



ASEAN CAPITAL MARKETS FORUM

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ACMF introduces ASEAN SLB Standards

THE ASEAN Capital Markets Forum (ACMF) – under the Chairmanship of the Securities and Exchange Regulator of Cambodia – on October 28, 2022 introduced the ASEAN Sustainability-Linked Bond Standards (ASEAN SLB Standards) to facilitate fundraising by companies that contribute to sustainability, as the ACMF continues to place emphasis on the development of sustainable finance in the region.

The ASEAN SLB Standards are the latest addition to the suite of bond standards that include the ASEAN Green Bond Standards, ASEAN Social Bond Standards and the ASEAN Sustainability Bond Standards, which were launched in 2017 and 2018.

As of October 21, 2022, \$29.82 billion worth of bonds and sukuk (Islamic bonds) have been issued and labelled collectively under the ASEAN Green, Social and Sustainability Bond Standards, demonstrating how such thematic bonds have gained traction in recent years.

What is a sustainability-linked bond?

Sustainability-linked bonds are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability objectives.

For example, a coupon step-up could be activated after a stated period if the objectives set out by the issuer are not met.

Such objectives are measured through Key Performance Indicators (KPIs) and assessed against Sustainability Performance Targets (SPTs).

Unlike green, social and sustainability bonds, where the bonds' proceeds must be used for green, social and sustainability projects, respectively, the proceeds of sustainability-linked bonds are intended to be used for general purposes.

Sustainability-linked bonds could thus assist companies that are seeking to transition towards sustainability.

The ASEAN Sustainability-Linked Bond Standards

The ASEAN SLB Standards were developed based on the International Capital Market Association's (ICMA) Sustainability-Linked Bond Principles (SLBP), as they are internationally accepted and widely used.



The SLBP, first launched in June 2020, are a set of voluntary guidelines elaborated by key market participants under coordination of the ICMA as its secretariat.

While the SLBP have provided broad principles on sustainability-linked bonds, the ASEAN SLB Standards aim to provide more specific guidance on how the SLBP are to be applied across ASEAN.

In this regard, issuers who wish to issue and label sustainability-linked bonds as ASEAN Sustainability-Linked Bonds must demonstrate compliance with the ASEAN SLB Standards.

Thus, the ASEAN SLB Standards will provide certainty to investors that sustainability-linked bonds labelled as ASEAN Sustainability-Linked Bonds have met uniform standards, while providing issuers with best market practices for sustainability-linked bonds.

The ASEAN SLB Standards are aligned and guided by the core components of the SLBP, ie Selection of Key Performance Indicators, Calibration of Sustainability Performance Targets, Bond Characteristics, and Reporting and Verification, with key additional features.

Globally, the sustainability-linked bond market has grown rapidly since the introduction of the SLBP.

By the end of the first half of 2022, Climate Bonds Initiative had recorded sustainability-linked bond volumes of \$176.6 billion.

For issuers who do not have identifiable sustainable projects for funding, sustainability-linked bonds provide an avenue for issuers to raise financing for general purposes while contributing towards sustainability outcomes.

The ASEAN SLB Standards intend to enhance the transparency, consistency and uniformity of ASEAN Sustainability-Linked Bonds, which will also contribute to the development of a new asset class, reduce due diligence costs and help investors make informed investment decisions.

The ASEAN SLB Standards can be accessed at: www.theacmf.org/initiatives/sustainable-finance/asean-sustainability-linked-bond-standards. ■

Key Additional Features of ASEAN Sustainability-Linked Bond Standards		
	Eligible Issuers	To create a sustainable asset class for the ASEAN region, the Issuer or issuance of the sustainability-linked bond must have a geographical or economic connection to the region.
	Continuous Accessibility to Information	The ASEAN SLBS further set out how investors are to be given access to information continuously by requiring the Issuer to disclose information on the ASEAN Sustainability-Linked Bonds, as well as ensuring such information is publicly accessible from a website designated by the Issuer.
	Encourage More Frequent Reporting	In addition to annual reporting, Issuers are encouraged to provide more frequent periodic reporting which would increase transparency and investor confidence in the ASEAN Sustainability-Linked Bonds.
	Increased Transparency on Reporting Timeline	Issuers are encouraged to indicate the timeline in which reporting on the ASEAN Sustainability-Linked Bonds will be made available.
	External Review	Issuers must appoint an external reviewer to review the Issuer's Sustainability-Linked Bond framework. Considering the nascent stage of sustainability-linked bond market development in ASEAN, external reviewers should have the relevant expertise and experience in the area which they are reviewing.
	Encourage Alignment of KPIs with Sustainable Development Goals	Issuers are encouraged to align the KPIs of the ASEAN Sustainability-Linked Bonds with the Sustainable Development Goals ¹ .

The ASEAN Sustainable and Responsible Fund Standards

AS MORE capital is directed towards realising global sustainable development goals (SDGs) and climate targets, the global sustainable fund segment has expanded exponentially.

Globally, the size of sustainable funds reached \$2.7 trillion in 2021, an increase from \$195 billion in 2010, with a compound annual growth rate (CAGR) of 27 percent.

From 1,304 funds in 2010 to 5,932 funds in 2021, the overall number of sustainable funds increased at a CAGR of 15 percent within the same period.

Similarly, sustainable investment has gained traction within the ASEAN region, and in line with the Roadmap for ASEAN Sustainable Capital Markets' recommendation on catalysing products and enabling access to under-served areas, the ASEAN Sustainable and Responsible Fund Standards (ASEAN SRFS) has been developed by the ASEAN Capital Markets Forum (ACMF) to further expand the range of sustainable investments in ASEAN.

The ASEAN SRFS aims to provide the minimum disclosure and reporting requirements that can be consistently applied to collective investment schemes (CIS) that seek to qualify under the ASEAN SRFS, considering the rise of CIS with ESG investment focus and the need for a comparable, uniform and transparent disclosure of information to mitigate the risk of greenwashing and assist investors in making more informed investment decisions.

In light of this, the CIS or CIS operator, as the case may be, must demonstrate compliance with the ASEAN SRFS, which provides additional disclosure of information of the qualifying CIS.

Key features of the ASEAN SRFS

(a) Naming convention

The name of the qualifying CIS should accurately and proportionately reflect the sustainability features of the CIS, without overstating or overemphasising the sustainability features, or being misleading.

(b) Sustainable investment objectives and strategies

CIS should primarily invest in securities in accordance with sustainable investment objectives and strategies, with a minimum asset allocation of at least two thirds of its net asset value.

Examples of sustainability principles and investment strategies are provided in the ASEAN SRFS as guidance.

However, CIS merely adopting ESG integration strategy or negative screening strategy to seek financial returns without having a sustainable investment objective would not qualify under the ASEAN SRFS.

(c) Policies and procedures to ensure compliance

Disclosures on the processes in place to ensure CIS' compliance with the ASEAN SRFS throughout its life cycle are also required under the ASEAN SRFS.

(d) Third party verification

Third party verification can be made on a voluntary basis, to verify that the CIS' investments are aligned with its sustainable investment objectives and strategies.



(e) Periodic reporting

The CIS or CIS operator is required to provide relevant information pertaining to the CIS's sustainable investment objectives and strategies and a review on its sustainability considerations in its interim or annual reports, where applicable, which should be published on a website.

In addition, CIS with impact investing strategies are also required to publish an impact report annually.

(f) Revocation of qualification

The CIS or CIS operator must provide relevant information, ie:

material events that could affect the CIS's compliance to the ASEAN SRFS, to the securities regulator in the respective ASEAN jurisdiction.

Once the CIS is found to be no longer compliant with the ASEAN SRFS, the securities regulator may revoke the qualification of the CIS.

Harnessing sustainability for future growth

Sustainable investments are essential to accelerate the global transition towards net zero.

By 2036, it is expected that the global sustainable investing

market will grow to \$160 trillion.

The asset and fund management sector in the ASEAN region must capitalise on these trends and step up efforts to provide investors with a greater selection of sustainable investment options.

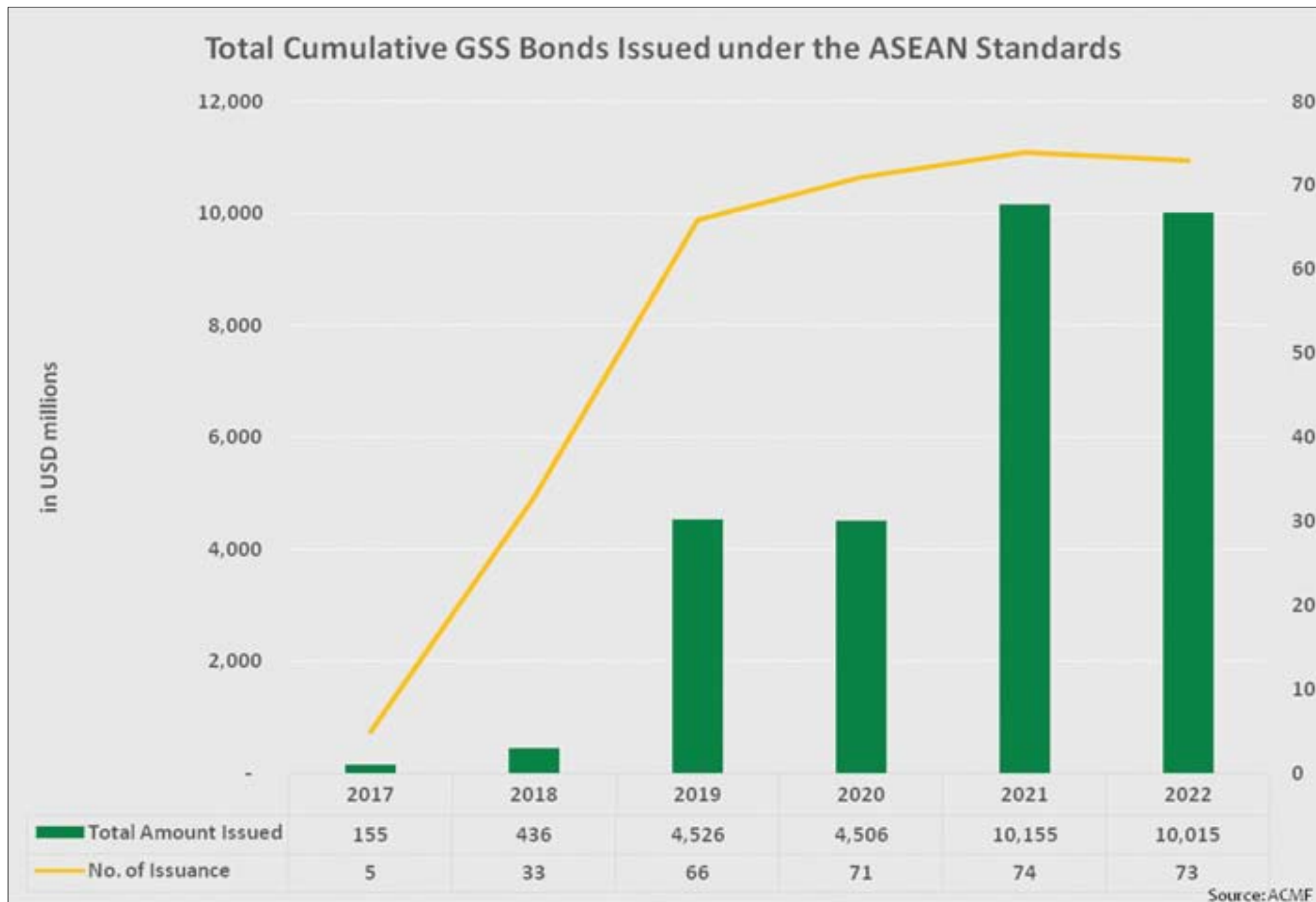
This involves the emergence of more innovative sustainable fund products that cater to the needs and interests of investors.

As the sustainable fund universe evolves more rapidly, there are more demands for detailed and consistent disclosures, as well as a growing need for measures

to mitigate concerns over greenwashing.

Hence, the ASEAN SRFS aims to provide the minimum baseline on the disclosures and reporting requirements of sustainable funds that are offered within the ASEAN region, which in turn, would enhance the consistency and transparency of information to investors.

The ASEAN SRFS can be accessed at <https://www.theacmf.org/initiatives/sustainable-finance/asean-sustainable-and-responsible-fund-standards>. ■



The ASEAN green, social and sustainability (GSS) bond market

IT HAS been five years since a small group of ASEAN capital market regulators spearheaded the region's sustainable finance efforts.

In less than a year, the Green Finance working group of the ASEAN Capital Markets Forum (ACMF) had

drafted and launched the first of its sustainable finance initiatives – the ASEAN Green Bond Standards (GBS).

This was followed in 2018 by the ASEAN Social Bonds Standards (SBS) and the ASEAN Sustainability Bond Standards (SUS).

Currently, the ASEAN 5 –

Indonesia, Malaysia, the Philippines, Singapore and Thailand – dominates the ASEAN green, social and sustainability (GSS) bond market.

Based on September 2022 data from the Asian Development Bank (ADB), Singapore has the largest amount outstanding at US\$10.7 billion,

comprised of domestic and regional issuances. Indonesia is second with \$9.1 billion GSS bonds outstanding.

Thailand, at \$6.5 billion, has the largest sovereign local currency sustainable bond market, with \$2.6 billion worth of outstanding GSS bonds.

Malaysia's almost \$6 billion equivalent of outstanding GSS bonds are comprised of foreign- and local-currency denominated GSS bonds issued by both the government and the private sector.

The Philippines has \$6.94 billion worth of outstanding sustainable bonds issued by a range of private sector issuers, including banks and renewable energy firms, among others.

The astounding sustainable debt market growth ASEAN has displayed over the past five years indicates that while the region is still a relatively minor player in the global market for sustainable finance, the necessary foundations for the development of the green and sustainable debt market are already in place.

And while the governments may have driven this growth through enhanced regulatory support, the trends coming out of the region indicate that more companies recognise the importance and benefits of sustainable finance and align climate risk with their business strategies.

In October 2022, the ACMF developed and launched two sustainable finance standards – the ASEAN Sustainability-Linked Bond Standards and the ASEAN Sustainable and Responsible Fund Standards – which will further widen the range of sustainable investments in the region and help in accelerating sustainable development across ASEAN. ■

Notable issuances from ASEAN

Indonesia

In March 2018, the Indonesian government issued its first green sukuk, the very first sovereign green sukuk issued in the world, amounting to US\$1.25 billion with a tenure of five years.

According to Indonesia's framework, its proceeds will exclusively go to eligible green projects in renewable energy, among others.

Since its 2018 issuance, Indonesia has tapped the sustainable bond market annually – issuing sovereign green sukuk amounting to \$750 million yearly from 2019 to 2021 and \$1.5 billion in June 2022.

Malaysia

Malaysia led the ASEAN green bond market in 2017 with the issuance of the first ASEAN green bond by PNB Merdeka Ventures Sdn Bhd, and the world's first

sovereign USD-denominated sustainability sukuk.

In April 2021, Malaysia successfully priced its sustainability sukuk, amounting to \$800 million worth of 10-year Trust Certificates.

The Philippines

AC Energy and Infrastructure Corporation, formerly AC Energy, Inc, is one of the largest Philippine issuers of green bonds.

In 2019, the company made its debut in the debt market with an issuance of USD-denominated green bonds that totalled \$410 million – the first Climate Bonds Initiative-certified US dollar green bonds in Southeast Asia, which has been increased to \$470 million.

In the same year, the company offered the world's first US dollar-denominated perpetual fixed-for-life green notes at an aggregate principal amount of \$400 million.

Since then, the company has continued to issue green bonds annually, intended to be used to finance renewable energy.

The most recent was the PHP 10 billion (US\$176 million) five-year, fixed-rate green bonds issued in 2022.

Singapore

In 2018, Sindicatum Renewable Energy Company Pte Ltd issued three multi-currency Green Bonds listed on the London Stock Exchange (LSE).

In January 2018, the Indian rupee (IDR) denominated bonds amounting to INR 951.1 million and INR 1,585.3 million due in 2023 and 2025, respectively, were issued, which made Sindicatum Renewables the first ever offshore private sector corporate entity to issue a seven-year INR bond.

The company in November 2018

also issued Philippine peso (PHP) denominated bonds amounting to PHP 1,060.2 million due in 2028, the first PHP-denominated green bonds to be listed on the LSE.

Thailand

In August 2020, the Thailand Ministry of Finance became one of the first sovereigns in the world to raise funds through sustainability bonds and the first in Southeast Asia.

As of May 2022, the ministry has issued around \$6 billion worth of sustainability bonds, which have been used to invest in the Mass Rapid Transit Orange East Line Project and social impact projects, among others.

This issuance made Thailand the first Thai issuer to be listed on the Luxembourg Stock Exchange.

These bonds have also received a total of six awards from various organisations.

ASEAN SDG Bond Toolkit: A guide to key principles for investors

TO PROMOTE sustainable development in ASEAN, the ASEAN Capital Markets Forum (ACMF) has put in place the ASEAN Green, Social and Sustainability Bond Standards, which follow the International Capital Market Association's (ICMA) Green and Social Bond Principles.

To promote the issuance of bonds that address specific SDGs as part of the regional sustainability agenda, ACMF in 2021 launched the "ASEAN SDG Bond Toolkit: A Practical Guide to Issuing SDG Bonds in ASEAN", which aims to be a primer for the issuance of SDG bonds in the region.

While recognising that SDG bond markets are nascent and market practices evolving, the toolkit sets out preliminary guidance on the key principles and processes that issuers can adhere to when issuing an SDG bond.

These principles and processes are based on the best available international practices and the experiences of successful examples of SDG bond issuances from ASEAN and other regions, as well as the needs of investors.

ACMF, through the Asian Development Bank (ADB), commissioned the development of an ASEAN SDG bond toolkit as a key market education and capacity-building resource.

The toolkit is part of wider efforts by ACMF to expand the knowledge and understanding of ASEAN market participants on how to issue sustainable finance-themed bonds.

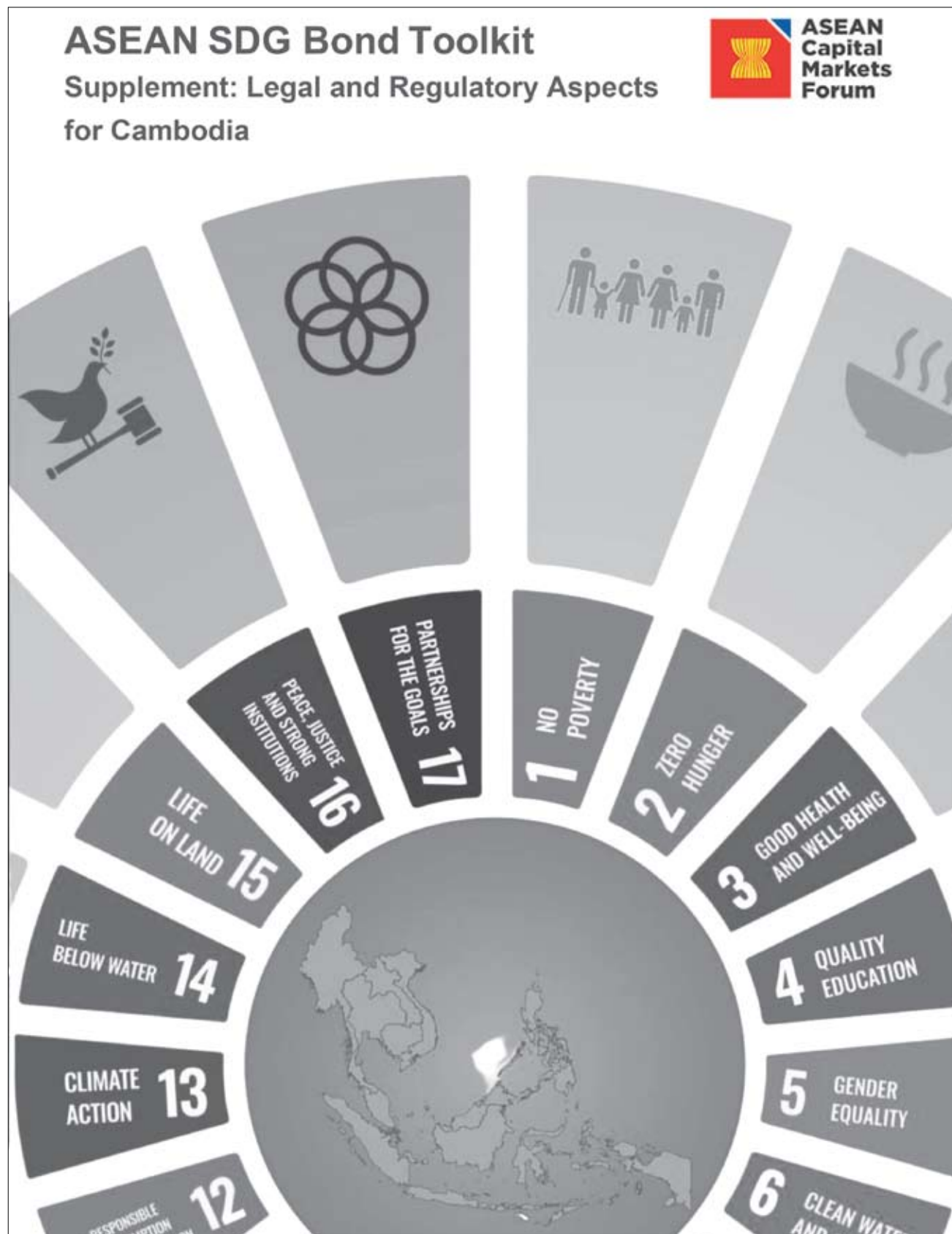
In complementing the ASEAN SDG bond toolkit and to support potential SDG bond issuers and investors, with industry support, the "ASEAN SDG Bond Toolkit Supplements: Legal and Regulatory Aspects for Every ASEAN Member State" were developed and officially launched at the ACMF international conference.

This was hosted by the Securities and Exchange Regulator of Cambodia (SERC) as Chair of the ACMF 2022 with the support of ADB.

A copy of the toolkit supplements can be accessed through: <https://www.theacmf.org/initiatives/sustainable-finance/asean-sdg-bond-toolkit-supplement-legal-and-regulatory-aspects-for-asean-countries>.

The toolkit supplements provide regulatory information regarding the requirements for issuing SDG Bonds by corporates and governments, and the regulatory frameworks to be complied with, as well as the incentives for issuing SDG bonds.

For the investor side, the toolkit supplements provide more information if the bond is offered to the public or private investors and on the incentives to invest in SDG bonds.



ASEAN Green, Social, Sustainability and Sustainability-Linked Bond Standards

Private placement	Public offering
<ul style="list-style-type: none"> Offers shall be made to no more than 30 people within a duration of no more than 12 months. The offer shall not be made public, including invitations to treat or consult on the investment. Any entity intending to conduct a private issuance shall provide the related documents to SERC and report the result of the offer to the SERC when complete. 	<ul style="list-style-type: none"> The entity shall be a public limited company. The entity shall have a Board of Directors' Resolution on the issuance of the bond. The entity shall have an audited financial report for the previous two consecutive years. The entity must have solid corporate governance. The entity shall obtain an issue rating from a credit rating agency accredited by the SERC. The entity shall obtain approval in principle from the SERC on the issuance of the bond.

According to the toolkit supplements, while there are no barriers to issuing SDG bonds, the issuer has to comply with the plain

bond issuance regulatory framework and the relevant ASEAN standards, whereby the SDG bonds will be labelled as ASEAN Green, Social or

Sustainability Bond. Since sustainable finance initiatives have been put in place in ASEAN, governments and regulators provide strong

support when issuing SDG bonds. In addition, the Green, Social and Sustainability (GSS) Bonds which also address the

SDGs, but may not specifically link to them, have rapidly increase in ASEAN.

Within five years, the total issuance has reached US\$31.05 billion, as of December 16, 2022, with green bonds representing 30 percent of total funds raised, while Sustainability and Social bonds represent 64 percent and 6 percent, respectively.

Thailand is the leading country in issuing GSS bonds among the ASEAN 5 with Indonesia, Malaysia, the Philippines and Singapore.

The amount is expected to rapidly increase in the coming years after the launch of the ASEAN Sustainability-Linked Bond Standards and the ASEAN Sustainable and Responsible Fund Standards.

As the Chair of ACMF 2022, and a member of the ACMF, SERC has remained fully supportive in promoting bonds to support the sustainability agenda.

To issue SDG bonds in Cambodia, a corporation that follows the ASEAN Green, Social, Sustainability and Sustainability-Linked Bond Standards, and meets the requirements laid out in the box below can offer both publicly or privately.

SDG bond issuers in Cambodia will also be granted special tax incentives in addition to a 50 percent reduction on income tax for firms that issue a bond amounting to more than 20 percent of total assets or eight billion riel (around \$2 million).

There is also a cap on income tax as an incentive for firms that issue a bond for an amount equal to or less than 20 percent of total assets for three years.

Tax debt waivers – for N-3 to N-10 years for enterprises meeting the criteria for listing on the Cambodia Securities Exchange (CSX) Main Board, and for N-2 to N-10 years for small and medium-size enterprises meeting the criteria for listing on the CSX Growth Board – are also available.

Furthermore, international development partners such as ADB can provide technical assistance to entities interested in issuing SDGs or other sustainable-labelled bonds.

The SERC is pleased to connect interested entities with the ADB for further discussion.

Green bonds issued in Cambodia will be labelled as ASEAN Green Bonds, which means ASEAN Standards are followed, ensuring green bonds in the Kingdom can be invested in with confidence.

There are no restrictions to investing in green bonds in Cambodia, and investors are entitled to tax incentives from the government for three years, including a 50 percent reduction in withholding tax and exemptions on capital gains tax. ■