

GUIDELINES ON SUSTAINABLE AND RESPONSIBLE INVESTMENT FUNDS

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**Suruhanjaya Sekuriti
Securities Commission
Malaysia**

GUIDELINES ON SUSTAINABLE AND RESPONSIBLE INVESTMENT FUNDS

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Chapter 1

Introduction

- 1.01 The *Guidelines on Sustainable and Responsible Investment Funds* (Guidelines) is issued by the SC pursuant to section 377 of the *Capital Markets and Services Act 2007* (CMSA).
- 1.02 These Guidelines set out the additional requirements to be complied with by any new or existing funds seeking to qualify as an SRI fund. It draws upon and adopts best international practices and is not intended to define or create a standard on sustainable and responsible investment products. However, management companies and fund managers are encouraged to keep abreast of global developments and adopt international best practices to meet client expectations on sustainability.
- 1.03 These Guidelines are in addition to and not in derogation of any other guidelines issued by the SC or any requirements provided for under securities laws.
- 1.04 These Guidelines must be read together with the relevant securities laws provisions and SC's guidelines governing funds as specified under paragraph 3.01.
- 1.05 To assist with the interpretation of the requirements under these Guidelines and their application, Guidance has been provided, where appropriate. Any action or conduct which departs from the Guidance will be taken into account by the SC in determining compliance with these Guidelines.
- 1.06 The SC may, on its own initiative or upon application, grant an exemption from or a variation to the requirements of these Guidelines if the SC is satisfied that–
 - (a) such variation, if granted, is not contrary to the intended purpose of the relevant provision in these Guidelines; or
 - (b) there are mitigating factors which justify the said exemption or variation.

Chapter 2

Definitions

2.01 Unless otherwise defined, all words used in these Guidelines shall have the meanings assigned to them in the CMSA. In these Guidelines, unless the context otherwise requires:

sustainable and responsible investment (SRI) fund	means a fund structured in accordance with paragraph 3.01 of these Guidelines;
fund manager	means a person who undertakes the fund management function, or part thereof, for an SRI fund and who is either– <ul style="list-style-type: none">(a) a holder of a Capital Markets Services Licence for the regulated activity of fund management; or(b) a venture capital or private equity management corporation registered with the SC;
Sustainable Development Goals (SDG)	means the Sustainable Development Goals described in the resolution adopted by the United Nations General Assembly;
United Nations Global Compact (UNGC) Principles	means the principles relating to sustainability as described by the UNGC;
existing fund	means any existing unit trust fund, closed-end fund, wholesale fund, exchange-traded fund, venture capital or private equity fund or real estate investment trust, which has not been qualified as an SRI fund by the SC under these Guidelines.

Chapter 3

SRI Policies and Strategies

3.01 An SRI fund must be a fund that–

- (a) is structured as a:
 - (i) unit trust fund;
 - (ii) closed-end fund;
 - (iii) wholesale fund;
 - (iv) exchange-traded fund;
 - (v) real estate investment trust;
 - (vi) venture capital or private equity fund; or
 - (vii) any other fund structure permitted by SC; and
- (b) incorporates sustainability considerations as stipulated in paragraph 3.05.

3.02 In the case of a unit trust fund or a wholesale fund that is an umbrella fund, any sub-fund of the umbrella fund seeking to be qualified as an SRI fund must comply with these Guidelines.

Disclosure and reporting of SRI fund's investments

3.03 An SRI fund must disclose in its prospectus, disclosure document, information memorandum or Product Highlights Sheet, as the case may be, detailed description of the information as required under paragraphs 3.04, 3.05, 3.06 and 3.07. Where no prospectus, disclosure document, information memorandum or Product Highlights Sheet, as the case may be, is issued, the information must be disclosed to the SC in its application to qualify as an SRI fund.

3.04 An SRI fund's policy and investment strategies, including the selection, retention and realisation of its investments, must adopt one or more sustainability considerations such as–

- (a) the UNGC Principles;
- (b) one or more of the SDGs; or
- (c) any other environmental, social or governance factors.

- 3.05 The SRI fund must disclose its policies and processes to deal with such events where the fund's investments become inconsistent with its investment strategies and policies adopted under paragraph 3.04.
- 3.06 The management company or fund manager, where applicable, must disclose steps that will be taken to ensure that the overall impact of the investments of its SRI fund pursuant to sustainability considerations under paragraph 3.04 is not inconsistent with any other sustainability considerations.
- 3.07 The prospectus or disclosure document must include a statement on the cover page that the fund is a qualified SRI fund under these Guidelines.

Guidance to paragraph 3.04

In determining whether a fund satisfies the requirements of this Chapter, information submitted to SC will be compared against SRI strategies as described in the table below. Strategies outlined in this table are illustrative of the various SRI strategies currently in practice globally and is not intended to be exhaustive.

Strategy	Description
Negative screening	Exclusion of companies undertaking certain business activities or practices from a portfolio based on specific environmental, social or governance criteria including Shariah screening methodology.
Positive screening	Prioritising investment in companies or projects that demonstrate positive environmental, social or governance performance relative to industry peers
ESG integration	Systematic assessment of quantitative and qualitative data on environmental, social and governance factors in investment analysis.
Thematic investments	Selection on investments that align with specific themes related to sustainability
Impact or social investing	Targeted investments with the intent to solve social or environmental issues, or investments towards businesses and projects with a clear social or environmental purpose

- 3.08 The annual report and interim report, where applicable, of an SRI fund must include–
- (a) a statement that the fund has complied with these Guidelines;
 - (b) descriptions on sustainability considerations that has been adopted in the SRI strategies employed; and
 - (c) a review on sustainability aspects of the fund's portfolio, where available.

Guidance for paragraph 3.08(c)

It is also recommended that a review on sustainability aspects of the fund's portfolio be made available to investors periodically. It should include a commentary on action, outcomes and performance metrics (where available) on sustainability topics material to the fund's portfolio.

A fund manager may choose to present this review in a separate document or report (i.e. other than an annual report) but references must be made to such document in the annual report. In such instances, the review may be disseminated or made available via newsletters, website updates, social media or any other official communication channels.

- 3.09 In the case of an SRI fund structured as venture capital or private equity fund, the information required under paragraph 3.08 must be submitted to the SC within three months after the close of each financial year end (or any other period prescribed by SC).

Chapter 4

Application to qualify as an SRI Fund

New fund

- 4.01 In the case of a new fund, except for wholesale fund, the application must be submitted together with the application for its establishment or listing, where applicable.
- 4.02 In the case of a new wholesale fund, qualification as an SRI fund must be obtained prior to lodgement for the establishment of the new wholesale fund.
- 4.03 In the case of a new venture capital or private equity fund, the application must be submitted together with the application for registration with the SC.
- 4.04 In addition to the submission documents stipulated in the relevant guidelines for the funds referred to in paragraphs 4.01, 4.02 and 4.03, the application must be accompanied by a checklist of compliance with the relevant chapters of these Guidelines. The checklist should include commentary on whether the requirements are met, not met or not applicable, and provide detailed illustration, explanation and justifications thereof, with reference to the Guidance where appropriate.

Existing fund

- 4.05 In the case of an existing fund, the following must be submitted:
 - (a) A cover letter which contains the following:
 - (i) Rationale for the qualification sought;
 - (ii) Details of any departure from these Guidelines, together with relevant justifications and relief sought for such departure. Where relief has been obtained, to provide details of such relief; and
 - (b) A checklist of compliance with the relevant chapters of these Guidelines. The checklist should include commentary on whether the requirements are met, not met or not applicable, and provide detailed illustration, explanation and justifications thereof, with reference to the Guidance where appropriate;
 - (c) Where the fund is required to issue a replacement or supplementary prospectus, an application to register and lodge the fund's replacement or

- supplementary prospectus to be made in accordance with the requirements set out in *Prospectus Guidelines for Collective Investment Schemes*; and
- (d) Where revisions will be made to a disclosure document that has been lodged, the draft replacement or supplementary disclosure document.

Further information and documents required by the SC

- 4.06 The SC may, at its discretion, request for additional information and documents other than those specified in these Guidelines.
- 4.07 The applicant must immediately inform the SC on any material change that may impact the application.

Submission of applications

- 4.08 In the case of a venture capital or private equity fund, document submissions required under this Chapter must be addressed to:

The Chairman
Securities Commission Malaysia
3 Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur

(Attention: Authorisation and Licensing Department)

- 4.09 Unless otherwise specified in these Guidelines, applications under this Chapter must be submitted as follows:

(a) All submission documents must be in hard copies and one electronic copy. The electronic copy must be in text searchable format (PDF-text);

(b) The electronic copy of submission documents must be submitted via e-mail, up to 10MB in size per e-mail, to MISubmissions@seccom.com.my; and

(c) Submission of hard copies of applications must be addressed to:

The Chairman
Securities Commission Malaysia
3 Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur

(Attention: Corporate Finance and Investments)