

**MEMO# 33950**

December 10, 2021

## **Asia ESG: ASEAN Publishes Sustainable Finance Taxonomy**

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TO: ICI Members

ICI Global Members

ESG Task Force

Global Regulated Funds Committee - Asia SUBJECTS: ESG

International/Global RE: Asia ESG: ASEAN Publishes Sustainable Finance Taxonomy

On 10 November 2021, the Association of Southeast Asian Nations (ASEAN) released Version 1 of the ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy),[\[1\]](#) in conjunction with the 26th Conference of the Parties to the UN Framework Convention on Climate Change (COP26).

Similar to the EU framework, the ASEAN Taxonomy would require a "green" economic activity to contribute to certain environmental objectives and "do no significant harm" to the other environmental objectives. Also, comparable to proposals to extend the EU Taxonomy[\[2\]](#) and Singapore's proposed taxonomy framework,[\[3\]](#) the ASEAN Taxonomy groups activities into three different categories - green, amber, or red, based on its contribution to the environmental objectives.

This first version of the ASEAN Taxonomy is intended to provide a framework for discussions with ASEAN public sector and private sector stakeholders to work together on the development of the ASEAN Taxonomy. The ASEAN Taxonomy Board (ATB)[\[4\]](#) will proceed to expand this first version into a more comprehensive ASEAN Taxonomy.

This memorandum briefly summarizes the key components of the ASEAN Taxonomy.

### **1. Multi-tiered taxonomy framework**

The ASEAN Taxonomy is intended to serve as a common building block to enable an orderly transition and foster sustainable finance adoption in the ASEAN region. Recognizing that ASEAN Member States (AMS) may develop their own national sustainable finance taxonomies to meet their individual needs in the context of domestic stages of development, the ASEAN Taxonomy will be an overarching guide for AMS that caters to the different ASEAN economies, financial systems and transition paths. It will serve as a

common language across the different jurisdictions to communicate and coordinate on labeling for economic activities and financial instruments.

As such, instead of a "one-size-fits-all" framework, the ASEAN Taxonomy is conceived as a multi-tiered framework that takes into account the diversity of AMS. It consists of a principles-based Foundation Framework which is applicable to all AMS and provides a qualitative assessment of activities, and Plus Standards with metrics and thresholds to further qualify and benchmark eligible green activities and investments.

## 2. Tier 1 - Foundation Framework

Under the Foundation Framework, economic activities must fulfill at least one of the environmental objectives and both essential criteria.

### **A. Environmental Objectives**

There are four environmental objectives under the ASEAN Taxonomy: (i) climate change mitigation; (ii) climate change adaptation; (iii) protection of healthy ecosystem and diversity; and (iv) promotion of resource resilience and transition to circular economy.<sup>[5]</sup> The ASEAN Taxonomy further details the criteria for each environmental objective.<sup>[6]</sup> The initial version of ASEAN Taxonomy focuses on climate change mitigation as its key objective.

These four environmental objectives are applicable to all financial sector participants and business enterprises in the AMS. Nevertheless, the economic activities should also be assessed against the relevant environmental laws instituted by each AMS as a minimum safeguard to ensure there is no contravention with local environmental regulations.

### **B. Essential Criteria**

Do no significant harm (DNSH). Similar to the EU framework, an economic activity that makes substantial contribution to an environmental objective should not significantly harm any of the other environmental objectives. Economic activities should be assessed to ascertain whether the activities are causing significant harm to the broader environment while meeting one or more of the environmental objectives. In developing the criteria for DNSH going forward, ASEAN will take into consideration similar rules established in other jurisdictions, for instance, the European Union.

Remedial measures to transition. Remedial actions to mitigate climate and/or environmental impacts should be assessed, proportionate to the scale of business operations, against two considerations:

- actions should anticipate and avoid risks and impacts at the outset; and
- if avoidance is not possible, minimize or reduce risks and impacts to acceptable levels.

### **C. Qualitative classification of economic activities**

The Foundation Framework is intended to be a tool that all AMS can use to conduct an assessment of activities in all sectors. It uses a single sector-agnostic decision tree,<sup>[7]</sup> based on climate change mitigation, as the main objective in this first version of the ASEAN Taxonomy. Considerations for the other environmental objectives have been integrated into questions further down in the decision tree on whether the activity causes significant harm.

Economic activities are classified into the below three categories:

- Green: clearly contributes to or enable climate change mitigation
- Amber: activities contributing to decarbonization where mitigation of other harm to environmental objectives is necessary
- Red: does not contribute to or enable climate change mitigation and/or fails to meet other safeguards

### 3. Tier 2 - Plus Standard

The Plus Standard provides additional guidance and scope for AMS to further qualify and benchmark eligible green activities and investments. It sets activity-level criteria and thresholds to determine if an activity contributes to the environmental objectives of the ASEAN Taxonomy and can therefore be considered taxonomy-aligned. These criteria and thresholds will be developed in the next phase of development.

#### ***A. Focus sectors under Plus Standard***

At this initial stage, the Plus Standard covers economic activities in key sectors that are important to achieving the objective of climate change mitigation. These focus sectors have been identified based on their economic and environmental importance to the ASEAN region, i.e., GHG emission and gross value added. These sectors include: (i) agriculture, forestry, and fishing; (ii) manufacturing; (iii) electricity, gas, steam, and air conditioning supply; (iv) transportation and storage; (v) construction and real estate activities; and (vi) water supply, sewerage, waste management and remediation activities. More sectors will be scoped into future versions based on the other environmental objectives.

In addition, three enabling sectors are included as they have significant ability to enable other sectors to contribute to climate change mitigation. The three enabling sectors are: (i) information and communication (ICT); (ii) profession, scientific, and technical activities; and (iii) carbon capture, utilization, and storage (CCUS).

#### ***B. Proposed approach in setting screening criteria***

The Plus Standard complements the Foundation Framework and further assesses economic activities using activity-level threshold criteria to determine if they are "green", "amber" or "red". To cater for different starting points of entities across ASEAN undertaking a particular activity, the Plus Standard will take a "stacked approach" in developing activity-level criteria and thresholds. There will be three tiers of threshold for a single activity at a single point in time:

- Tier 3 (Entry) - this threshold is less stringent and static. It will be retired at an established point in time to be determined in a future version of the ASEAN Taxonomy. After the expiry year, this tier would no longer be used to consider taxonomy eligibility
- Tier 2 (Intermediate) - this threshold is more stringent than Tier 3. Similarly, this tier is static and will be retired at a point in time to be determined.
- Tier 1 (Advanced) - this is the most ambitious threshold. It will be aligned, depending on activity, with global net zero by 2050 and/or Paris agreement. This Tier 1 threshold will decline to zero over time.

The time frame to retire the Tier 2 and Tier 3 would be different for different activities. Also, tiers would be more stringent for activities with economically viable low-carbon options.

Despite the complexity, it is noted that this approach could take into consideration the different starting points of emissions generated by different entities across ASEAN for the same activity.

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#### **endnotes**

[1] See ASEAN Taxonomy For Sustainable Finance Version 1 (November 2021), *available at* <https://asean.org/wp-content/uploads/2021/11/ASEAN-Taxonomy.pdf>

[2] See Public Consultation Report on Taxonomy extension options linked to environmental objectives, July 2021, *available at* [https://ec.europa.eu/info/sites/default/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/sustainable-finance-platform-report-taxonomy-extension-july2021\\_en.pdf](https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-platform-report-taxonomy-extension-july2021_en.pdf).

[3] See Green Finance Industry Taskforce (GFIT) Taxonomy Public Consultation *available at* <https://abs.org.sg/industry-guidelines/gfit-taxonomy-public-consultation/>. Also see ICI Memorandum No. 33188, 12 March 2021, *available at* <https://www.ici.org/memo33188>.

[4] The ATB is set up under the auspices of the ASEAN Finance Ministers and Central Bank Governors Meeting (AFMGM) and is jointly driven 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). The current Board comprises representatives from all 10 ASEAN Member States, chaired by Brunei Darussalam Central Bank. Monetary Authority of Singapore is the Vice-Chair of the current Board.

[5] Compare these to the six environmental objectives of the EU Taxonomy: (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, and (6) protection and restoration of biodiversity and ecosystems.

[6] See ASEAN Taxonomy for Sustainable Finance Version 1, *supra* note 1, Chapter 3.1 at p.23-28

[7] See ASEAN Taxonomy for Sustainable Finance Version 1, *supra* note 1, at p.43.