

ASEAN Taxonomy for Sustainable Finance Version 2

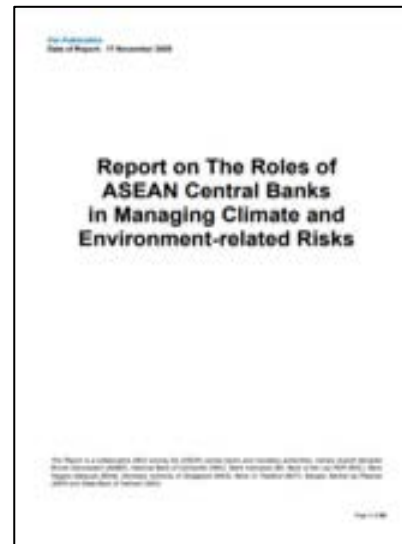
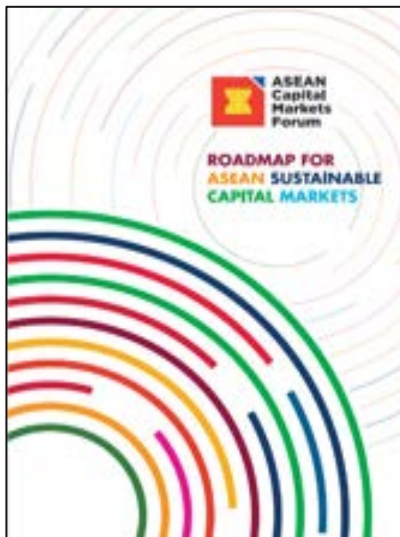
ASEAN Taxonomy Board

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

9 June 2023

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



Why ASEAN needs a Taxonomy

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**

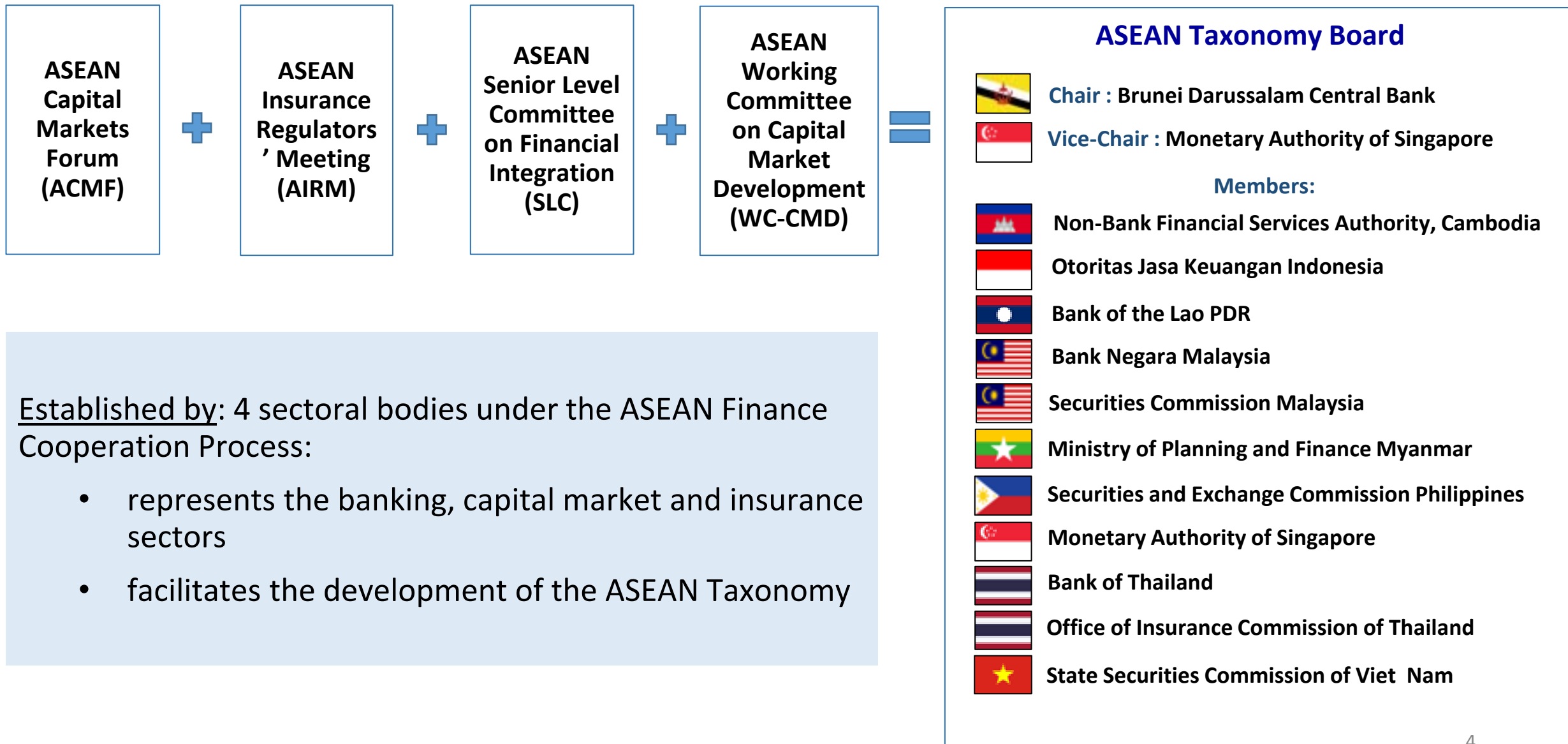
- **Importance** of an ASEAN Taxonomy

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

- **Utility** of an ASEAN Taxonomy

- Provides **clarity and confidence** for **investors** to identify the sustainability performance of investment opportunities
- Helps **financial institutions evaluate** the sustainability risks associated with lending and investment activities
- Assists **regulators and policymakers** in developing **coherent and consistent policies** related to sustainable finance

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

Recap 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.

Design Overview

- **Tiered** approach
- **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

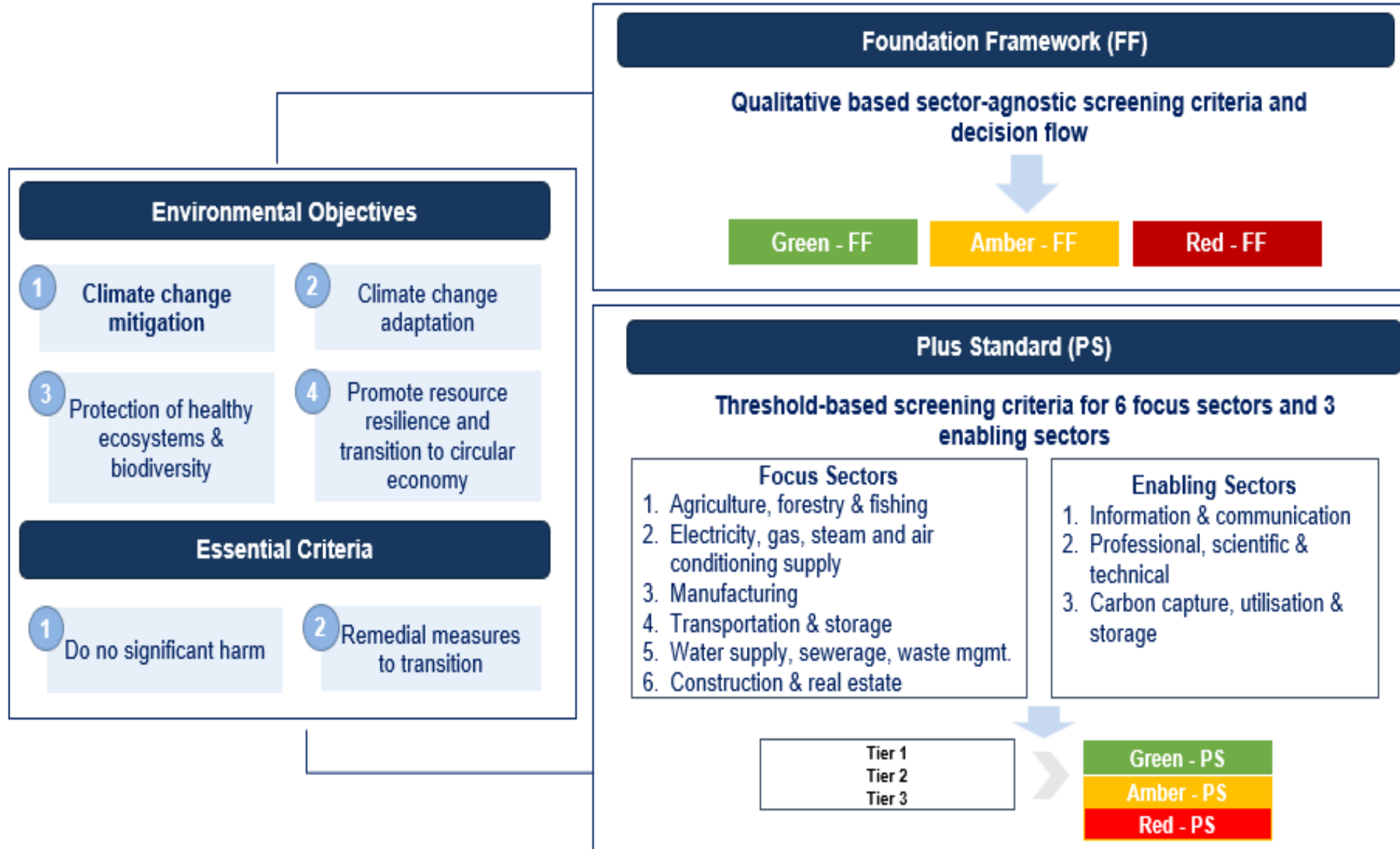
Foundation Framework

- 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

ASEAN Taxonomy Version 1 Overview



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).



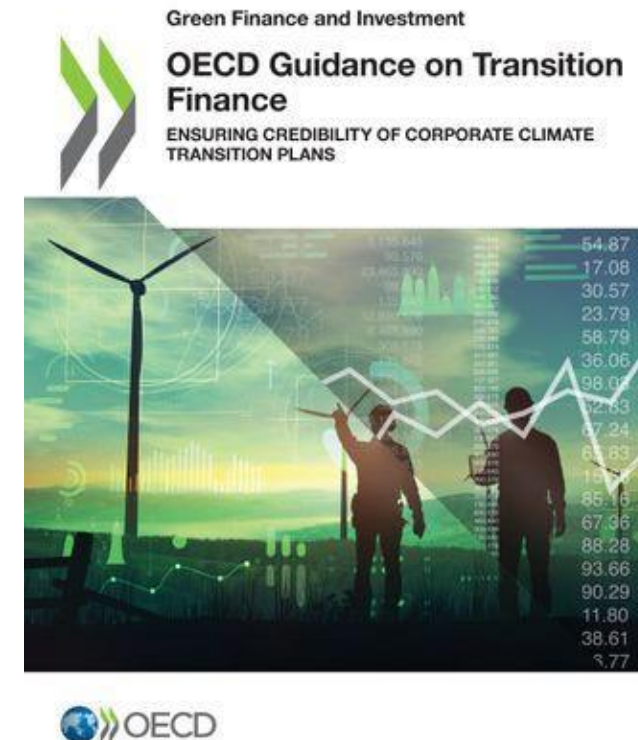
6 sectors:

- 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

The ASEAN Taxonomy Has Been Referenced Internationally



Overview of ASEAN Taxonomy Version 2

Summary of Outcomes for Stakeholder Consultation for ASEAN Taxonomy Version 1

From the Written Feedback, Roundtables and Direct Interviews phases, five common themes were raised and will be addressed in the development of Version 2:

01 Interoperability with International Taxonomies

02 Alignment with National Taxonomies

03 Availability, transparency and quality of data

04 Treatment of Social Issues in the ASEAN Taxonomy

05 Tier Setting – References, Basis and Retirement

Overview of Version 2

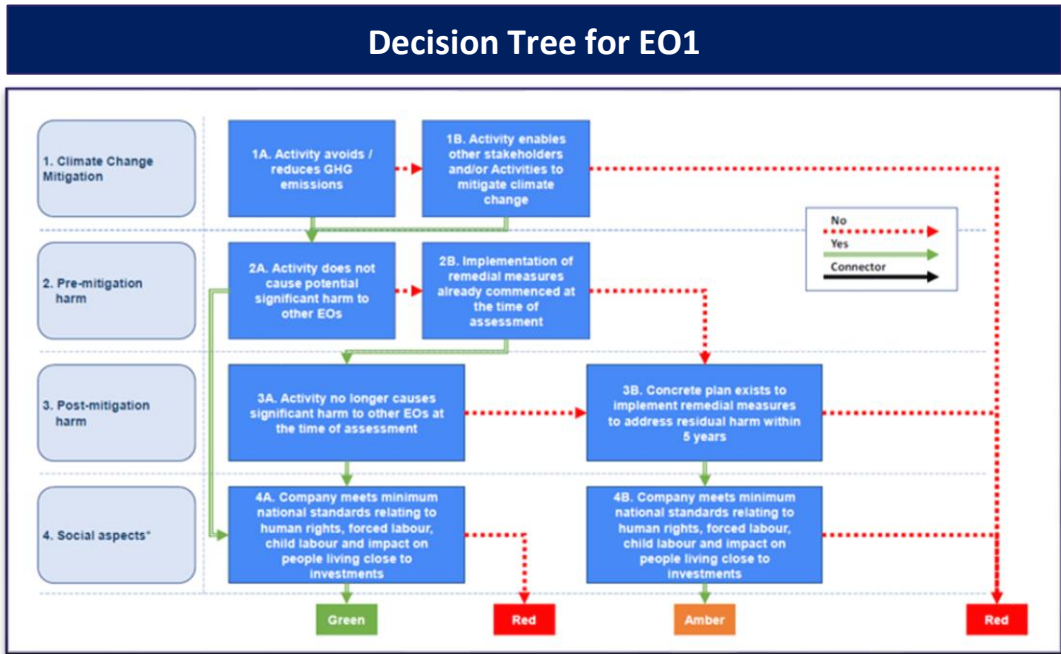
- The ASEAN Taxonomy is intended to be a **living document** – periodically revised to account for technological, scientific and economic developments.
- **Completed targeted consultation of Version 1 with key stakeholders in August 2022.**
- **Version 2** was first **published on 27 March 2023** with clear guidance for the Foundation Framework and Plus Standard and **updated on 9 June 2023** with **additional criteria** for the Plus Standard.
- **Social aspects** introduced as the third Essential Criteria (EC).

Features of the Foundation Framework in Version 2

1 Multiple sector-agnostic Decision Trees that cover each environmental objective and incorporates all three essential criteria

2 Guiding Questions that supplement each Decision Tree

3 Use Cases that address all environmental objectives and essential criteria



Guiding Questions for EO1

S/N	Guiding questions - EO1 (Climate Change Mitigation)
1A	<p>Does the Activity avoid / reduce GHG emissions?</p> <ol style="list-style-type: none"> How does the Activity avoid or help reduce emissions? (e.g., generation of electricity through renewables) <ul style="list-style-type: none"> Does the Activity avoid locking in high-carbon activity? (i.e., delaying or preventing the transition towards low carbon alternatives) Does the Activity avoid leading to significant GHG emissions, incl. CO₂, CH₄, N₂O, SF₆, NF₃ and/or HFCs? Does the Activity avoid leading to or causing extensive deforestation practices? Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified EO1 principles? Where applicable and relevant, is a 3rd party certification or verification of alignment of Activity with EO1 available? Does the Activity fulfil relevant environmental law(s) applicable to EO1? Are the effects of climate change mitigation efforts measurable and observable? (e.g., data on amount of carbon emissions avoided)
1B	<p>Does the Activity enable other stakeholders and/or other Activities to mitigate climate change?</p> <ol style="list-style-type: none"> Does the Activity help other stakeholders (including the community) to mitigate climate change? (e.g., construction of a building that facilitates urban planting) <ul style="list-style-type: none"> Does the Activity avoid impeding upstream and/or downstream stakeholders from reducing their GHG emissions? Does the Activity promote intersectoral collaborations for climate change mitigation without negatively affecting other sectors? How does the Activity enable other Activities to mitigate climate change? (e.g., operation of power transmission and distribution equipment that enables the incorporation of solar power) Are the effects of climate change mitigation efforts by the enabled Activity measurable and observable? (e.g., data on amount of carbon emissions avoided)

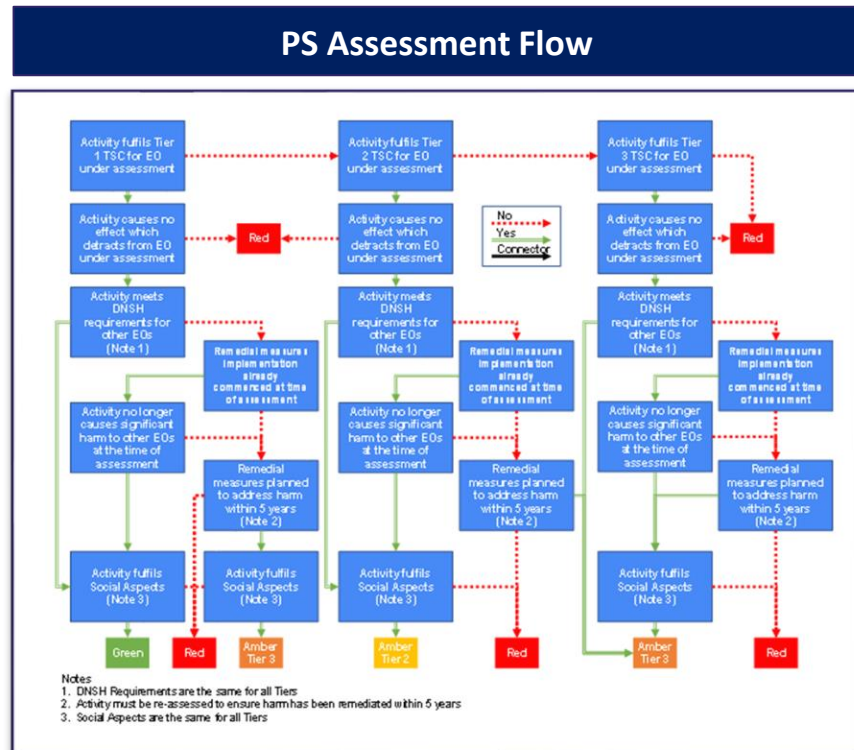
* Once evaluation is complete, proceed to Section 0 to evaluate the Activity under Do No Significant Harm & Remedial Measures to Transition.

*Note: This is an illustration for EO1 only however the completed FF also provides guidance for other EOs

Features of the Plus Standard (PS) in Version 2

1 The methodology to set TSC including metrics and thresholds, for all EOs that will apply to focus and enabling sectors. It also includes a guide for users to navigate the assessment flow, should they intend to use the PS.

2 The TSC for all four environmental objectives for the Energy sector in the Plus Standard is included in Annex 1.



Summary of Setting, Review, Adjustment and Sunsetting of TSC

Type	Description / Definition
TSC Setting	<ul style="list-style-type: none"> TSC will be set for each Tier applicable to an Activity. Future TSC for subsequent TSC Periods will also be set until the Tier is sunset for that Activity. The extant TSC at the time of assessment must be used as the basis of classification of an Activity under the PS. TSC are considered extant until an adjusted TSC has been approved and published by the ATB.
TSC Period	<ul style="list-style-type: none"> The TSC Period is the period between the setting of an TSC and the subsequent adjustment of that TSC. A TSC Period of 5-years is recommended as standard but may vary by Activity at the discretion of the ATB, in line with expected developments in technology in the coming years. The TSC for all Tiers of the same Activity may be adjusted at the end of each TSC Period, normally in line with future TSC. The TSC Period ends when an adjusted TSC come into force. At this point, a new TSC Period commences, except when the Tier is sunset (see below).
Sunsetting	<ul style="list-style-type: none"> Sunset date must be confirmed 12 months before sunset, after which time no change may be made to the sunset date. The sunsetting recommendation must be approved by the ATB and the decision published. When a Tier has been sunset, all TSC related to that Tier can no longer be used as the basis for classification of Activities.



Tier-Setting

- Basis of tier-setting
- Enable interoperability with EU Taxonomy for “Green” tier
- Ensure inclusivity for AMS with “Amber” 2 and 3 tiers



Clarity on Sunsetting approaches on Tiers

- Basis
- Review period



Coal Phase-Out (CPO)

- Possible Green and Amber classification for CPO
- Determining eligibility criteria of the phase-out emissions intensity equivalents, absolute emissions reduction or reduction in operations period
- Types of coal plants that are to be decommissioned and life cycle considerations

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.

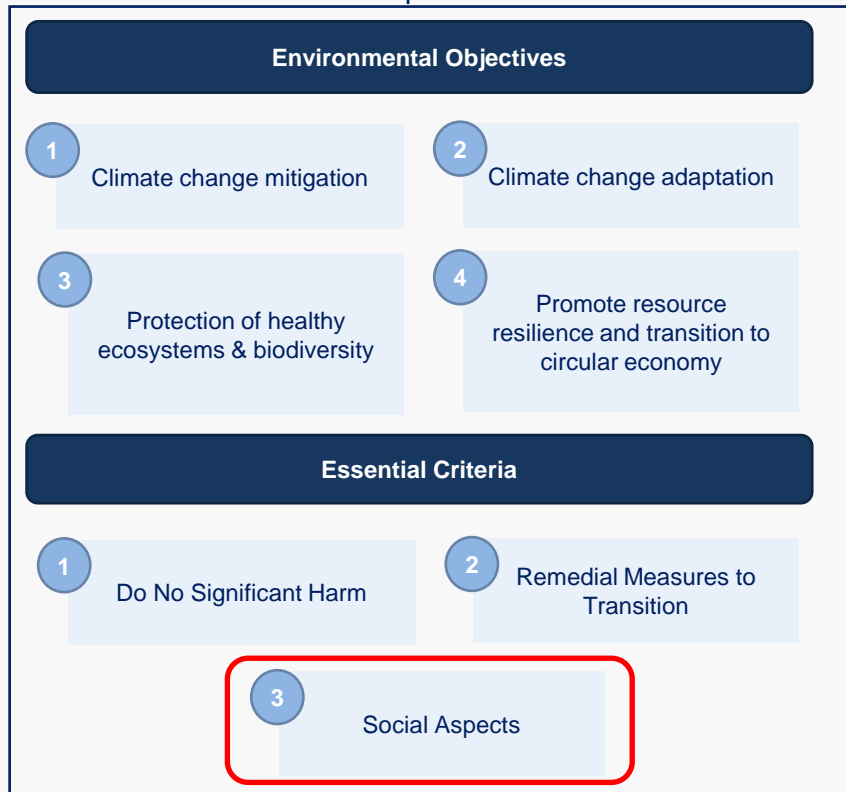
Amber Tier 2

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.

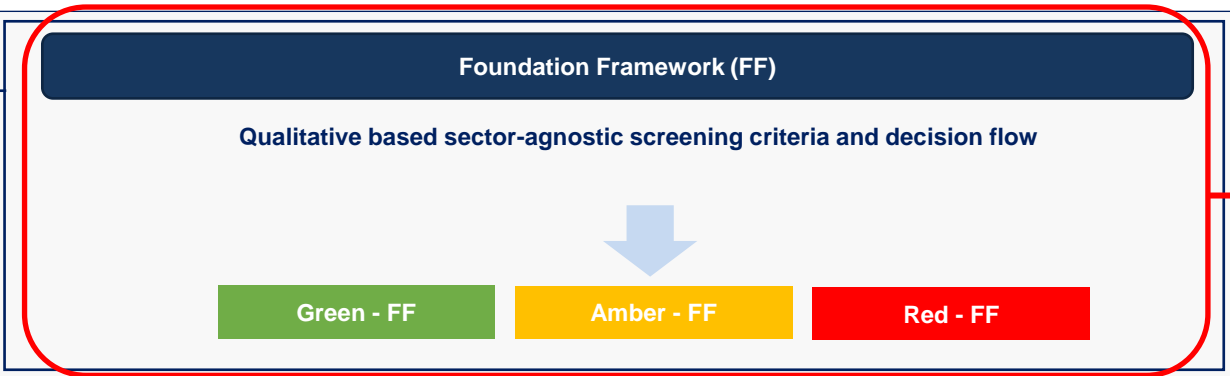
Amber Tier 3

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.

Overview of Taxonomy Classification under the FF and PS

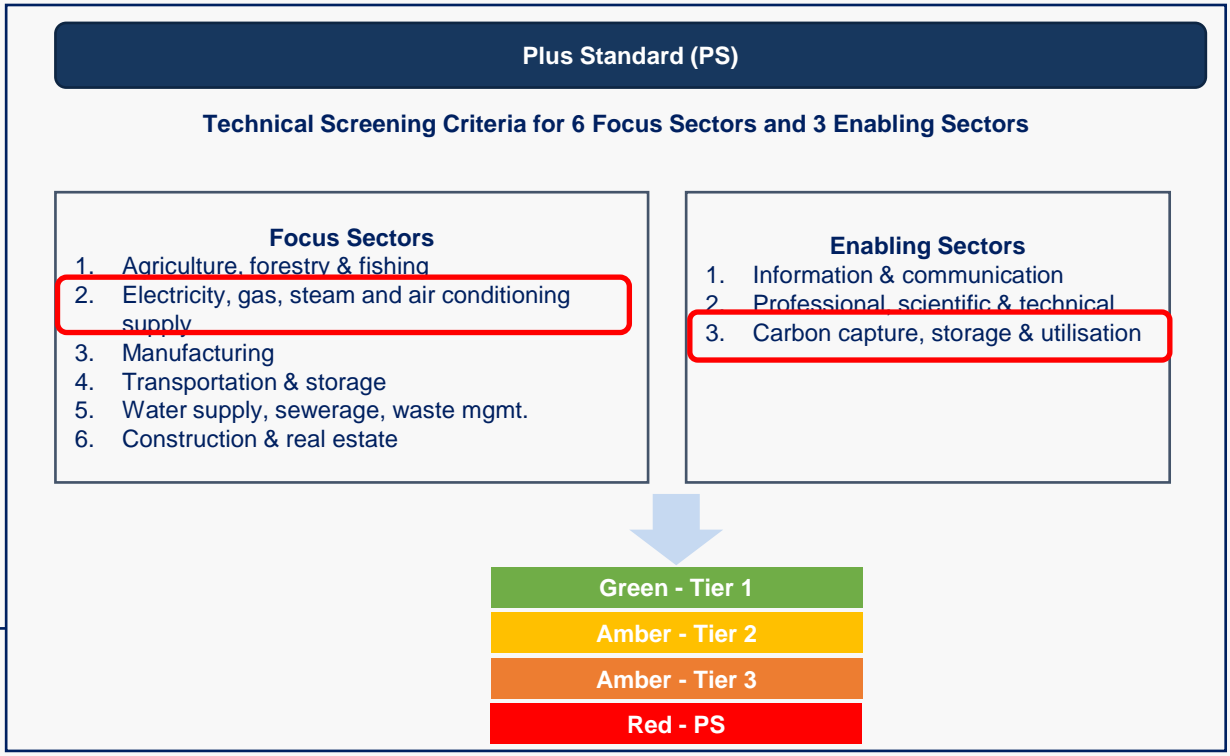


Version 2 enhancements



For all EOs and ECs:

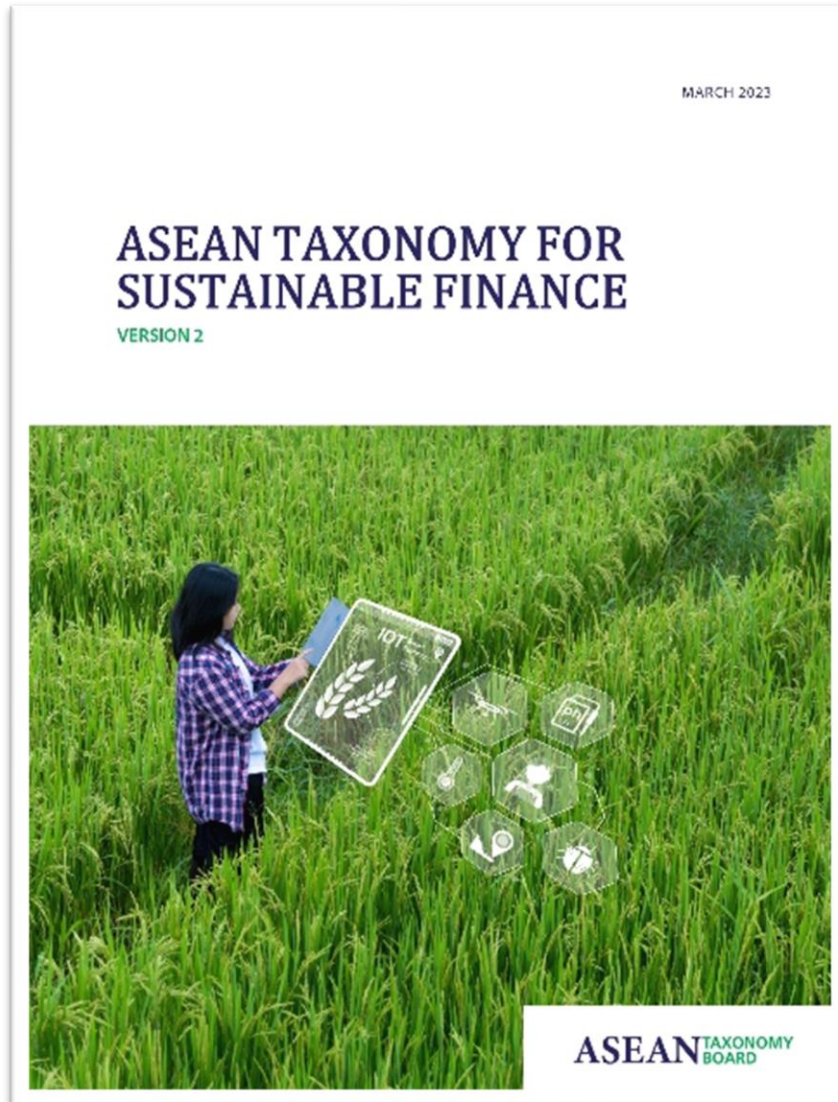
- Decision Trees
- Guiding Questions
- Use Cases



2023 onwards

- **Stakeholder consultation** for Version 2 planned for Q2, 2023.
- Continued development of Technical Screening Criteria for the remaining 5 focus sectors as well as 2 enabling sectors.

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/2023/06/ASEAN-Taxonomy-Version-2 .pdf>

Contact the ATB at aseantaxo@sfinstitute.asia

Thank you