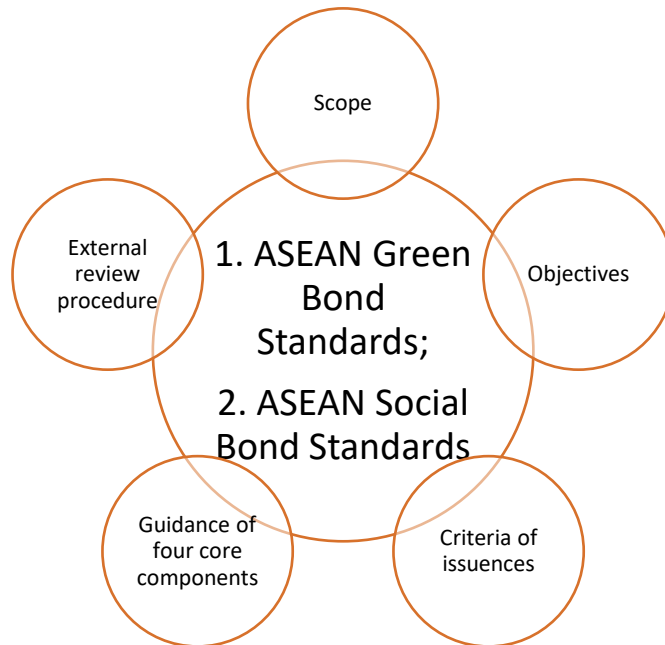


Figure 1. Elements in the ASEAN green and social bond standards

The discussion above has indicated the eligible project, which can be put under this standard. The standard is flexibility when any new relevant principles on GBP issued by ICMA should be part of ASEAN GBS. Simultaneously, the ASEAN Social Bond Standards analysis 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.

Both standards (ASEAN Green Bond Standards and ASEAN Social Bond Standards) share the same aims and goals in the context of objective and criteria's subtopics. Both measures explained that the main objectives of the standards were to provide additional guidance on the application of the SBP and GBP and enhance transparency, consistency, and uniformity of ASEAN Green and Social Bonds issuances. In term of the criteria, both standards 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 issuance criteria, those standards stated that the issuances must originate from any of the ASEAN member countries.

In the 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	The subsection on those components
The usage of proceeds	<p>There are six components highlighted in GBS and nine subsections in SBS. Those important components of 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 can 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 a green project that contribute to the 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 inform 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. Before the issuance, the issuer needs to establish the documentation of the process for project evaluation and selection of the ASEAN Green/Social Bonds and disclose that 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 are also encouraged to use the external review to support the project evaluation and selection process. v. The issuer must publish the appropriate information publicly, among other things, 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. Before issuing the bonds, the issuer must disclose the documentation to investors related to the 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 bond's tenure. iv. The issuer must also disclose to investors 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 used as the supplemented to verify the internal tracking method and allocate funds of bonds. vi. Next, the auditor or other third party report 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 the list of the projects, the usage of proceeds until total 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 a percentage approach. iii. The issuers recommended using qualitative performance indicators and disclose the key underlying methodology. However, the 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 getting confirmation and approval from external reviewers related to the usage of proceeds before the annual report has been released. v. The issuer responsible for providing the annual reporting and the external review on the annual reporting to the investor throughout the ASEAN Green/Social Bonds tenure.

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

The exclusion of negative activities highlighted in this component align with the Shariah point of view that also prohibits those such elements from being practised. The coverage area of negative activities in Islamic perspectives is broader, including usury, ambiguity, and others (Saiti and Abdullah, 2016). Those prohibited elements have been applied comprehensively as a benchmark in the Shariah screening process is to approve the particular company as the Shariah-compliant company.

Regarding the process for project evaluation and selection, we argued that the points highlighted in the ASEAN Green Bonds are the same as the points in the ASEAN Social Bonds. The difference only appears in the term "green" used in ASEAN Green Bonds, which is aimed to be replaced by the word 'social' in ASEAN Social Bonds. This subsection focused on how the projects will be evaluated throughout the bond's tenure by providing the appropriate documentation, especially to the investors and the external review.

In terms of the management of proceeds, the points highlighted in this section and the ASEAN Green Bonds are similar to the issues in ASEAN Social Bonds. At the same time, the differences only appear in the term used, which is the word 'green' in ASEAN Green Bonds will be replaced by the word 'social' in ASEAN Social Bonds. Furthermore, in the management of proceed components, both standards stressed the procedure in allocating funds, and the other party can use it to verify the use of funds.

Transparency is the main issue that can be highlighted in this subtopic. Those standards stress the issuers' readiness to disclose the related document to the investors and the public reading. Transparency is essential to eliminate the possibility of illegal practices such as corruption and to mislead an 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 in the best manner.

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

As for the last element (external review procedure), both standards highlighted the external review procedure 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 part or entire ASEAN Green/Social Bonds' 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 ASEAN Green/Social Bonds components 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 various ways for issuers to obtain outside input into the formulation of their ASEAN Green/Social Bonds process. 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 related to the issuance.

In summary, most of the point in both standards are the same. The main differences between each standard are the ASEAN GBS are focused on green projects, whereas, for ASEAN, SBS is focused on social investment projects. On the other hand, the third standard issued by ACMF, ASEAN Sustainability Standards or ASEAN SUS, is exclusively applied to finance or refinance a combination of both green and social projects that provide benefits to the environment and society. Thus, the issuers of an ASEAN Sustainability Bond must comply with both the ASEAN GBS and the ASEAN SBS. In addition, the

proceeds allocated for the project must not be used for ineligible projects in the ASEAN GBS like fossil fuel power generation projects and the ASEAN SBS (i.e., projects that 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 interviewed experts to answer the current paper's objectives progressively. This approach allows the present study to collect data from appropriate books, journals, reports, and other publications and views from an expert. For the content analysis approach, data were collected from several sources, such as via recognised websites that discuss several issues related to the research objectives: among other things, ASEAN's standards associated with the SRIs and green bonds, and the strength and lack of current standards. The researchers were also engaged in seminars, forums, and various industry talks to further understand the subjects of the present study.

Meanwhile, for an interview, the contents of the interview questionnaire are developed based on literature review and reading materials. In addition, other sources for the interview questions are gathered from discussions and feedback from the experts. This research used an 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 to complete the data collection process. They are chosen from two different organisations: 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 parties' consent. 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

Overall, among the most significant advantages offered by those standards, which is their aims, the ACMF highlighted that those standards were issued to push the standardised among the ASEAN countries in SRI and Green Bond issuances. It is essential 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 developing and growing the market. This is in line with one of the informants that stressed 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 can enhance the growth of SRIs and green bonds issuing in ASEAN countries. But, on the other hand, the absence of standardisation and a specific framework will lead to many issues and challenges (Ahmet & Mehmet, 2017; Rafay et al., 2016), although the demand for a particular 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..."*. Moreover, it is proven that some of the financial products have failed to be marketed globally (Belouafi & Chachi, 2011). Thus, those standards are essential to avoid the similar issue faced by SRIs and green bonds practices.

Moreover, another strength of those standards is the flexibility offered in term of eligible projects. The eligible projects are subjected to change from time to time based on the current issues in the communities and countries. Informant B touched on this issue and said, *"the flexibility criteria 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 time, thus using the flexibility criteria, those standards will become more comprehensive"*. Thus, based on analysis

on those standards, it 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. Therefore, this initiative will give huge space for those standards to be relevant all the time.

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

Next, the other advantage of those standards is classified in term of clarification on excluded projects. Those standards mentioned the prohibited projects under those standards, such as harmful 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. Therefore, it will give a clear indicator to the issuers and potential issuers to make their decision to adopt those standards.

The analysis of those standards also found several weaknesses. First, those standards only applicable in the ASEAN countries and not be recognised by the entire world like UN-PRI standards (UN-PRI, 2015). In other words, the issuers from the ASEAN that aims to issuer the projects outside the ASEAN countries cannot use those standards. Therefore, at this point, it can be said that there is still limited coverage in term of issuances offered by those standards. However, the Informant explained this issue have the opponent views; for example, Informant A said, *"In my opinion, the aims of those standards are focused on creating standardisation among the ASEAN countries regarding the issuances SRI and Green Bond. Thus, I think it is appropriate to achieve the main aim of issuance"*. Furthermore, Informant B is also in line with Informant A's views that said, *"yes, when we looked to the scope, those standards were only focused on ASEAN countries. Still, we must respect the effort of ICMF for the initiative"*. Thus, it can be concluded that although the scope of those standards is focused on ASEAN countries, 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. Three parts govern the SRI via ESG's concept: environment, social, and governance dimension. However, those standards only focused on the environment and social project element and put aside governance. This argument is supported by Informant A that explained, *"Yes, it is one of the rooms that needs to be improved by including more criteria in the governance projects"*. At the same time, Informant B said, *"I believe this issue (lack of governance criteria) will be overcome in the future"*. The projects related to governance issues also play a vital role in creating good practices in institutions and countries (Securities Commission, 2021). Thus, it is the significant weaknesses faced by those standards that failed to include the governance element.

Next, those standards absence to explain in terms of exit strategy and the cost incurred to the company or institution that cannot follow and perform those standards. In other words, the standards should clearly explain the consequences of the violation of norms. 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 explained to the parties involved the cost incurred from the termination of the standards.

5. Conclusion

This paper aims to answer two main objectives: to provide a review on ASEAN Standards in supporting SRIs and green bonds and to identify the strength and weaknesses of those standards. Based on the analysis, the three criteria govern the SRIs and green bonds in ASEAN countries: 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) aim to enhance and standardised the SRI and green bond/*sukuk* issuances in ASEAN countries.

The reviews also found that there are some strength of the standards as well as weaknesses. Among the strengths that can be highlighted are those standards play a vital role in pushing standardisation among ASEAN countries in issuing the SRIs and green bond projects and enhancing 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 terms of sustainability, the ASEAN SUS standard allowed the issuers to expand their projects to finance or refinance the investment that provides benefits to environmental and social issues. ASEAN SUS also offered an initiative to the issuers to those with projects that do not align with any eligible projects in ASEAN GBS and ASEAN SBS but involved in sustainable activities to be included in the standards. Besides, this study also found some of the weaknesses of those standards. First, in terms of scope, those standards only focused on ASEAN countries and were unable to apply to other countries outside of ASEAN. Next, those standards lack in fulfilling the governance issue in ESG's dimension. Third, those standards also absence to explain in terms of exit strategy and cost incurred to those parties unable to follow those standards.

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