HSBC

News Release

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Disclosure is key to unlocking more green financing for Malaysia and beyond

The world is at a critical juncture in its response to climate change. The contrast with two years ago is stark. The Paris Agreement had just been signed, and the stage seemed set for accelerated action against climate change. Now optimism has given way to concern. Emissions are rising, not falling, and the world is some way short of the Paris ambition of restricting global warming to two degrees above pre-industrial times – let alone the 1.5 degrees that most scientists agree is the minimum safe level.

"Those goals are not yet out of reach, but could be unless action against climate change steps up a gear. Much depends on how rapidly we can shift financial flows away from high-carbon industries and activities towards 'greener' ones", said Daniel Klier, Group Head of Strategy and Global Head of Sustainable Finance, HSBC.

There is some cause for cheer here. Recent research for HSBC by East and Partners, a research and analysis firm, shows that investors and companies are increasingly incorporating environmental, social and governance (ESG) factors into their investment strategies. Investors in particular now consider "ESG" less an ethical niche and more as a core part of their portfolios.

Notably, Bank Negara Malaysia is encouraging Islamic banks in Malaysia to become more involved in socially and environmentally focused initiatives through Value-Based Intermediation. The country's capital market regulator is also promoting the development of green Islamic bonds, integrating shariah-compliant principles into financing projects together with social benefits.

Yet this shift needs to happen much faster. Something like US$100 trillion of financing and investment is needed over the next 15 years to develop new technology, build new infrastructure and cover the costs of climate-change adaption. As such, HSBC Amanah's recent launch of the world's first United Nations SDG sukuk is very timely. This is the second SDG issuance from an HSBC entity globally, following HSBC Group's USD1.0 billion SDG Bond in 2017 and is in line with the Group's commitment to provide USD100 billion in sustainable financing and investment by 2025.

Recently, a high level side event focused on the synergies between Islamic finance and sustainable finance in achieving the Sustainable Development Goals (SDGs) was organised at the United Nations, in conjunction with the 73rd UN General Assembly. The side event, 'Achieving the SDGs: Unleashing the Potential of Islamic Finance through Innovative Investors and Instruments,' highlighted how Islamic finance can amplify its role in financing the SDGs. At the event, Arsaalan Ahmed, CEO, HSBC Amanah was a panelist as part of a panel session titled, "Prospects for Islamic Finance and Green Sukuk in the Long Term Financing of SDGs". The panel discussed the concept of Islamic capital markets and how sukuk may be used as a tool for long term financing of environmentally sustainable projects as well as the role Islamic social capital could play in the future.

But green financing still accounts for only a tiny portion of the overall capital markets, and is dominated by governments, big corporates and development banks – not by the businesses that constitute the 'real economy'.

Expanding these markets in a meaningful way requires greater participation from both companies and investors, which will help integrate green and ESG into the majority of financing and begin to redirect the trillions needed.

Klier added, "At the moment there are significant barriers to market growth. Inconsistent definitions of 'ESG', 'sustainable and 'green' are an issue for all parties, and investors aren't getting good or consistent enough information on which to base decisions. The failure to provide comparable information makes it hard for the market to discriminate on environmental grounds, preventing the accurate pricing of risk and delaying the transition to a low carbon world. That in turn leads directly to a lack of investment opportunities and identifiable 'green' assets".

The best remedy for investors' carbon addiction is better disclosure. Providing the market with better quality and more consistent information about companies' climate strategies and preparedness would give institutional investors – the managers of trillions of dollars in assets – what they need to direct capital into the right areas.

The G20 Financial Stability Board's Taskforce on Climate Related Financial Disclosure has already provided a workable standard on which to base this global effort. Implementing its recommendations should be a worldwide priority, yet time is running out to make sufficient progress before national regulators start to force the issue.

This means the private sector has a short window – roughly 18 to 24 months – to show it can improve disclosure. For now though, just one in ten investors and issuers have even heard of the TCFD recommendations. Central banks, financial institutions and investors need to start raising awareness fast. Big corporates, regulators and governments need to work together – and quickly – to provide better guidance on what good disclosure looks like, using TCFD as the basis. Companies need to take responsibility too. Rather than waiting for regulators to intervene, they should act now and put pressure on industry bodies to agree on a more detailed disclosure framework which makes sense for each sector.

TCFD and disclosure must sound arcane – just another acronym used by financiers and administrators. But this is incredibly important work, not just for banks, businesses and bureaucrats, but for society at large, and particularly the communities and livelihoods worst affected by climate change. Better disclosure can unlock the money that will make good on the low carbon transition and ultimately safeguard our planet.

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Note to editors:

Media enquiries:

Marlene Kaur	+603 2075 3351	marlenekaur@hsbc.com.my
Joanne Wong	+603 2075 6169	joanne.p.m.wong@hsbc.com.my
Rhia George	+603 2075 6043	rhia.sarah.george@hsbc.com.my

About HSBC Malaysia

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