

ASEAN Taxonomy for Sustainable Finance Version 2

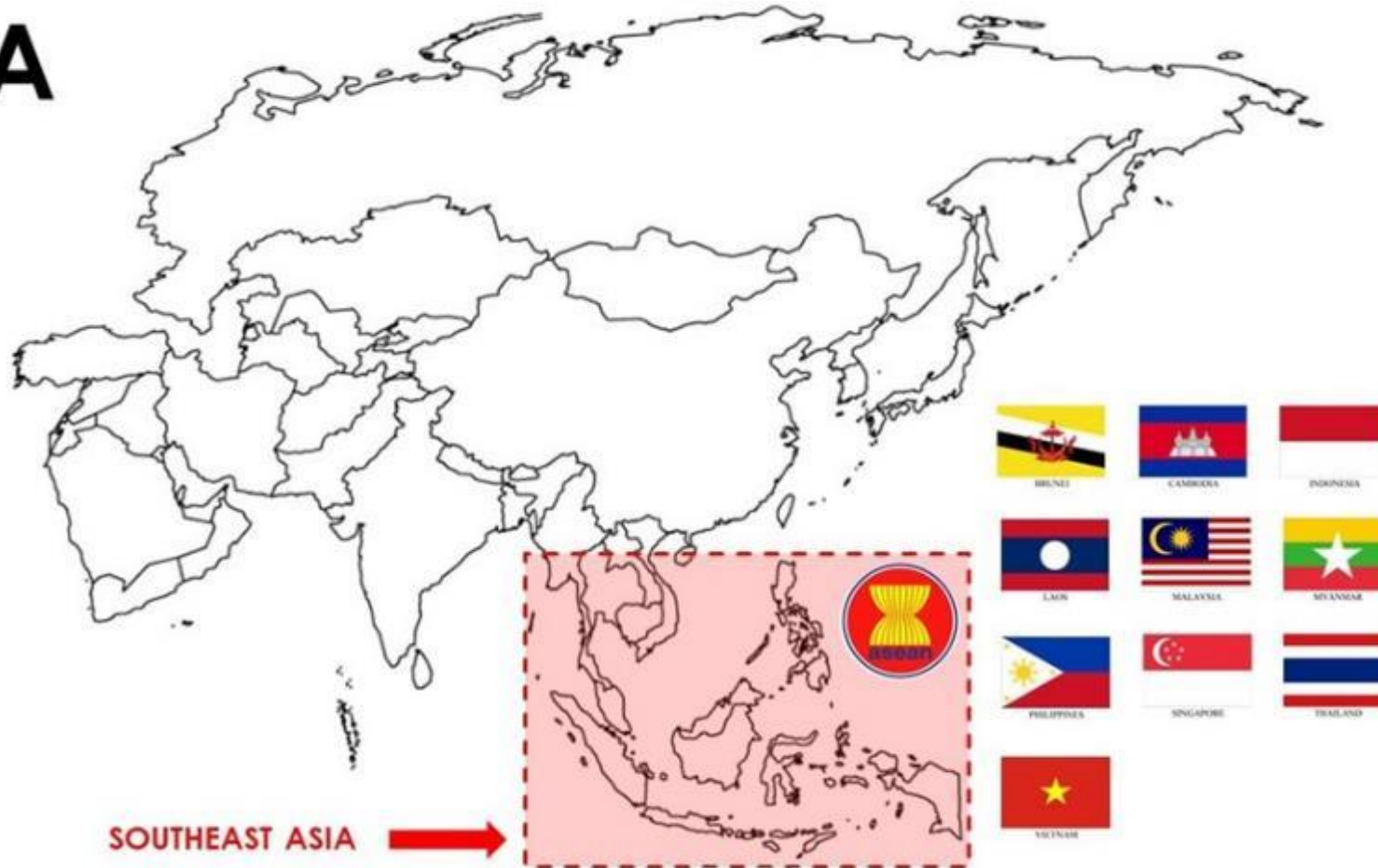
ASEAN Taxonomy Board

July 2023

Note: Kindly refer to the full *ASEAN Taxonomy – Version 2* document for further details on the information in this presentation

Where is Southeast Asia ?

ASIA



The Association of Southeast Asian Nations (ASEAN) is a regional grouping of the ten Southeast Asian States to promote economic, political, and security cooperation among its members.

Population: 660m
(projected to be 770m by 2040)

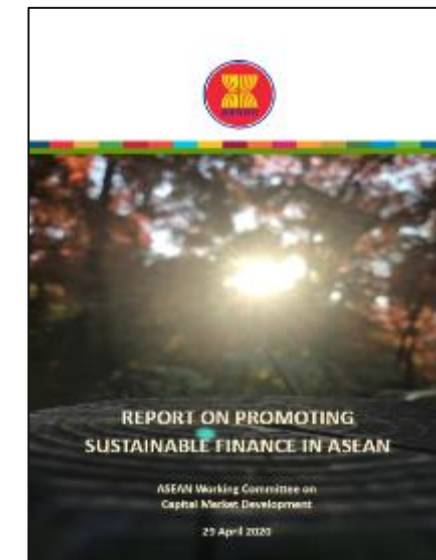
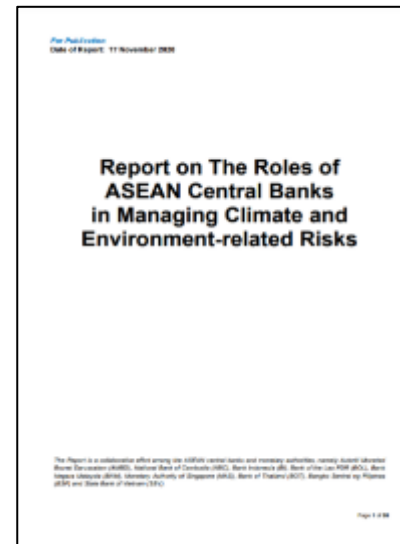
5th largest economy currently
- projected to be 4th largest by 2030, outgrowing that of Japan and the EU

GDP per capita/annum:
2019-USD4,830
(Highest USD65,000, lowest USD1,200)

- Under the ASEAN Finance Cooperation Process, four sectoral bodies coordinate progress on finance initiatives:
 - ASEAN Capital Markets Forum (ACMF)
 - ASEAN Insurance Regulators' Meeting (AIRM)
 - ASEAN Senior Level Committee on Financial Integration (SLC)
 - ASEAN Working Committee on Capital Market Development (WC-CMD)

Supporting ASEAN's sustainability agenda

- The ASEAN Taxonomy is an initiative under the auspices of the **ASEAN Finance Ministers and Central Bank Governors to promote sustainable activities and investments**, in order to drive the region's sustainability agenda.
- The need for a **common taxonomy for ASEAN** was identified in:
 - The ASEAN Capital Markets Forum (ACMF)'s Roadmap for ASEAN Sustainable Capital Markets
 - The ASEAN Senior Level Committee on Financial Integration (SLC)'s Report on The Roles of ASEAN Central Banks in Managing Climate and Environment-related Risks
 - The ASEAN Working Committee on Capital Market Development (WC-CMD)'s Report on Promoting Sustainable Finance in ASEAN





ASEAN Sustainable Finance
Taxonomy



Disclosures



Transition Standards



Strengthening Demand and
Supply for Sustainable Finance

A taxonomy is a **guide** used to **identify and classify sustainable projects and economic activities**

A **common taxonomy** for sustainable activities is critical for sustainable finance to succeed in ASEAN

- **Without** a common taxonomy:
 - **Fragmented** regional approach
 - **Investors discouraged**
 - **Hamper ASEAN sustainable asset classes**
 - **Lack of clarity** for businesses and investors
 - **Adoption of an unsuitable taxonomy**

- **Importance** of an ASEAN Taxonomy
 - Provides an **ASEAN voice**
 - **Consolidates efforts**
 - Provides **consistency, credibility and secures global acceptance**
 - Facilitates **better allocation of capital and transition**

ACBs must take account of the social and economic structures, as well as level of development of each AMS. These considerations underline ACB's gradual and/or phased approach in promoting and facilitating the transition towards a low carbon and climate resilient economy. It is imperative that ACBs continue to adopt a gradual and/or phased approach in promoting and facilitating the transition towards a low carbon and climate resilient economy; and exercising flexibility when adopting international best practices

- ***Report on The Roles of ASEAN Central Banks in Managing Climate and Environment-related Risks***

The level and nature of economic and industrial development among ASEAN member countries is diverse.... the heterogeneity of the levels of development signifies the possibilities of tiered approaches that certain nations can commit to as they transition to a sustainable economy

- ***ACMF Roadmap for ASEAN Sustainable Capital Markets***

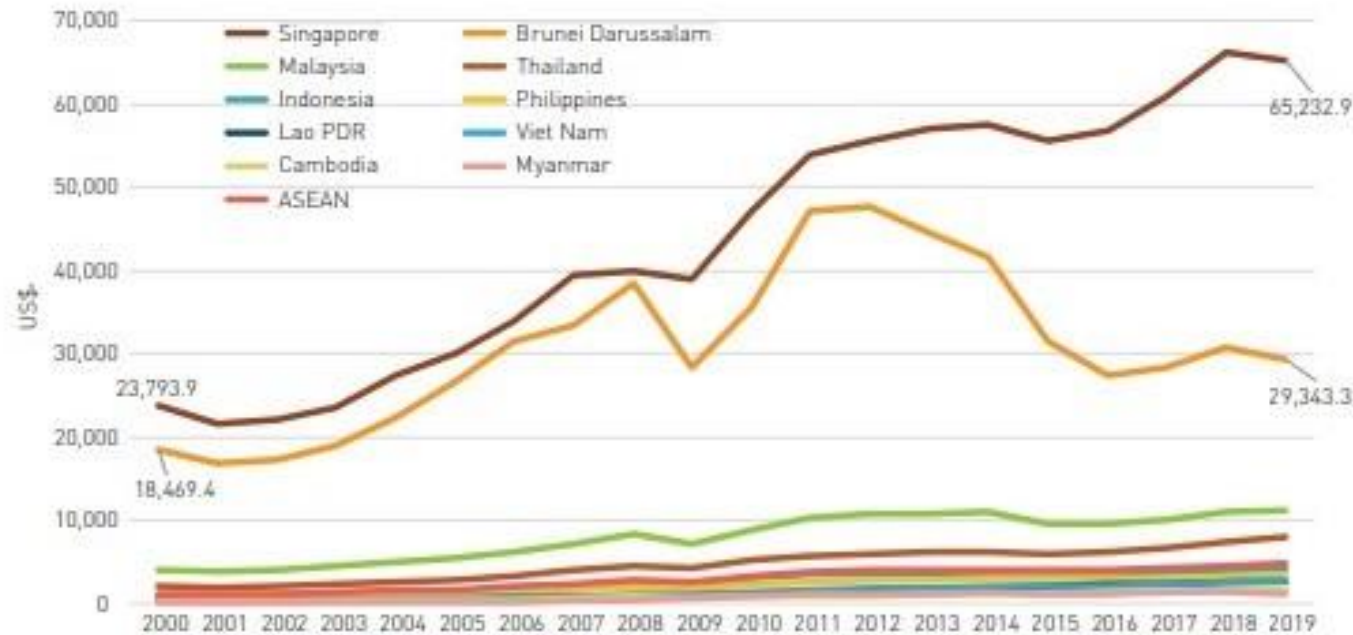
However, given the need to move faster, there has been a loud call for support to be given to those who are trying (or need) to move gradually to get to that 'perfect' point. After all, some progress is better than no progress with issuers who cannot meet the 'green' standards but who want to be less 'brown'.

- ***WCCMD Report on Promoting Sustainable Finance in ASEAN***

Ten countries, ten sets of circumstances

- Diverse economic situations

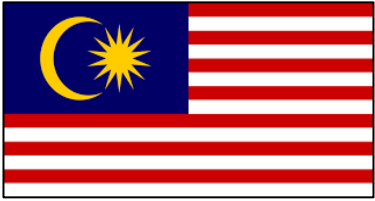
GDP per capita (USD) by ASEAN Member States available 2000-2019 (when ASEAN Taxonomy Board was formed)



Source: ASEAN Secretariat, ASEANstats database

- Connecting the financial sector with the real economy – ‘whole of economy’ requirement
- National priorities
- National limitations

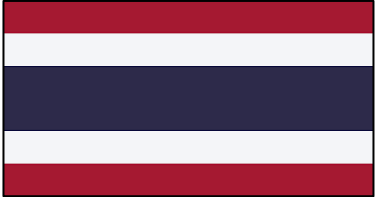
IMPACT: Different starting points, different trajectories despite common eventual ambition



- Climate Change and Principle-based Taxonomy issued by Bank Negara Malaysia in April 2021.
- Classification system for activities that are climate supporting, transitioning and watchlist.
- Looks at both economic activities and firm level.
- Considers remedial efforts.
- Use of proceeds financing can be specifically 'green' and transition instruments like SLBs and SLLs will be 'transition'.
- The Securities Commission Malaysia released the Sustainable and Responsible Investment Taxonomy in December 2022.



- In January 2021, the Green Finance Industry Taskforce (GFIT) consulted on a taxonomy design.
- Uses a traffic lights system.
- Design supports transition.
- Will allow use of globally used metrics with thresholds assigned to meet country needs.
- In May 2022, GFIT released version 2 of the Singapore Taxonomy.
- On 15 February 2023, GFIT released version 3 of the Singapore Taxonomy
- On 28 June 2023, Monetary Authority of Singapore launched a public consultation on Coal Phase-Out.



- One of the five (5) Key Strategic Initiatives of Thailand's Sustainable Finance Initiatives
- In August 2022, BOT released its Directional Paper on Transitioning towards Environmental Sustainability
- This includes the development of a practical national sustainable finance taxonomy to promote inward investment flows across Thailand's financial subsectors from domestic and international investors.
- In December 2022, BOT released the 'Thailand Taxonomy Paper - Draft for public consultations'
- 'Thailand Taxonomy Paper - Draft for public consultations' – released in January 2023
- Publication of Thailand Taxonomy Phase I – 30 June 2023



- Sustainable Finance Roadmap Phase II (2021-2025) – development of a green taxonomy is one of the priorities
- Necessary to put in place green standards/national taxonomy as a basis for sustainable business and investments
- A taxonomy will also make it easier for business actors to improve quality of risk management
- The taxonomy will accommodate the overall existing guidelines regarding the green sector
- In January 2022, Otoritas Jasa Keuangan (OJK) Indonesia released the Indonesian Taxonomy.



- “Among the changes are the inclusion of the definition, general requirements of green bonds, and potential incentives applicable to eligible issuers which will be specified in the following sub-law documents. A green taxonomy is being developed together with the promulgation of the law. This new law is expected to be introduced in 2022”.

-Hanoi Times 20 June 2022



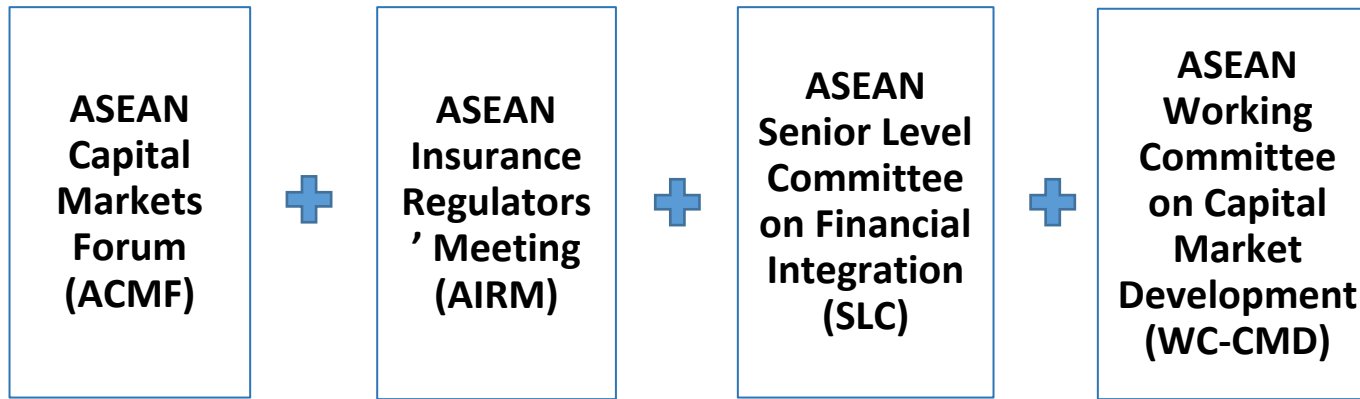
- Strategic Plans to Develop Sustainable Finance in the Philippines
- 3.2.3 Improving Sustainable Finance Definition and Creation of Principles-based Taxonomy
- The ITSF favors a principles-based instead of a prescriptive taxonomy to ensure that it can easily be adapted to reflect future developments in definitions as to what is considered sustainable.

- The Philippine Sustainable Finance Roadmap

The ASEAN Taxonomy Board

- The establishment of the ASEAN Taxonomy Board (ATB) was endorsed at the 7th AFMGM held on 30 March 2021. Paragraphs 18 and 19 of the Joint Statement of the 7th AFMGM are as follows:
 - *We welcomed the initiative that has been jointly launched by the ASEAN Capital Markets Forum (ACMF), the ASEAN Insurance Regulators Meeting (AIRM), the ASEAN Senior Level Committee on Financial Integration (SLC), and the ASEAN Working Committee on Capital Market Development (WC-CMD) to develop an ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy). The ASEAN Taxonomy will be the **overarching guide for all AMS, complementing their respective national sustainability initiatives and serving as ASEAN's common language for sustainable finance.***
 - *We endorsed the establishment of the ASEAN Taxonomy Board to develop, maintain and promote a **multi-tiered taxonomy** that will take into account ASEAN's needs, as well as international aspirations and goals. We believe that such a multi-tiered ASEAN Taxonomy is **inclusive** and will be beneficial to all AMS, and **facilitate an orderly and effective transition** towards a sustainable ASEAN. We look forward to the announcement on the progress of the development of the ASEAN Taxonomy by the end of 2021.*

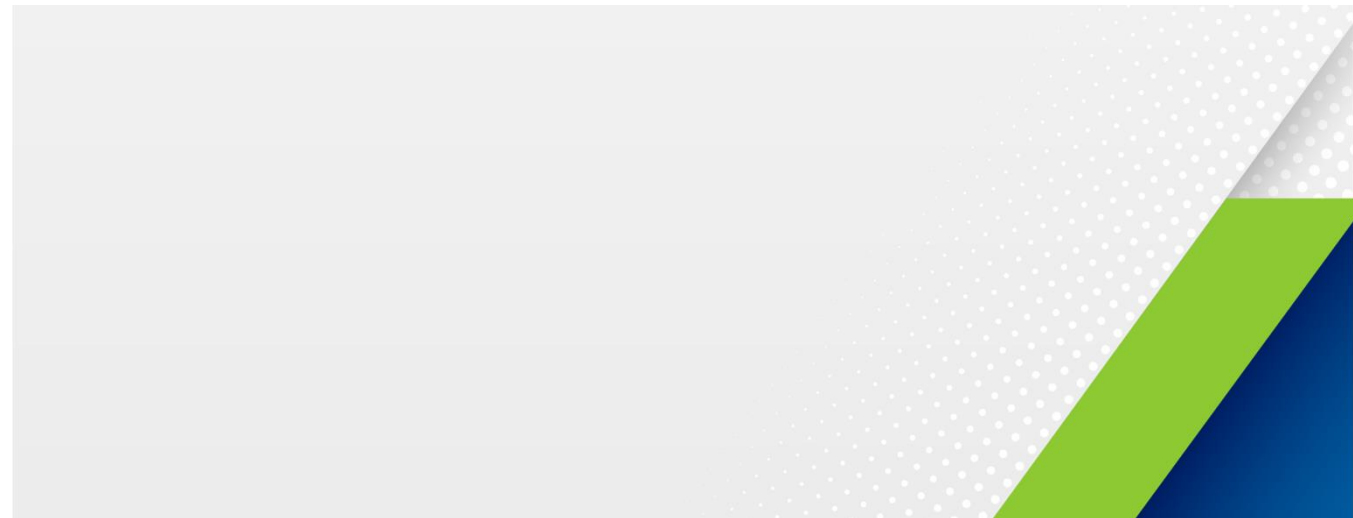
Formation of the ASEAN Taxonomy Board (ATB)



Established by: 4 sectoral bodies under the ASEAN Finance Cooperation Process:

- represents the banking, capital market and insurance sectors
- facilitates the development of the ASEAN Taxonomy

Overview of ASEAN Taxonomy Version 1



Principles for Developing and Implementing the ASEAN Taxonomy

1

Principle 1

The ASEAN Taxonomy will be the overarching guide for all ASEAN Member States, providing a common language and complementing their respective sustainability initiatives

2

Principle 2

The ASEAN Taxonomy will take into consideration widely used taxonomies and other relevant taxonomies, as appropriate, and shall be contextualised to facilitate an orderly transition towards a sustainable ASEAN.

3

Principle 3

The ASEAN Taxonomy shall be inclusive and beneficial to all ASEAN Member States.

4

Principle 4

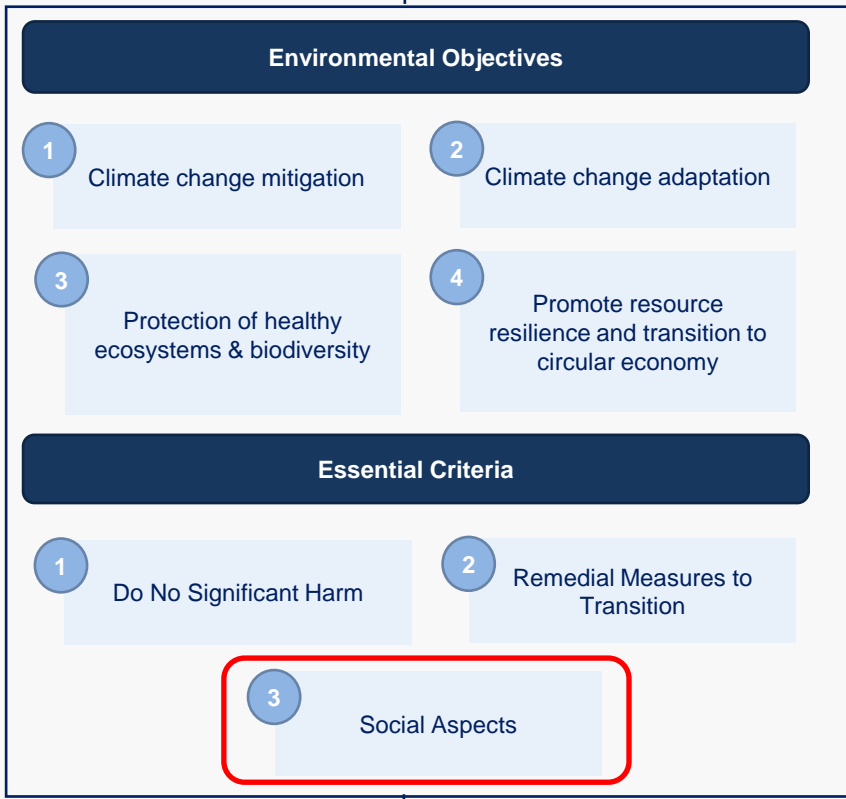
The ASEAN Taxonomy shall provide a credible framework, including definitions, and where appropriate, be science-based.

5

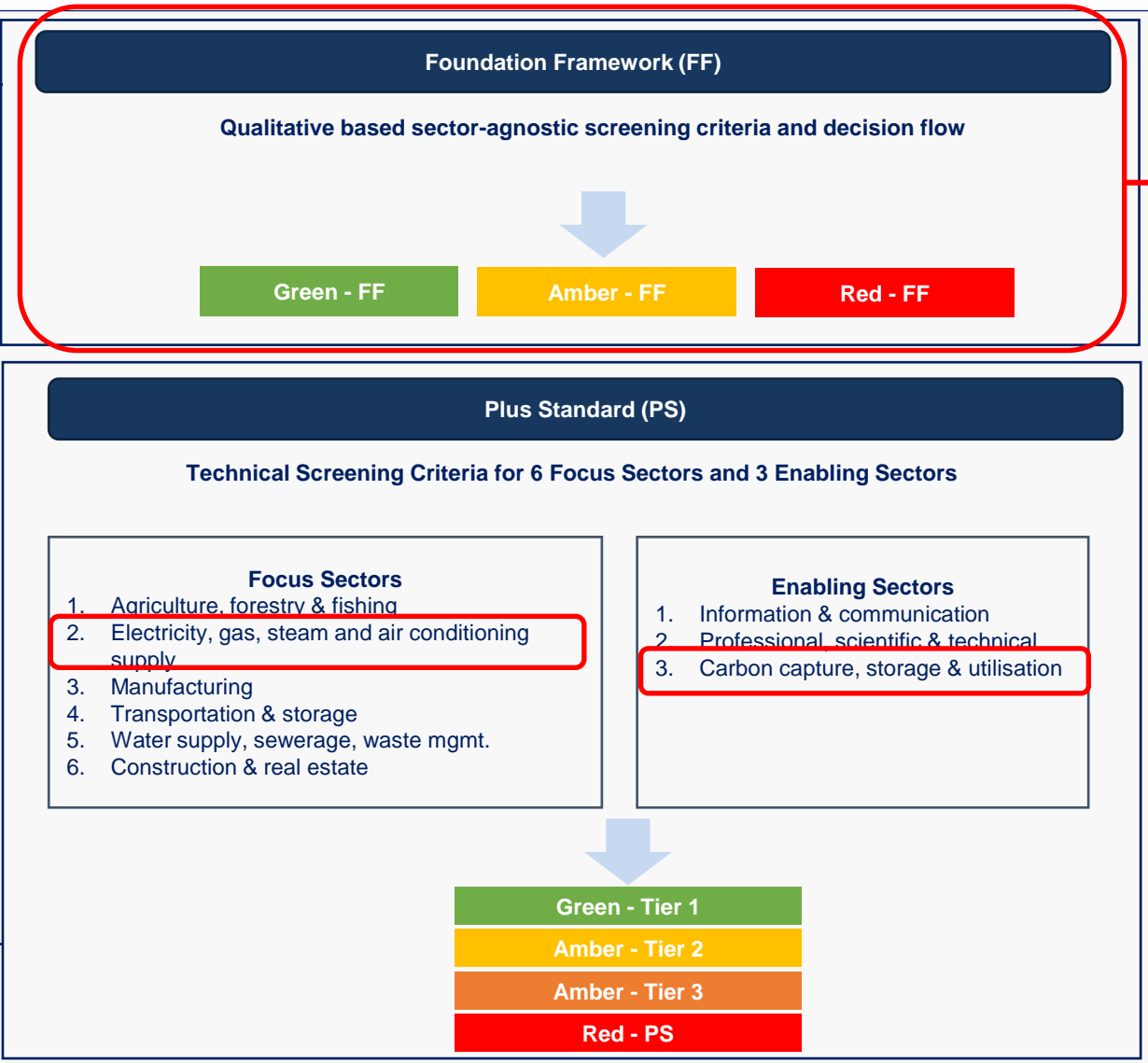
Principle 5

The ASEAN Taxonomy will be aligned with the sustainability initiatives taken by the capital market, banking and insurance sectors, or at least not be in conflict.

Overview of Taxonomy Design



Version 2 enhancements



For all EOs and ECs:
1. Decision Trees
2. Guiding Questions
3. Use Cases

Plus Standard: Industrial Classification & Sector Coverage

- To identify focus sectors for climate change mitigation (EO1), must **first select an industry classification system**
- ISIC used due to **compatibility** with:
 - AMS National Standard Industrial Classification (NSIC) codes; and
 - Industrial classification codes in other major taxonomies.
- Most material focus sectors identified according based on **environmental & economic importance** to ASEAN:
 - GHG emissions; and
 - Gross value added (GVA).



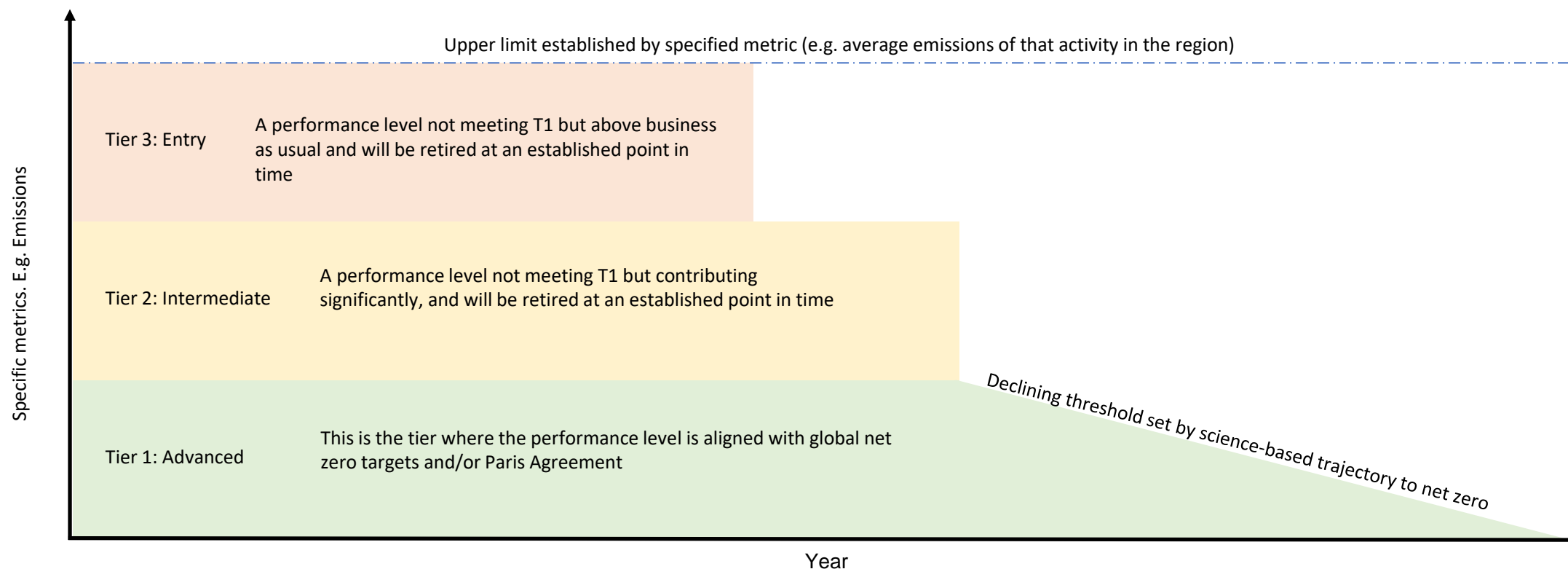
6 sectors:

- 85% of GHG emissions
- 55% of GVA in ASEAN

Ranking	ISIC Sec.	Name
1	A	Agriculture, forestry, and fishing
2	C	Manufacturing
3	D	Electricity, gas, steam, and air conditioning supply
4	H	Transportation and storage
5	F, L	Construction & Real estate activities
6	E	Water supply; sewerage, waste management and remediation activities

3 enabling sectors:	
	<ul style="list-style-type: none"> Improves performance of other sectors and activities Do not themselves risk harm to environmental objectives Important for decarbonisation of economy Might not otherwise be included if only emissions intensity and GVA are considered
1	Information and Communication Technology (ICT)
2	Professional, scientific, and technical activities (ISIC Section M)
3	Carbon Capture, Utilisation and Storage

- “Stacked approach” in developing activity-level thresholds.
- There are multiple thresholds per activity at a single point in time, to cater for different starting points of entities across ASEAN undertaking a particular activity.
- Allows for higher emissions for a limited period, while incentivising progression to lower emissions by retiring the less ambitious tiers over time.
- Example of a 3 tier framework using a “stacked approach”:



The CPO TSC a global first for a regional taxonomy

The TSC for CPO, is one of the unique features of the ASEAN Taxonomy, that demonstrates the facilitation of transition:

Green

1. Aligned with a 1.5 degrees outcome and is consistent with the IEA Net Zero Emissions Pathway for the power sector to achieve net zero emissions by 2050. Specific conditions under (1) include:
 - a. Coal phase out by 2040, and;
 - b. Coal plants built after 31 December 2022 will not qualify, and;
 - c. Operation duration of the coal plant from commercial operation date (COD) is capped at 35 years, and;
 - d. Qualifying coal plants must demonstrate the adoption of best-in-class technology, provided that these technologies are affordable, accessible, reliable and can be implemented within a reasonable timeframe, and;
 - e. Qualifying coal plants have been independently verified or acknowledged by internationally-recognised bodies or programmes as having demonstrated substantial absolute positive emissions savings over their expected lifetime compared to a case without a transition mechanism. Coal plants under the ADB ETM or JETP meet this criteria.

Amber Tier 2

1. Aligned with a 1.5 degrees outcome for coal phase-out that is derived from regional- or country-specific pathways that are consistent with science-based pathways. Specific conditions under (1) include:
 - a. Coal phase out by 2050, and;
 - b. Coal plants built after 31 December 2022 will not qualify, and;
 - c. Operation duration of the coal plant from commercial operation date (COD) is capped at 35 years.

Amber Tier 3

1. Operation duration of the coal plant from commercial operation date (COD) is capped at 35 years, and;
2. Coal plants that are built after 31 December 2022 will not qualify, except for
 - a. Coal plants that are built from 1 January 2023 up till 31 December 2027, and;
 - b. Adopt best-in-class technology, provided that these technologies are affordable, accessible, reliable and can be implemented within a reasonable timeframe.

International Interoperability

FEATURES	ASEAN TAXONOMY	EU TAXONOMY
Environmental Objectives (EO)	<ol style="list-style-type: none"> 1. Climate Change mitigation 2. Climate Change adaptation 3. Protection of healthy ecosystems & biodiversity 4. Promote resource resilience and transition to circular economy 	<ol style="list-style-type: none"> 1. Climate change mitigation 2. Climate change adaptation 3. Sustainable use and protection of water and marine resources 4. Transition to a circular economy 5. Pollution prevention and control 6. Protection and restoration of biodiversity and ecosystems.
Classification System	ISIC	NACE
Do No Significant Harm (DNSH)	Yes	Yes
Remedial Measures to Transition (RMT)	Yes – to facilitate transition	No
Minimum Safeguards	Yes – Social Aspects	Yes - alignment with the OECD Guidelines for Multinational Enterprises (OECD Guidelines) and the UN Guiding Principles on Business and Human Rights (UNGPs)
Activity classification	Yes, using Foundation Framework	Straight to TSC
Technical Screening Criteria	Up to three thresholds	Single threshold

ASEAN Taxonomy Features

Pre-Version 1

Bank Negara Malaysia – Climate Change Principle Based Taxonomy

Foundation Framework

Singapore Taxonomy 2021 Consultation

Traffic Lights

Post Version 1

Securities Commission Malaysia – SRI Taxonomy

Foundation Framework

Indonesia Taxonomy

Traffic Lights

Singapore Taxonomy 2023 Consultation

Traffic Lights/ Plus Standard

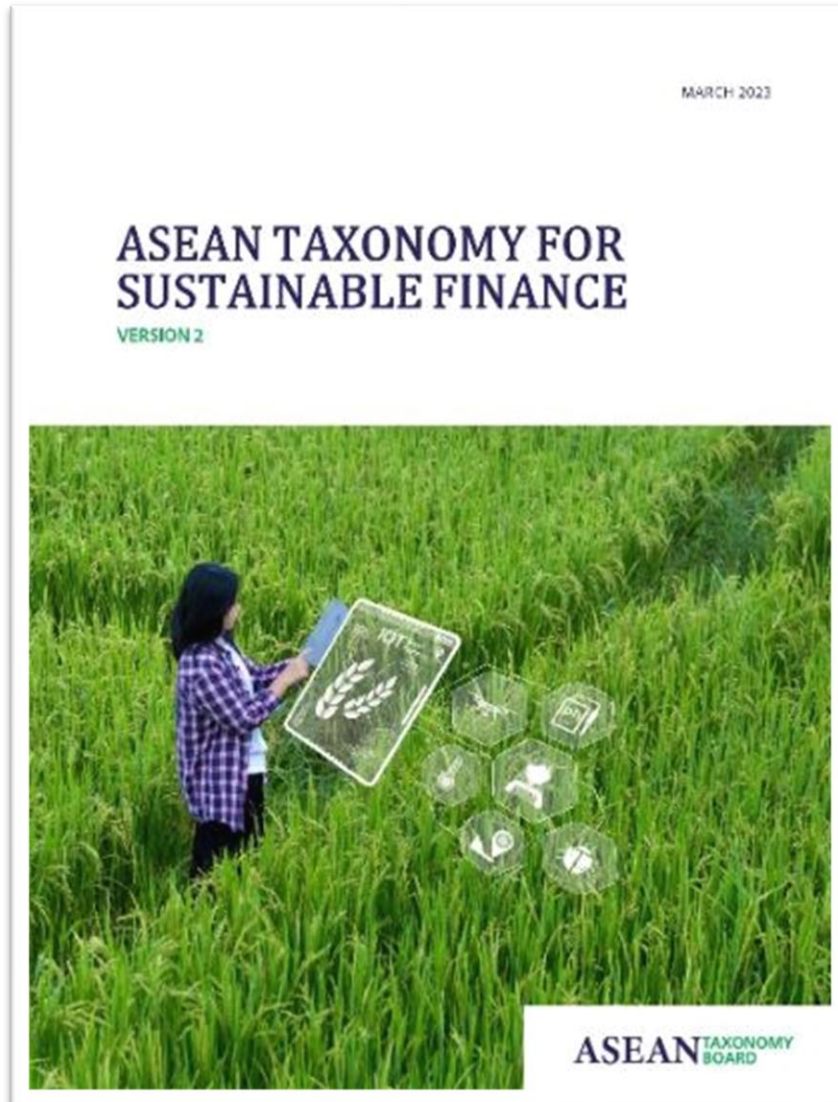
Thailand Taxonomy

Traffic Lights/ Plus Standard

Philippines Taxonomy

Foundation Framework

Where to download the ASEAN Taxonomy Version 2



Download at the following websites:

- Association of Southeast Asian Nations - <https://asean.org/wp-content/uploads/2023/03/ASEAN-Taxonomy-Version-2.pdf>
- ASEAN Finance Cooperation Web Portal - <https://afcwp.asean.org/wp-content/uploads/2023/03/ASEAN-Taxonomy-Version-2.pdf>
- ASEAN Capital Markets Forum - <https://www.theacmf.org/images/downloads/pdf/ASEAN-Taxonomy-Version-2.pdf>
- Sustainable Finance Institute Asia - <https://www.sfinstitute.asia/wp-content/uploads/2023/03/ASEAN-Taxonomy-Version-2.pdf>

Thank you