

ASEAN Taxonomy for Sustainable Finance Version 1

Presentation by the
ASEAN Taxonomy Board

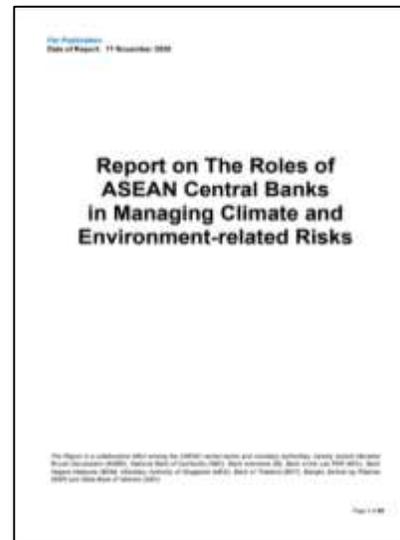
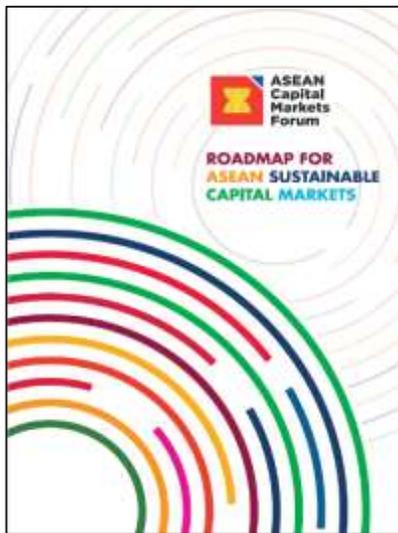
Note: Kindly refer to the full *ASEAN Taxonomy – Version 1* document for further details on the information in this presentation

10 November 2021

Background

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's (ACMF) Roadmap for ASEAN Sustainable Capital Markets
 - The ASEAN Senior Level Committee on Financial Integration's (SLC) Report on The Roles of ASEAN Central Banks in Managing Climate and Environment-related Risks
 - The ASEAN Working Committee on Capital Market Development's (WC-CMD) Report on Promoting Sustainable Finance in ASEAN



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 assets**
 - **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**

Formation of the ASEAN Taxonomy Board (ATB)

ASEAN TAXONOMY BOARD

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)



ASEAN Taxonomy Board

Chair: Brunei Darussalam
Central Bank

Vice-Chair: Monetary
Authority of Singapore

Members:

- Non-Bank Financial Services Authority, Cambodia
- Otoritas Jasa Keuangan Indonesia
 - Bank of the Lao PDR
 - Bank Negara Malaysia
 - Securities Commission Malaysia
- Ministry of Planning and Finance Myanmar
 - Philippines Insurance Commission
 - Monetary Authority of Singapore
 - Bank of Thailand
- State Securities Commission of Viet Nam

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

Endorsed by: the ASEAN Finance Ministers and Central Bank Governors' Meeting (AFMGM) on 30 March 2021

Version 1 of the ASEAN Taxonomy

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.

Design Overview

- **Tiered** framework
- **Builds on common principles** as a foundation
- **Subsequent tiers** contain more layered definitions and criteria to cater to the **different state of readiness** within ASEAN

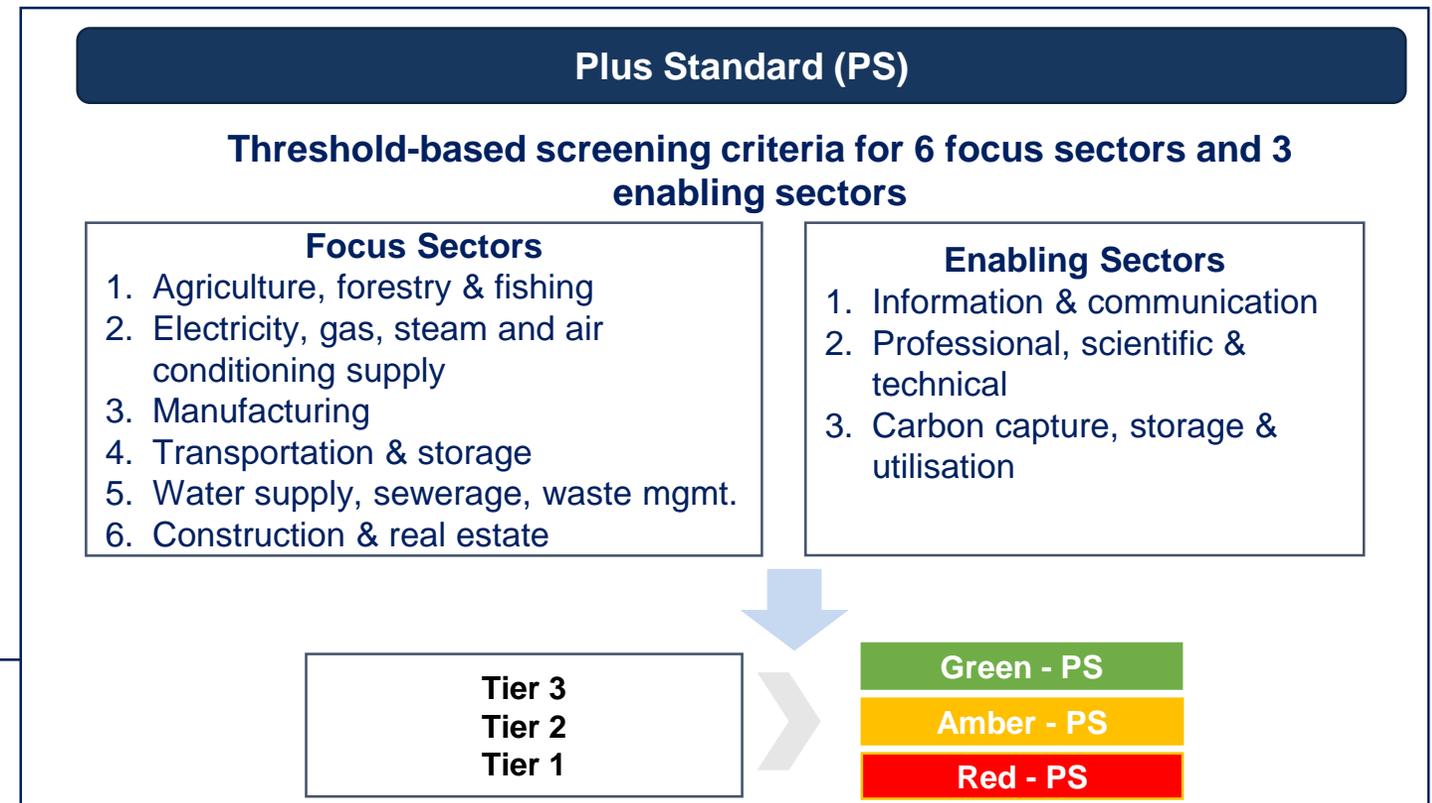
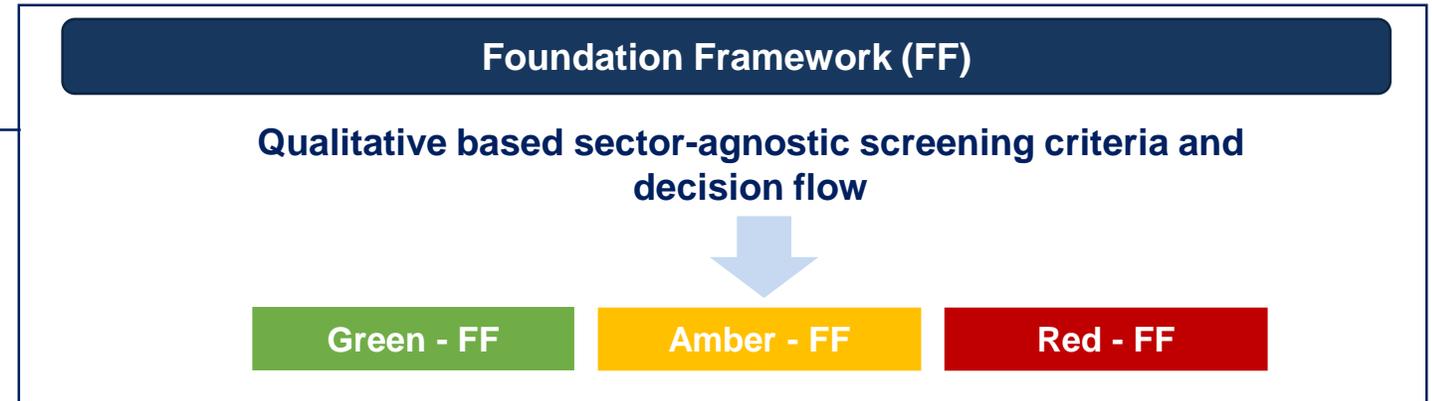
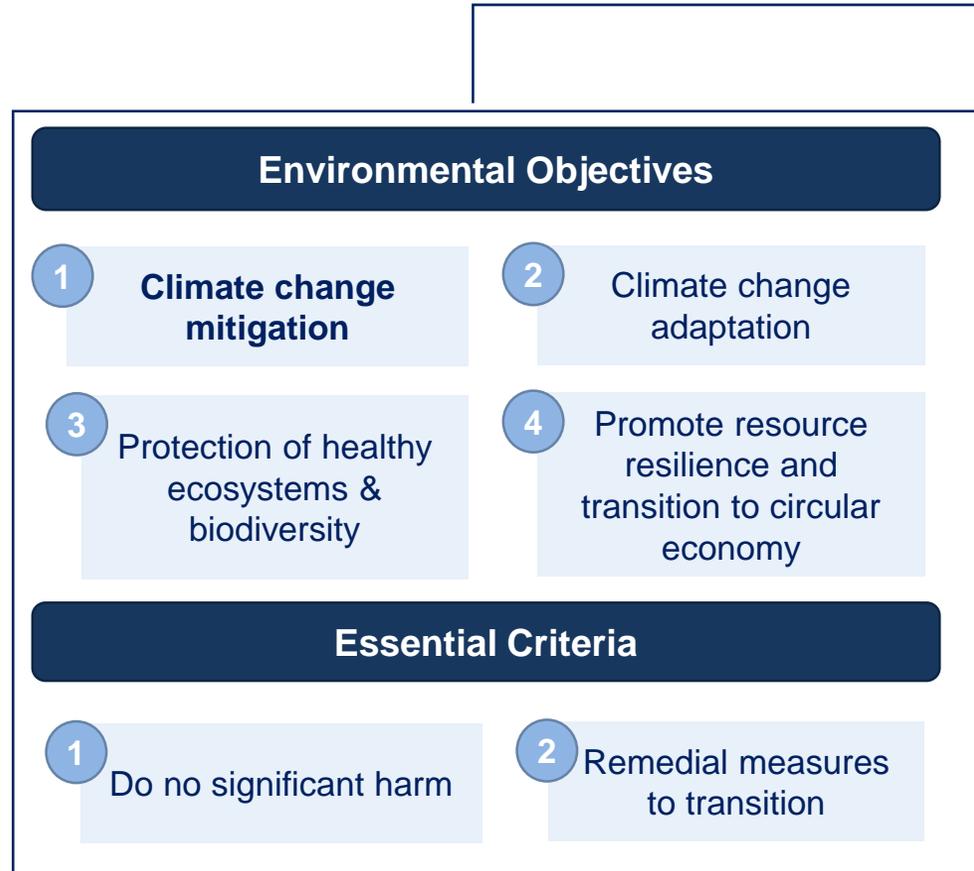
Foundation Framework

Underpinned by **environmental objectives** and **essential criteria** to guide AMS in classifying economic activities

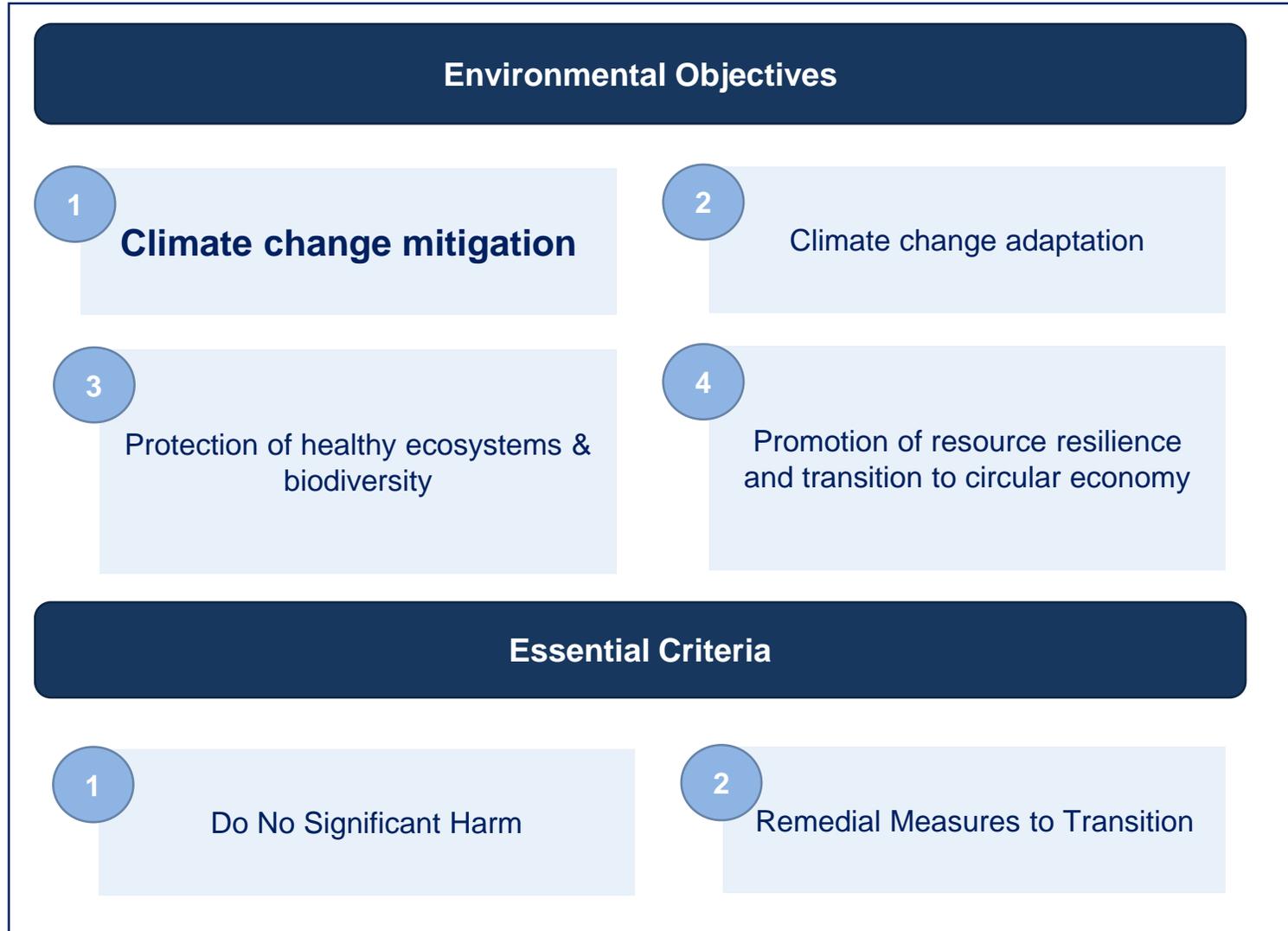
Plus Standard

Additional guidance and scope for AMS to further **qualify and benchmark** eligible green activities and investments

Overview of Taxonomy Classification under the FF and PS

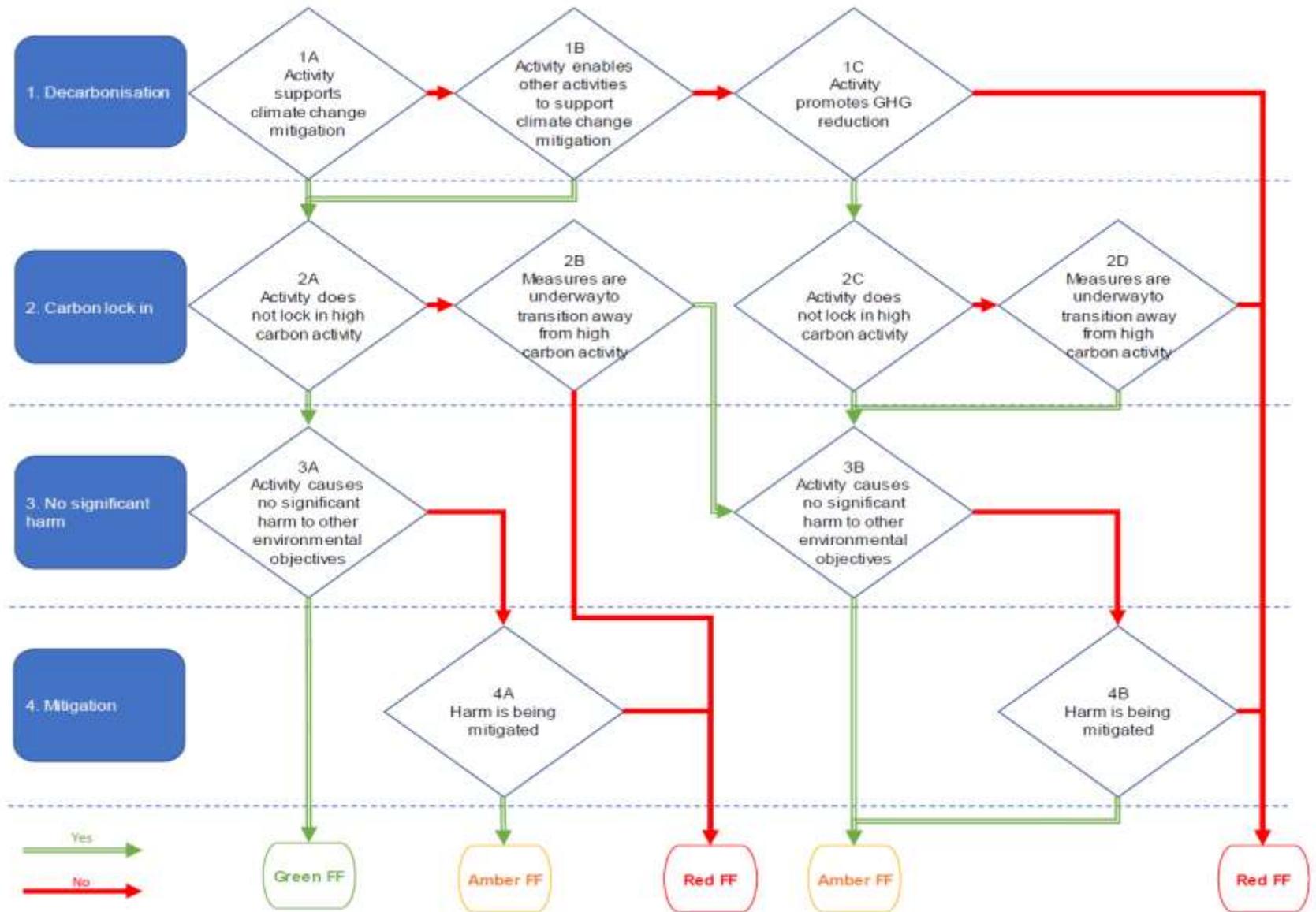


Foundation Framework: Environmental Objectives & Essential Criteria



Foundation Framework: Classification of activities

Sector-Agnostic Decision Tree



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).



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

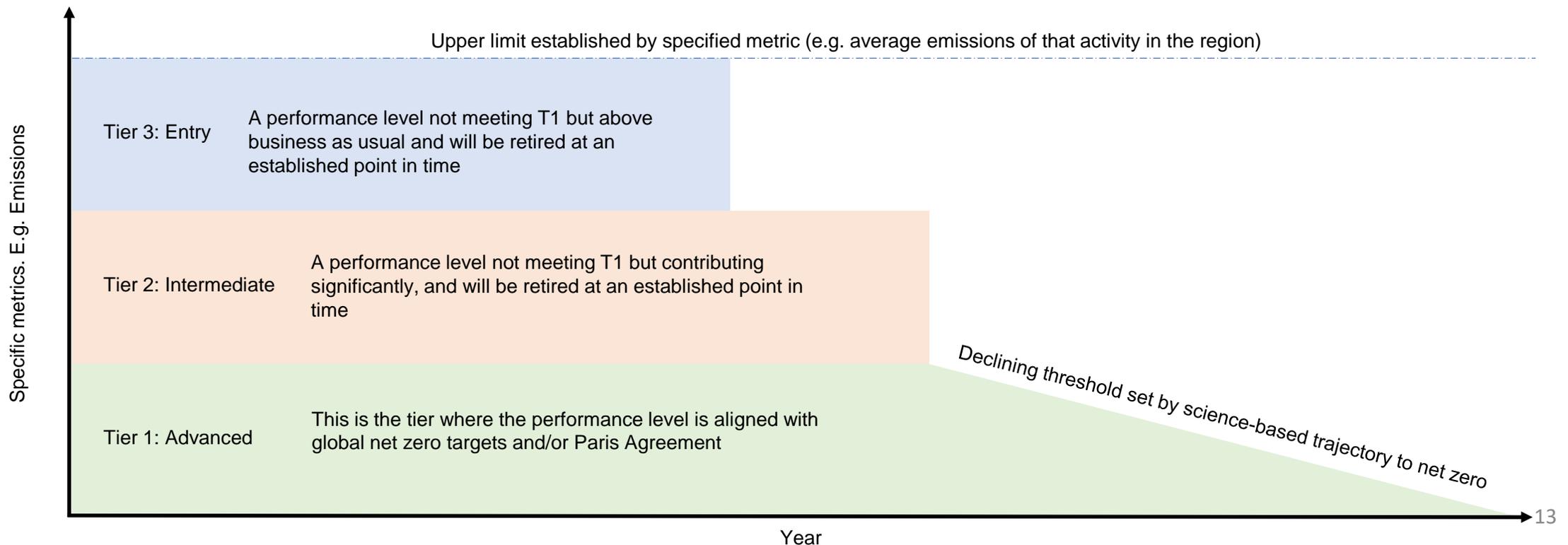
3 enabling sectors:

- 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 and Sequestration

Plus Standard: Activity-level technical screening criteria

- “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”:



Overview

- The ASEAN Taxonomy is intended to be a **living document** – frequently revised to account for technological, scientific and economic developments
- **Targeted consultation with key stakeholders** - input received will be utilised in the further development of the ASEAN Taxonomy.

Foundation Framework

- **Integration of other environmental objectives**
 - Focus for Version 1 is **climate mitigation**
- Develop **guiding questions** on environmental objectives and essential criteria
 - To enrich assessment of economic activities based on a single decision tree

Plus Standard

- Develop **thresholds** for identified focus sectors
- Scope in **more sectors** in future versions
 - Based on the other environmental objectives (EO 2-4)
- Develop **screening criteria** specific to **each economic activity**

Where to download the ASEAN Taxonomy – Version 1

The ASEAN Taxonomy – Version 1 can be found at the following websites:

- Association of Southeast Asian Nations – <https://asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf>
- ASEAN Finance Cooperation Web Portal - <https://afcwp.asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf>
- ASEAN Capital Markets Forum – www.theacmf.org/initiatives/sustainable-finance/asean-taxonomy
- Sustainable Finance Institute Asia – <https://www.sfinstitute.asia/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf>

Thank you