Towards a Greener Malaysian Financial System

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Central Bank of Malaysia

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Why the need to go green?
- domestically, climate change poses real risks to the Malaysian’s economy and financial market

**Impact on Malaysia**

- >50 natural disaster events over the past 20 years, accounting for RM8 bil (USD2 bil) of total damage
- >3 mil people affected (incl. displacement, injury & death)
- ▼32% decline in earnings of fishermen in the east coast
- ▼5.7% decline in growth in the agriculture sector in 4Q 2019
- 14.2% of GDP (agriculture and mining sectors) are susceptible to output loss
- 12% of FIs’ assets are potentially exposed to climate change
- ▼Inflow potential downward pressure on net inflow to sectors which are sensitive to climate risk
The Bank’s two-phased approach in responding to climate change

**Phase 1**
2019 - 2020
- Develop foundation & building blocks
  - Increase awareness & engagement
  - Deepen understanding & develop capacity
  - Upskill to respond to risk & opportunities
  - Lead by example
  - Create enabling environment for green financing & investment

**Phase 2**
2021 - 2025
- Integrate climate-related risk considerations
  - Implement regulatory & supervisory expectations including disclosures (TCFD recommendations)
  - Infuse climate risk into macroeconomic & financial stability assessment
    - Surveillance framework
    - Stress testing
  - Study on transmission channels of monetary policy

**Expected Outcomes**

A resilient and vibrant financial sector to support orderly transition to greener economy

1. Financial system that is resilient against climate & environmental related risk
2. Financial system as enabler & facilitator for orderly transition to low-carbon economy
3. The Bank to exhibit leadership and catalyse actions in sustainability
Collaborative sustainability and climate actions are imperatives
- Joint Committee on Climate Change (JC3) as regulator-industry platform for collective climate actions
- VBI Community of Practitioners as pioneers for value-based intermediation

**Key Priorities 2021**

- Finalisation & implementation of Climate Change and Principle-based Taxonomy (CCPT)
- Industry consultative paper on Guides for Climate Risk Management and Scenario Analysis & TCFD Application Guide
- Issuance of sectoral guides on renewable energy, energy efficiency & palm oil
- Issuance of sectoral guide consultative documents on manufacturing, oil & gas and construction & infrastructure

**Expectations 2022**

- Rollout of Climate Change and Principle-based Taxonomy (CCPT)
- Plans for mandatory climate-risk disclosures by financial institutions
- Industry-wide climate change stress tests at counterparty level (implementation by 2024)
- Enhance risk management approaches & explore regulatory incentives e.g. through Pillar 2 capital requirements & supervisory assessments

**Scaling up climate/ green finance solutions**

**Scaling up capacity building programmes**
Data is a critical building block to build a sustainable & green financial system
- need for more comprehensive & novel datasets

**Arising issues**

1. **Limited publicly available data** on climate & environment-related risks

2. **Lack of national framework for carbon accounting**

3. **Lack of centralised system for emissions data monitoring & analysis**

**A whole of nation approach is crucial for orderly transition**
- For data, cross-sectorial collaboration across diverse stakeholders is key to build data capabilities

**Initiatives to bridge data gaps**

1. **Formation of JC3 Sub-committee on Bridging Data Gaps**
   - Identify crucial data & relevant data sources, as well as explore potential solutions to bridge data gaps
   - Collaborate with industry players & experts, incl. National Statistics Department, Ministry of Environment and Water & rating agencies

2. **Reporting by financial institutions**
   - Climate data reporting to the Bank

3. **Engagements with Government ministries & agencies**
   - Provide financial sector perspectives/inputs to support national policies & plans

4. **Building capacity**
   - Membership in NGFS – participation in NGFS WS on Bridging Data Gaps
   - Work with ASEAN counterparts, MDBs
   - Technical workshops
Thank You
JC3 as regulator-industry platform to pursue collaborative climate actions

Joint Committee on Climate Change (JC3)

Co-chairs:
Bank Negara Malaysia & Securities Commission Malaysia

Members: Bursa Malaysia & 19 FIs

Sub-Committee 1: Risk Management
- Facilitate development of climate-related prudential standards and risk management policy
- Identify and formulate appropriate response to climate-related issues and risks

Sub-Committee 2: Governance & Disclosure
- Promote the adoption of TCFD recommendations
- Recommend strategies, initiatives and relevant best practices for financial institutions, including measures to mitigate risks of greenwashing

Sub-Committee 3: Product & Innovation
- Identify key impediments and gaps in demand and supply of green financing, investment and protection solutions to facilitate an orderly transition to a low-carbon economy
- Explore intermediation structures that embed consideration for climate risks and financial solutions
- Explore measures to increase supply of financing and protection solutions that support climate risks mitigation and adaptation

Sub-Committee 4: Engagement & Capacity Building
- Interface with non-financial services sectors, their key institutions and agencies to increase climate risks awareness
- Implement capacity building strategies and initiatives to upskill financial institutions in managing climate and transition-related risks and opportunities
- Promote alignment through engagements with key stakeholders on climate and transition initiatives

Sub-Committee 5: Data
- Identify and address data gaps for climate risks analysis and scaling up green finance
CCPT as a Key Building Block in Supporting an Orderly Transition

Key Considerations

1. Provide a framework that facilitates robust and consistent assessments of economic activities and their associated impacts on climate and the broader environment.
2. Consider the state of economic development and different stages of transitioning across economic agents.
3. Support transition of economic activities that currently do not contribute to climate change objectives.

5 Guiding Principles (GP)

1. Climate Change Mitigation (GP1)
2. Climate Change Adaptation (GP2)
3. No Significant Harm to the Environment (GP3)
4. Remedial Measures to Transition (GP4)
5. Prohibited Activities (GP5)

Progressive classification system to acknowledge concrete transition efforts and commitments

<table>
<thead>
<tr>
<th>Classification</th>
<th>Economic Activity</th>
<th>Overall Business</th>
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</thead>
<tbody>
<tr>
<td>Supporting</td>
<td></td>
<td></td>
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<tr>
<td>Activities with positive impacts on climate change, and causing no significant harm to the environment</td>
<td>C1 GP1 or GP2 or both</td>
<td>✓</td>
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<tr>
<td>Transitioning</td>
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<tr>
<td>Activities causing significant harm to the environment but remedial measures taken to reduce harm</td>
<td>C2 GP1 or GP2 or both</td>
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<tr>
<td></td>
<td>C3</td>
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<tr>
<td>Watchlist</td>
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<tr>
<td>Activities causing significant harm to the environment and no remedial measures taken to reduce harm</td>
<td>C4 GP1 or GP2 or both</td>
<td>X X</td>
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<td>C5</td>
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