



# **REGULATING FINANCE FOR FORESTS AND COMMUNITY RIGHTS IN MALAYSIA**



**Commissioned by  
Sahabat Alam Malaysia,  
on behalf of Forests & Finance Coalition**

**February 2026**

## About this report

This report was commissioned to Gulzhan Musaeva by Sahabat Alam Malaysia (SAM), on behalf of the Forests & Finance Coalition. This report, modelled on the Forests & Finance's (F&F) Regulating Finance for Biodiversity: An Assessment for the Global Biodiversity Framework, aims to provide a constructive analysis of the gaps in the existing financial sector regulations to protect forests and uphold community rights in Malaysia. Specifically, it provides an assessment and proposal in relation to the obligations upon parties to the United Nations Convention on Biological Diversity (CBD), as set out in Target 14 of the Global Biodiversity Framework.

## About Forests & Finance

Forests & Finance is a coalition of ten campaign, grassroots and research organisations: Rainforest Action Network (RAN), TuK Indonesia (TuK), Profundo, Amazon Watch, Repórter Brasil, BankTrack, Sahabat Alam Malaysia (SAM), Friends of the Earth US (FOE), Centre pour l'Environnement et le Développement Cameroun (CED) and Milieudefensie. We maintain an open-source database of financial flows to hundreds of companies involved in forest-risk commodity production and undertake an annual assessment of bank and investor policies. We also coordinate investigations, analysis, advocacy and campaigns in support of the rights and control of communities in land and forest stewardship and seek to hold the financial sector to account for its role in facilitating social and environmental harm.

## About Sahabat Alam Malaysia

Sahabat Alam Malaysia (SAM) was established in 1977 to ensure that the country's development choices and management of natural resources are guided by the principles of environmental justice. SAM works closely with indigenous peoples, fishing, farming and other local communities advocating for stronger environmental policies and laws. SAM also partners with the Forests & Finance Coalition to engage Malaysia's financial sector, government bodies, media and CSOs. SAM's Headquarters is located at No. 10, Jalan Masjid Negeri, 11600 Pulau Pinang, Malaysia. Email: foemalaysia@gmail.com

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# EXECUTIVE SUMMARY

## Introduction

This report, modelled on the Forests & Finance’s (F&F) *Regulating Finance for Biodiversity: An Assessment for the Global Biodiversity Framework*, aims to provide a constructive analysis of the gaps in the existing financial sector regulations to protect forests and uphold community rights in Malaysia.

For a more complete picture of the opportunity for strengthening the financial regulations to protect forests and uphold community rights in Malaysia, this report should be read together with the Malaysian edition of *Banking on Biodiversity Collapse* report,<sup>1</sup> which evaluates the quality and robustness of the voluntary responsible investment and financing policies of the Malaysian financial institutions based on the latest F&F policy assessment in 2023 and the *Forests and Finance Symposium 2025* report<sup>2</sup>, which summarises key themes and insights from the 3-day symposium organised by SAM on 15-17 April 2025.

Malaysia is a party to the United Nations Convention on Biological Diversity (CBD) which in December 2022 adopted the Kunming-Montreal Global Biodiversity Framework (GBF) — a multilateral agreement outlining a pathway toward the global vision of living in harmony with nature by 2050. Among its key elements are four goals to be achieved by 2050 and 23 targets to be met by 2030. Under Target 14, parties have an obligation to integrate biodiversity and its multiple values into policies, aligning all relevant public and private activities, fiscal and financial flows with the goals and targets of the GBF.

In this context, the report focuses specifically on Malaysia’s financial sector regulations. Using the F&F’s regulatory assessment framework as a guide, the report highlights the extent to which current financial regulations fall short of GBF targets and urges policymakers to address these key gaps.

Since independence, Malaysia’s development model — marked by extensive logging and the expansion of monoculture plantations — has, as widely documented, driven the rapid depletion of natural resources and the encroachment on indigenous customary lands.

While this report acknowledges that Malaysia’s substantial financing of forest-risk sectors is closely linked to its broader economic development model, it also emphasises the critical importance of financial institutions adopting and effectively implementing robust responsible investment and financing policies. As such, financial regulators and other relevant authorities, at both the federal and state levels, play a significant role in establishing a comprehensive financial mechanism to safeguard the nation’s forest resources.

Sustainable finance has primarily evolved through industry-driven initiatives, often shaped by corporate priorities. Without robust regulation, sustainable or “green” finance will do little for forest protection and safeguarding community rights.

1. Sahabat Alam Malaysia, *Forests and Finance Malaysia: Banking on Biodiversity Collapse (Malaysian Edition) (2025)*, [https://foe-malaysia.org/wp-content/uploads/2025/05/250514-Forests-and-Finance-Malaysia-Report\\_May-2025\\_FINAL\\_PDF.pdf](https://foe-malaysia.org/wp-content/uploads/2025/05/250514-Forests-and-Finance-Malaysia-Report_May-2025_FINAL_PDF.pdf).
2. Sahabat Alam Malaysia, *Forests and Finance Symposium 2025 Report (2025)*, [https://foe-malaysia.org/wp-content/uploads/2025/11/251031\\_Forests-and-Finance-Symposium-Report\\_SAM\\_F.pdf](https://foe-malaysia.org/wp-content/uploads/2025/11/251031_Forests-and-Finance-Symposium-Report_SAM_F.pdf).

## Assessment framework for the GBF alignment of financial regulations

The analysis is guided by the policy assessment methodology<sup>3</sup> and the assessment framework for biodiversity regulation<sup>4</sup> produced by the Forests & Finance Coalition (FFC).

All regulatory documents, both guidelines and policies, published to date by financial regulators are assessed for compliance with the 2030 Targets 1 and 15 of the GBF as seen in Table A; colour scores are assigned based on the criteria in Table B.

**Table A: Regulatory framework for biodiversity: Assessment criteria**

	Global Biodiversity Framework	Assessment criteria for financial regulation
1	Plan and Manage all Areas to Reduce Biodiversity Loss	Financial regulations do not allow financing of, nor investing in, companies involved in conversion of natural landscapes.
15	Businesses Assess, Disclose and Reduce Biodiversity-Related Risks and Negative Impacts	Financial regulations require transparency of all financing and investment flows and full disclosure of biodiversity and social impacts of these flows.

Source: Forests & Finance, *Regulations Assessment Framework (2024)*

**Table B: Regulatory framework for biodiversity: Scoring criteria**

Colour score	Assessment
Red	Financial regulations do not make any reference to the GBF target.
Orange	Financial regulations make a reference to a topic related to the GBF target, but only as a recommendation.
Yellow	Financial regulations require financial institutions to take relevant steps towards the GBF target.
Green	Financial regulations require financial institutions to align all their financing and investment decisions with the GBF target.

Source: Forests & Finance, *Regulations Assessment Framework (2024)*

3. See the Forests and Finance Policy Assessment Methodology (Version 2023), <https://forestsandfinance.org/wp-content/uploads/2023/12/Forests-Finance-Policy-Assessment-Methodology-and-Guidance-2311.pdf>.

4. See Appendix 1: Regulations Assessment Framework in the Forests and Finance, *Regulating Finance for Biodiversity – An Assessment for the Global Biodiversity Framework (2024)*, <https://forestsandfinance.org/wp-content/uploads/2024/10/FFC-2024-Regulating-Finance-for-Biodiversity-Full-Report-FINAL-EN-.pdf>.

## Key Findings

This report finds that existing guidelines on forest-risk sectors are generally voluntary and leave considerable flexibility for financial institutions in their implementation. Exclusion lists are inconsistent and non-binding, even when they reference the conversion of natural landscapes. Requirements to fully disclose the social or biodiversity impacts of financing and investment flows also remain limited.

**Table C: Financial policies and guidelines in Malaysia: Alignment with biodiversity framework**

Financial regulatory document	Colour score	Assessment
<b>Value Based Intermediation Assessment Framework (VBIAF)</b>	Orange	Financial regulations make a reference to a topic related to the GBF target, but only as a recommendation.
<b>VBIAF Sectoral Guides</b>	Orange	Financial regulations make a reference to a topic related to the GBF target, but only as a recommendation.
<b>Climate Change and Principle-based Taxonomy</b>	Yellow	Financial regulations require financial institutions to take relevant steps towards the GBF target.
<b>Sustainable and Responsible Investment Taxonomy</b>	Orange	Financial regulations make a reference to a topic related to the GBF target, but only as a recommendation.
<b>Climate Risk Management and Scenario Analysis</b>	Yellow	Financial regulations require financial institutions to take relevant steps towards the GBF target.
<b>Climate Risk Stress Testing Exercise 2024</b>	Yellow	Financial regulations require financial institutions to take relevant steps towards the GBF target.
<b>National Sustainability Reporting Framework</b>	Yellow	Financial regulations require financial institutions to take relevant steps towards the GBF target.

**Table D: Financial regulation in Malaysia: Alignment with biodiversity framework**

Global Biodiversity Framework		Assessment criteria for financial regulation	Alignment status for Malaysia
1	Plan and Manage all Areas to Reduce Biodiversity Loss	Financial regulations do not allow financing of, nor investing in, companies involved in conversion of natural landscapes.	Financial regulations emphasise the importance of preserving natural landscapes, but do not preclude any activities.
15	Businesses Assess, Disclose and Reduce Biodiversity-Related Risks and Negative Impacts	Financial regulations require transparency of all financing and investment flows and full disclosure of biodiversity and social impacts of these flows.	Financial regulations require regular environmental and social reporting, but do not cover nature-related impacts.



## Recommendations

While this report acknowledges the effort by financial regulators in trying to achieve an optimal balance between principle-based and rule-based regulation, the key question is for how much longer will the financial industry continue to be guided on deforestation matters through a gentle “principle-based” approach?

With global warming in the limelight, what is warranted as far as forests, biodiversity and community rights are concerned is a sense of urgency. While voluntary responsible investment and financing policies have their place, this has led to uneven sustainability standards across Malaysian financial institutions; which created an unequal playing field, incentivising clients to seek out banks with weaker sustainability standards.<sup>5</sup>

This report urges financial regulators to set a clear timeline for transitioning to mandatory and binding rules for the protection of forests and community rights, given the urgency and scale with which we must address climate change, biodiversity loss and social issues.

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5. Please see *Forests and Finance Malaysia: Banking on Biodiversity Collapse (Malaysian Edition) (2025)*, [https://foe-malaysia.org/wp-content/uploads/2025/05/250514-Forests-and-Finance-Malaysia-Report\\_May-2025\\_FINAL\\_PDF.pdf](https://foe-malaysia.org/wp-content/uploads/2025/05/250514-Forests-and-Finance-Malaysia-Report_May-2025_FINAL_PDF.pdf) and *Forests and Finance Symposium 2025 Report (2025)*, [https://foe-malaysia.org/wp-content/uploads/2025/11/251031\\_Forests-and-Finance-Symposium-Report\\_SAM\\_F.pdf](https://foe-malaysia.org/wp-content/uploads/2025/11/251031_Forests-and-Finance-Symposium-Report_SAM_F.pdf).

**Table E: Outcome-oriented policy recommendations for reforming forest-linked financial regulations in Malaysia**

<b>Regulatory category</b>	<b>Suggested reforms of financial regulations</b>
<b>Financing/investment:</b> taxonomies	Develop binding technical screening criteria for specific biodiversity-risk sectors, for which VBI guides could be used as the foundation.
<b>Financing/investment:</b> exclusion list	Create a standardised list of all business activities that are not to be financed or invested in under any circumstances.
<b>Financing/investment:</b> sustainable activities	Include a list of encouraged business activities that contribute positively to biodiversity and human rights for financing and investment.
<b>Risk management:</b> measurement	Require financial institutions and institutional investors to identify and measure biodiversity-related risks, incorporating the social component too.
<b>Risk management:</b> due diligence	Conduct biodiversity and human rights impact assessments for forest-risk clients and projects, with consultation from CSOs as necessary.
<b>Risk management:</b> reporting	Mandate full disclosure of information on forest-risk clients (including parent groups and financial intermediaries) and projects.
<b>Regulatory oversight:</b> supervision	Continuously monitor the practises of financial institutions to ensure compliance with forest-linked regulations and guidelines.
<b>Regulatory oversight:</b> enforcement	Apply strong fines and sanctions to hold financial actors accountable for non-compliance with biodiversity and human rights regulations.

To build a robust framework of financial regulations addressing biodiversity-related financial risks, the financial regulators are encouraged to refer to the comprehensive environmental, social and governance criteria set out in the F&F policy assessment methodology.<sup>6</sup> Few of them have already been integrated into documents such as the VBIAF; however, the existing frameworks need to be expanded and uniformly mandated thereafter.

6. See the Forests and Finance Policy Assessment Methodology (Version 2023), <https://forestsandfinance.org/wp-content/uploads/2023/12/Forests-Finance-Policy-Assessment-Methodology-and-Guidance-2311.pdf>.

# 1. INTRODUCTION

As Malaysia advances towards becoming a ‘Prosperous, Inclusive and Sustainable’ nation, the role of the financial sector in enabling this transition is more important than ever.

In line with global sustainable development frameworks, recent Malaysia Plans and the medium-term Shared Prosperity Vision to 2030 have emphasised economic resilience, equitable wealth distribution and environmental sustainability.<sup>7</sup> As a pillar of the economy, the financial sector is expected to support these goals to the greatest extent possible.

A key concern in environmental sustainability is halting the loss of biodiversity, within the broader context of fighting climate change, preserving natural endowments and protecting the rights of indigenous peoples. While the federal government has taken steps such as introducing the Ecological Fiscal Transfer (EFT) to incentivise state governments to gazette protected areas and amending the National Forestry Act 1984 to tighten the process of degazettement and simultaneous replacement of Permanent Reserved Forests (PRF) through public inquiries, significant gaps remain in addressing the systemic drivers of deforestation. This calls for more coordinated and integrated efforts across all levels, including among financial regulators.

**Table 1: Systemic drivers of deforestation in Malaysia**

<b>SYSTEMIC DRIVERS (Indirect)</b>	<b>DIRECT DRIVERS (Proximate)</b>
<ul style="list-style-type: none"> <li>● State-level economic priorities</li> <li>● Weak governance &amp; enforcement</li> <li>● Land tenure insecurity</li> <li>● Lack of transparency and public access to forest data</li> <li>● Policy conflicts (federal vs. state)</li> <li>● Global commodity demand</li> <li>● Short-term revenue focus</li> </ul>	<ul style="list-style-type: none"> <li>● Monoculture plantations (such as timber and oil palm)</li> <li>● Hydropower &amp; infrastructure projects</li> <li>● Degazettement of forest reserves</li> <li>● Mining</li> <li>● Encroachment on Indigenous lands</li> </ul>

*Source: adapted from various documentations from Sahabat Alam Malaysia website*

Civil society organisations in Malaysia and around the world continue to confront destructive projects that carry high environmental and social risks. Financial institutions still channel funds into sectors linked to deforestation, biodiversity loss and community harm — often with little accountability.<sup>8</sup> Private financial flows to activities that degrade ecosystems far exceed public investments in conservation, revealing the limits of voluntary action and market-based standards.<sup>9</sup>

7. Ministry of Economy, Malaysia, ‘Thirteenth Malaysia Plan, 2026-2030: Executive Summary’, 31 July 2025, [https://rmk13.ekonomi.gov.my/wp-content/uploads/2025/09/Executive\\_Summary\\_Thirteenth\\_Malaysia\\_Plan.pdf](https://rmk13.ekonomi.gov.my/wp-content/uploads/2025/09/Executive_Summary_Thirteenth_Malaysia_Plan.pdf).

8. Forests and Finance, *Banking on Biodiversity Collapse 2025: After Ten Years of Paper Promises, It’s Time to Regulate Finance (2025)*, [https://forestsandfinance.org/wp-content/uploads/2025/11/BOBC\\_2025\\_vENG\\_WEB.pdf](https://forestsandfinance.org/wp-content/uploads/2025/11/BOBC_2025_vENG_WEB.pdf).

9. Jessica Dempsey et al., ‘Thin and Shallow: Financial Instruments for Biodiversity Conservation and Their Outlook’, Third World Network, 2024, <https://www.twn.my/title2/books/pdf/Thin%20and%20shallow.pdf>.



In this regard, it is crucial that financial regulators in Malaysia scale up their efforts to respond commensurately to the scale of the challenge. Despite multiple sustainable finance and ESG initiatives, there has been little impact on the ground for the forests or the communities that depend on them. Financial institutions, as profit-driven entities in a market economy, have limited incentives to address environmental and social concerns without clear policy signals. This highlights the importance of moving beyond voluntary approaches towards more proactive and targeted policy measures.

As a party to the CBD, Malaysia has been reporting on its national biodiversity strategies and actions to the Secretariat of the CBD and has also aligned the National Policy on Biological Diversity (NPBD) 2022-2030 with the 2022 Kunming Montreal Global Biodiversity Framework (KMGBF) to guide national biodiversity aspirations through 2030.

This report aims specifically to address the commitment of Malaysia under Target 14 of the GBF, which requires parties to fully integrate biodiversity and its multiple values into policies, aligning all relevant public and private activities, fiscal and financial flows accordingly. In this context, the focus is on financial sector regulations.

Using the Forests and Finance (F&F)'s regulatory assessment framework as a guide, the objective of the report is to provide a constructive analysis of gaps within existing financial sector regulations aimed at protecting forests and upholding community rights in Malaysia.

## 2. FINANCIAL SECTOR IN MALAYSIA

The financial sector in Malaysia is characterised by steady growth, relative stability and asset diversity. Contributing close to 5% to GDP, finance — comprised of commercial and development financial institutions, investment funds and insurance companies — is the critical supplier of capital to major primary and productive sectors such as agriculture, mining, services and manufacturing.<sup>10</sup>

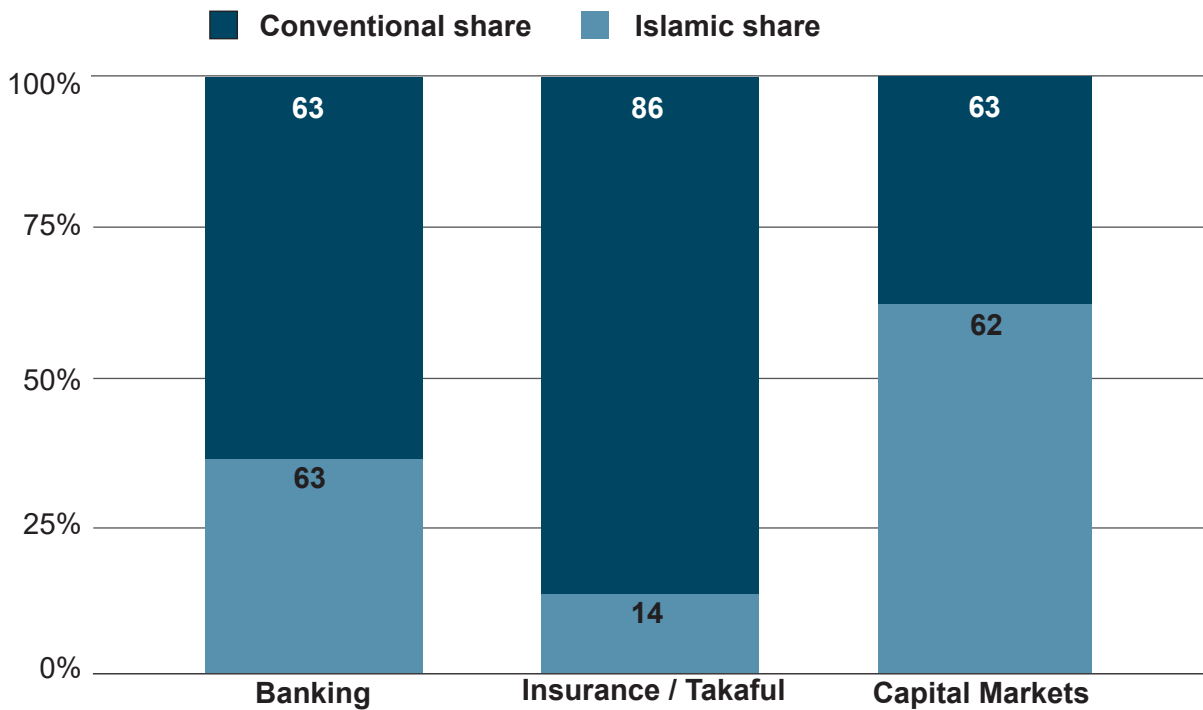
Banking is the dominant industry with a 60% share of financial assets.<sup>11</sup> Banks, therefore, are the primary agents of financial intermediation; domestic credit to the private sector has exceeded 100% of GDP for most of the past decade. The stock market accounts for about one-third of assets, and bonds approximately 10%. Insurance is the fastest-growing sub-sector.



10. Department of Statistics Malaysia DOSM, 'Gross Domestic Product 2023', 17 May 2024, <https://www.dosm.gov.my/portal-main/release-content/gross-domestic-product-2023>.

11. Bank Negara Malaysia, BNM Annual Report 2024 (2025), <https://www.bnm.gov.my/publications/ar2024>.

A distinguishing mark of Malaysia’s financial sector is its leading position globally in Islamic finance. Islamic banking now accounts for over one-third of total banking assets,<sup>12</sup> while Islamic capital market<sup>13</sup> makes up more than 60% of the country’s capital market. Islamic insurance (takaful), in comparison, is relatively small, its assets estimated at 14% of the insurance industry.



**Source: Bank Negara Malaysia as of 1H 2024, Securities Commission Malaysia as of end-2024**

Shariah-compliant financing and investment alternatives are readily available and at almost equivalent rates. Another reason why the growth of Islamic finance in Malaysia is noteworthy is that local Islamic institutions have pioneered much of the recent innovation in finance, including voluntary sustainability initiatives.

12. Bank Negara Malaysia, Financial Stability Review: First Half 2024 (2024), 43, <https://www.investmalaysia.gov.my/media/nwano5ab/bnm-financial-stability-review-1h2024.pdf>.

13. Securities Commission Malaysia, Annual Report 2024 (Kuala Lumpur, 2025), <https://www.sc.com.my/annual-report-2024>.

### 3. FINANCIAL REGULATION IN MALAYSIA

To cater to the needs of the unique dual financial system, Malaysia’s financial regulatory framework is based on two foundational legal documents: the Financial Services Act 2013 (FSA) and the Islamic Financial Services Act 2013 (IFSA), covering respectively conventional and Islamic banking, insurance and capital markets.

The primary regulators are Bank Negara Malaysia (BNM), the central bank, and the Securities Commission Malaysia (SC). (Bursa Malaysia, which operates and regulates a multi-asset exchange, comes under the purview of the SC.) They handle direct supervision and enforcement, working collaboratively to manage systemic risks, ensure transparency and promote innovation. The Ministry of Finance (MOF) is the ultimate approving authority for financial policies.

**Table 2: Malaysia’s financial regulatory structure**

<b>Key Laws</b>	<ul style="list-style-type: none"> <li>- Financial Services Act 2013</li> <li>- Islamic Financial Services Act 2013</li> <li>- Capital Markets and Services Act 2007</li> <li>- Money Services Business Act 2011</li> <li>- Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001</li> </ul>		
<b>Policy-setting Authority</b>	Ministry of Finance (MOF)		
<b>Supervisory Authorities</b>	Bank Negara Malaysia (BNM)	Securities Commission Malaysia (SC)	
<b>Supervised Entities</b>	<ul style="list-style-type: none"> <li>- Banks (conventional &amp; Islamic)</li> <li>- Insurers &amp; Takaful operators</li> <li>- Payment system operators</li> <li>- Money changers &amp; remitters</li> <li>- Financial advisers</li> <li>- Money brokers</li> </ul>	<ul style="list-style-type: none"> <li>- Fund managers</li> <li>- Investment advisers</li> <li>- Corporate finance advisers</li> <li>- Financial planners</li> <li>- Dealers in securities</li> </ul>	<ul style="list-style-type: none"> <li>Bursa Malaysia</li> <li>- Listed issuers</li> <li>- Brokers</li> <li>- Trading &amp; clearing participants</li> </ul>

Source: Bank Negara Malaysia, Securities Commission Malaysia, Bursa Malaysia

The overarching goal of regulation is to keep the financial system stable (i.e., to ensure the financial system can function well in both good times and bad). To achieve it, financial institutions are supposed to follow certain prescriptions that limit risk. That necessitates regulatory rule-setting.

It is for this reason that BNM requires climate-focused stress testing for banks and insurers to assess

their resilience to climate-related shocks.<sup>14</sup> The SC, for its part, imposes liquidity buffers for financial market infrastructures (systems and entities involved in clearing, settlement and recording of financial transactions).<sup>15</sup>

**There is now widespread recognition among regulators globally that climate change and nature degradation pose a threat to financial stability.**<sup>16</sup> There is also a growing demand from stakeholders for financial institutions to manage and disclose their broader impacts on biodiversity and ecosystems through the companies they fund.

Financial regulation, therefore, has to address a wide range of environmental factors, including habitat loss and depletion of natural resources such as water, soil and forests — as well as social factors, which for the purposes of this report, centre primarily around the rights of forest communities. All of these have been addressed, so far, by guidelines alone, instead of mandated standards, except for the small part linked to newly launched climate change policies by BNM and the SC.

**Malaysia's risk-based regulatory approach notwithstanding, its preparedness remains limited. Sustainability initiatives have so far been limited in their effectiveness, and related regulatory policies on sustainability have fallen short of expectations. Developing a comprehensive, legally enforceable financial regulation that safeguards forests, biodiversity, and community rights is essential.**

### 3.1. Sustainability initiatives

The Malaysian financial regulators' first forays into environmental sustainability were made about a decade ago. The capital market regulator was the initiator. In 2014, the SC introduced the Sustainable and Responsible Investment (SRI) Sukuk Framework to facilitate the issuance of green Islamic bonds.<sup>17</sup> The country's first ever green bond, thus, was an Islamic product.

BNM made its debut in sustainability with the establishment of the Joint Committee on Climate Change (JC3) in 2019.<sup>18</sup> The JC3 is a significant initiative, involving both the regulators and the industry. It is comprehensive in scope, addressing everything from risk management to data — but, in its original form, limited to climate change.

The JC3 also happens to be limited in membership since it comprises primarily industry players, to the exclusion of other stakeholders. The World Wide Fund for Nature (WWF), the sole non-governmental organisation involved, focuses almost exclusively on environmental issues, and only on a narrow subset of them.

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14. Bank Negara Malaysia, '2024 Climate Risk Stress Testing Exercise Methodology Paper', 29 February 2024, [https://www.bnm.gov.my/documents/20124/938039/pd\\_CRST\\_29Feb2024.pdf](https://www.bnm.gov.my/documents/20124/938039/pd_CRST_29Feb2024.pdf).

15. Securities Commission Malaysia, 'Guidelines on Financial Market Infrastructures', 23 March 2017, <https://www.sc.com.my/api/documentms/download.ashx?id=1edd6456-4a15-4501-90fb-7d0e026c1353>.

16. Network for Greening the Financial System, 'NGFS Cali-Baku Pledge to Enable Action', 3 January 2025, <https://www.ngfs.net/en/publications-and-statistics/publications/ngfs-cali-baku-pledge-enable-action>.

17. Securities Commission Malaysia, 'Sustainable and Responsible Investment Sukuk Framework An Overview', November 2019, <https://www.sc.com.my/api/documentms/download.ashx?id=84491531-2b7e-4362-bafb-83bb33b07416>.

18. 'About the Joint Committee on Climate Change (JC3)', JC3, accessed 5 June 2025, <https://www.jc3malaysia.com/about-jc3>.

**Table 3: Malaysia’s Joint Committee on Climate Change (JC3) and Sub-Committees**

<b>Joint Committee on Climate Change (JC3)</b>	
<b>Co-Chairs</b>	Deputy Governor, Bank Negara Malaysia (BNM) Executive Director, Securities Commission Malaysia (SC)
<b>Members</b>	Bursa Malaysia, 21 financial industry players
<b>5 Sub-Committees</b>	
<b>SC1: Risk Management</b>	<ul style="list-style-type: none"> <li>• Focus: Climate risk assessment, scenario analysis, stress testing, integration of climate risk in the financial sector.</li> <li>• Progress: Developed and piloted Climate Change and Principle-based Taxonomy (CCPT); expanded use cases for CCPT; sector/project-specific guides.</li> </ul>
<b>SC2: Governance and Disclosure</b>	<ul style="list-style-type: none"> <li>• Focus: ESG governance, climate-related disclosures, TCFD alignment.</li> <li>• Progress: Stock-take and gap analysis of financial institutions’ disclosures; thematic reviews; work to align with ISSB standards.</li> </ul>
<b>SC3: Product and Innovation</b>	<ul style="list-style-type: none"> <li>• Focus: Green finance, sustainable products, transition finance.</li> <li>• Progress: Greening Value Chain (GVC) pilot enabled 330+ SMEs to measure/report GHG emissions; upscaling GVC to GLCs and PLCs; RM1bn ESG financing guarantee.</li> </ul>
<b>SC4: Engagement and Capacity Building</b>	<ul style="list-style-type: none"> <li>• Focus: Stakeholder engagement, training, awareness, SME support.</li> <li>• Progress: Awareness/education programmes; climate curriculum for FIs; SME Focus Group established; collaboration with Bursa Malaysia CSI platform.</li> </ul>
<b>SC5: Bridging Data Gaps</b>	<ul style="list-style-type: none"> <li>• Focus: Climate and nature-related data availability, data catalogue.</li> <li>• Progress: Published JC3 Climate Data Catalogue (2022, 2023, 2024); 249+ data items mapped; new biodiversity/nature risk data; supports risk assessment and reporting.</li> </ul>

Source: JC3

The JC3 has released additional guidelines on sustainable finance and introduced mandatory climate-related stress testing and disclosure requirements for financial institutions as well as listed companies.

However, as highlighted in the following sections, regulations issued to date have not fully addressed broader environmental concerns such as deforestation, biodiversity loss and human rights violations. There may, however, be gradual progress in that direction.

The most recent update of the JC3 Climate Data Catalogue in 2024 included 28 new data items on biodiversity and nature-related financial risks;<sup>19</sup> a supplementary note issued around the same time

19. ‘JC3 Climate Data Catalogue’, JC3, accessed 5 July 2025, <https://www.jc3malaysia.com/about-data-catalogue>.

standardises the documentary evidence financial institutions should obtain to assess compliance with BNM's climate change taxonomy, Guiding Principles 3 ('No Significant Harm') and 4 ('Remedial Measures to Transition').

Before that, BNM published a report in partnership with the World Bank mapping Malaysian banks' exposures to nature-dependent sectors,<sup>20</sup> and since 2023, it has been preparing for a TNFD pilot<sup>21</sup> — a nature risk assessment guide for Malaysian financial institutions. There are concerns, though, that the pilot may inherit the TNFD's core limitations.<sup>22</sup>

### 3.2. Sustainability policies

Collaborative efforts to integrate sustainability into Malaysia's financial system have resulted in several guidelines and policies, namely:

- Value Based Intermediation Assessment Framework (2019) and sectoral guides
- Climate Change and Principle-based Taxonomy (2021)
- Climate Risk Management and Scenario Analysis (2022)
- Sustainable and Responsible Investment Taxonomy (2022)
- Climate Risk Stress Testing Exercise (2024)
- National Sustainability Reporting Framework (2024)

They are anchored to the Financial Sector Blueprint 2022-2026 which outlines the strategic direction for the financial sector focusing on resilience, sustainability and inclusiveness.<sup>23</sup>

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20. World Bank and Bank Negara Malaysia (BNM), An Exploration of Nature-Related Financial Risks in Malaysia (Kuala Lumpur and World Bank, 2022), <https://documents1.worldbank.org/curated/en/099315003142232466/pdf/P175462094e4c80c30add50b4ef0fa7301e.pdf>.

21. Bank Negara Malaysia, 'Bank Negara Malaysia and the World Bank Announce Initiatives to Enable the Financial Sector to Support Nature-Positive Outcomes - Bank Negara Malaysia', 3 December 2023, <https://www.bnm.gov.my/-/cop28-pr-en>.

22. Forests and Finance, 'The Taskforce on Nature-Related Financial Disclosures', <https://forestsandfinance.org/tnfd/>.

23. Bank Negara Malaysia, Financial Sector Blueprint 2022-2026 (2022), [https://www.bnm.gov.my/documents/20124/5915429/fsb3\\_en\\_book.pdf](https://www.bnm.gov.my/documents/20124/5915429/fsb3_en_book.pdf).

## 4. ANALYSIS

In the context of a series of recent sustainability-themed initiatives from Malaysian financial regulators, this report seeks to evaluate the extent to which their efforts have contributed to the protection of forests and the rights of indigenous peoples.

The analysis is guided by the policy assessment methodology<sup>24</sup> and the assessment framework for biodiversity regulation<sup>25</sup> produced by the Forests & Finance Coalition (FFC).

All regulatory documents, both guidelines and policies, published to date by BNM and the SC are assessed for compliance with the 2030 Targets 1 and 15 of the GBF as seen in Table 4; colour scores are assigned based on the criteria in Table 5.

**Table 4: Regulatory framework for biodiversity: Assessment criteria**

Global Biodiversity Framework		Assessment criteria for financial regulation
1	Plan and Manage all Areas to Reduce Biodiversity Loss	Financial regulations do not allow financing of, nor investing in, companies involved in conversion of natural landscapes.
15	Businesses Assess, Disclose and Reduce Biodiversity-Related Risks and Negative	Financial regulations require transparency of all financing and investment flows and full disclosure of biodiversity and social impacts of these flows.

Source: Forests & Finance

**Table 5: Regulatory framework for biodiversity: Scoring criteria**

Colour score	Assessment
Red	Financial regulations do not make any reference to the GBF target.
Orange	Financial regulations make a reference to a topic related to the GBF target, but only as a recommendation.
Yellow	Financial regulations require financial institutions to take relevant steps towards the GBF target.
Green	Financial regulations require financial institutions to align all their financing and investment decisions with the GBF target.

Source: Forests & Finance

24. Profundo, 'Forests and Finance Policy Assessment Methodology (Version 2023)'.

25. Forests and Finance, Regulating Finance for Biodiversity – An Assessment for the Global Biodiversity Framework.

Since the GBF was adopted at CBD COP15 on 19 December 2022, guidelines and policies released prior to this date are not expected to reference the GBF. Instead, they are assessed and scored based on whether they address issues aligned with the GBF targets, rather than on an explicit mention of the framework.

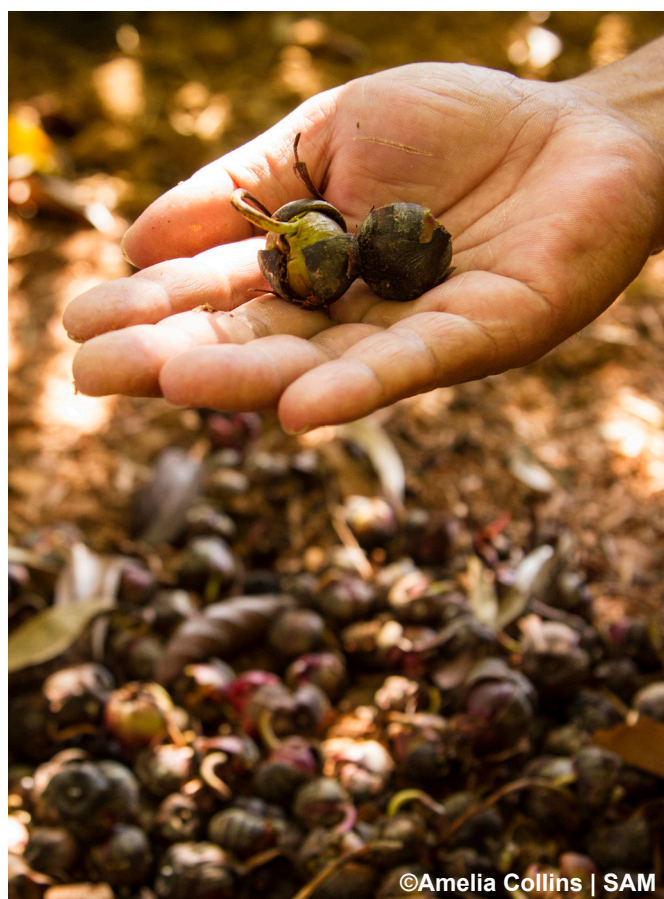
#### 4.1. Value Based Intermediation Financing and Investment Impact Assessment Framework

Colour score	Assessment
Orange	Financial regulations make a reference to a topic related to the GBF target, but only as a recommendation.

The Value Based Intermediation Financing and Investment Impact Assessment Framework (VBIAF)<sup>26</sup>, published in 2019, was the first comprehensive document from BNM on sustainability. The goal was to help financial institutions assess financing and investment decisions from an environmental, social and governance (ESG) risk angle.

Technically, it was an effort driven by the industry, specifically the Association of Islamic Banks in Malaysia (AIBIM). The VBIAF was inspired by values-based banking<sup>27</sup> and imbued with relevant Shariah standards. In this, Malaysia once again demonstrated its leadership in integrating Islamic finance with sustainability principles.

An attempt to boost local Islamic banks' slowing growth rates, the VBIAF was meant to bring fresh investment flows from sustainability-minded clients. However, the initiative faced initial resistance. Institutions feared ESG risk management would render them less competitive owing to longer approval periods and higher operational costs.



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To ease such concerns, it was in the VBIAF where BNM first mentioned the idea of 'nurturing' — or gently nudging — clients if and when they fail to meet any ESG-related terms and conditions in their contracts. Cancelling the financing facility or withdrawing the investment is implicitly discouraged.

26. Bank Negara Malaysia, 'Value-Based Intermediation Financing and Investment Impact Assessment Framework: Guidance Document', 1 November 2019, [https://www.bnm.gov.my/documents/20124/761679/VBIAF\\_Final+guidance+1.11.2019.pdf](https://www.bnm.gov.my/documents/20124/761679/VBIAF_Final+guidance+1.11.2019.pdf).

27. 'About Us', GABV - Global Alliance for Banking on Values, n.d., accessed 5 July 2025, <https://www.gabv.org/about-us/>.

**Table 6: Sample exclusion list activities suggested by the VBIAF**

Issue / Sector	Activity
<b>Biodiversity loss and deforestation</b>	<ul style="list-style-type: none"> <li>- World heritage sites as classified by UNESCO</li> <li>- Wetlands on the Ramsar list</li> <li>- Areas as per the IUCN categories I to IV</li> <li>- Key Biodiversity Areas</li> <li>- Endangered species of wild flora and fauna</li> <li>- Logging of or trade in illegally harvested or uncertified timber as well logging in uncertified primary forest</li> <li>- High conservation value forests</li> <li>- High Carbon Stock</li> <li>- Planting on peatland</li> </ul>
<b>Labour Rights</b>	Activities causing human rights violations including child labour, forced labour, trafficked labour
<b>Human Rights</b>	Activities resulting in the infringement of the rights of indigenous and/or vulnerable groups without their Free Prior and Informed Consent (FPIC)
<b>Water</b>	Activities which endanger local water security
<b>Pollution</b>	Activities that cause pollution

Source: BNM, VBIAF Guidance Document, 2019, pp. 30-31

Although the VBIAF was developed by and originally meant for Islamic financial institutions only, its principles and methodologies are broadly relevant. Therefore, BNM has been recommending the framework to be applied across all banks and banking units, including conventional ones.<sup>28,29</sup> However, there is no firm indication that it is indeed universally practiced.

Being a corporate-driven initiative, the VBIAF serves as a voluntary framework, providing banks with flexibility in implementation, which is often influenced by internal factors like ‘risk appetite’ and ‘client relationships’

#### 4.2. VBIAF Sectoral Guides

Colour score	Assessment
Orange	Financial regulations make a reference to a topic related to the GBF target, but only as a recommendation.

28. Bank Negara Malaysia, ‘Climate Change and Principle-Based Taxonomy’, 30 April 2021, <https://www.bnm.gov.my/documents/20124/938039/Climate+Change+and+Principle-based+Taxonomy.pdf>, p.6;

29. Bank Negara Malaysia, Financial Sector Blueprint 2022-2026., p. 23

Despite having limited practical implications, the VBIAF helped pave the way for subsequent initiatives. One notable outcome has been the development of sectoral guides. Notably, these guides are more detailed and applicable to conventional banks that are also financing these sectors since they provide detailed parameters that help financial institutions apply an ESG risk score to credit and investment decisions, allowing them to factor ESG impacts into their final outcomes.

So far, a total of ten guides has been published to help financial institutions make sustainability-aligned decisions for projects in different sectors — from energy and construction to mining and transportation.<sup>30</sup>

Among the first releases, in early 2021, was the sectoral guide for palm oil.<sup>31</sup> Another sectoral guide relevant to the focus of this report is Agriculture, Forestry and Fisheries, published in 2024.<sup>32</sup>

These sectoral guides were developed primarily by the banking industry and subsequently endorsed by BNM. In that regard, they are similarly lenient and flexible in application and lack structured mechanisms for community and civil society participation. Nonetheless, they are a step forward because they contain more specific assessment metrics.

The **Palm Oil guide** has a short section listing criteria for initial onboarding. The checklist resembles more a general table of specifications than a sustainability-focused one, particularly the items marked as “minimum information required” (see Table 7).

**Table 7: VBIAF Guide on Palm Oil: “Minimum information required” from large & medium estates**

<b>Land</b>	Description, valid use term & planning permission, EIA and/or SIA report, FPIC
<b>Biodiversity loss and deforestation</b>	Land clearance method, desktop biodiversity assessment
<b>Water, pollution and resource use</b>	Waste management plan, diesel purchasing and storage permit
<b>Labour rights and working conditions</b>	Use of migrant and vulnerable workers
<b>Occupational safety and health</b>	Certification of fitness for machinery, certificate of competency, sufficient protection
<b>Governance</b>	Status of MSPO/RSPO certification and time-bound action plan

Source: AIBIM, *VBIAF Sectoral Guide on Palm Oil, 2021*, pp. 17-18

30. ‘Value-Based Intermediation (“VBI”) – AIBIM’, accessed 28 July 2025, <https://aibim.com/value-based-intermediation/>.

31. Association of Islamic Banking and Financial Institutions Malaysia, ‘VBIAF Sectoral Guide on Palm Oil’, 31 March 2021, [https://aibim.com/contents/upload/VBIAF\\_Sectoral\\_Guide\\_on\\_Palm\\_Oil\\_Final.pdf](https://aibim.com/contents/upload/VBIAF_Sectoral_Guide_on_Palm_Oil_Final.pdf).

32. Association of Islamic Banking and Financial Institutions Malaysia, ‘VBIAF Sectoral Guide on Agriculture, Forestry and Fishing (Consultative Document)’, 10 September 2024, [https://aibim.com/contents/upload/VBIAF\\_Agriculture\\_SG\\_Public\\_Consultation.pdf](https://aibim.com/contents/upload/VBIAF_Agriculture_SG_Public_Consultation.pdf).

For one, customers do not necessarily have to be certified — in reference to MSPO (Malaysian Sustainable Palm Oil), RSPO (Roundtable on Sustainable Palm Oil) or ISPO (Indonesian Sustainable Palm Oil). If they are not certified, all that is required is a “time-bound action plan”. Furthermore, banks can rely solely on these certification schemes — widely criticised for poor social, deforestation and traceability standards<sup>33</sup> — without conducting independent due diligence.

The second sectoral **guide on Agriculture, Forestry and Fishing**, was published almost five years after the initial cohort of guides, making it an important upgrade. It introduces, for the first time, timber — an industry of high relevance to forests — while drawing on existing sectoral guidance for the other major Agri commodity, palm oil.

The new guide introduces several positive developments. It presents a more substantive approach, offering greater detail on various types of environmental and social risks. The inclusion of risk mitigation measures and customer onboarding checklists makes it more aligned with sustainability best practices.

**Table 8: VBIAF Guide on Agriculture, Forestry and Fishing: Onboarding checklist for forestry customers**

<b>Land</b>	<ul style="list-style-type: none"> <li>• Land description (e.g., size, type of land, proximity to water source, primary forest, peat, indigenous people, communities, and livelihoods affected) is disclosed.</li> <li>• FPIC and resettlement &amp; adequate compensation plans are in place.</li> </ul>
<b>Biodiversity loss and deforestation</b>	<ul style="list-style-type: none"> <li>• Impact assessments (such as EIA, SIA, HCV and HCS) have been undertaken.</li> <li>• Land clearance methods have been selected to minimise impacts.</li> <li>• Biodiversity management/preservation action plan is in place.</li> </ul>
<b>Human rights and community relations</b>	<ul style="list-style-type: none"> <li>• Stakeholder management policy institutionalised, including requirements for FPIC, resettlement &amp; adequate compensation plan and transparent grievance/complaints mechanism.</li> <li>• Engagement programmes including awareness, supporting community events.</li> <li>• Community relations managed in line with international frameworks, covenants and best practices.</li> </ul>

Source: AIBIM, VBIAF Sectoral Guide on Agriculture, Forestry and Fishing, 2024, pp. 73-75

33. Please see (1) Jasmine Owens, ‘RSPO Criticisms Investigated | Ethical Consumer’, 10 August 2021, <https://www.ethicalconsumer.org/food-drink/rspo-criticisms-investigated/>; (2) Hans Nicholas Jong, ‘Upgrade of Indonesian Palm Oil Certification Falls Short, Observers Say’, Environmental News, Conservation News, 29 July 2020, <https://news.mongabay.com/2020/07/ispo-indonesia-update-palm-oil-sustainable-certification-review/>; (3) Pearly Neo, ‘Sustainability Snag: Experts Blast New EU-Funded Analysis Touting “Shortcomings” in Malaysian Palm Oil Certification Scheme’, FoodNavigator-Asia.Com, 8 May 2024, <https://www.foodnavigator-asia.com/Article/2024/05/08/experts-blast-new-eu-funded-gap-analysis-touting-shortcomings-in-malaysian-palm-oil-certification-scheme/>.

<b>Governance mechanism</b>	<ul style="list-style-type: none"> <li>• Sustainability commitment, strategy and relevant ESG policies and risk management framework including monitoring mechanism, transparency and disclosures publicly made available.</li> <li>• If none, a credible (time-bound) plan to mitigate ESG issues is made available.</li> <li>• Industry standards and/ or relevant certifications obtained.</li> <li>• Outstanding legal claims relating to the customer’s environmental and social performance disclosed.</li> <li>• Issues reported (i.e., media backlash, protests by community, etc.) and how they were resolved.</li> </ul>
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Source: AIBIM, VBIAF Sectoral Guide on Agriculture, Forestry and Fishing, 2024, pp. 73-75

However, parts of the guide still echo previous practices, relying heavily on generic environmental reports from government agencies and existing industry accreditations — despite ongoing concerns about their rigour and credibility.

The absence of clear quantitative targets keeps the focus on risk mitigation rather than on proactively preventing harm. As a result, financial institutions may continue financing high-risk clients as long as minimal harm-reduction measures can be demonstrated. Setting firm, time-bound targets — such as an early no-deforestation/no-conversion cut-off date, zero new peat development and full traceability to plantation<sup>34</sup> — could transform the guides from qualitative harm-mitigation checklists to measurable, prevention-first safeguards.

As with the VBIAF itself, BNM has no mandate to enforce any of the VBIAF Sectoral Guides, and they remain advisory in nature.

### 4.3. Climate Change and Principle-based Taxonomy

Colour score	Assessment
Yellow	Financial regulations require financial institutions to take relevant steps towards the GBF target.

The next major milestone for BNM was the Climate Change and Principle-based Taxonomy (CCPT)<sup>35</sup> published in 2021. It is a classification system to help financial institutions within BNM’s purview categorise their clients’ businesses based on climate change impact.

This was a collaborative effort of BNM and different market participants — banks, insurers, fund managers, institutional investors and the SC. As with previous regulatory initiatives, there was a discussion paper for public consultation, but it lacked structured mechanisms for community and civil society participation.

34. Please see the list of criteria outlined in Profundo, ‘Forests and Finance Policy Assessment Methodology (Version 2023)’.

35. Bank Negara Malaysia, ‘Climate Change and Principle-Based Taxonomy’.

The taxonomy is mandatory but solely in relation to disclosure: BNM requires financial institutions to make half-yearly submissions on their climate-related exposures in line with the CCPT's classification system (and as per the JC3's supplementary on minimum documentation<sup>36</sup>).

The CCPT also establishes the basis for BNM's aspiration for at least 50% of all new bank financing to be aligned to either climate-supporting or transitioning activities by 2026, as outlined in the Financial Sector Blueprint 2022-2026.<sup>37</sup> However, since classification is the sole prerequisite, the 50% target is not a statutory or enforceable quota. Progress is to be pursued via facilitation and oversight rather than prescriptive measures, while prudential norms<sup>38</sup> are only mentioned in the context of climate risks.

To BNM's credit, it continues to work on improving the consistency of reporting under the CCPT. These efforts include standardising due diligence and providing tailored guidance for SMEs. This means that financial institutions could be held accountable if they make misleading claims to sustainability. There is also a call for institutions to obtain assurance that any certification genuinely delivers substantial contributions to climate and environmental objectives; but the guidance is high-level, with ambiguity around acceptable standards, types of evidence required and verification methods.

The taxonomy is "principles-based" and deliberately non-prescriptive to remain industry-agnostic. However, this flexibility also creates ambiguity in implementation: its key due-diligence principles — 'No Significant Harm to the Environment' (Guiding Principle 3) and 'Remedial Measures to Transition' (Guiding Principle 4) — can appear conflicting without an explicit exclusion list or clearly defined no-go activities. To resolve this, the framework should establish time-bound, verifiable transition criteria and identify activities incompatible with climate and environmental objectives.

### **Commentary on the case study on an oil palm plantation presented in the taxonomy**

A case study on an oil palm plantation presented in the taxonomy is telling. A MSPO-certified customer is applying for a fresh round of financing to expand the plantation on an existing plot of land which includes peatland. Under both of the following scenarios, the customer is granted new financing:

- I. The customer takes some 'remedial measures' to reduce environmental harm (no open burning and managing water table for the peatland) — and classified as 'transitioning';
- II. The customer goes further to 'limit harm to the environment' (by adopting a policy of no new deforestation and no new cultivation on peatlands, maintaining ground cover and water table level for peatlands) — and classified as 'climate supporting'.

The prime issue here is inadequacy. Taken together, these measures constitute only the minimum requirement for short-term peatland management.<sup>39</sup> Under the first scenario, the bank is effectively financing new deforestation and new cultivation on peatland — definite no-go activities from the perspective of socio-environmental groups.

36. Joint Committee on Climate Change (JC3), 'Minimum List of Documents to Facilitate Assessment of the Climate Change Principle-Based Taxonomy's Guiding Principles 3 and 4', 16 January 2025, <https://www.jc3malaysia.com/news/minimum-list-of-documents-to-facilitate-assessment-of-the-climate-change-principle-based-taxonomy%E2%80%99s-guiding-principles-3-and-4>.

37. Bank Negara Malaysia, Financial Sector Blueprint 2022-2026.

38. Prudential norms are regulatory standards set by financial authorities to maintain the stability, discipline and resilience of financial institutions and the broader financial system.

39. Clarke Donal et al., Strategy for Responsible Peatland Management: 6th Edition (International Peatland Society, 2019), <https://peatlands.org/assets/uploads/2019/10/srpm2019finalforprint.pdf>.

In apparent recognition of existing limitations, the JC3 is working on a new version of the CCPT<sup>40</sup> that will be based on the ASEAN taxonomy — one that includes nature and is more technical rather than principles-based. However, even this supposedly superior taxonomy has notable shortcomings, permitting flexible self-assessments and declarations that rely on stated policies rather than verified practices.<sup>41</sup>

#### 4.4. Sustainable and Responsible Investment Taxonomy

Colour score	Assessment
Orange	Financial regulations make a reference to a topic related to the GBF target,

The SC has its own taxonomy, the Principles-based Sustainable and Responsible Investment Taxonomy<sup>42</sup> for the Malaysian capital market. It is a classification system of economic activities similar to BNM’s, but for institutional investors.

The SC’s taxonomy looks more extensive and covers environmental and social issues more broadly. Within the environmental component, it features an objective related to the protection of ecosystems and biodiversity, while the social component addresses conduct towards affected communities and wider society.

In that sense, it has greater relevance to regulating finance for forests and community rights. However, like the CCPT, the investment taxonomy is principles-based — it is neither specific nor mandatory. Local investment funds are not obliged to follow the taxonomy, nor are they obliged to exit or even engage with investees that fail to meet the sustainability criteria.

That is concerning considering the degree to which Malaysian investors contribute to forest-risk businesses on a global scale (64% among countries with tropical forests based on F&F data<sup>43</sup>).

#### 4.5. Climate Risk Management and Scenario Analysis

Colour score	Assessment
Yellow	Financial regulations require financial institutions to take relevant steps towards the GBF target.

The Climate Risk Management and Scenario Analysis,<sup>44</sup> released just a year after the CCPT, was the natural progression for BNM.

40. Joint Committee on Climate Change (JC3), ‘The JC3 Remains Committed to Advancing the Climate Agenda through Coordinated and Collaborative Efforts’, JC3, 11 August 2025, <https://www.jc3malaysia.com/news/the-jc3-remains-committed-to-advancing-the-climate-agenda-through-coordinated-and-collaborative-efforts>.

41. Forests and Finance, Regulating Finance for Biodiversity – An Assessment for the Global Biodiversity Framework.

42. Securities Commission Malaysia, ‘Principles-Based Sustainable and Responsible Investment Taxonomy’, December 2022, <https://www.sc.com.my/api/documentms/download.ashx?id=a0ab5b0d-5d7d-4c66-8638-caec92c209c1>.

43. Sahabat Alam Malaysia, Forests and Finance Malaysia: Banking on Biodiversity Collapse (Malaysian Edition).

44. Bank Negara Malaysia, ‘Climate Risk Management and Scenario Analysis - Policy Document.’, 30 November 2022, [https://www.bnm.gov.my/documents/20124/938039/PD\\_Climate-Risk-Mgmt-Scenario-Analysis-Nov2022.pdf](https://www.bnm.gov.my/documents/20124/938039/PD_Climate-Risk-Mgmt-Scenario-Analysis-Nov2022.pdf).

A big step in the right direction, it is so far the only document for financial institutions that sets out requirements related to climate (and some broader environmental risks). It mandates banks and insurers to make climate considerations an integral part of their governance, risk management, stress testing and disclosure practices.

The policy outlines a fairly comprehensive strategy employing “three lines of defence” for assessing climate-related risks. The most basic assessment takes place during regular processes — such as client onboarding, credit application, credit review, monitoring and engagement, as well as new product approval. The next “line of defence” consists of independent risk management and compliance. The final line involves an internal audit unit.

The financial sector was given close to two years to develop appropriate capacity and capabilities to fulfill the requirements, which came into full effect by the end of 2024.

This policy is undermined by two main issues. First, it lacks specific details about biodiversity and human rights considerations. Second, consistent with the current regulatory approach, non-compliant customers remain eligible for financing. The oft-repeated palm oil case study reminds financial institutions to take a ‘nurturing’ approach towards uncertified businesses, even when they may violate national forest-related laws and policies such as mandatory palm oil certification and conditions imposed by the Department of Environment Malaysia.

#### 4.6. Climate Risk Stress Testing Exercise 2024

Colour score	Assessment
Yellow	Financial regulations require financial institutions to take relevant steps towards the GBF target.

Two years after the inaugural climate change focused regulation, BNM released the Climate Risk Stress Testing Exercise<sup>45</sup> meant to get the financial institutions to project their performance based on different climate scenarios. An annual required exercise, its first reporting was due by the middle of 2025.

This exercise too reflects a recurring limitation in BNM’s climate change related documents: it does not cover forest-related risks directly or comprehensively. As part of the exercise, financial institutions are required to assess their ten largest customers in terms of exposure in eight economic sectors — with agriculture, forestry and fishing being one of them, including a sub-sector of oil palm. This sector is evaluated based on its vulnerability to transition and physical risks.

#### 4.7. National Sustainability Reporting Framework

Colour score	Assessment
Yellow	Financial regulations require financial institutions to take relevant steps towards the GBF target.

45. Bank Negara Malaysia, ‘2024 Climate Risk Stress Testing Exercise Methodology Paper’.



The National Sustainability Reporting Framework (NSRF),<sup>46</sup> published in October 2024, is the latest formal initiative by the SC and the first mandated policy by the same. It makes International Financial Reporting Standards - IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures) mandatory for companies, starting with large publicly listed corporations (market capitalisation of at least RM2 billion), financial institutions included, from year 2025.

The NSRF in its focus is an extension of BNM's climate change related policymaking in recent years. It makes headway by aligning reporting to global benchmarks, namely those issued by the International Sustainability Standards Board under the IFRS Foundation, the foremost standard-setting body for the capital markets.

As with previous documents, however, the NSRF is narrowly climate-focused and does not fully encompass nature-related impacts. The farthest it goes is requiring disclosure on Scope 3 greenhouse gas emissions; it is commonly accepted, though, that broader effects on biodiversity and ecosystems are not captured through carbon accounting.

In an implicit acknowledgement of these shortcomings, the IFRS Foundation has been working with the Taskforce on Nature-related Financial Disclosures (TNFD) on nature-related financial disclosures to add to existing climate standards.<sup>47</sup> Unfortunately, numerous weaknesses of the TNFD make it likely that anything based on it — including BNM's TNFD-aligned pilot currently in development — will offer limited value.<sup>48</sup>

46. Securities Commission Malaysia, 'National Sustainability Reporting Framework', 2024, <https://www.sc.com.my/nsrf>.

47. IFRS Foundation, 'IFRS - IFRS Foundation and TNFD Formalise Collaboration to Provide Capital Markets with High-Quality Nature-Related Information', 9 April 2025, <https://www.ifrs.org/news-and-events/news/2025/04/ifrs-foundation-tnfd-formalise-collaboration/>.

48. Please see the critiques and concerns compiled by Forests and Finance on The Taskforce on Nature-Related Financial Disclosures here: <https://forestsandfinance.org/tnfd/>

### **Concerns on Taskforce on Nature-Related Financial Disclosures**

As a framework that is not aligned with the GBF, the TNFD is not fit to serve as a regulatory tool.<sup>49</sup> At its core, it focuses on how nature affects companies, not how companies affect biodiversity. That reverses the intended priority, making accountability harder. Instead of genuine transparency and traceability, the TNFD leans towards broad, non-verifiable data — thereby reducing corporate accountability.

The framework leaves out three basic but high-impact transparency measures: publishing supplier lists, requiring banks to report at the company level (as they do for projects) and disclosing grievance lists that log serious complaints or allegations.<sup>50</sup> Companies already hold this information, so providing it requires little more than political will; supplier and grievance disclosures are longstanding features of major palm oil and soy initiatives, as well as some national beef regulations. These gaps block transparent insight into financial flows tied to nature harms.

Governance is another weak spot. The TNFD gives industry absolute control over rules that govern it, while sidelining the rights and expertise of affected communities. Voluntary compliance with weak liability invites greenwashing. Real safeguards, in contrast, need impact-first metrics, community oversight and penalties with teeth.

***For Malaysia, it is imperative not to be constrained by “international standards” but instead prioritise local needs and concerns. And nobody is in a better position to provide insight on these than civil society organisations — a stakeholder group that has up till now been largely overlooked by the financial regulators.***

49. Shona Hawkes (Rainforest Action Network), ‘The Taskforce on Nature-Related Financial Disclosures (TNFD)’, Forests and Finance Symposium 2025: Upholding community rights, protecting the forests and holding the financial sector accountable, Kuala Lumpur, 17 April 2025, [https://forestsandfinance.org/wp-content/uploads/2025/06/17Apr2025\\_RAN-presentation-on-TNFD.pdf](https://forestsandfinance.org/wp-content/uploads/2025/06/17Apr2025_RAN-presentation-on-TNFD.pdf).

50. Shona Hawkes, ‘Belém Investor Statement: Investors Shouldn’t Be Advocating for Companies to Write Their Own Laws’, Forests & Finance, 19 November 2025, <https://forestsandfinance.org/news/belém-investor-statement-investors-shouldnt-be-advocating-for-companies-to-write-their-own-laws/>.

## 5. FINDINGS

By and large, the financial sector in Malaysia is not aligned with the GBF targets for 2030. Targets 1 and 15, in particular, remain largely unfulfilled.

**Table 9: Regulatory framework for biodiversity: Assessment criteria and Malaysia’s**

Global Biodiversity Framework		Assessment criteria for financial regulation	Alignment status for Malaysia
1	Plan and Manage all Areas to Reduce Biodiversity Loss	Financial regulations do not allow financing of, nor investing in, companies involved in conversion of natural landscapes.	Financial regulations emphasise the importance of preserving natural landscapes, but do not preclude any activities.
1 5	Businesses Assess, Disclose and Reduce Biodiversity-Related Risks and Negative Impacts	Financial regulations require transparency of all financing and investment flows and full disclosure of biodiversity and	Financial regulations require regular environmental and social reporting, but do not cover nature-related impacts.

BNM has issued a few general guidelines on sustainability for the benefit of banks — as well as more definite policies on climate change risk management and reporting. However, none of these provides detailed considerations on biodiversity or the rights of forest communities.

The SC, meanwhile, has released a voluntary taxonomy on responsible investment for institutional investors and a climate change disclosure regulation for business entities. Nature-related financial risks have received little coverage.

***Given the global push for climate change action and Malaysia’s net zero commitments, financial regulation on sustainability has been largely focused on climate: climate risk management and reporting as well as green finance. Direct measures addressing deforestation or biodiversity have been absent, save for the VBIAF sectoral guides — which feature forest-risk sectors but lack specificity and enforceability.***

Texts where “climate change” is defined to refer to “broader environmental risks” do not go far enough, especially not for the forests that are of such enormous value to Malaysia. Climate-related financial regulation covers forest-related risks only indirectly and partly.

For now, mandated policies primarily address the impact of deforestation on climate change. These impacts — from carbon emissions and altered weather patterns to soil erosion and degradation — should certainly be accounted for. At the same time, forests and community rights warrant a broader lens.



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Comprehensive policies to regulate finance for forests and community rights must be developed and existing climate regulation simultaneously enhanced. Among other considerations, investors and financial institutions would do well to pay more attention to social issues in their risk management procedures and scenario analyses.

### **Financial regulators' emphasis on palm oil relative to other forest-risk sectors**

Nearly every piece of sustainability-linked documentation released by the Malaysian financial regulators includes a case study on palm oil — which appears intended to address the concerns of importing jurisdictions such as the EU. In all cases, financial institutions are advised to set “transition strategies” for their palm oil customers.

For example, if the client is not certified (which could be in breach of the law), the bank is advised to take the engagement route by encouraging and deploying internal resources to help the borrower with the certification process. Or take the case of a certified client whose application for new financing on land that includes peatlands gets approved even without the fulfilment of minimum NDPE requirements.

Meanwhile, other forest-related sectors have received minimal regulatory attention. Timber, one of the biggest threats to Malaysian forests,<sup>51</sup> is not explicitly mentioned anywhere except for a VBI guide on agriculture, a non-binding guidance tool. From a financial perspective, timber together with paper & pulp constitutes the second largest chunk of financing channelled to forest-risk sectors by Malaysian banks over the past decade.<sup>52</sup> This is at least partly explained by a limited commitment to double materiality, which looks beyond risks to business profitability to nature and community impacts.

51. Reysio-Cruz, M. and Chavez, L., 'Regulating Timber Plantations Key to Protecting Land Rights in Malaysia', 10 April 2025, <https://thediplomat.com/2025/04/regulating-timber-plantations-key-to-protecting-land-rights-in-malaysia/>.

52. Sahabat Alam Malaysia, *Forests and Finance Malaysia: Banking on Biodiversity Collapse* (Malaysian Edition).

## 6. RECOMMENDATIONS

Given Malaysia's leading position in Islamic finance — its 'green' variant in particular — it is reasonable to expect that financial regulators could achieve similar recognition for broader sustainability measures.

### 6.1. General direction

Malaysian financial regulators have so far taken a cautious approach to sustainability. This reflects both a gradual pace and minimal direct integration of critical nature risks into financial policies. What is warranted as far as forests are concerned is a sense of urgency. Only that would support the development of forest-centred sustainability measures in earnest.

#### **1. Set a clear timeline for transitioning to mandatory, binding rules for the protection of forests and community rights**

While this report acknowledges the effort by financial regulators in trying to achieve an optimal balance between principle-based and rule-based regulation, the key question that needs to be answered now is for how much longer will the financial industry continue to be guided on deforestation matters through a gentle "principle-based" approach? For this stand in stark contrast to exacting "rule-based" standards that currently apply only to climate change issues.

Given the current state of the global biodiversity loss, this report argues that it is increasingly difficult to justify such a principle-based approach to governance, which allow financial institutions to determine the most appropriate means by which the regulatory and supervisory requirements can be met, in a way that is in line with the institution's own strategic objectives and business models.

The reality is that laissez-faire regulation has so far achieved little in practice. Major Malaysian banks<sup>53</sup> continue to finance projects that drive deforestation, deplete natural resources, and violate indigenous land rights — both domestically and across Southeast Asia. Biodiversity finance instruments and other voluntary market initiatives have likewise proven shallow in their impact, with little evidence of real environmental or social benefits.<sup>54</sup> Without stronger regulation and accountability, financial institutions are unlikely to redirect capital away from activities that harm people and nature.

As highlighted in the Malaysian edition of Banking on Biodiversity Collapse report, local financial institutions differ widely in their sustainability approaches. Smaller institutions tend to meet only basic requirements, while larger ones often go further due to stronger reputational pressures. While this reflects BNM's principles-based regulatory philosophy, the uneven implementation of guidelines has created an unequal playing field, incentivising clients to seek out banks with weaker sustainability standards.

The F&F Symposium 2025 Report also underscores that while voluntary responsible investment and financing policies have their place, the time has come to introduce mandatory requirements.<sup>55</sup> In particular, the report also calls on the regulator to require all banks to adopt consistent NDPE policies, comprehensive human-rights policies, and accessible grievance mechanisms.<sup>56</sup>

53. Sahabat Alam Malaysia, Forests and Finance Malaysia: Banking on Biodiversity Collapse (Malaysian Edition).

54. Dempsey et al., 'Thin and Shallow: Financial Instruments for Biodiversity Conservation and Their Outlook'.

55. Sahabat Alam Malaysia, Forests and Finance Symposium 2025 Report.

56. Sahabat Alam Malaysia, Forests and Finance Symposium 2025 Report.

A more proactive approach — under which environmental and social risks are integrated directly into credit policies — may be more effective. Sector-specific regulation and collective enforcement are likely the only pathways to mitigating material ESG risks and reaching high standards of sustainability by the entire financial sector. This report therefore urges financial regulators to set a clear timeline for transitioning to mandatory and binding rules for the protection of forests and community rights.

## **2. Forests as priority**

Just as the regulatory practice on climate change has shifted from foundational frameworks to granular tools, so could the treatment of deforestation. This would mean expanding beyond climate-focused policies to more holistic regulation involving detailed, enforceable strategies on biodiversity and community rights.

Forest-rich countries like Malaysia are duty-bound to prioritise forests and community rights, given our commitments under key multilateral frameworks, both on biodiversity and climate change, as well as the critical role of forests in global ecological stability. There needs to be a strong emphasis on deforestation mitigation via explicit credit restrictions, for clients in all forest-risk sectors beyond palm oil, including timber, pulp & paper and rubber.

Importantly, regulators must mandate simultaneous reporting on nature risks and associated risk management practices. For risk mitigation, independent due diligence — in place of unquestioning reliance on external appraisals — is key for effective protection of forests and indigenous rights. The financial institutions' incentive for putting in the extra effort should be stability, for proactively excluding high-risk activities minimises portfolio volatility tied to environmental litigation or asset devaluation.

## **3. Enforcement imperative**

Once adequate regulation is in place, proper enforcement is a prerequisite for effective protection. Just as the absence of detailed documentation allows for subjective interpretation, poorly implemented policy would enable continued exploitation and "greenwashing". Non-compliance penalties on financial institutions must be explicit and imposed consistently.

Any implementation challenges ought to be addressed preemptively. These may include, among others, differences in definitions from one certification to another, economic trade-offs for smallholders, limited traceability with indirect financing and poor auditing. Nuanced enforcement, therefore, is key.

Businesses and financial institutions alike need to be given a set timeframe to learn to comply with the regulations in an efficient way, in relation to building capacity to execute additional environmental and social criteria for decision-making and additional measures for reporting.

## **4. Alternatives beyond TNFD**

The TNFD, a flawed framework enjoying the favour of financial authorities, has credible alternatives.<sup>57</sup> It begins with governance: drawing on Escazú Agreement-style principles, financial regulators should

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57. Shona Hawkes (Rainforest Action Network), 'The Taskforce on Nature-Related Financial Disclosures (TNFD)'.

institutionalise rights-based and participatory rule-making that centres around communities most affected by biodiversity loss.<sup>58</sup>

Complaint reporting on biodiversity and community rights must be instituted for transparency. Also warranted are disclosures along supply and finance chains naming projects and counterparties. These measures can be embedded in existing regulations as well as impending nature risk guidance and linked to EIA approvals for verification. Financial Institutions should also put in place a policy to do on the ground checks, especially when there are IPLCs or reported land conflicts – have they been properly consulted, whether FPIC principles used and whether their rights including to say “No” have been respected. These are some of the expectations among the attended participants at the Forests and Finance Symposium 2025.

Meaningful liability may require reforms to environmental and company law to explicitly cover financial activities and enhance due diligence to include biodiversity and community rights — similar to France’s Duty of Vigilance law — backed by administrative penalties, civil liability and access to remedy.

This will shift Malaysia from voluntary TNFD-style reporting to enforceable, impact-first standards that lock in community participation in rule-making, verifiable transparency and legal consequences for nature related harms.

## **5. Civil society organisations**

For a stakeholder-oriented regulatory system that Malaysia maintains, a glaring gap is the absence of grassroots civil society organisations in sustainability policy initiatives. Despite their representing indigenous interests and possessing indispensable knowledge of issues at hand, CSOs have been largely absent in policymaking processes.

When environmental non-profits do get involved, these are mostly larger, more conspicuous organisations. Meanwhile, smaller NGOs and CSOs — that often have a more intimate knowledge of ecosystems and whom local communities have established relations with — are overlooked.

For genuine application of the 'stakeholder-first' model, organisations representing civil interests should be engaged for meaningful consultation on all recommendations in this report, including inclusion of nature in the new CCPT release in the near term and development of a standalone enforceable regulation on nature in the longer term.

## **6.2. Specific outcome-oriented recommendations**

The following suggestions are aligned with the recommendations made in the F&F report on biodiversity regulation as well as the Malaysian edition of the Banking on Biodiversity Collapse report, both of which target alignment with the GBF.

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58. Economic Commission for Latin America and the Caribbean, 'Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean. Accessible Format | Economic Commission for Latin America and the Caribbean', 22 April 2024, <https://www.cepal.org/en/publications/69163-regional-agreement-access-information-public-participation-and-justice>.

**Table 10: Recommendations for reforming forest-linked financial regulations in Malaysia**

<b>Regulatory category</b>	<b>Suggested reforms of financial regulations</b>
<b>Financing/investment:</b> taxonomies	Develop binding technical screening criteria for specific biodiversity-risk sectors, for which VBI guides could be used as the foundation.
<b>Financing/investment:</b> exclusion list	Create a standardised list of all business activities that are not to be financed or invested in under any circumstances.
<b>Financing/investment:</b> sustainable activities	Include a list of encouraged business activities that contribute positively to biodiversity and human rights for financing and investment.
<b>Risk management:</b> measurement	Require financial institutions and institutional investors to identify and measure biodiversity-related risks, incorporating the social component too.
<b>Risk management:</b> due diligence	Conduct biodiversity and human rights impact assessments for forest-risk clients and projects, with consultation from CSOs as necessary.
<b>Risk management:</b> reporting	Mandate full disclosure of information on forest-risk clients (including parent groups and financial intermediaries) and projects.
<b>Regulatory oversight:</b> supervision	Continuously monitor the practises of financial institutions to ensure compliance with forest-linked regulations and guidelines.
<b>Regulatory oversight:</b> enforcement	Apply strong fines and sanctions to hold financial actors accountable for non-compliance with biodiversity and human

To build a robust framework of financial regulations addressing biodiversity-related financial risks, BNM and the SC could refer to the comprehensive environmental, social and governance criteria set out in the F&F policy assessment methodology.<sup>59</sup> Few of them have already been integrated into documents such as the VBIAF; however, the existing frameworks need to be expanded and uniformly mandated thereafter.

These minimum criteria should be enhanced with more specific requirements that apply to Malaysia, as may be advised by qualified civil society organisations:

- **The environmental criteria** pre-eminently preclude financial institutions from financing or investing in companies (and their suppliers) that deforest, convert or degrade natural forests, wetlands, peatlands, High Carbon Stock (HCS) and High Conservation Value (HCV) areas.

59. Profundo, 'Forests and Finance Policy Assessment Methodology (Version 2023)'.



- **The social criteria**, as a basis for all subsequent engagement, guide financial institutions to require their clients/investees to respect the rights of indigenous peoples and other impacted communities to give or withhold Free, Prior and Informed Consent (FPIC) for planned corporate activities.
- **The governance criteria** obligate financial institutions to disclose complete information on forest-related projects and establish an effective grievance mechanism for the same. Forest-risk companies, meanwhile, must ensure supply chain transparency and traceability.

Any financial actors that fail to comply ought to be held accountable through penalties and remedial mechanisms for affected communities and ecosystems. The status quo, under which inconsistent adoption of voluntary guidelines by financial institutions fosters unfair competition and a potential race to the bottom, is becoming increasingly untenable. This report therefore urges financial regulators to set a clear timeline for transitioning to mandatory, binding rules for the protection of forests and community rights.

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