

Overview of the ASEAN Taxonomy for Sustainable Finance

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

25 May 2022

Background

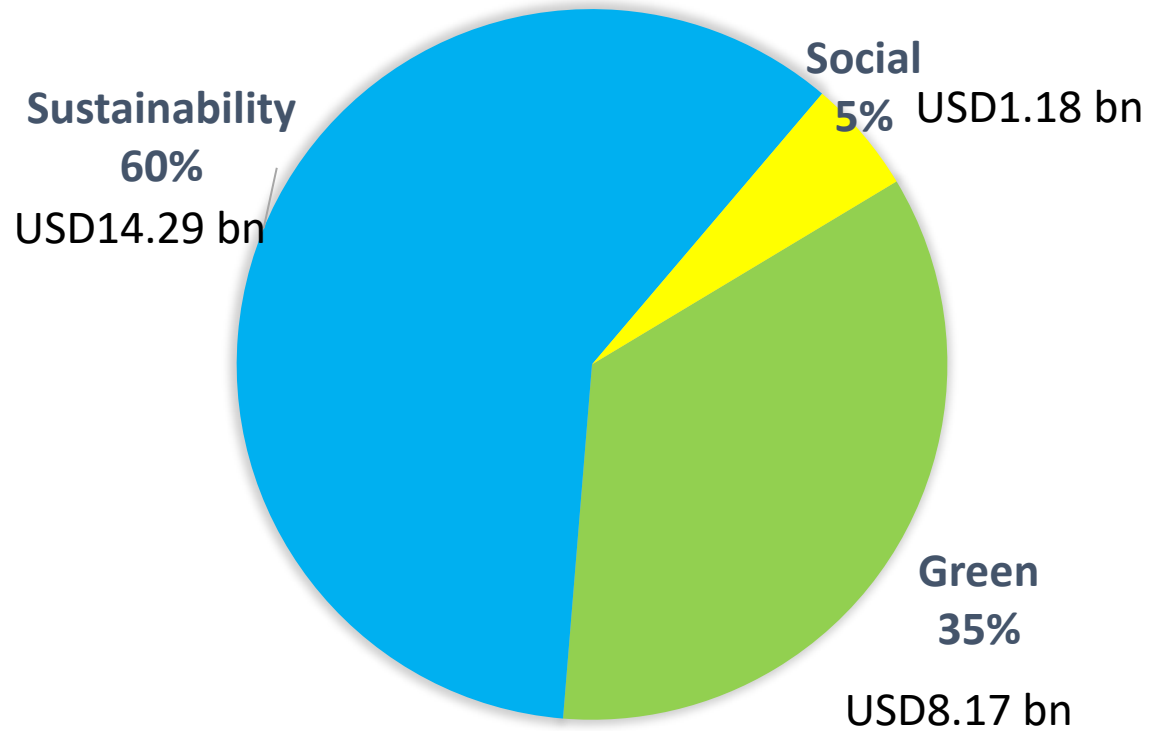
The Beginning – ASEAN Bond Standards Suite



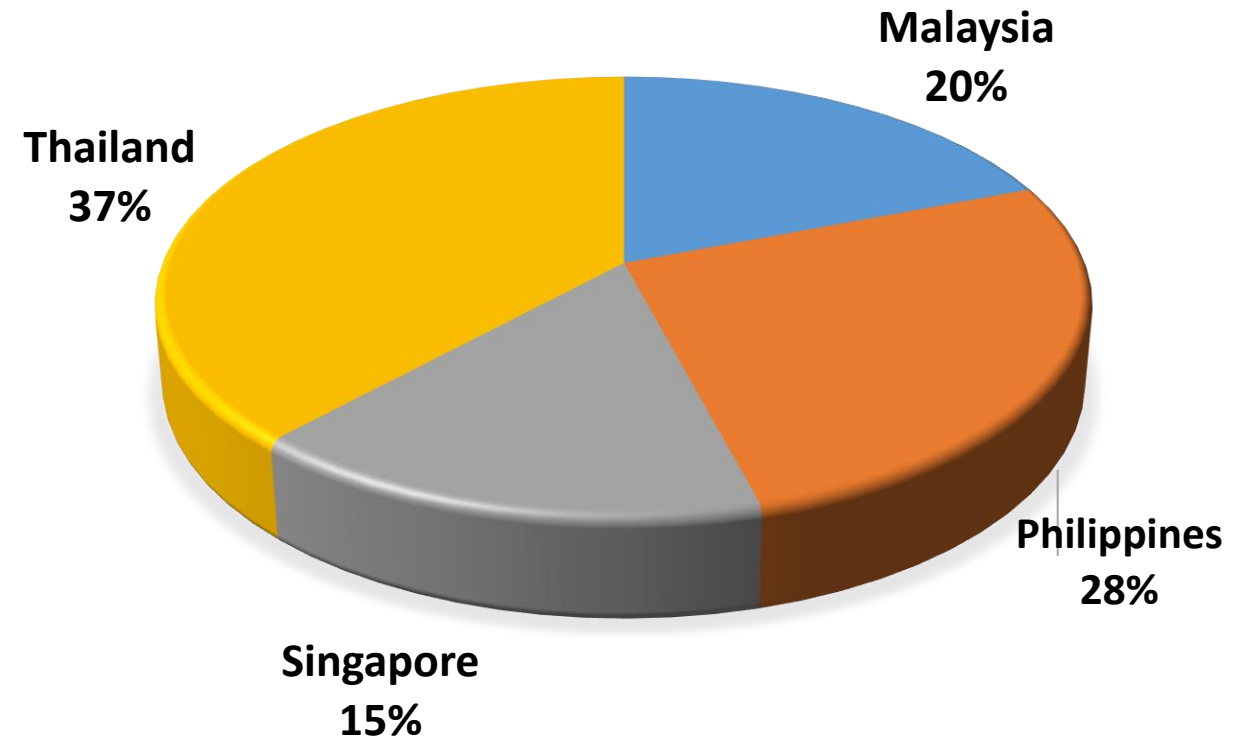
Issuance of labelled ASEAN Green, Social and Sustainability Bonds

Total issuance of USD23.64 bn as at 10 May 2022

TYPE OF BONDS



ISSUANCE BY COUNTRY



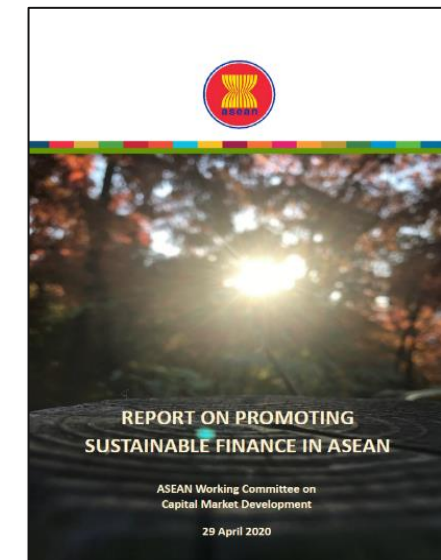
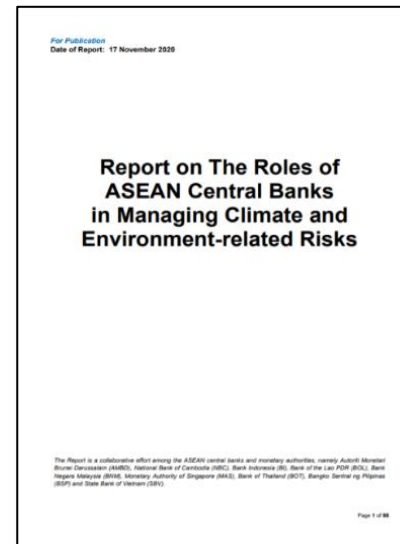
At the 6th AFMGM, the Meeting committed to enhancing the cohesiveness of the finance track for sustainable finance :

“We commit to furthering a cohesive sustainable finance agenda cutting across banking, capital markets and insurance areas at the AFMM and AFMGM respectively, with greater coordination amongst the relevant ASEAN working committees.”

By the 6th AFMGM, the ACMF, SLC and WC-CMD had all developed reports that would help chart the path for sustainable finance in ASEAN

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**

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*

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)

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
- Securities and Exchange Commission, Philippines
- Monetary Authority of Singapore
 - Bank of Thailand
- Office of Insurance Commission 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

- The ATB is tasked with:
 - Developing, maintaining and promoting the use of the ASEAN Taxonomy
 - Determining the design and classification system used in developing the ASEAN Taxonomy
 - Developing, reviewing and updating the Standards and Technical Criteria to be issued under the ASEAN Taxonomy
 - Interpreting the Principles, Standards and Technical Criteria issued under the ASEAN Taxonomy
 - Developing and implementing the ATB's market facing strategies, including stakeholder engagement, outreach and promotion programmes and interfacing with other Taxonomy initiatives; and
 - Ensuring there are sufficient funds and resources.

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

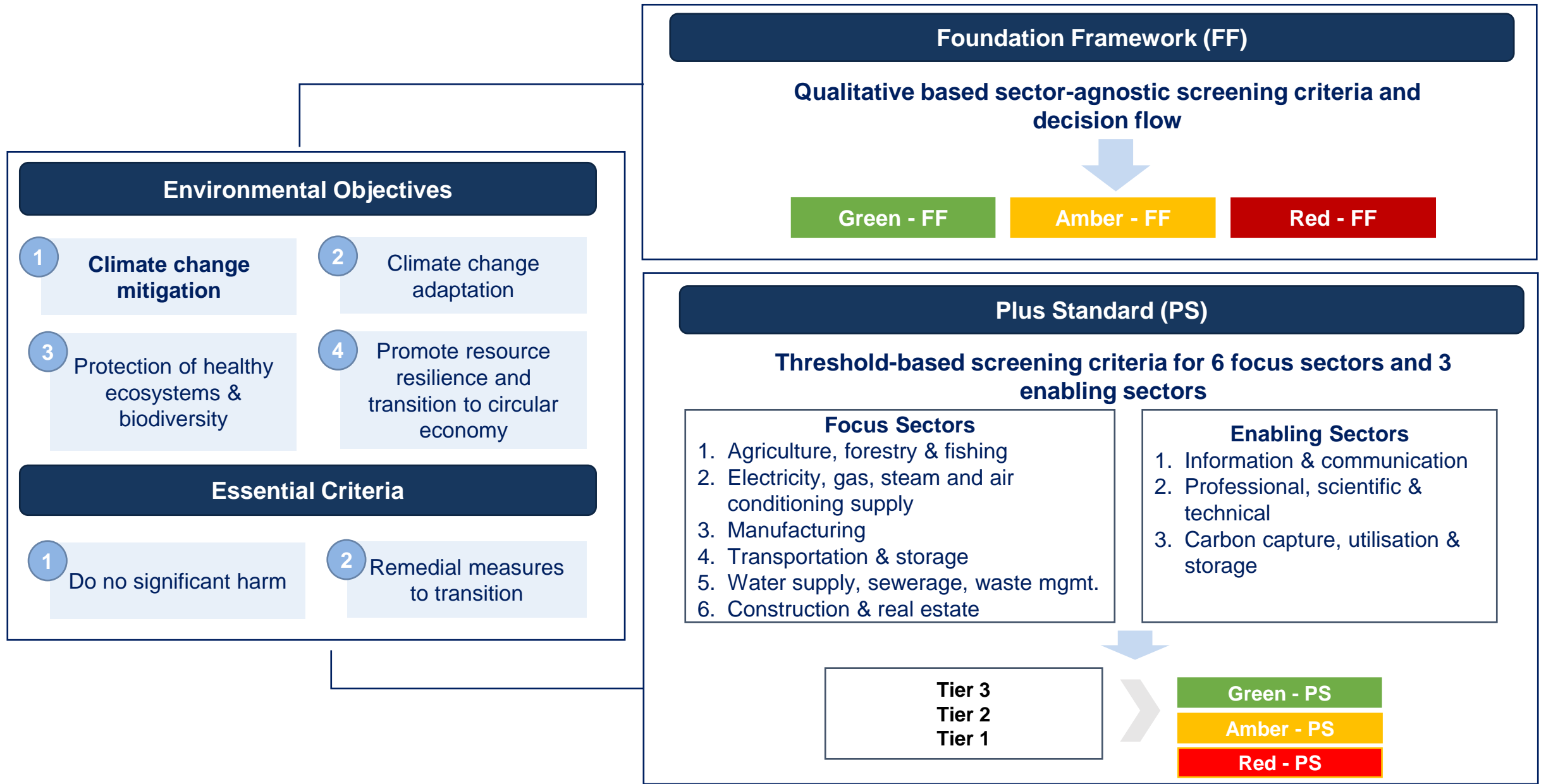
Foundation Framework

- Underpinned by environmental objectives and essential criteria to guide AMS in classifying economic activities
- Qualitative based sector-agnostic screening criteria and decision flow

Plus Standard

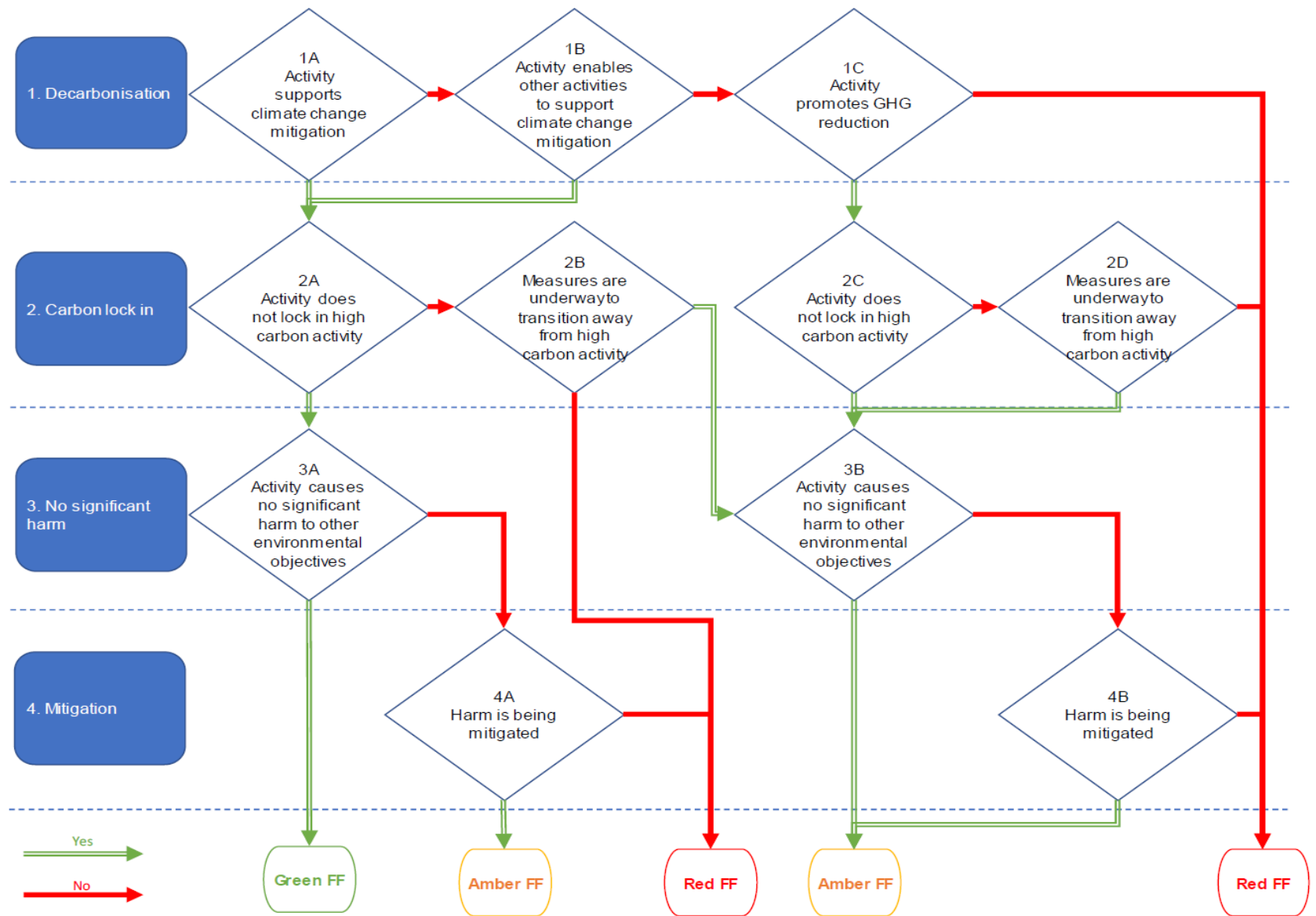
- Additional guidance and scope for AMS to classify eligible green and transition activities and investments, benchmarked against Paris Agreement aligned goals
- Threshold-based screening criteria for 6 focus sectors and 3 enabling sectors

Overview of Taxonomy Classification under the FF and PS



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).



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

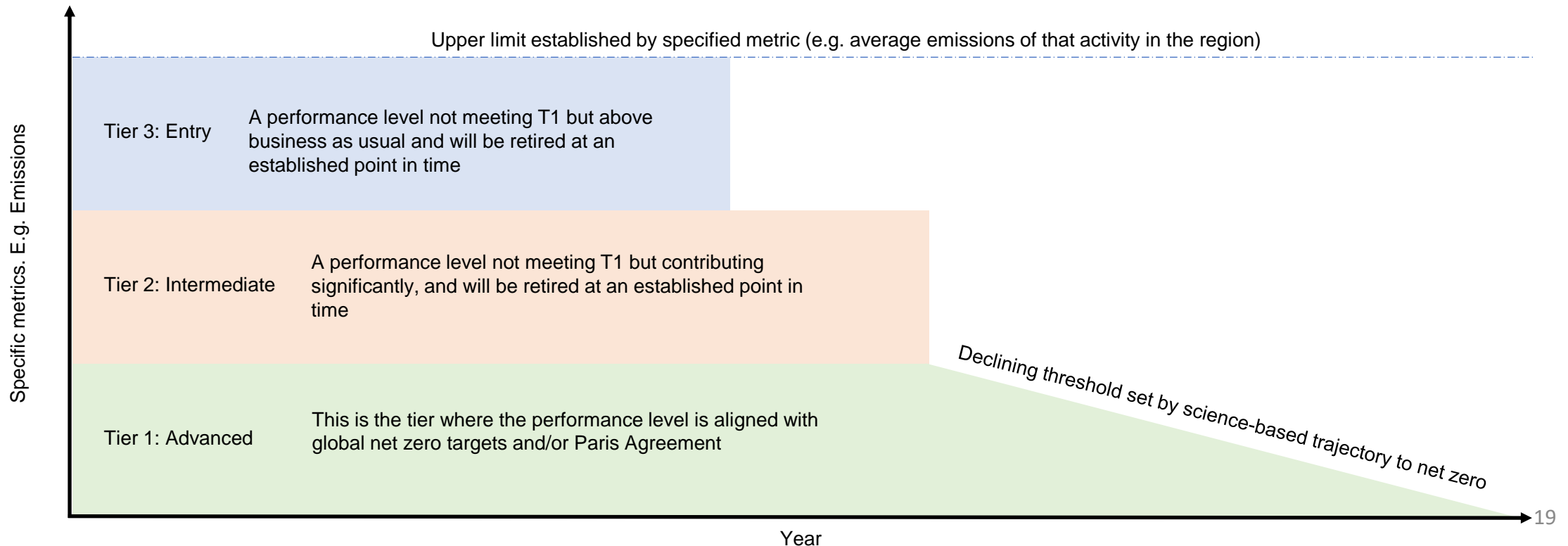
3 enabling sectors:

- 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

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** – periodically revised to account for technological, scientific and economic developments
- **Current stage: Targeted consultation with key stakeholders** - inputs received will be considered in the further development of the ASEAN Taxonomy, proposed to be rolled out in stages.

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 methodology to set thresholds for focus sectors
- Develop **metrics and thresholds** specific to Environmental Objective (EO) 1 on climate mitigation
- Incorporate other Environmental Objectives into the methodology

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