

**MEMO# 34194**

June 24, 2022

# Asia ESG: Second Consultation on Singapore Taxonomy

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TO: ICI Global Members  
ESG Task Force  
Global Regulated Funds Committee  
Global Regulated Funds Committee - Asia SUBJECTS: ESG  
International/Global RE: Asia ESG: Second Consultation on Singapore Taxonomy

On 12 May 2022, the Green Finance Industry Taskforce (GFIT),[\[1\]](#) convened by the Monetary of Singapore (MAS), published for public consultation the second version of its proposed taxonomy for Singapore-based financial institutions ("Singapore Taxonomy").[\[2\]](#) The consultation provides more granularity to the activity-level thresholds and application of the taxonomy to financial institutions. The consultation closed on 23 June 2022.

ICI Global is engaging the MAS with a position paper on the potential regulatory implications of the proposed Singapore Taxonomy on global asset managers.

This memorandum summarizes the key elements of the Singapore Taxonomy at the current stage of development, with a focus on the proposed taxonomy-alignment disclosures for financial institutions. A full list of consultation questions is provided in Appendix A.

## Background

The GFIT first proposed the taxonomy in January 2021[\[3\]](#) and sought feedback on the broad approach, including the adoption of a "traffic light" classification system to identify economic activities that are "green" or "transitioning" towards certain environmental goals. In our response,[\[4\]](#) ICI Global urged the GFIT to take stock of approaches that may be developing in other countries to ensure that any Singapore taxonomy would be harmonized and broadly compatible with taxonomies outside Asia. We also expressed concerns about imposing taxonomy-related requirements on asset managers and funds in the absence of widely available data from companies.

Building on the January 2021 consultation, the GFIT proposes activity-level criteria and thresholds for three sectors - energy, transport and real estate - for the climate change mitigation environmental objective. It also provides detailed guidance on the taxonomy-alignment reporting for non-financial companies and financial institutions. In its next phase

of work, GFIT will release for public consultation the criteria and thresholds for the remaining five focus sectors in late 2022, and a final Singapore Taxonomy document in 2023.

## **Overall Framework of the Singapore Taxonomy**

One of the key design principles of the Singapore Taxonomy is interoperability with other regional and national taxonomies, particularly the EU Taxonomy. However, this goal does not preclude the possibility of differences between the EU Taxonomy and Singapore Taxonomy. The proposed framework draws on the structural underpinnings of the EU Taxonomy, and adapts them to the context of Singapore and the ASEAN region. Like the EU Taxonomy, an economic activity is taxonomy-aligned if it contributes substantially to one of the environmental objectives under the Singapore Taxonomy and does not significantly harm (DNSH) the other environmental objectives. Such economic activity should as well meet certain minimum social safeguards, including the OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

## **Environmental Objectives and Focus Sectors**

Considering the feedback from the January 2021 Consultation, the GFIT adds "Pollution Prevention and Control" as another environmental objective of the Singapore Taxonomy, in addition to the four objectives identified in the January 2021 Consultation.[\[5\]](#) The five environmental objectives under the Singapore Taxonomy mostly align with five objectives from the EU Taxonomy,[\[6\]](#) but notably the objective of "Sustainable use and protection of water resources" is missing from the Singapore Taxonomy proposal.[\[7\]](#)

The Singapore Taxonomy retains the focus sectors identified in the January 2021 Consultation.[\[8\]](#) Activities are identified on the basis of the International Standard Industrial Classification of All Economic Activities (ISIC) to enable the interoperability with other taxonomies, for instance, the Common Ground Taxonomy developed by the International Platform on Sustainable Finance.[\[9\]](#) Acknowledging that many financial market participants use other sector classification systems, a mapping of alternative classification systems to the selected ISIC sectors will be provided.

The GFIT proposes criteria and thresholds for economic activities in three out of eight focus sectors, energy, transportation and real estate, that contribute to the environmental objective of climate change mitigation. Other sectors and environmental objectives will be added in future iterations of the Singapore Taxonomy.

## **Traffic Light Classification of Economic Activities**

One notable difference between the EU Taxonomy and Singapore Taxonomy is that the Singapore Taxonomy aims to capture the transition pathways of entities using a "traffic light" approach to classifying activities (i.e., green, amber, and red) rather than the binary approach taken by the EU Taxonomy.[\[10\]](#) The traffic light approach, first proposed in the January 2021 Consultation, classifies activities within the covered sectors according to their level of alignment with environmental objectives.

- Green - Includes activities that contribute substantially to climate change mitigation by operating at net-zero, or are on a pathway to net-zero by 2050.
- Amber - Includes activities that are not presently on a net-zero pathway, but are either (i) moving towards a green transition pathway within a defined time frame; or (ii) facilitating significant emissions reductions in the short term with a prescribed

sunset date. The specific sunset date will be determined at the activity level given that different activities will require different timelines to transition.

- Red - Includes activities that are not currently compatible with a net-zero trajectory. These activities should either be phased out if emissions (including Scope 3) cannot be reduced, or reduce emissions (including Scope 3) to be in line with a green transition pathway.

Technical Screening Criteria and Thresholds. The Singapore Taxonomy sets out the activity-level thresholds for each classification of activities in the three selected sectors,<sup>[11]</sup> using the same or equivalent metrics as the EU Taxonomy. Where the EU thresholds are not globally applicable, metrics and thresholds have been adapted to reflect Singapore-specific circumstances.

The amber category is relevant only for the transition of existing infrastructure and activities and does generally not apply to new activities, for instance, new power plants and new buildings. New activities will have to meet the green threshold instead.

Further, the GFIT notes that there will be no amber threshold for the following activities:

- activities that already meet the green threshold, e.g., wind power;
- activities that only cover new assets which have to comply with the green thresholds;
- activities that can reasonably meet the green criteria and thresholds given the technological options developed; or
- enabling activities that are designed to support and grow other green activities.

DNSH Requirements. Requirements for DNSH, or the concept of "do no significant harm" established by the EU Taxonomy, are not yet detailed in the current iteration of the Singapore Taxonomy. These will be developed further in future iterations. The GFIT indicates that the DNSH criteria will comprise of a mixture of qualitative, principle-based, and quantitative criteria with reference to global or country-level regulations where appropriate.

## **Application of Singapore Taxonomy**

The GFIT envisions that Singapore-based financial institutions, including asset managers, would be the primary users of the Singapore Taxonomy. Companies, identified as "secondary users", could potentially use the Singapore Taxonomy to help align their businesses to green economic activities. The GFIT provides detailed guidance on the reporting of a non-financial company's revenue, capital expenditures (CapEx) and operating expenditures (OpEx) that are aligned with the taxonomy criteria, as well as financial institutions' reporting on the taxonomy-alignment of their portfolios.

Notably, the Singapore Taxonomy is not a regulatory instrument and therefore does not set out any regulatory obligations. However, the GFIT notes that regulators may set minimum Taxonomy-alignment thresholds for determining whether an investment product is "green" and incorporate mandatory regulatory disclosures on taxonomy-alignment for companies. The GFIT proposes practices on disclosure requirements for both non-financial companies and financial institutions, in order to help regulators and exchanges in thinking about the taxonomy-alignment disclosure requirements.

## **Taxonomy "Eligibility" and "Alignment"**

The proposed classifications for taxonomy-eligibility and taxonomy-alignment are similar to those in the EU Taxonomy. An economic activity will be "taxonomy-eligible" if such activity

falls within one of the focus sectors. Where the taxonomy-eligible activity meets the green criteria, as well as fulfils the requirements on DNSH and minimum social safeguards, such activity will be classed as "green activity". Similarly, a taxonomy-eligible activity that meets the amber criteria, DNSH, and minimum social safeguards will be classed as "amber activity". A taxonomy-eligible activity that does not pass the DNSH and minimum social safeguards, or is not aligned with green/amber criteria, will be classed as a "red activity".

International Investments. The GFIT acknowledges that it has developed the technical screening criteria, thresholds, and transition pathways in the context of Singapore, and these may not be appropriate or achievable in the short term for companies in other markets. To encourage financial institutions to seek out international investments and projects that are aligned with the Singapore Taxonomy, the GIFT proposes that international investments meeting the green or amber criteria could be classed as "aligned" with the Singapore Taxonomy for reporting purposes, whereas international investments that do not meet the green or amber criteria, or do not pass DNSH requirements, are classed as "red". International investments that do not fall into the scope of the Singapore Taxonomy, i.e., those not included in the activities identified within the focus sectors, are classed as "ineligible".

### **Non-Financial Companies' Reporting on Taxonomy-Alignment**

Currently, there is no regulatory requirement in Singapore for corporates to disclose taxonomy-alignment. The GFIT recommends the regulatory authorities consider requiring non-financial companies to disclose the proportion of their economic activities that are aligned with the Singapore Taxonomy in relation to turnover, CapEx, and OpEx, which would be similar to the non-financial undertakings' disclosures required under the EU Taxonomy.

Reporting on Revenues. The GFIT recommends that non-financial companies disclose the proportion of the net turnover derived from products or services associated with activities that meet the green or amber technical screening criteria for at least one of the environmental objectives of the Singapore Taxonomy. To determine overall taxonomy-alignment at an entity level, non-financial companies would be expected to provide a breakdown of the revenues for each activity classification, i.e., green, amber and red.[\[12\]](#)

Reporting on CapEx and OpEx. The GFIT also recommends that non-financial companies disclose the proportion of the CapEx and OpEx of an activity that is either already taxonomy-aligned or is part of a credible plan to extend or reach alignment with the Singapore Taxonomy. The plan accompanying both the CapEx and OpEx reporting should be disclosed at the economic activity aggregate level.

### **Financial Institutions' Reporting on Taxonomy-alignment**

Similar to the EU Taxonomy, the GFIT recommends that financial institutions should determine and disclose how much of a product is aligned with the Singapore Taxonomy, along with some additional information.

Taxonomy Eligibility and Alignment of Investment Portfolios. For both equity and debt investments, revenues of the investee companies should be used as the proxy for portfolio exposure to taxonomy-aligned economic activities. Where a metric other than revenue, CapEx, or OpEx has been used to assess taxonomy-alignment, the financial institutions should clearly label this in the fund / product / equivalent documents.

The overall taxonomy-alignment of a portfolio should be calculated as the weighted average of the value of investments in green, amber and red activities, as well as ineligible activities, of investee companies, calculated by the applicable revenue for each investee company.[\[13\]](#)

Accompanying Information. The GFIT envisages that financial institutions should disclose the following along with the taxonomy-alignment of their portfolios:

- How products have used the Singapore Taxonomy to classify investments;
- How that usage is consistent with the specific product-level ESG outcomes (for example, in the case of a climate fund);
- The way that data has been utilized, either publicly disclosed, via engagement, or estimated;
- The environmental objectives (and their exposure) to which the product contributes;
- How due diligence was carried out, the technical screening criteria were assessed, and the number of portfolio companies that were estimated to substantially contribute but which failed the DNSH test (and how the financial institutions intend to address this failure, either through portfolio construction or engagement);
- Reasons for a low-level or alignment, where the outcome deviates from what might reasonably be expected from the specified product-level ESG outcomes; and
- How engagements are undertaken in the context of the Singapore Taxonomy.

Proposed Timeline of Disclosures. The GFIT recommends that financial institutions start reporting on taxonomy alignment starting from 2023. The GFIT suggests that for the first 1-3 years, financial institutions would report the eligibility and alignment of their investments with the Singapore Taxonomy. Where they do not have the source information from the investee companies, they could use the terms "potentially aligned" or "estimated aligned". Over the long term, as non-financial companies begin to report the alignment of their activities with the Singapore Taxonomy, financial institutions could report both eligibility and alignment of their investments with the Singapore Taxonomy.

The MAS is currently working on disclosure requirements for retail ESG funds, based on an industry consultation in January 2022. During the consultation, the MAS specifically sought feedback on adopting the GFIT's proposed Singapore Taxonomy as part of the proposed disclosure requirements for ESG funds. We believe that, with the GFIT setting out further details on the proposed Singapore Taxonomy and recommended practices on disclosure requirements, this presents a good opportunity for ICI Global to share our members' perspectives with the MAS about how the development of environmental taxonomies, such as the EU Taxonomy, can present challenges for global fund managers without proper sequencing and timing of regulatory obligations.

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## **Appendix A: Complete List of Consultation Questions**

Question 1 - The Workstream seeks general feedback on the environmental objectives identified.

Question 2 - The Workstream seeks general feedback on the sectors identified.

Question 3 - The Workstream seeks feedback on this proposed approach - ease of navigation and usability. (see p.53-59)

Question 4 - The Workstream seeks feedback on the level of ambition for each criterion, whether TSC are clear, usable, or any other alternative metrics, policies and documents should be used as reference? (see p.53-59)

Question 5 - The Workstream seek feedback on the proposed practice, including:

- the transition process from amber to green for economic activities,
- the aggregation of activities by category at a fund/portfolio level,
- the requirements for disclosure from both companies and financial institutions, and
- any other feedback on the proposals contained within this section.

### **endnotes**

[1] The GFIT is an industry-led initiative to accelerate the development of green finance through four key initiatives: (i) develop a taxonomy (ii) enhance environmental risk management practices of financial institutions (iii) improve disclosures, and (iv) foster green finance solutions. Under the first focus area, the GFIT is exploring the development of a taxonomy for Singapore-based financial institutions, with particular relevance to those active across ASEAN.

[2] See Identifying a Green Taxonomy and Relevant Standards for Singapore and ASEAN, 12 May 2022, available at <https://abs.org.sg/docs/library/second-gfit-taxonomy-consultation-paper> ("Singapore Taxonomy").

[3] See Identifying a Green Taxonomy and Relevant Standards for Singapore and ASEAN, 28 January 2021, available at [https://abs.org.sg/docs/library/first\\_gfit\\_taxonomy\\_consultation\\_paper](https://abs.org.sg/docs/library/first_gfit_taxonomy_consultation_paper) ("January 2021 Consultation").

[4] See ICI Memorandum [33188], dated 12 March 2021, available at <https://www.ici.org/memo33188>.

[5] Taking into consideration the policy context in Singapore and ASEAN, the January 2021 consultation proposes four environmental objectives, namely, (i) climate change mitigation, (ii) climate change adaptation, (iii) protect healthy ecosystems and biodiversity, and (iv) promote resource resilience and circular economy. See January 2021 Consultation, supra note 3, at section "Environmental objectives", p.22-23.

[6] See



[https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en).

[7] The GFIT notes that the environmental objectives have been adapted for the policy contexts in Singapore and the ASEAN countries. The protection of water resources is addressed under the objectives of "Protect healthy ecosystems and biodiversity" and "Promote resource resilience and circular economy". See Singapore Taxonomy, *supra* note 2, at 14.

[8] The January 2021 Consultation identified five sectors that significantly contribute to the greenhouse gas (GHG) emissions and play important roles in economic activities across ASEAN, and three sectors that provide goods and services that enable/ allow climate change mitigation. The eight sectors of focus are.: (i) agriculture and forestry / land use, (ii) construction/real estate, (iii) transportation and fuel, (iv) energy, including upstream, (v) industrial, (vi) information and communications technology, (vii) water/circular economy, and (viii) carbon capture and sequestration. See January 2021 Consultation, *supra* note 3, at section "Economic Sector", p.44-49.

[9] In November 2021, the International Platform on Sustainable Finance published report on Common Ground Taxonomy, covering commonalities between the green taxonomies of the EU and China. The Common Ground Taxonomy uses ISIC as the neutral code to map climate mitigation activities in both EU and China taxonomies. See ICI Memorandum [33955], dated 14 December 2021, available at <https://www.ici.org/memo33955>.

[10] The GFIT emphasizes that the current version of the EU Taxonomy does not adequately address activities/associated activities that have an important role to play in the transition towards net-zero, and that the Singapore Taxonomy intends to capture the transition pathways of entities from high to low or zero carbon intensity. See Singapore Taxonomy, *supra* note 2, at 10.

[11] See Singapore Taxonomy, *supra* note 2, at p.59-90 for detailed activity thresholds for each subsector in Energy, Transportation and Real Estates sectors.

[12] See *id.*, at Figure 4 for the illustration of disclosing revenue alignment under the Singapore Taxonomy.

[13] See Singapore Taxonomy, *supra* note 2, at Figures 5 and 6 for illustrations of disclosing portfolio alignment under Singapore Taxonomy.