AIFC’s Statement of Commitment to Sustainable Finance Principles

Foreword from the Governor of the Astana International Financial Centre

In 2015, the 2030 Agenda for Sustainable Development was adopted by all UN Member States, at the heart of which are the Sustainable Development Goals (SDGs). On the crucial issue of combating climate change, the Paris Agreement collectively endorsed in 2016 the scientific consensus on the impact of greenhouse gas emissions and to make commitments accordingly. Kazakhstan ratified the Paris Agreement and has recently committed itself to carbon neutrality by 2060.

As the Astana International Financial Centre, we committed to ensure that the financial sector contributes to the transformation of the economy in order to achieve the objectives of the Paris Agreement and Kazakhstan’s “Net Zero carbon emissions” goal by 2060. This means to gradually, but as soon as possible, bring all our activities in line with this goal.

In the wake of the economic volatility caused by the Covid-19 pandemic, Environmental, Social, Governance (ESG) and resiliency issues are material factors that businesses must manage appropriately, and sustainable finance must be part of the solution. Stock exchanges and their surrounding ecosystem of issuers, investors and regulators have a critically important role to play in achieving the SDGs and contribute to the resilient recovery from the severe tumultuous effects of the Covid-19 crisis on economies.

Green finance, in particular, is a strategic framework for AIFC’s further development. In Kazakhstan we build capacity and promote green finance to ensure a sustainable economic and financial growth. We were among the founders of the International Network for Sustainable Financial Centres and signatories of the Casablanca Statement on Financial Centres for Sustainability to promote green and sustainable finance and cooperate on expanding the pipeline of green assets and products.

The sign-up by the Astana International Exchange (AIX) of the Green Investment Principles (GIP) related to investments and operations in the Belt and Road region are fully aligned with the AIFC core strategy to become the financing hub for Belt and Road Initiative (BRI) projects in Central Asia which incorporates the global green investment principles, including sustainability in corporate governance; understanding of ESG risk factors; environmental information disclosure; information sharing with stakeholders and utilization of green financial instruments.

In addition, the AIFC Green Finance Centre became a regional office of Green Investment Principles (GIP) for BRI in Central Asia in May 2021. The AIFC organisation will play an important role in promoting the Green Investment Principles among financial institutions of Central Asia and scaling sustainable finance in the region.

The challenges in creating a sustainable and resilient economy are significant – but the opportunities are greater. With a leading economy in Central Asia, favourable conditions, and the geographic position of Kazakhstan, AIFC is ideally placed to seize the commercial potential arising from this transition, which is why sustainable finance is at the heart of AIFC's approach, and a pillar of both our Strategy of ensuring regional leadership in green finance and the Concept for the Development of Green Financial System of Kazakhstan.

The AIFC bodies and their organisations are firmly committed to encouraging AIFC Participants and listed companies to support achieving the SDGs globally and nationally, establish ESG strategies, setting out the measures taken or planned to reduce the direct environmental footprint associated with their day-to-day operations, adopt best social and governance practices.

Kairat Kelimbetov

Governor
Astana International Financial Centre

Introduction

Building on the important work carried out by the International Network for Sustainable Financial Centres, in particular, our counterparts in the United Arab Emirates, France and the United Kingdom, this Statement of Commitment to Sustainable Finance Principles represent the shared views of the regulatory authorities and institutions in AIFC:

- AIFC Authority;
- Astana Financial Services Authority (AFSA);
- Astana International Exchange (AIX);
- AIFC Green Finance Centre LTD (GFC).

AIX's pledge (back in April 2019) to uphold the Green Investment Principles (GIP) for the Belt and Road Initiative in investment and operations was a steppingstone towards this commitment. As a representative of financial institutions and corporations, AIX signed up to the common guiding principles for embedding sustainability into corporate governance, understanding ESG risks, disclosing environmental information, enhancing communication with stakeholders, utilizing green financial instruments, adopting green supply chain management, and building capacity through collective action.

Later in May 2021 the AIFC Green Finance Centre became a regional office of Green Investment Principles (GIP) for BRI in Central Asia. This means that the AIFC Green Finance Centre will be playing an important role in the promotion of Green Investment Principles among financial institutions of Central Asia, delivering capacity building events through the Green Finance Leadership Program platform, assisting the development of the green projects database, and scaling up sustainable finance in the region.

Through the endorsement of the following sustainable finance principles, AIFC aims to demonstrate its joint commitment to foster and actively encourage, through the choice of standard-setting means available to the centre, its respective regulated communities and stakeholders to harmonise their activities with Kazakhstan's sustainability priorities.

Nationally, the principles support the implementation of Kazakhstan's sustainability priorities. Internationally, the principles signal that AIFC recognises the importance of ESG factors to the investor community. At the regulated community level, the principles aim to facilitate Kazakhstan's transition to a more sustainable economy and help organisations to develop strategies which re-orientate and diversify the economy, help mitigate risks of reduced global demand for oil, adapt to the physical risks of climate change and explore the new investment opportunities it presents.

These principles are voluntary, and represent the first stage of AIFC's work, as part of the effort to ensure that the transition is effected in a gradual and consultative manner. We recognise that the starting circumstances of issuers, investors and of other stakeholders – business structure, management information systems and strategies – differ and time is needed to develop appropriate sustainability strategies and publish ESG data. These strategies are intended to be implemented by all institutions, which are encouraged to publicly report on them as much as possible as part of their extra-financial reporting.

Following the endorsement of these principles, the AIFC undertakes to implement appropriate measures, which may include guidelines and policies, to encourage financial firms, including issuers, banks, insurers, financial intermediaries, asset and wealth managers and investment funds as well as corporates and other entities under their purview to develop strategies to incorporate ESG and resiliency considerations in their business activities and decision-making, risk frameworks and in the context of exploring new investment opportunities.

SUSTAINABLE FINANCE PRINCIPLES

Principle 1: Integration of ESG Factors into Governance, Strategy and Risk Management

It is recognised that incorporating ESG and resiliency factors into an organisation's governance, risk management framework and strategy will better align the financial industry with broader objectives of sustainable development and can have a positive impact on the value of investments.

The AIFC undertakes to encourage AIFC Participants and potential and current listed companies under its purview to integrate ESG considerations into organisations' risk frameworks, governance, business conduct, investment processes, corporate strategic oversight, and product development. This should be achieved through their board of directors and senior management and be consistent with director and officer fiduciary duties. This could be done through:

a) Identifying and considering opportunities, as well as any associated risks and threats, afforded by ESG-compliant investing. A high level of due diligence should be applied to lending and investments decisions where ESG impacts are material;
b) Integrating consideration of opportunities and risks from ESG factors at all levels of organisations' businesses, strategy and financial planning where such information is material; and
c) Enhancing the organisation's ESG performance through the development and enhancement of suitable products, services and otherwise promoting sustainability in all organisations' activities.

The adoption of ESG approaches in investment is a growing force in global financial flows. Given the complexity of this market and various attempts to classify investors into categories according to their strategies, investors could be grouped according to their capital focus and motivations, from ESG-risk related issues only to environmental and/or social impact only.

As to the ESG approaches in sustainable banking practices, these span two important aspects of banks' business operations:

i) Risk management: by integrating environmental & social (E&S) risks in lending considerations in order to avoid or mitigate financial losses, reputational risk or harm to the environment and people caused by projects banks' finance.

Increasingly, a growing number of markets also recognize climate risk as a stand-alone factor impacting performance of lenders and borrowers.

ii) Loan origination: by supporting lending to businesses that are environmentally friendly and socially responsible, which is rapidly increasing in line with the global commitment to increase funding for climate change solutions.

On the risk management side, there has been growing global convergence of environmental & social risk management standards among public and private financial institutions in the past decade. For instance, applied to all International Financial Corporation (IFC) investments, IFC's Performance Environmental and Social Standards have become globally recognized as a benchmark for E&S risk management in private sector operations. Together with the World Bank Group Environmental, Health and Safety (EHS) Guidelines, they are the basis of the Equator Principles. IFC's Corporate Governance Development Framework provides signatory institutions with a common platform for evaluating and improving governance practices of their investee companies.

The following key international initiatives and recognised organisations provide useful frameworks which organisations can make use of in this area:

- Central Banks and Supervisors Network for Greening the Financial System
- Sustainable Banking Network (SBN)
- Equator Principles
- Climate Bonds Initiative
- International Capital Market Association (ICMA)
- Loan Market Association (LMA)
- Coalition of Finance Ministers for Climate Action
- EU Technical Expert Group on Sustainable Finance
- International Network of Financial Centres for Sustainability (FC4S)
- International Organization of Securities Commissions' Growth and Emerging Markets Committee
- International Platform on Sustainable Finance
- Sustainable Finance Network
- Sustainable Insurance Forum
- IFC Sustainability Policies and Standards.

Principle 2: Utilising green financial instruments

A wide range of financial instruments and products may incorporate sustainability elements, for example: debt instruments (including loans, bonds, debentures, and other fixed income products), sukuk, equity instruments, collective investment funds, structured products and investable indices, de-risking instruments (such as insurance, takaful), and warrants or other derivative instruments.

AIFC recognises the importance of adopting certain common terminology (a taxonomy) and minimum eligibility requirements of what constitute sustainable financial products for the benefit of all stakeholders, including issuers, investors, and the financial industry. Pending adoption of an appropriate taxonomy in Kazakhstan, AIFC encourages issuers to rely on internationally recognised taxonomies for sustainable and/or green products and instruments, as well as the Green projects classifier (Taxonomy) of the Republic of Kazakhstan (hereinafter – Green Taxonomy).

The Green Taxonomy was developed to accommodate the keen interest of potential issuers and investors in a more detailed specification of green projects, as well as the need to factor in country-specific agenda. The Taxonomy may be used in a broader sustainable finance context beyond green bonds.

Internationally recognised standards and taxonomies for sustainable and/or green products and instruments include:

- Principles for Responsible Banking
- Principles for Responsible Investment
- The Climate Bonds Standard of the Climate Bonds Initiative
- The European Commission Action Plan on Sustainable Finance and associated regulatory proposals (EU Taxonomy, EU Green Bond Standard)
- The Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG) of the International Capital Markets Association
- The Green Loan Principles and Sustainability Linked Loan Principles of the Loan Market Association
- The Sharia Standards of The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

It is acknowledged that other criteria for defining what is ‘sustainable’ may be used, provided that departures from the established taxonomies and reasons for them are appropriately disclosed to all relevant parties.

As a minimum, the following components should be present in a product sought to be categorised as sustainable:

Process for Project Evaluation/Selection: Investors / lenders should be in a position to evaluate:

- the sustainability/ESG objectives of the investment and how these will be achieved;
- the process for determining how the project fits within the eligible sustainability/ESG project categories; and
- related eligibility criteria, including, if applicable, exclusion criteria or any other process applied to identify and manage potentially material ESG risks associated with a project;
- relationship to borrower's overall corporate social responsibility (CSR) strategy *(where applicable)*
- target setting *(where applicable for sustainability-linked or ESG loans)* – measuring the sustainability of the borrower by setting sustainability performance targets (SPTs), which include key performance indicators, external ratings and/or equivalent metrics and which measure improvements in the borrower's sustainability profile.

Use of Proceeds:

- All designated sustainable projects should provide a clear description of how the project will benefit the ESG goals, how this will be assessed and, where feasible, quantified.

Management of Proceeds (where applicable):

- Clear accounting of the proceeds, investment of the proceeds, and returns on investment to enable investors to track the continuous sustainability of the product.

Recording, disclosing and reporting:

- Information on the use of proceeds should be kept up to date, updated in case of material developments, readily available to relevant parties and adequately reported, where relevant.

In addition to the above criteria, certification and external reviews perform a key function, as they can confirm compliance with external, objective standards, thereby providing assurance to investors, as well as regulators and other relevant stakeholders, that the ESG claims made by issuers have been subject to independent review and scrutiny.

Alongside the formal role of verifiers in the certification process, other independent third parties may also be able to provide differing forms of assurance. These includes environmental consultants, providing pre-issuance opinions on various aspects of the issuance framework; audit firms, conducting annual reviews of the post-issuance allocation of proceeds of a green /sustainable project; and rating agencies, assessing the impact of assets on sustainable goals and any associated climate-related risks.

Principle 3: Promotion of Appropriate ESG-Related Reporting and Disclosures

The AIFC recognises that it is important to encourage more transparency on how AIFC Participants and potential and current listed companies measure and monitor their adoption of ESG-related practices. Visibility of the metrics and targets used by an organisation, together with appropriate disclosures, allows investors and other stakeholders to assess better that organisation’s potential risk-adjusted returns, ability to meet financial obligations, general exposure to ESG-related issues, and progress in managing and adapting to such issues. This information also provides a basis for comparing organisations and gauging their relative performance in respect of the promotion of ESG practices.

Institutional investors are interested in ESG issues for all of the entities they invest in, irrespective of whether they are large or small, equities or bonds, listed or unlisted, across all industries. And in our view, whatever the entity in question, the characteristics of high-quality reporting and effective communication with investors are always broadly the same.

The AIFC undertakes to encourage its respective regulated entities to produce timely and relevant information on key ESG metrics. Such reporting would aim to disclose ESG-specific risks, processes, initiatives and performance, in accordance with internationally recognised reporting standards of financially, environmentally or socially material information.

The reporting should be consistent with AIFC disclosure obligations and should take into account the following internationally recognised reporting standards on ESG matters:

- Global Reporting Initiative (GRI)
- Climate Disclosure Standards Board (CDSB)
- International Integrated Reporting Council (IIRC) standards
- International Financial Reporting Standards, as applicable to sustainable investments
- Sustainability Accounting Standards Board (SASB)
- UN Global Compact (UNGC)
- Task force on Climate related Financial Disclosures (TCFD)
- CDP (formerly the Carbon Disclosure Project)
- AAOIFI Accounting Standards, as applicable to sustainable investments
- AAOIFI Sharia Standards on screening parameters for socially responsible and sustainable investments.

Principle 4. Enhancing communication and building capacity

The AIFC encourages organisations to provide relevant information to stakeholders, such as government entities, environmental protection organisations, the media, affected communities and civil society organisations, and to set up conflict resolution mechanism to resolve disputes with communities, suppliers and clients in a timely and appropriate manner.

It is also important to maintain and improve knowledge database and implement it in organisations' activities periodically. The AIFC is proactive in promoting related topics within the AIFC ecosystem and more broadly. The AIFC works with multilateral organisations, research institutions, and think tanks to develop its organisational capacity in policy design and implementation, instruments development, etc.