

Sukuk & Securitization

Yazit Yusuff

04 December 2025

Table of Contents

A. Sukuk: Issuing, Pricing and Trading

1. Sukuk Market Outlook
2. Sukuk Issuance Process
3. Modes of Sukuk Issuance
4. Trading Platforms for Sukuk
5. Roles of Rating Agency
6. Valuation and Pricing of Sukuk
7. Key Factors Influencing Sukuk Pricing

Table of Contents

B. Sukuk: Social Development Goals (SDG) and Environmental, Social and Governance (ESG)

1. Overview of Green and Sustainable Finance
2. Integration of Islamic Finance with ESG Principles
3. Current States of ESG-Linked Sukuk
4. ESG-Related Regulatory Development
5. Highlights of Notable ESG Sukuk Issuances

C. Case Study Discussions

1. Sukuk Fund Raising Exercise
2. Sukuk Distribution Strategies
3. Trading and Hedging of Sukuk

Sukuk : Issuing, Pricing and Trading

Yazit Yusuff

04 December 2025

Session 1

Sukuk Market Outlook



Sukuk Market Outlook

Sukuk Market Outlook - Global

- The global sukuk market outlook for 2025 and beyond is positive, with continued growth expected in issuance volume and outstanding amounts, driven by strong investor demand, high financing needs in core Islamic nations, and a surge in sustainable finance.
- The total outstanding global sukuk volume is expected to surpass USD 1 trillion in 2025 and could reach over USD 2 trillion by 2028. Issuance volume for 2025 is projected to be between USD 190 billion and USD 200 billion.
- Southeast Asia (Malaysia and Indonesia) and the Gulf Cooperation Council (GCC) countries continue to be the epicenters of the market, accounting for the vast majority of issuance.
- Sustainable and green sukuk are a major growth area, aligning Islamic finance principles with environmental, social, and governance (ESG) considerations. The outstanding volume of ESG sukuk is expected to surpass USD 60 billion by the end of 2025.
- Besides investors demand and high financing needs, the other key drivers of global sukuk growth are the expansion of sukuk to new market and easing monetary policy. The US Federal Reserve has cut benchmark Fed Funds rate twice this year (by 25 basis points each time) to 3.75%-4.00%, due to concerns about slower job gains and employment risks.

Sukuk Market Outlook

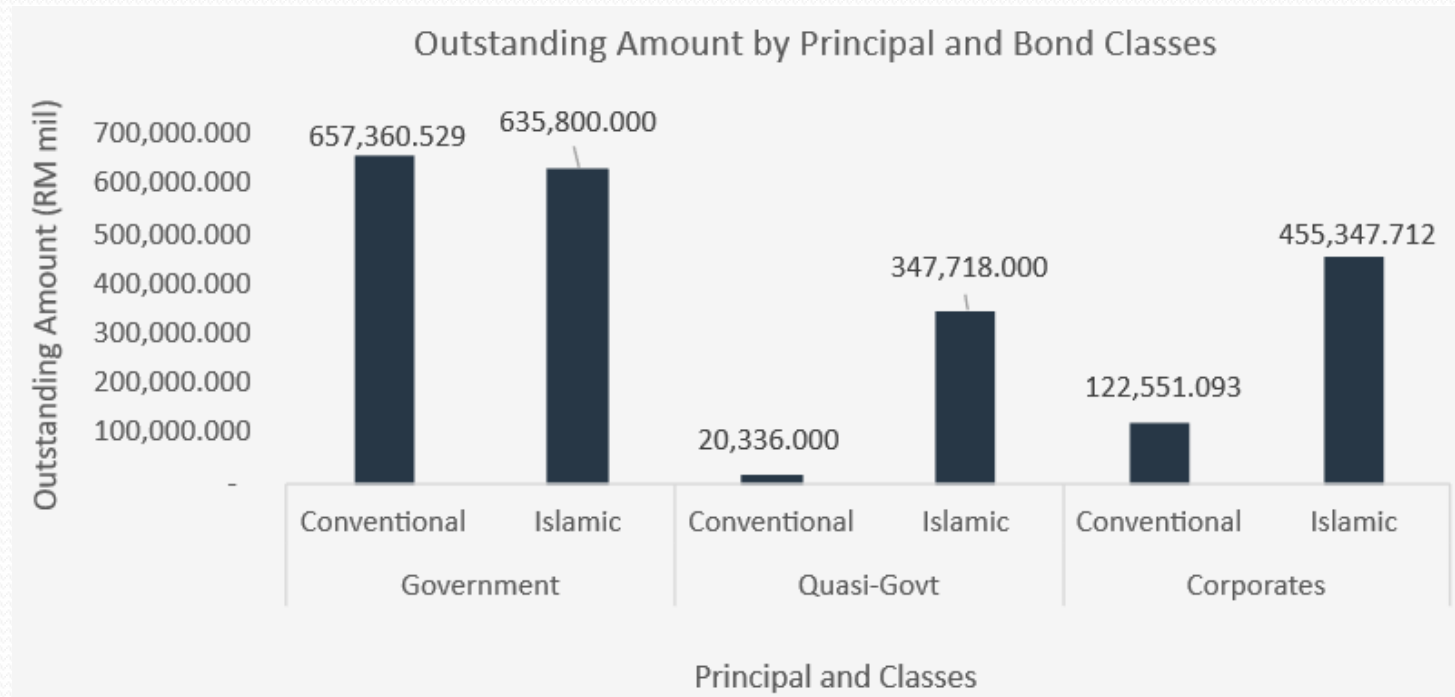
Sukuk Market Outlook - Domestic

- The outlook for the Malaysian sukuk market continue to be strong amid increasing sophistication, driven by a business friendly regulatory environment and the government initiatives to continue positioning Malaysia as a global Islamic financial hub.
- The bond and sukuk market kicked off 2025 well, reaching an astounding RM2.239 trillion in outstanding issuances within the first nine months.
- Within the government bond universe, the combined value of Malaysian Government Securities (MGS) and Government Investment Issues (GII) rose 123 per cent from RM582.46 billion at the end of 2015 to RM1.30 trillion by September 2025. The expansion in borrowing was driven largely by post pandemic-related stimulus, infrastructure investments, ongoing subsidies and the refinancing of earlier debt.
- Statutory Reserve Requirement (SRR) reduction from 2% to 1% earlier this year followed by the Overnight Policy Rate (OPR) 25 bps cut in July 2025 (from 3.00% to 2.75%) are pre-emptive move by BNM to support growth amid the slowing domestic economic activities, global trade uncertainty and moderate inflation.

Sukuk Market Outlook

Sukuk Market Outlook - Domestic

- As of September 2025, the outstanding amount of Government conventional bond and Government Sukuk stood at RM657.36 billion and RM635.80 billion, respectively. The conventional quasi-govt outstanding amount stood at RM20.34 billion, much smaller compared to its Shariah-compliant counterpart of RM347.72 billion. For corporate issuances, the conventional bond outstanding amounted RM122.55 billion while the corporate Sukuk was recorded higher at RM455.35 billion.
- Based on the above numbers, sukuk represents 64% of the overall outstanding Malaysian debt capital market.



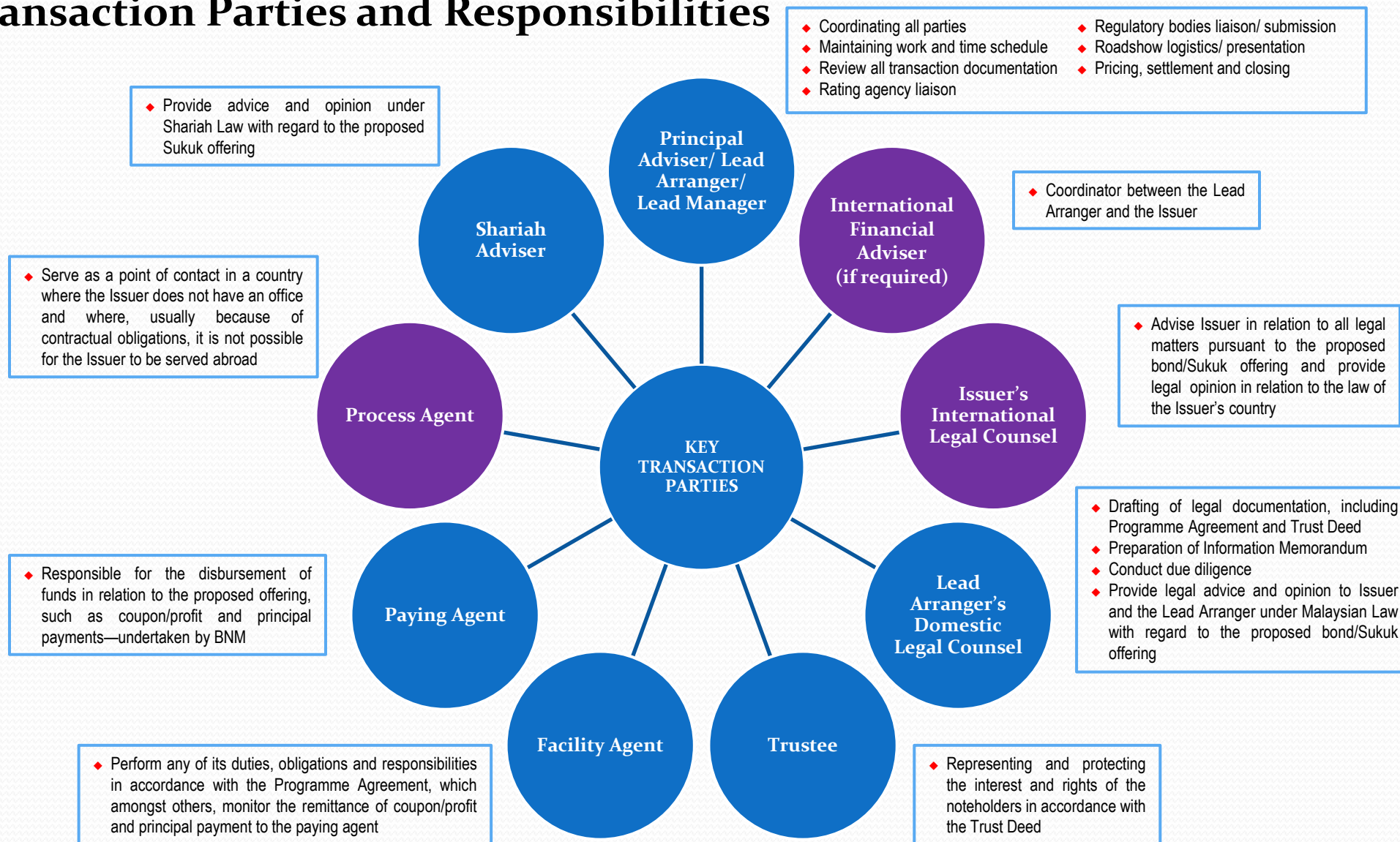
Session 2

Sukuk Issuance Process



Sukuk Issuance Process

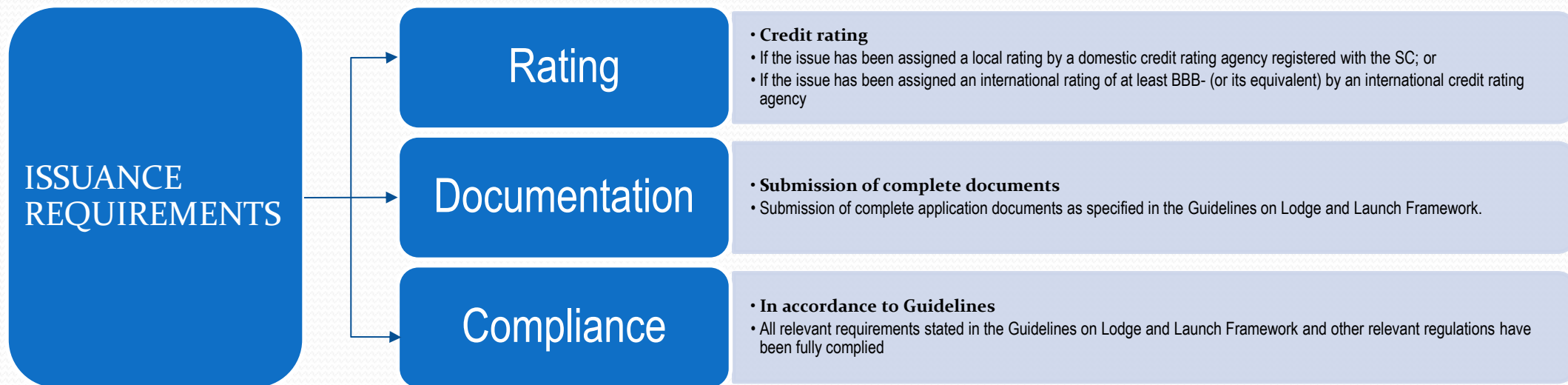
Key Transaction Parties and Responsibilities



Sukuk Issuance Process

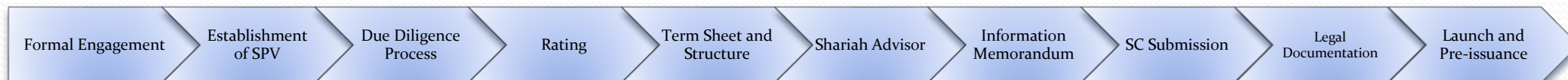
Issuance Requirements and Workflow

APPLICATION FOR ISSUANCE OF RINGGIT-DENOMINATED SUKUK IS DEEMED APPROVED UPON FULFILLMENT OF THE FOLLOWING CONDITIONS:-



Under Malaysian regulations, all debt programmes for a foreign issuers will require the prior approval of the central bank, Bank Negara Malaysia (“BNM”) before the relevant application can be made to Securities Commission (“SC”) for approval.

ISSUANCE PROCESS



Approximately 13 weeks is required to set up a Ringgit-denominated bond / Sukuk programme

Session 2

Modes of Sukuk Issuance



Modes of Sukuk Issuance

Primary Market

- A marketplace where sukuk are created and issued,
- The funds raised from the sukuk by the issuer forms a direct investment and channeled to productive purposes.
- Pricing of primary market sukuk are fixed and agreed by the company (and depending on the type of instrument and structure) as advised by the investment bank acting as the arranger/manager.
- Parties involved are the companies as issuers and primary market investors.
- Sukuk issued are in the primary market before being floated in the secondary market. Hence it precedes the secondary market.
- There are different methods of raising sukuk in the primary market and it will depend on the distribution strategy of the company in consultation with the advising investment bank.

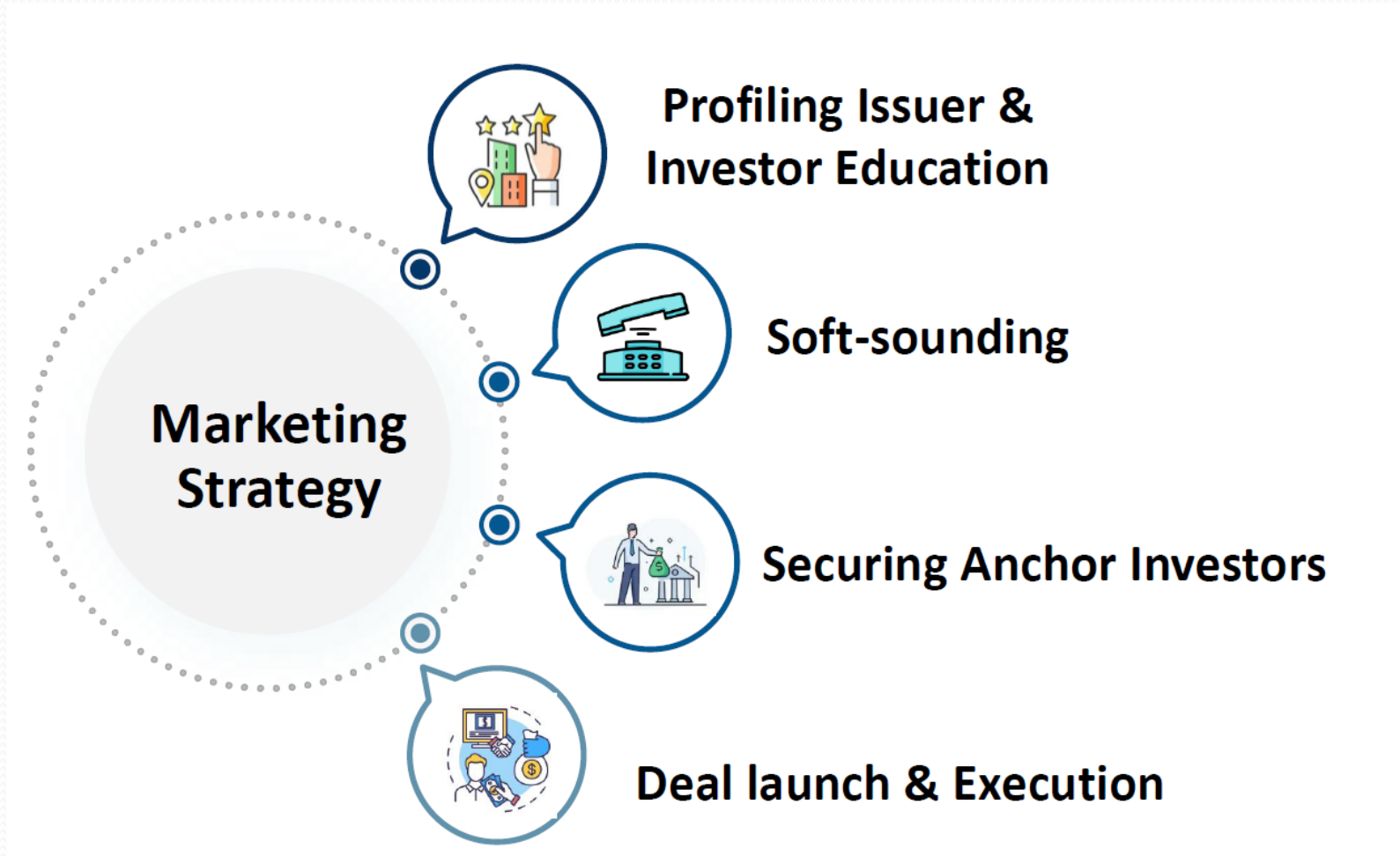
Modes of Sukuk Issuance

Secondary Market

- Sale and purchase of already issued sukuk in the primary market. The secondary market provides access and liquidity for investors can buy and sell the sukuk anytime.
- The traded sukuk are negotiated and transacted among traders and investors and does not involve the issuer (the company issuing the securities).
- The proceeds of fund does not represent direct investment to the company.
- Pricing are based on demand and supply with the high volume of transactions led to the lower transaction cost.
- Dealings in the secondary market is either through a formal platform i.e. a stock exchange or direct dealing between the buyer and sellers (Over the Counter - OTC)
- Secondary market encourages new investment among investors. It also ensures the safety and fair trading for the protection of the investor's interest.
- Furthermore, the secondary market helps banks and other institutions fulfil their short term liquidity needs.

Modes of Sukuk Issuance

Marketing and Distribution Strategies



Modes of Sukuk Issuance

Sukuk Modes of Issuances

1. Tender
 - Involve issuance from government, central bank and corporations with strong credit rating which require regular funding.
 - Auction will be based on competitive tender.
 - For government securities and instruments issued by BNM, the tender will involved Principal Dealers.
2. Bought Deal
 - Lead Arranger/Lead Manager to subscribe the whole issuance.
 - Zero risk of undersubscription for the issuer.
 - Certainty in pricing but will command higher premium.
3. Underwriting
 - Lead Arranger/Lead Manager will primarily underwrite the unsubscribed portion.
 - Zero risk of undersubscription.
 - Certainty in full subscription but issuer to pay the underwriting fees.

Modes of Sukuk Issuance

Sukuk Modes of Issuances

4. Private Placement
 - Negotiation on tranche, size, pricing and tenure to be directly with the identified key investors.
 - Issuer might not achieve targeted market pricing as premium may be required.
 - Pricing can be less transparent.
5. Book Building
 - Strictly a price discovery process for the issuer within the indicated price guidance or lower.
 - Mass market placement for established stronger rated issuers.
 - Better blended yield.
 - Price transparency to all.
6. Best Effort
 - Strictly a price discovery process for the issuer with no guarantee the full subscription.
 - Mass market placement for average rated issuers.
 - Issuer might not achieve targeted market pricing as premium may be required.

Session 3

Trading Platform for Sukuk



Trading Platform for Sukuk

How Sukuk are Traded?

- Sukuk are traded in the secondary market either through Over-the-Counter (OTC) i.e. bilateral direct negotiation or transacted on an exchange.
- Most of the sukuk transactions are concluded via OTC involving large amount with banks playing the role of market makers and liquidity providers.
- Main participants of sukuk in the OTC market includes banks, takaful and insurance companies, government linked investment corporations, fund and asset management companies, hedge funds, corporations, family offices and high net worth individuals.
- High net-worth individuals (as defined in the Guidelines for Categories of Sophisticated Investors} can access the sukuk market through:
 1. Banks' Private Banking and Wealth Management Services
 2. Online Investment Platform such as FSMONE, StashAway etc
- Sukuk that are bought and sold in the stock exchange are listed on Exchange Traded Bond and Sukuk (ETBS which was established on 13 January 2013 to facilitate retail investors direct access to the sukuk market.

Trading Platform for Sukuk

Framework	Exchange	OTC
Primary Market	<p>This is the market where bonds and sukuk are first offered to the retail investors via subscriptions.</p> <p>The issuer may make an offer to the public, to subscribe for its bonds and sukuk through an issuing house or appointed bank. Successful subscribers will be allotted with the subscribed bonds and sukuk prior to the listing on the exchange.</p> <p>Procedures and terms & conditions of subscription will be stated in the prospectus or offering document.</p>	<p>The issuer will make an offer to investors to subscribe for the bonds and sukuk through banks.</p>
Secondary Market	<p>Bonds and sukuk are traded on the exchange.</p>	<p>Bonds and sukuk are traded by investors through banks.</p>
Price of bonds and sukuk	<p>Price of bonds and sukuk are quoted on the exchange</p>	<p>Banks will make market for the bonds and sukuk</p>
Where and how to trade	<ul style="list-style-type: none"> •Investors can place their buy and/or sell orders with their stockbroking company •If you don't already have a Central Depository System (CDS) account you would need to visit a stockbroking company to open a CDS account. The broker will provide the investors with the details on how to execute a buy or sell order 	<ul style="list-style-type: none"> •Investor can buy and/or sell the bonds and sukuk with the relevant banks •Investors need to visit the relevant bank to open an account. The bank will guide investors on how to trade bonds and sukuk
What is the minimum board size	<p>RM1,000 (10 units x RM100 each)</p>	<p>RM5 million</p>
Where can I obtain information?	<ul style="list-style-type: none"> •Prospectus or principal terms and conditions of bonds and sukuk •Through continuous disclosures made pursuant to Bursa Malaysia's Listing Requirements 	<ul style="list-style-type: none"> •Prospectus or principal terms and conditions of bonds and sukuk. •Through continuous disclosures made pursuant to the SC's guidelines

Trading Platform for Sukuk

Exchange Traded vs OTC

Exchange-Traded Products		Over-the-Counter Products	
Advantages	Disadvantages	Advantages	Disadvantages
<ul style="list-style-type: none">• Minimal credit risk.• Market transparency.• Higher liquidity (due to standardized contracts).	<ul style="list-style-type: none">• Limited variety of issuances.• Not customizable.• Limited trading hours.• Limited number of available maturities.• Margin requirements.	<ul style="list-style-type: none">• Greater variety of products.• Customizable.• Longer trading hours.• No margin requirements (only credit facilities).	<ul style="list-style-type: none">• Higher credit risk.• Less market transparency.

Session 4

Roles of Rating Agency





Roles of Rating Agency

What is Credit Rating

- It is a credit evaluation and assessment provided by an independent agencies to evaluate the creditworthiness of the sukuk issuers such as government agencies, banks, corporations in the form of GLCs, MNCs and top tier listed companies.
- These ratings indicate the issuers ability to meet the debt obligation or investment commitment such as making the regular coupon payments and repaying the principal repayment on maturity.
- Ratings provide guidance to the investors and help them to assess the fund raising objectives, assess the risk associated with the sukuk which is using different structure and Shariah contract to ensure the investors make informed when investing in the sukuk.
- A credit rating agency is an independent organization that evaluates and assigns credit rating to the sukuk issuances.
- In Malaysia, there are two domestic credit rating agencies RAM Rating Services Berhad (RAM Ratings) and Malaysian Rating Corporation Berhad (MARC Ratings) that provide credit assessments tailored to the Malaysian financial landscape and issue national-scale ratings, which reflect relative credit risk within Malaysia.
- For global issuances, the issuer will seek the 'Big Three' international rating agencies such as S&P Global Rating, Moody's Investors Service and/or Fitch Rating to evaluate their sukuk fund raising exercise.

Roles of Rating Agency

Credit Rating Indicators

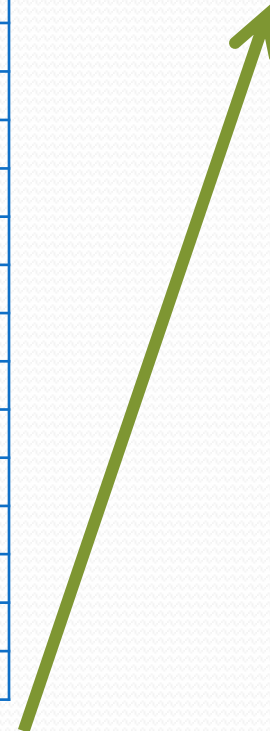
				
Long-Term	Short-Term	Long-Term	Short-Term	Definition
AAA	P1	AAA	MARC-1	Extremely strong capacity to meet financial obligations
AA1		AA+		Very strong capacity to meet financial obligations
AA2		AA		
AA3		AA-		
A1	P2	A+	MARC-2	Strong capacity to meet financial obligations, but somewhat susceptible to adverse economic conditions and changes in circumstances
A2		A		
A3		A-		
BBB1	P3	BBB+	MARC-3	Moderate capacity to meet financial commitments, but more vulnerable to adverse developments and economic conditions
BBB2		BBB		
BBB3		BBB-		

Roles of Rating Agency

Indicative Rating Mapping

International Rating Agencies			Malaysian Rating Agencies	
S&P	Moody's	Fitch	RAM	MARC
Investment Grade				
AAA	Aaa	AAA		
AA+	Aa1	AA+		
AA	Aa2	AA		
AA-	Aa3	AA-		
A+	A1	A+		
A	A2	A	Investment Grade	
A-	A3	A-	AAA	AAA
BBB+	Baa1	BBB+	AA1	AA+
BBB	Baa2	BBB	AA2	AA
BBB-	Baa3	BBB-	AA3	AA-
Speculative Grade			A1	A+
BB+	Ba1	BB+	A2	A
BB	Ba2	BB	A3	A-
BB-	Ba3	BB-	BBB1	BBB+
	B1	B	BBB2	BBB
	B2		BBB3	BBB-
	B3		Speculative Grade	

Speculative Grade	
BB1	BB+
BB2	BB
BB3	BB-
B1	B+
B2	B
B3	B-
C1	C
C2	
C3	
D	D



Roles of Rating Agency

Importance of Credit Rating

1. Investor Decision Making

- Credit ratings offer a valuable tool for investors to evaluate the risk in sukuk investing,
- A higher credit rating indicates a lower risk to default which is crucial for risk averse investors,
- A lower credit rating suggest a probability of high default which may lead to higher yield being offered to compensate for that risk.

2. Market Liquidity and Demand

- Sukuk with high credit ratings tend to attract more investors including the financial institutions and institutional investors
- This can enhance liquidity which make it easier for the sukuk to be traded in the secondary market.
- A lower credit rated sukuk might have fewer interested investors hence could experience greater price volatility.

3. Yield Impact on the Sukuk

- The credit rating of an issuer will have a direct impact on the primary market pricing in order to attract investors.
- Higher rated sukuk generally have lower yields because considered safe investment.
- Lower rated sukuk must offer higher yields to compensate the higher risk in order to attract investors to subscribe to the sukuk.

Roles of Rating Agency

Importance of Credit Rating

4. Regulatory and Compliance Purpose

- Most institutional investors such as pension and provident funds, sovereign wealth fund and Takaful companies can only buy rated sukuk and are restricted to buy sukuk that are below certain credit rating.
- These institutions are only allowed to buy investment grade sukuk which are rated above A3/A- for local issuances and BBB3/BBB- for global sukuk. They consider sukuk with rating below the investment grade are too risky.

5. Economic Indicators

- Sukuk together with conventional bonds are important economic indicators not only for the issuers and investors but also the regulators.
- A series of rating downgrades can signal potential financial troubles that might lead to economic downturn or recession.
- An upgrade from the issuers will indicate a stronger financial position not only for the individual company but also will improve the overall economy.

Roles of Rating Agency

Unrated Sukuk

- The Securities Commission Malaysia (SC) removed the mandatory rating requirement for bonds and sukuk offered in the OTC market to increase market inclusivity and encourage a wider credit spectrum of issuers in 2017.
- Since the rule change, there have been increase of issuance for bond and sukuk notably in 2019 where RM49 billion of unrated debt was issued accounting to 37% of the total issuance that year.
- Factors for the increase include:
 1. Higher and attractive return
 2. Familiar names amongst the issuers
 3. Stricter bank lending conditions
 4. Growth of High Net Worth Individual and the establishment of Family Offices
- Moving forward, Securities Commission is exploring tokenization of unrated bond and sukuk which is expected to further broadened retail participation and enhance market efficiency through digitalization.

Session 5

Valuation and Pricing of Sukuk



Valuation and Pricing of Sukuk

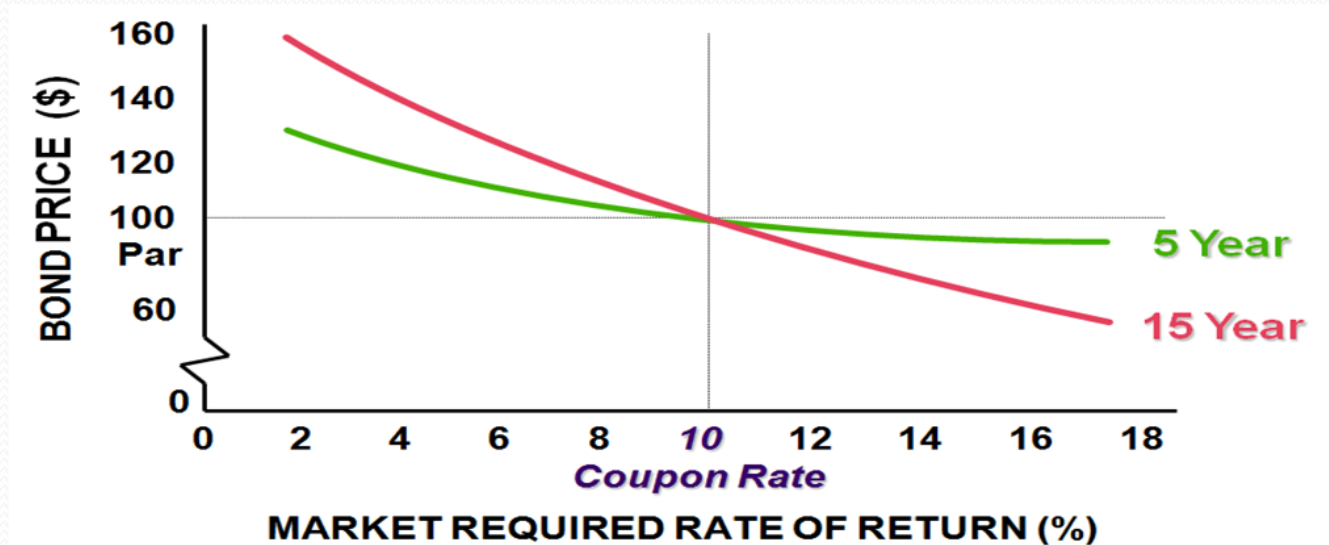
Concept of Time Value of Money (TVM) from Shariah Perspective

- TVM is an essential and important element in finance including Islamic Finance.
- Shariah views money as a medium of exchange and unit of account to determine the value of goods and services. While conventional practitioners expand the application of money as a commodity which has the ability to store value.
- Majority Islamic scholars endorse the concept of TVM to the extent of pricing a credit sale via Shariah-compliant contracts and do not agree to placing rent on loans or money advances.
- In other words, time valuation is acceptable in the case of pricing financial assets and not the case of any addition to the loan principal amount.
- Most financial instruments are traded to the face or nominal value i.e. equivalent to the selling price and to be fully redeemed at the same value.
- As the discounted proceeds are below the face or nominal value of the instrument, the difference will be the profit or return to the investor.

Valuation and Pricing of Sukuk

Pricing of Sukuk

- Sukuk price has an inversed relationship to Yield

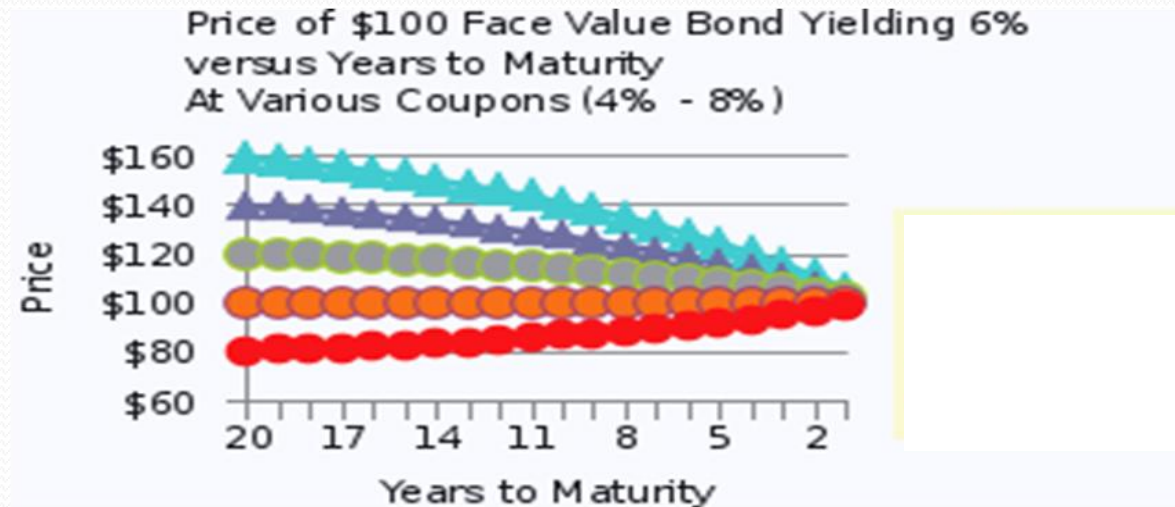


1. The higher the yield, the lower the price and vice versa
2. The longer the tenor, the steeper the curve and thus the greater change in price movement.

Valuation and Pricing of Sukuk

Pricing of Sukuk

- Premium, Par or Discount?



- 1. Premium : Coupon Rate $>$ YTM
- 2. Par : Coupon Rate = YTM
- 3. Discount : Coupon Rate $<$ YTM
- Conclusion: All issues goes back to par on maturity.

Valuation and Pricing of Sukuk

Clean vs Dirty Price of Sukuk

Clean Price : A clean price is the discounted future cash flows, not including any profit accruing on the next coupon payment date. Immediately following each coupon payment, the clean price will equal the dirty price.

Dirty Price : A sukuk pricing quote referring to the price of a coupon sukuk that includes the present value of all future cash flows, including profit accruing on the next coupon payment.

$$\text{Dirty Price} = \text{Clean Price} + \text{Accrued Profit}$$

$$\text{Clean Price} = \text{Face Value} \times \text{Sukuk Price}/100$$

$$\text{Accrued Profit} = \text{Face Value} \times \frac{\text{Coupon}}{\text{Frequency}} \times \frac{\text{No. of days between last coupon to settlement}}{\text{No. of days from last coupon to next coupon}}$$

Valuation and Pricing of Sukuk

Current Yields for Corporate Rated Sukuk (Sept 2025)

RATINGS	YEAR				
	3	5	7	10	15
AAA	3.522	3.593	3.677	3.752	3.884
AA1 / AA+	3.595	3.665	3.749	3.813	4.001
AA2 / AA	3.681	3.756	3.843	3.913	4.054
AA3 / AA-	3.778	3.855	3.949	4.031	4.179
A1 / A+	4.102	4.207	4.363	4.486	4.676
A2 / A	4.519	4.651	4.842	5.022	5.253
A3 / A-	4.951	5.128	5.345	5.571	5.851
BBB	5.827	6.070	6.374	6.679	7.111
BB & BELOW	7.099	7.446	7.972	8.378	9.048

Non-
Investment
Grade

Source: BNM FAST

Session 6

Key Factors Influencing Sukuk Pricing



Key Factors Influencing Sukuk Pricing

Overview

- Understanding the factors that influence sukuk pricing or yields is fundamental to grasping how debt markets and both the domestic and global economy function.
- Yield is essentially the total annual return an investor can expect to earn if they hold the yield until maturity.
- These factors can be broadly categorized into macroeconomic factors i.e. those affecting all bonds and sukuk, and those specific factors affecting to an individual sukuk.
- The factors do not act in isolation. A central bank might be raising rates to combat inflation (which pushes yields up), but if this triggers fears of a recession, investors might flock to bonds (which pushes yields down). The actual movement in yields is the net result of these competing forces.

Key Factors Influencing Sukuk Pricing

A. Macroeconomic Factors (Affecting the entire bond and sukuk)

1. Central Bank Monetary Policy

- When BNM raises its key policy rates (Overnight Policy Rate), it will become more expensive to borrow money. Newly issued bond and sukuk must offer higher yields to compete, causing existing bond yield to rise (price to fall). The opposite will happen when the policy rates are cut.
- The market expectation of the future BNM action is often as important as the action itself. If investors expect interest rate to increase, they will start selling their bond and sukuk, pushing the yields up in anticipation.

2. Inflation Expectation

- As bond and sukuk are fixed rate products, investors will be looking at inflation adjusted return i.e. if sukuk coupon is 5% and inflation of 1.5% will produce real yield of 3.5%.
- When inflation expectation rises, investors will demand higher yield to compensate for the loss of purchasing power over time.

3. Economic Growth Outlook

- A robust economy suggests higher corporate profits, potential wage increases and greater risk of inflation. This often leads to expectation of tighter monetary policy pushing yields higher.
- Weak growth or recession suggests lower inflation and potential rate cut by BNM. Investors will seek to buy bond and sukuk which offers higher return as compared to placing in money market.

Key Factors Influencing Sukuk Pricing

A. Macroeconomic Factors (Affecting the entire bond and sukuk)

4. Government Debt and Fiscal Policy

- When a government runs a large budget deficit, it must issue more debt in the form of bond and sukuk to finance its spending. A large increase in the supply of bond can push prices down and yield up if demand doesn't keep pace.
- Large government spending can stimulate the economy, raising growth and inflation expectations which in turn may push the yield higher.

5. Global Market and Capital Flows

- In times of global geopolitical instability or financial crisis, investors worldwide flock to the bonds of stable, creditworthy governments (like US Treasuries or German Bunds). This high demand pushes their yields down, sometimes even into negative territory.
- International investors compare yields across countries. If US yields are very low, Malaysian yields might look attractive, leading to capital inflows that can put downward pressure on Malaysian yields.

Key Factors Influencing Sukuk Pricing

A. Sukuk Specific Factors (Affecting One Sukuk vs Another)

1. Credit Risk (Default Risk)

- The risk that the bond and sukuk issuer will be unable to make the coupon or principal payments.
- Credit ratings agencies assign ratings and lower assigned rating indicates higher risk.
- The Credit spread is the extra yield (a "spread") that an investor demands to hold a risky bond over a risk-free government bond of the same maturity. A corporation with a unstable financial outlook will have to pay a much higher yield than the government bond.

2. Term to Maturity (The Yield Curve)

- Generally, longer-term bonds have higher yields than shorter-term bonds. This is to compensate investors for the greater risk of inflation and interest rate changes over a longer period.
- Shape of the Yield Curves (which indicates the relationship between the yield of a bond and the time until it mature) denote market expectations for future economic conditions and interest rate.
 - Normal/Upward Sloping: Longer maturities have higher yields. This is the typical shape which indicates economic expansion.
 - Inverted/Downward Sloping: Shorter maturities have higher yields than longer ones. This is a rare but powerful signal that the market expects a future economic recession and lower interest rates.
 - Flat: Little difference between short and long-term yields. This suggest uncertainty about the future direction of the economy and interest rates.

Key Factors Influencing Sukuk Pricing

A. Sukuk Specific Factors (Affecting One Sukuk vs Another)

3. Secondary Liquidity

- How quickly and easily a bond can be bought or sold in the market without significantly affecting its price.
- Government securities such as MGS and GII are extremely liquid supported by Principal Dealers which actively provide competitive quotations as market makers.
- A lower rated corporate bond may not be liquid as it is infrequently traded and investors require a liquidity premium (a higher yield) for holding bonds that are harder to sell.

4. Issue Size

- Issuance must meet certain threshold size to facilitate secondary market liquidity.
- Issuance of less than RM250 million is perceived to be not liquid and that investors holding the sukuk are keeping it until maturity.

Key Factors Influencing Sukuk Pricing

A. Sukuk Specific Factors (Affecting One Sukuk vs Another)

5. Sukuk Structure

- Sukuk structure and issuance purpose heavily influence pricing by affecting perceived risk and investor demand, with riskier features or issuers demanding higher yields.
- Examples are Senior vs Subordinated Sukuk, Perpetual vs Term Sukuk, Callable/Exchangeable/Convertible vs Plain Vanilla sukuk, Clean vs Collateralized Sukuk and Rated vs Unrated Sukuk.

6. Timing of Issuance

- The timing of issuance in the primary market is a strategic decision that directly affect the pricing.
- Issuer will want to avoid issuing at the time where other issuers are also planning their issuance and ensure that there will be no requirement to issue sukuk towards end of the year.

Islamic Finance, Social Development Goals (SDG) & Environmentally, Social & Governance (ESG)

Yazit Yusuff

04 December 2025

Session 1

Overview of Green and Sustainable Finance



Overview of Green and Sustainable Finance

Green and Sustainable Finance

- Green finance and sustainable finance are types of financial activities that support the transition to a low-carbon, sustainable economy while addressing global challenges we face today, such as climate change and emerging environmental and sustainability risk.
- Green finance involves financing projects and initiatives that have positive environmental impacts such as reducing greenhouse gas emissions and promoting renewable energy. On the other hand, sustainable finance integrates environmental, social, and governance (ESG) factors into investment decisions to promote long-term economic growth, social outcomes, and environmental sustainability.
- Both green finance and sustainable finance aim to drive positive change by mobilising capital towards activities that promote sustainability and reduce negative environmental impacts.

Overview of Green and Sustainable Finance

Green and Sustainable Finance

Green and Sustainable Finance Timeline in Malaysia:

- Securities Commission Malaysia introduced the Sustainable and Responsible Investment (SRI) Sukuk framework in 2014 to facilitate the creation of an ecosystem that promotes sustainable and responsible investing for SRI investors and issuers.
- Khazanah Nasional Bhd successfully offered and priced a RM100 million seven-year Sustainable and Responsible Investment Sukuk issued via a Special Purpose Vehicle, Ihsan Sukuk Bhd on 4 June 2015.
- The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.
- On July 27th, 2017 Tadau Energy Sdn Bhd, issued the first green sukuk in the world, raising MYR250 million to finance a 50MW solar photovoltaic power plant in Sabah, Malaysia.
- HSBC Amanah Malaysia issued the world sustainable sukuk in October 2018. The 5 year, RM500 million sukuk proceed will be used to support eligible business under UN Sustainable Development Goals was priced at 4.30%.

Overview of Green and Sustainable Finance

Green and Sustainable Finance

- On 1 Nov 2019 Bank Negara Malaysia issued the "Value-based Intermediation Financing and Investment Impact Assessment Framework to facilitate the implementation of an impact-based risk management system for assessing the financing and investment activities of Islamic financial institutions. The framework incorporate environmental, social and governance (ESG) risk considerations in the participating Islamic banks risk management system.
- BNM launched the third Financial Sector Blueprint for 2022-2026 during the MyFintech Week on 24 January 2022. The blueprint identifies five strategic thrusts and the fourth thrust is 'positioning the financial system to facilitate an orderly transition to greener economy'.
- CIMB Islamic entered into an RM1.0 billion landmark Sustainable Collateralised Commodity Murabahah ("CCM") transaction with Standard Chartered Saadiq Malaysia, to finance SDG activities in Islamic treasury and capital markets.
- In April 2021, Malaysia successfully issued the world's first sovereign US Dollar Sustainability Sukuk, via the issuance of US\$800 million 10-year and US\$500 million 30-year Trust Certificates. The offering was oversubscribed by 6.4 times and due to the overwhelming demand, the Government decided to upsize the size to US\$1.3 billion from the initial US\$1.0 billion.

Overview of Green and Sustainable Finance

Social Development Goals (SDG)

- Social development goals, officially known as the United Nations Sustainable Development Goals (SDGs), are a set of 17 interconnected goals adopted by UN member states to create a "blueprint for peace and prosperity" by 2030.
- Launched in September 2015, SDGs covers a broad range of interconnected issues, including ending poverty and hunger, ensuring good health and quality education, achieving gender equality, and promoting sustainable economic growth.
- The 17 SDGs are :
 1. No poverty
 2. Zero hunger
 3. Good health and well- being
 4. Quality education
 5. Gender equality
 6. Clear water and sanitation
 7. Affordable and clean energy
 8. Decent work and economic growth
 9. Industry, innovation and Infrastructure
 10. Reduced inequality
 11. Sustainable cities and communities
 12. Responsible consumption and production
 13. Climate action
 14. Life before water
 15. Life on land
 16. Peace, justice and strong institutions
 17. Partnerships to achieve the Goal

Overview of Green and Sustainable Finance

Environmental, Social and Governance (ESG)

- Environmental, Social, and Governance (ESG) are a set of criteria used to assess a company's sustainability and ethical impact. Investors and companies use ESG to evaluate a business's performance beyond traditional financial metrics, considering its impact on the planet (Environmental), its relationships with people (Social), and its leadership and oversight (Governance).
- Environmental refers to how a company act as a steward of the environment. Examples include energy use, waste management, pollution, carbon footprint and conservation of natural resources.
- Social refers to how a company manages their relationship with employees, suppliers, customers and communities where it operates. Examples include labor practices, employee relations, human rights, data privacy, product safety, diversity and inclusion.
- Governance refers to a company leadership, transparent audits, internal controls and shareholders right. Examples include transparency, accountability, executive compensation and compliance with laws and regulations.

Session 2

Integration of Islamic Finance with ESG Principles



Integration of Islamic Finance with ESG Principles

Islamic Finance vs ESG

- Islamic Finance and ESG are highly complementary frameworks that share core principles of ethical and socially responsible investing.
- The key difference being that Islamic finance has an additional layer of compliance with Shariah law, which prohibits interest, excessive risk, and investment in specific forbidden activities.
- The similarities or shared principles of both Islamic Finance and ESG are as follows:

Ethical Exclusion: Both typically exclude 'sin stocks' and investment in activities such as gambling, alcohol, tobacco, weapons and phonography

Social Responsibility: Both emphasize the well-being of individuals and society, ensuring that financial practices promote positive environmental and social outcomes

Both Frameworks are rooted in ethical consideration and positive impact to society

Stewardship: Both share the idea of responsible stewardship (khalifah in Islam), with an underlying sense of social justice and inclusion.

Impact and Sustainability: Both aim to generate not only financial profit but also positive, real-world impact, as seen in the development of blended instruments like green sukuk.

Integration of Islamic Finance with ESG Principles

Islamic Finance vs ESG

- The differences or distinctions Islamic Finance and ESG are as follows:

Features	Islamic Finance	ESG
Core Driver	Strict compliance with the Shariah law derived from Quran and Sunah	Global standard and investors demand for quantifiable environmental, social and governance metric
Prohibitions	Prohibits riba (interest/usury), gharah (excessive uncertainty/risk), maysir (gambling) and investment in specific forbidden industries	Excludes "sin" stocks and companies with poor ESG performance based on a range of ethical and performance-based criteria
Financial Instruments	Employs Shariah-compliant instruments such as sukuk (Islamic bonds), murabahah (cost-plus financing), and takaful (Islamic insurance).	Uses conventional financial instruments like bonds (green bonds, sustainability bonds), equities, and funds.
Focus	Broader moral and ethical concerns (Maqaṣid al-Shariah), which inherently support ethical practices that align with modern ESG principles but are guided by religious mandates.	"Green finance" specifically targets environmental projects, while "sustainable finance" integrates broader ESG factors. ESG provides a quantitative measure for sustainability.

Integration of Islamic Finance with ESG Principles

Alignment Between Principles of Maqasid Shariah & ESG

Both frameworks possess values that promote equality, inclusive growth & preserving the rights of future generations

Maqasid al Shariah (higher purpose of Shariah)

The ultimate purpose of Shariah is to facilitate the realisation of *maslahah* (benefit) and the prevention of *mafsadah* (harm). In essence, Shariah promotes sustainable life & responsible relationships between humans & the environment.

Shariah protects the 5 universal necessities (*daruriyyat*)

- Protection of Faith
- Protection of Life
- Protection of Progeny
- Protection of Intellect
- Protection of Wealth

Intrinsic values of *Maqasid Shariah*

- Prevent, mitigate & eradicate harm
- Build Trust
- Create Sustainable Value

Maqasid-based Framework

Value Based Intermediation (VBI)

Environmental, Social and Governance (ESG)

A set of standards that guides an organisations' allocation of capital and investment to promote sustainable and long term environmental, social and governance outcomes. Key drivers of ESG adoption includes investors demand, reputational benefits, improving financial returns & managing ESG risks.

Maybank Key ESG Themes

Environmental	Social	Governance
Natural resource management Climate change Pollution & waste Green opportunities	Labour practices Community Customers Employee wellbeing	Corporate governance Corporate behaviour Transparency Stakeholder engagement

Key ESG frameworks & standards

- GRI: The Global Reporting Initiative
- TCFD: Taskforce on Climate-Related Financial Disclosures
- Sustainable Development Goals

Shared Values

- Upholding Ethical Values
- Economic Value Creation

Desired Outcomes

Triple Bottom Line

PEOPLE, PLANET, PROSPERITY

Integration of Islamic Finance with ESG Principles

Convergence of Islamic Finance and ESG

- Islamic finance is rapidly converging with ESG principles, creating new avenues for ethical and responsible investment through products like green sukuk, Islamic ESG funds, and microfinance that target sustainability, social justice, and governance principles.
- Examples of the convergence are described in the following table:

Product/Initiative	Region	ESG Segment	Islamic Finance Alignment
Green Sukuk	Malaysia, UAE	Renewable energy projects	Shariah-compliant financing for climate change
ESG Islamic Funds	Global	Ethical investing	Shariah + ESG screenings
Sustainable AT1 Sukuk	Saudi Arabia	Social/Green linked debt	Shariah-compliant + sustainability focus
Islamic Microfinance	Africa/Asia	Financial inclusion	Poverty/empowerment in Shariah-compliant manner

Session 3

Current State of ESG-Linked Sukuk



Current State of ESG Sukuk

Current State of Play – Malaysia

Malaysia's ESG sukuk market is a regional leader in ASEAN and a significant global player, characterized by robust growth, strong regulatory support, and a focus on financing the country's energy transition.

- **Market Size & Growth:** Malaysia's sustainable and green bond and sukuk market grew significantly in 2025 with issuance doubling in the first half of the year to RM7.93 billion from RM3.57 recorded in the same period of 2024. A key factor driving this growth is increasing demand for sustainable financing and government initiatives to promote green energy. Fitch Ratings projects the global ESG sukuk market to surpass US\$50 billion outstanding in 2025, with Malaysia remaining a key market.
- **Regulatory Framework:** The market is supported by proactive regulatory initiatives from the Securities Commission Malaysia (SC) and Bank Negara Malaysia (BNM). Key frameworks include the SC's 2014 SRI Sukuk Framework, the ASEAN Green, Social and Sustainability Bond Standards, and the SRI-linked Sukuk Framework introduced in 2022 to facilitate transition finance for carbon-intensive industries.
- **Government & Corporate Issuance:** Both the government and corporations are active issuers. The Malaysian government issued the world's first sovereign US dollar sustainability sukuk in 2021. On the corporate side, PNB Merdeka Venture recently issued RM6 billion sustainable sukuk which is the largest corporate sustainability sukuk in ASEAN.

Current State of ESG Sukuk

Current State of Play – Malaysia

- **Project Focus:** Proceeds from ESG sukuk are primarily used to finance eligible green and social projects which include:
 - Renewable energy projects
 - Affordable housing
 - Green buildings
 - Sustainable agriculture and forestry initiatives
- **Incentives:** The Malaysian government provides incentives, such as the SRI Sukuk and Bond Grant Scheme, which covers up to 90% of the costs for independent expert reviews of eligible sukuk issuances, encouraging more participation.
- **Innovation:** There is a current focus on innovation, including the exploration of tokenized "smart sukuk" using blockchain technology to increase efficiency and accessibility for retail investors.

Current State of ESG Sukuk

Current State of Play – Global

- The global ESG (Environmental, Social, and Governance) sukuk market in 2025 demonstrated robust growth, with outstanding value surpassing US\$50 billion and setting a full-year record for issuance. This momentum is driven by strong investor demand, regulatory support, and sustainability mandates in key Islamic finance markets.
- Key Trends in 2025
 1. **Record Issuance:** The third quarter of 2025 (3Q25) recorded the highest-ever issuance quarter for ESG sukuk, reaching \$6.5 billion. Year-to-date issuance in 2025 has already set a full-year record.
 2. **Market Share:** ESG sukuk represented a significant portion of the total emerging market (EM) ESG US dollar debt (excluding China), accounting for over 40% in the first nine months of 2025, up from 18% the previous year.
 3. **Market Size:** The total outstanding value of global ESG sukuk is expected to cross US\$50 billion in 2025 and is projected to surpass US\$60 billion by the end of 2026.

Current State of ESG Sukuk

Current State of Play – Global

- 4. Geographic Concentration:** Issuance remains concentrated, primarily led by the Gulf Cooperation Council (GCC) countries (Saudi Arabia and the UAE), and the Asian markets of Malaysia and Indonesia. These four countries utilize ESG sukuk as a key dollar funding tool.
- 5. Investment Grade:** The vast majority of rated ESG sukuk are investment grade, with strong credit quality and no reported defaults in 2025.
- 6. Issuer Diversity:** While sovereigns and government-related entities were initially the main issuers, issuer diversity increased in 2025, including private sector entities like UAE-based Omniyat Holdings Ltd and sovereign debuts from countries like Pakistan.

Session 4

ESG Related Regulatory Development



ESG Related Regulatory Development

1. Guidelines on Unlisted Capital Market Products Under Lodge and Launch Framework

- This Guidelines was issued by Securities Commission of Malaysia – March 2015 (latest revised version on 5 February 2024)
 - General requirements on the Lodge and Launch framework
 - Scope of Unlisted Capital Market Products include:
 - Part 1 – Wholesale Funds
 - Part 2 – Structured Products
 - Part 3 – Bonds and Sukuk
 - ◻ **Chapter 7: Sustainable and Responsible Investment (SRI) Sukuk**
 - ◻ **Chapter 8: ASEAN Bonds and Sukuk**
 - Part 4 – Asset Backed Securities
 - Part 5 - Convertible Notes & Islamic Convertible Notes for Specific Registered Persons
 - Part 6 – Foreign Exempt Schemes
 - Transitional Provisions
 - Bond and Sukuk
 - Post Issuance Notice
 - Implementation Time Frame

ESG Related Regulatory Development

2. Sustainable and Responsible Investment (SRI) Sukuk Framework

- The Securities Commission of Malaysia launched the Sustainable and Responsible Investment (SRI) Sukuk Framework in 27 August 2014 to facilitate sustainable and responsible initiatives.
- The SRI Sukuk framework is compatible with Green Bond Principles and may be used to finance green projects.
- Tax incentives for SRI sukuk issuance: Tax deduction on issuance costs of SRI Sukuk approved by or authorized by or lodged with the SC for five years.
- Eligible projects under SRI Sukuk Framework are:
 1. Green Projects such as renewable energy, energy efficiency pollution prevention;
 2. Social Projects such as affordable basic infrastructure and housing, access to essential services etc;
 3. Projects which are the combination of Green and Social above;
 4. Waqf properties/ Assets

ESG Related Regulatory Development

2. Sustainable and Responsible Investment (SRI) Sukuk Framework

The key mechanisms of the SRI Sukuk Framework are:

- a. Utilization of Proceeds – The proceeds raised from the issuance of the SRI Sukuk are utilized only to fund any activities or transactions relating to the eligible SRI projects.
- b. Process for project evaluation and selection –An internal process is established to evaluate and select the eligible SRI projects.
- c. Management of Proceeds – The proceeds allocated for the eligible SRI projects are credited in a designated account or otherwise tracked in an appropriate manner.
- d. Reporting – An annual report on the following must be done. The report should include:
 - i. The original amount allocated for the eligible SRI projects;
 - ii. Amount utilized for the eligible SRI projects;
 - iii. The unutilized amount and where such unutilized amount is placed or invested pending utilization; and
 - iv. List of eligible SRI projects in which the proceeds have been allocated to, as well as a brief description of the said eligible SRI projects, and their impact or expected impact.

ESG Related Regulatory Development

3. ASEAN Green Bond and Sukuk Standards

- The ASEAN Green Bond Standards (ASEAN GBS) was launched by ASEAN Capital Markets Forum on 17 November 2017, to enhance transparency, consistency and uniformity of ASEAN Green Bonds.
- The ASEAN GBS label is to be used only for issuers and projects in the region and specifically excludes fossil fuel-related projects.
- Key features of ASEAN GBS:-
 - Eligible issuer
 - Use of proceeds
 - Proceed for project evaluation and selection
 - Management of proceeds
 - Reporting
 - External review
- ASEAN GBS conform to global standards by being developed and aligned with the internationally accepted and widely used International Capital Market Association's (ICMA) Green Bond Principles.
- ASEAN Social Bond and ASEAN Sustainability Bond Standards were issued a year later i.e. in October 2018.
- ASEAN Sustainability Linked Bond Standards were launched on 30 June 2022 to expand the reach of Islamic Capital Market to the broader stakeholders of the economy and build an enabling ecosystem for the sustainability agenda.

Session 5

Highlights of Notable ESG Sukuk Issuances



Highlights of Notable ESG Sukuk Issuances

1. Khazanah Ihsan SRI Sukuk

- Khazanah Nasional Bhd had launched the first ringgit-denominated sustainable and responsible investment (SRI) sukuk to raise funds for its Trust schools programme, under Yayasan AMIR. Yayasan AMIR is a non-profit organisation initiated by Khazanah in 2010 to focus on improving accessibility to quality education in government schools, through a public-private partnership with the Ministry of Education.
- The SRI sukuk will be issued from special purpose vehicle Ihsan Sukuk Bhd's RM1 billion sukuk programme to support the smooth roll-out of up to 20 new trust schools.
- The social impact of this "Pay for Success" structure is measured using a set of pre-determined Key Performance Indicators (KPI), which will be measured over a 5-year observation timeframe.
- If at maturity, the KPIs are met, the sukuk holders will forego a pre-agreed percentage of the nominal amount due under the SRI Sukuk as part of their social obligation in recognizing the positive social impact generated by the Trust schools programme. On the other hand, if the KPIs are not met, the sukuk holders will be entitled to the nominal amount due under the SRI Sukuk in full.

Highlights of Notable ESG Sukuk Issuances

2. Tadau Energy Green Sukuk

- Sabah based solar energy firm Tadau Energy Sdn Bhd successfully issued RM250 million of sustainable responsible investment sukuk making it the first green sukuk issued in Malaysia.
- The proceed of fund raised is used to finance a 50MW solar project in Kudat, Sabah, which was secured under two 21-year power purchase agreements (PPAs) entered into with Sabah Electricity Sdn Bhd (SESB).
- Tadau's plants are the country's first large-scale solar power project to be connected to the grid.
- Issuers using the SRI sukuk framework for green projects must ensure that proceeds raised are used to fund eligible SRI projects in natural resources, renewable energy and/or energy efficiency sectors in order to be eligible for tax deductions under SRI sukuk incentives.
- RAM Rating assigned a rating of AA3/Stable on the green SRI sukuk with issuance tenure of two to 16 years.

Highlights of Notable ESG Sukuk Issuances

3. Malaysia Sovereign Sustainability Global Sukuk

- The Government of Malaysia successfully priced the world's first sovereign USD Sustainability Sukuk in April 2021.
- The issuance for a total of USD1.3 billion comprised of USD800 million 10-year and USD500 million 30-year with both tranches rated A3 by Moody's Investors Service and A- by S&P Global Ratings.
- Investors' confidence was clearly reflected in the offering being oversubscribed by 6.4 times and due to the overwhelming demand, the Government decided to upsize the initial target size from USD1.0 billion to USD1.3 billion.
- The strong demand has also resulted in the lowest ever yield and spread for a US-dollar sukuk issuance by Malaysia, with the 10-year and 30-year sukuk priced at 2.070% [UST + 50 basis points] and 3.075% [UST + 80 basis points] respectively.
- The proceeds will be used for eligible social and green projects aligned to the United Nation's Sustainable Development Goals (SDG) Agenda.
- The underlying assets of the sukuk are sustainable assets, being vouchers representing travel entitlement on Malaysia's Light Rail Transit (LRT), Mass Rapid Transit (MRT) and KL Monorail networks.
- The issuance sets a new benchmark and showcases Malaysia's global leadership in Islamic finance, reinforcing the country's position as the world's largest sukuk market.

Highlights of Notable ESG Sukuk Issuances

4. Malaysia Domestic Sustainability MGII Sukuk

- Leveraging on the successful landmark issuance of the U.S. Dollar Sustainability Sukuk in April 2021, the Government of Malaysia successfully tapped into the domestic market with an inaugural issuance of RM4.5 billion Sustainability Malaysian Government Investment Issues (MGII Lestari) on 30 September 2022.
- The issuance proceeds will be utilised to finance or refinance eligible social and green projects, as defined in the Government of Malaysia's SDG Sukuk Framework.
- The strong demand was evidenced by the Sustainability MGII's oversubscription of 2.38 times and was successfully priced at a profit rate of 4.662%. The total incoming bid of MYR10.7 billion was the largest since July 2019 for a long duration (≥15 years) MGS/MGII auction.
- The issuance attracted a diverse group of investors, with the allocation distributed among local financial institutions (50.3%), institutional investors (38.4%), insurance companies (7.2%) and foreign investors (4.1%).
- The issuance serves as a new benchmark, and showcases Malaysia's global leadership in Islamic finance, reinforcing its position as the world's largest Sukuk market.

Highlights of Notable ESG Sukuk Issuances

5. PNB Merdeka Venture Sustainability Sukuk

- On 6 November 2025, PNB Merdeka Ventures has successfully issued a RM6 billion Sustainable Merdeka Sukuk which is the largest corporate sustainability sukuk issuance in ASEAN and the largest ringgit-denominated sukuk issuance to date.
- Proceed of the funds were used to to fund its Merdeka 118 project which comprises of a 118-storey iconic tower, retail mall and service apartments. The tower comprised of 83-storey office space, a luxury hotel and an observation deck.
- The earlier sukuk tranche was the first adopter of the ASEAN Green Bond Standards developed by the ASEAN Capital Markets Forum (ACMF) and it also adhere to the Sustainable and Responsible Investment (SRI) Sukuk Framework by the Securities Commission of Malaysia.
- The sukuk comprising tranches of 5, 7, 10 and 15 years are rated AAA by MARC drew strong demand from over 40 investors, achieving a 1.17 times bid-to-cover ratio and was priced at profit rates of between 3.64% and 4.11%, averaging 3.83%.
- Sustainable features for the Merdeka PNB118 Tower covers the following areas:
 - a. Sustainable Site Planning and Management
 - b. Water Efficiency
 - c. Energy and Atmosphere
 - d. Material Resource Conservation
 - e. Indoor Environmental Quality
 - f. Sustainable Construction

Sukuk : Case Study Discussion

Yazit Yusuff
04 December 2025

Case Study Discussion

1. Case Study 1 : Sukuk Fund Raising Exercise.
2. Case Study 2 : Sukuk Distribution Strategy
3. Case Study 3: Trading and Hedging of Sukuk

Moving Forward



Future Trends & Opportunities

- BNM Financial Sector Blueprint encouraging development of more innovative financial instruments;
- Growing savvy and advanced investors willing to assume higher risk;
- Demand for ESG linked sukuk;
- Disruptive technology and AI Acceleration.

Issues and Challenges

- Sukuk replicating conventional bonds;
- Lack in liquidity on the global market
- Shariah risk due to different level of acceptance;
- Legal risk due to changing pronouncement/ resolution and untested case in the court of law;
- LIBOR and KLIBOR Transitions.



Thank
you!

Yazit Yusuff

Contact Number : 019-2692029

Email : yazityusuff@gmail.com