11 March 2021

By Email and Online Submission

ASIFMA and ISDA Response to Green Finance Industry Taskforce's Consultation Paper on Development of a Taxonomy for Singapore-based Financial Institutions

Dear Sir/Madam,

The Asia Securities Industry & Financial Markets Association ("**ASIFMA**")[1] and the International Swaps and Derivatives Association, Inc. ("**ISDA**")[2] (together, the "**Associations**"), on behalf of their members welcome the opportunity to respond to the Green Finance Industry Taskforce ("**GFIT**") consultation paper on *"Identifying a Green Taxonomy and relevant Standards for Singapore and ASEAN"* ("**Consultation Paper**") and commend Singapore's proposals and thought leadership on how a taxonomy can be used to guide the industry's green transition.

The Associations welcome the development of a taxonomy in this region, and appreciate that the proposed Singapore taxonomy could be an important step in helping to mobilise capital towards environmentally sustainable activities and in developing a sustainable financial sector, not only in Singapore and ASEAN, but also more broadly in the Asia-Pacific region. Indeed, proposals put forward may have features that could be considered when other existing taxonomies are reviewed and refined globally. The Associations urge GFIT to aspire not only for both a taxonomy suited for Singapore and ASEAN, but also for Asia Pacific more generally, and coordinate with other regions and jurisdictions to achieve harmonisation of taxonomies globally whilst accounting for regional nuances. If a global approach cannot be agreed on, interoperability should at least be strived for, recognising the international nature of markets, flows of funds, and that global operation of financial institutions is key to facilitating the development of sustainable finance on the scale required to address sustainability.

---

[1] ASIFMA is an independent, regional trade association with over 140 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive and efficient Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

[2] Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 925 member institutions from 75 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter, LinkedIn, Facebook and YouTube.

Our response has been drafted with the support of our professional firm member Ernst & Young, based on feedback from the wider ASIFMA and ISDA membership.

On the following enclosed pages, we provide broader analysis followed by specific responses to questions posed within the Consultation Paper. We thank GFIT for the opportunity to provide feedback and for considering our comments and would be happy to meet with MAS and GFIT to further discuss any of the issues raised and provide clarity on our response. Should you wish, please do not hesitate to contact Matthew Chan, Head of Policy and Regulatory Affairs at ASIFMA (mchan@asifma.org or at +852 2531 6560), and Rahul Advani, Head of Public Policy, Asia Pacific at ISDA (radvani@isda.org or at +65 6653 4170).

Matthew Chan
Head of Policy and Regulatory Affairs, Asia Pacific
Asia Securities Industry & Financial Markets Association (ASIFMA)
Unit 3603, Tower 2, Lippo Centre
89 Queensway
Admiralty, Hong Kong

Rahul Advani
Head of Public Policy, Asia Pacific
International Swaps and Derivatives Association, Inc. (ISDA)
MBFC Tower 1, Level 11
8 Marina Boulevard, Singapore 018981

1. Executive Summary

The Associations welcome GFIT's efforts to develop a green taxonomy for Singapore and ASEAN more broadly, and believe this represents positive thought leadership towards establishing a consistent framework for definitions that would help mobilise capital towards green and sustainable activities and scale sustainable finance in this region. To this end, it is important that the proposed taxonomy does not lead to inconsistencies and/or conflicts in standards and treatment under other major taxonomies, either in Asia Pacific or elsewhere, as it may very well lead to unintended consequences caused by market fragmentation. Reference to the EU Taxonomy is positive to the extent the EU's remains the most detailed and advanced taxonomy to date. However, work on a Common Ground Taxonomy is also an important reference point as a significant attempt to achieve commonalities between the Chinese and EU taxonomies. We encourage Singapore, as a member of the International Platform on Sustainable Finance ("**IPSF**"), to take time needed to account for the outcome of those discussions in finalising specifics of the GFIT Taxonomy, and support global coordination with a view to international harmonisation towards a globally consistent approach that nevertheless accommodates regional nuances.

To make implementation easier, there must be better standardisation of metrics, more accurate and comprehensive disclosures from financial and non-financial corporates, and greater alignment between third-party data providers. It is recognised that currently there is a lack of transparency on methodologies, alignment and standardisation between providers, in addition to a spectrum of proprietary approaches used by investment firms. This needs to be considered and addressed in tandem with efforts to standardise and harmonise taxonomies.

A concern for producing corporate ESG disclosure lies in balancing the need for meaningful information with ensuring that the burden of producing them is proportionate. A proportionate approach would consider the size, balance sheet, resources and capability of each firm. Success will require mandatory disclosures and coordination between local regulators, listing exchanges and companies' regulators to ensure that there is staggered timing for corporate reporting before reporting requirements for financial institutions. Obligations that are placed on financial firms should be developed in parallel with those placed on their clients from whom taxonomy-related data will need to be collected. Indeed, regulators need to tackle disclosure from corporate issuers as a priority in order to establish a well-functioning taxonomy. This is a lesson to be learnt from the EU – sequencing is key.

We welcome GFIT's proposal of a "traffic light" system where transitional (i.e. yellow) activities, and not just green ones, are recognised to facilitate green transition. We also welcome screening tests for activities where environmentally sustainable activities must demonstrate contribution to one of the four proposed environmental objectives and, in principle, the requirement to meet negative screening requirements (i.e. do no significant harm ("**DNSH**") to other environmental objectives, complying with minimum social safeguards, and no breach of laws and regulations); however, we do suggest evaluating whether the DNSH and Minimum Safeguards tests could be simplified and combined into a single test that occurs at the entity rather than activity level.

Derivatives are being used increasingly in sustainable finance both for hedging and generating financial exposure to sustainable goals. There are increasing efforts to standardise derivatives in their application to sustainable finance. While we understand that derivatives are not in scope of the GFIT

taxonomy, we encourage the taxonomy be drafted with an awareness of the uses of derivatives in helping to scale sustainable finance.

2. General Comments and Observations

The Associations believe that the overall approach of the proposed taxonomy is reasonably balanced and pragmatic. We appreciate that GFIT considers transitional activities for recognition under the taxonomy, in part by adopting its "traffic light" system and a phased approach. That phased approach should also consider the different stages of development in different parts of ASEAN. We comment further on the treatment of transitional activities below.

To help develop and strengthen the industry's resilience to and management of environmental risks, the Associations consider that the proposed taxonomy should also be aligned with MAS' Guidelines on Environmental Risk Management as well as general global developments in taxonomy design. In tandem, we support GFIT's publication of its handbook on implementing environmental risk management, that offers guidance to banks, insurers, and asset managers on best practices in environmental risk management. We believe these developments will be useful to support Asia's transition to a sustainable future.

Before replying to specific questions, we set out thematic observations with regards to how the taxonomy should be finalised and the need to consider several overarching factors.

Taxonomy design principles

In March last year, ASIFMA published its whitepaper on sustainable finance – *Sustainable Finance in Asia Pacific: Regulatory State of Play*[3] ("**State of Play Paper**"). It examines variances in approach and calls for greater coordination, as well as laying out several general principles at this critical early stage of defining international policy settings for sustainability, including avoiding unduly complex requirements and fragmentation, and alignment where possible with existing international standards.

More recently, the Climate Finance Markets and the Real Economy[4] paper of December 2020 by the Global Financial Markets Association (**GFMA**) sets out 7 key design principles for taxonomies, against which we have assessed the proposed GFIT taxonomy:

1. **There should be common consistent global principles underpinning the development of taxonomies**

   The Associations think that GFIT's proposal to reference international frameworks and undertakings including the EU taxonomy and the IPSF's Common Ground Taxonomy is in line with this principle. We discuss this further under the *International consistency* section below, including our recommendation that finalising the GFIT taxonomy should await at least the finalisation of the Common Ground Taxonomy, and that Singapore's efforts on taxonomy should

[3] https://www.asifma.org/wp-content/uploads/2020/03/sustainable-finance-in-asia-pacific.pdf

[4] GFMA and BCG Report - Climate Finance Markets & The Real Economy (sifma.org)

be made in coordination with other jurisdictions and regions to the extent possible to avoid fragmentation in taxonomies, which are so critical to re-orienting the global financial system.

2. **Taxonomies should be based on common global principles, but must be flexible in terms of both regional and temporal variation**

   GFIT recognises the taxonomy should be aligned with a common set of global principles while suggesting that it would have to be adjusted (e.g. in the thresholds that define environmentally sustainable activities) to be compatible with the social and economic context of Singapore and ASEAN peers. The GFIT's approach of having a taxonomy that can recognise and incentivise transitional efforts by obliging entities to set out quantifiable, time-bound pathways also aligns with the principle of flexibility in temporal variation. The taxonomy therefore appears to meet this principle.

3. **Global principles for a taxonomy should be applicable not only to the use of proceeds but also more broadly to entities, their economic activities and their initiatives**

   The GFIT taxonomy aligns with this principle by identifying key sectors based on their economic contribution and contribution to the greenhouse gas emissions, and classifying the activities using the ISIC industrial classification system. In addition, the proposed traffic-light system also applies broadly to both entities and their economic activities.

4. **Taxonomies must lead to inclusion of a range of transition and enabling activities, and not focus purely on zero-carbon activities**

   The GFIT taxonomy has acknowledged this by including sectors and activities that are transitional (e.g. natural gas) and enabling activities as part of the proposed traffic-light system, instead of just green companies/activities.

5. **Taxonomies should be objective and algorithmic, not subjective or based on opinions**

   The GFIT taxonomy is clearly aligned with and adopts a trajectory towards science-based low-carbon scenarios at a national or international level and proposes investment-specific emissions targets. The taxonomy is therefore generally objective and algorithmic. However, the DNSH principle does appear to include some subjective criteria, which we further discuss under Question 2 in Section 3 below.

6. **Taxonomies should aim to minimise administrative burden through a focus on the core set of decision-relevant metrics**

   The GFIT taxonomy is built on the key principles of ensuring that the taxonomy is clear and accessible, that it should not impose an undue burden, and that additional disclosure requirements, if any, should be compatible with existing disclosure obligations. In this sense, the GFIT taxonomy aligns with this principle in theory. However, the metrics are yet to be set and disclosure obligations are yet to be imposed and so much remains to be determined to ensure that the GFIT taxonomy meets this principle in practice.

7. **Taxonomies should not be static, and should allow for flexibility to merge with additional ESG topics over time—to be inclusive of a broader classification of sustainable finance, and to account for changing understanding and materiality of ESG topics**

One of the key principles on which the GFIT taxonomy is constructed is ensuring the taxonomy is not static, but instead provides for evolution in approaches and understanding. Although, at the current stage, the social objectives are only considered as part of the Minimum Safeguards criteria in the GFIT taxonomy, the overarching principle does require ensuring the taxonomy to be consistent with initiatives such as the Sustainable Development Goals ("**SDGs**") and the UN Global Compact. It therefore largely meets this criterion.

GFIT could refer to "Testing the taxonomy: insights from the PRI Taxonomy Practitioners Group" issued on 9 September 2020[5], where an important group of stakeholders, asset managers and asset owners, share insights/learnings/challenges from implementing the EU taxonomy so far. The report also includes a list of practical policy recommendations (some of which have also been reflected in this response).

Further, given the financial services sector is subject to increasingly significant obligations, it would be challenging for firms to fully evaluate the effects of new rules and implement necessary changes within a limited timeframe[6]. Such a fast-developing environment can also lead to a skills gap and to pressures on resources to meet the requirements. Therefore, it is important that the proposed GFIT taxonomy, and any taxonomy for that matter, be established in a way that is easy to navigate with necessary examples and tools to guide understanding.

International Consistency

The ASIFMA State of Play Paper highlights that there currently is no binding global taxonomy and that classification systems for green assets and products differ across jurisdictions. The Network for Greening the Financial System ("**NGFS"**) emphasises the need to "exploit potential synergies" in different jurisdictions to harmonise green taxonomies.

Presently, the most notable taxonomy is the EU taxonomy, which is regarded as a prominent reference point in driving green finance forward. The Associations welcome reference to the EU taxonomy (e.g. in terms of the overarching environmental objectives, rigorous approach to the inclusion of sectors and activities, the use of metrics and thresholds for inclusion as sustainable, science-based low carbon scenarios, the use of the DNSH principle, and Minimum Safeguards) in drafting the GFIT taxonomy, but ultimately advocate for a globally coordinated approach longer term which takes into account the needs of all regions, including Asia where there is a wider range of economic development.

[5] https://www.unpri.org/eu-taxonomy-alignment-case-studies/testing-the-taxonomy-insights-from-the-pri-taxonomy-practitioners-group/6409.article

[6] Response to Question 6, AFME Key Messages for the future EU Renewed Sustainable Finance Strategy: https://www.afme.eu/Portals/0/DispatchFeaturedImages/200715_Consultation%20Response%20renewed%20sustainable%20finance%20strategy_Final%20response%20and%20Key%20messages.pdf

Notably, work is underway on developing a "Common Ground Taxonomy" for green finance under the IPSF, and we appreciate that the Monetary Authority of Singapore ("**MAS"**) is a member of the IPSF taskforce led by the EU and China. The Associations urge Singapore to consider finalising specifics of the GFIT taxonomy at least after the finalisation of the Common Ground Taxonomy, as the findings may be useful in GFIT's efforts to develop its taxonomy, notwithstanding the goal to also adequately ensure the environmental objectives and social and economic context of Singapore and ASEAN (e.g. to metrics thresholds) are accounted for.

The Associations also encourage the MAS, as a member of the IPSF, to coordinate its work with:

- the International Organization of Securities Commissions ("**IOSCO**") and its Sustainability Task Force;
- the Basel Committee on Banking Supervision (**"BCBS"**) and its Task Force on Climate-related Financial Risk, to gain international alignment on the taxonomy[7];
- the Financial Stability Board ("**FSB"**);
- the institutions comprising the international financial architecture (e.g., the International Monetary Fund);
- the NGFS; and
- private-public sector initiatives to further analyse industry best practices and establish the role financial institutions (**"FIs"**) should play in the overall transition to a greener economy.

With specific reference to sustainability disclosures, the Associations would also like to highlight the work being done by the IFRS Foundation[8] on developing a global universal framework for corporate reporting on sustainability issues. The proposed creation of the IFRS Sustainability Standards Board[9] is widely supported across the global investment and regulatory communities, and we encourage GFIT to align requirements to help prevent market fragmentation.

If a truly internationally compatible approach cannot be agreed, a mutual recognition scheme may be needed to enable interoperability at the very least – potentially as an interim measure. Flexibility should also be provided in terms of allowing firms to determine and decide if any additional aspects of the Singapore taxonomy should be included in their internal assessment.

---

[7] Response to Question 6, AFME Key Messages for the future EU Renewed Sustainable Finance Strategy: https://www.afme.eu/Portals/0/DispatchFeaturedImages/200715_Consultation%20Response%20renewed%20sustainable%20finance%20strategy_Final%20response%20and%20Key%20messages.pdf

[8] IFRS Foundation Consultation Paper on Sustainability Reporting, https://cdn.ifrs.org/-/media/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf

[9] IFRS Foundation Trustees announce strategic direction and further steps based on feedback to sustainability reporting consultation, https://www.ifrs.org/news-and-events/2021/03/trustees-announce-strategic-direction-based-on-feedback-to-sustainability-reporting-consultation/

Comparison of Taxonomies

Efforts to compare existing taxonomies has been undertaken by several bodies, for example, in 2017 the European Investment Bank ("**EIB"**) and People's Bank of China ("**PBOC"**) conducted a joint study[10] comparing the Chinese, Multilateral Development Banks – International Development Finance Club ("**MDB-IDFC"**), and EIB standards. The Organisation for Economic Co-operation and Development ("**OECD"**) has also conducted a global comparison of approaches[11]. Further work on the compatibility between the GFIT, European, Chinese, and other standards would thus be valuable in identifying and setting a common basis to further enhance consistency across taxonomies and green bond standards globally. This would enable GFIT to more closely align its proposed taxonomy with these other taxonomies so that points of similarity and difference can be identified and a conscious decision made to either align more closely or to make a point of departure in the GFIT taxonomy owing to the local conditions of Singapore or ASEAN or the Asia-Pacific more broadly.

With respect specifically to the comparison of the different taxonomies, we lay out below a high-level analysis of some key areas across the proposed GFIT, EU, China, and Malaysia taxonomies that may help (see **Appendix**).

Alignment with Wider Government Sustainability Policy and Stakeholders aims

The Associations seek clarification on whether the GFIT taxonomy has been developed in alignment with Singapore general policymaking (e.g. Singapore's sustainability agenda, beyond MAS). Facilitating and accelerating investment in and transition to a low carbon economy can only be achieved if the wider government sustainability policy, the interests of stakeholders and the taxonomy are aligned. To ensure investment is directed to the right economic activities, they must be identified in tandem with policy makers and stakeholders also within ASEAN and possibly the wider Asia Pacific; otherwise investment will be mis-or sub-optimally directed.

The Associations believe that effective mechanisms need to be established to incentivise both borrowers (investees) and finance providers (investors) to transition to sustainable finance models. In particular, ASIFMA is of the view that further considerations should be given to setting the incentivising mechanisms, as highlighted by AFME[12]:

- consider how market-based carbon pricing mechanisms can be structured effectively to

[10] See https://www.eib.org/attachments/press/white-paper-green-finance-common-language-eib-and-green-finance-committee.pdf

[11] See https://www.oecd-ilibrary.org/sites/134a2dbe-en/index.html?itemId=/content/publication/134a2dbe-en

[12] Section 3.2, Key messages for the future EU Renewed Sustainable Finance Strategy, AFME Key Messages for the future EU Renewed Sustainable Finance Strategy: https://www.afme.eu/Portals/0/DispatchFeaturedImages/200715_Consultation%20Response%20renewed%20sustainable%20finance%20strategy_Final%20response%20and%20Key%20messages.pdf

contribute to transition funding;

- there should be a plan to gradually phase out blanket government subsidies to high carbon emitting industries (which should be incorporated as part of the time-bound and quantifiable transition pathway) and link them to emission targets instead;
- providing fiscal policy incentives (tax, subsidies) to both green and yellow issuers/borrowers and investors/lenders should be considered. This would help to reduce the cost of funding for sustainable instruments and thus offset additional administrative cost associated with the issuance and verification/monitoring of such instruments; and
- introducing risk-sharing mechanisms, such as guarantee funds, aimed at providing guarantees to FIs (private banks or medium/long term investors such as funds or insurance companies) to support sustainable lending and investments. It would help reduce the cost of funding to the ultimate beneficiaries, which would be particularly necessary for the SME sector (as being considered riskier and requiring higher level of support in its journey to sustainability due to lack of resources, including financial and human capital).

Data Challenges

Complying with taxonomy requirements depend on the availability and quality of underlying ESG data and disclosure. We therefore propose that any future taxonomy reporting requirements be closely aligned with general (mandatory) ESG disclosures requirements for financial and non-financial corporates across industries, in particular, by taking into consideration the reporting of the DNSH criteria. Now, the entire industry is facing a data challenge to make implementation work. Key challenges relate to: (i) a lack of standardisation and common metrics across the ESG ecosystem; (ii) insufficient disclosure by non-financial corporations caused, inter alia, by the lack of harmonised reporting standards; and (iii) inconsistent methodologies used by third party sources (e.g. ESG rating agencies). Further, forward looking data can also pose a challenge since it will depend to some extent on modelling techniques which may differ across sectors/companies[13]. While efforts are underway by ESG data providers to fill those gaps, they are currently based exclusively on the definitions and standards set out in the EU Taxonomy.

We encourage the GFIT to refer to the *ASIFMA/FOSDA Paper on Data Challenges for ESG and Sustainable Finance in APAC*[14] which explains some of the key data challenges that must be addressed before a taxonomy can work successfully. We highly recommend the GFIT taxonomy and its thresholds and metrics be devised considering these data challenges.

[13] Response to Question 6, AFME Key Messages for the future EU Renewed Sustainable Finance Strategy: https://www.afme.eu/Portals/0/DispatchFeaturedImages/200715_Consultation%20Response%20renewed%20sustainable%20finance%20strategy_Final%20response%20and%20Key%20messages.pdf

[14] https://futureofsustainabledata.com/data-challenges-and-opportunities-for-esg-in-asia-pacific/

The Associations also believe that the development of a regional and/or global taxonomy and disclosure repository can be beneficial in addressing some data challenges. Digital technologies and tools, such as establishing a centralised taxonomy database or common data sharing space, would facilitate access to and processing of relevant information[15]. Building a disclosure repository on reliable digital standards and data models such as the Common Domain Model ("**CDM**")[16] is a prerequisite for this digital opportunity to be exploited. Furthermore, building on a foundation of digital standards would help to resolve data issues in tracking and reporting of sustainability risks and factors to reduce firms' operational challenges in relation to conforming to new reporting requirements.

Dependence on Company Disclosures

As highlighted previously, effective implementation of a taxonomy is dependent on sufficient quality entity disclosure. Thus, it is key to have staggered timing for corporate reporting such that this takes place sufficiently in advance of reporting requirements for financial institutions, to ensure that there is data available for firms, particularly asset managers, to leverage corporate reporting before they are obligated to publish their own disclosures. The EU recognised this by creating its taxonomy and reviewing, at the same time as the relevant disclosure directive – the EU Non-Financial Reporting Directive. The Associations encourage GFIT to consider the company disclosure issue in parallel with the development of the taxonomy. Financial and non-financial companies need to be compelled or persuaded to disclose high quality and comparable ESG data. However, it is important to consider that the burden and cost of such disclosure will be high, in particular for SMEs. Again, this will require coordination between GFIT and wider range of government ministries, regulators and stakeholders, and such a process would need to be repeated across ASEAN if the taxonomy is to serve for the whole of ASEAN. To this extent, regional fora, such as the Asia-Pacific Economic Cooperation ("**APEC"**), could be used to address this if the taxonomy is to serve the wider Asia-Pacific region.

Role of Derivatives in Sustainable Finance

As noted by the GFIT in the Consultation Paper, the financial sector is a key enabler of economic activity and plays a critical role in facilitating and accelerating the transition to a low carbon economy, and the transition to a sustainable economy will take a significant amount of long-term funding.

Derivatives perform a critical role in economic activity by enabling and helping businesses and investors better manage the risks to which they are exposed, and to more effectively align their exposures with risk tolerance and risk management requirements. The derivatives market also plays a major role in

[15] Section 3.1, Key messages for the future EU Renewed Sustainable Finance Strategy, AFME Key Messages for the future EU Renewed Sustainable Finance Strategy: https://www.afme.eu/Portals/0/DispatchFeaturedImages/200715_Consultation%20Response%20renewed%20sustainable%20finance%20strategy_Final%20response%20and%20Key%20messages.pdf

[16] ISDA Common Domain Model, https://www.isda.org/2019/10/14/isda-common-domain-model/

enhancing transparency, through the provision of forward information on the underlying commodities, securities or assets, and this can ultimately contribute to long-term sustainability objectives.

Sustainability-linked products - whose liquidity, price transparency and attractiveness to investors can be further enhanced through the use of derivative instruments – can attract much-needed investment for research and the low-carbon transition. Such investments have long-term objectives and require a long-term orientation. To this end, derivatives can play a very important role in achieving the goals outlined by GFIT in the Consultation Paper. This is because derivatives:

i) can enhance the ability of Singapore, and the broader ASEAN region, to raise and channel the necessary capital towards sustainable investments at scale;

ii) help firms hedge risks related to ESG factors;

iii) facilitate transparency, price discovery and market efficiency; and

iv) contribute to long-termism.

The role of derivatives in sustainable finance is explored in greater detail in a July 2020 paper published by the Centre for European Policy Studies ("**CEPS**") and the European Capital Markets Institute ("**ECMI**")[17].

The financial sector is responding to the challenges in sustainable finance with a diverse range of product structures and transaction types in the derivatives market. While conventional derivatives can certainly be used to hedge green instruments, a new wave of sustainability-linked derivatives and exchange-traded ESG derivatives has also developed in recent years, alongside emissions trading derivatives, renewable energy and renewable fuels derivatives, and catastrophe and weather derivatives. As sustainable finance funding scales up, the derivatives market will be critically important in facilitating the financing of green investments, as well as providing hedging tools to manage the associated risks. In January 2021, ISDA published a research report that gives a valuable overview of such ESG-related derivatives products and transactions[18].

As interest in such ESG-related derivatives products gains momentum, standardisation will be more important than ever because it is only through robust standards that products and markets can scale efficiently. Work is well advanced on expanding ISDA's suite of documentation templates to include renewable energy certificates and other contracts. We will continue to work on standardisation of documentation, market practices and operational process in line with market developments, and welcome engagement with GFIT in this space as well.

It is also important to highlight the role that carbon pricing plays in the transition to a low carbon economy. The Associations support the use of market-based mechanisms, including a price on carbon

[17] CEPS-ECMI paper on Derivatives in Sustainable Finance, https://www.ecmi.eu/sites/default/files/derivatives_in_sustainable_finance_0.pdf.

[18] ISDA paper on Overview of ESG-related Derivatives Products and Transactions, https://www.isda.org/a/qRpTE/Overview-of-ESG-related-Derivatives-Products-and-Transactions.pdf

that supports long-term decision-making. As highlighted in the Principles for a U.S. Transition to a Sustainable Low-Carbon Economy, published by the US Climate Finance Working Group in February 2021[19], carbon pricing can also spur development of climate-related financial products, promote transparent pricing of climate-related financial risks, and can inform and help scale key initiatives like voluntary carbon markets.

The Associations understand that the scope of the Consultation Paper does not cover derivatives specifically. However, the Associations request the GFIT to consider the role of derivatives in a green transition, and we welcome the opportunity to provide the GFIT with further feedback on the role of derivatives in sustainable finance as part of the consultation process.

[19] Principles for a U.S. Transition to a Sustainable Low-Carbon Economy, https://www.isda.org/a/qXITE/Financing-a-US-Transition-to-a-Sustainable-Low-carbon-Economy.pdf

3. Answers to Specific Questions in the Consultation Paper

Question 1 - The workstream seeks comments on the useful measures of success, and whether other measures may be considered in addition when evaluating the implementation of a taxonomy

The suggested measures of success noted in the Consultation Paper are good success criteria. However, we note that a number of these measures have a "chicken-and-egg" nature to them. A more fundamental question is that it will be hard to determine ex-ante, the degree to which data providers will align to these success measures, or whether companies will ultimately make disclosures against these measures. What is key here is to signal in advance the intended direction of development and to bring on board stakeholders across the financial sector. One critical issue is the need to enhance corporate disclosure of non-financial information in a manner which addresses the taxonomy needs. This is the key foundation upon which the taxonomy can then be built. One of GFIT's suggested measures of success of the taxonomy is the "extent to which the taxonomy is embedded within frontline regulatory disclosure requirements (i.e. corporate disclosure)". GFIT/MAS should provide transparency on when certain milestones can be achieved (e.g. mandatory corporate reporting requirements).

Before finalising the GFIT taxonomy, it would be good to take stock of approaches that may be developing in other fora and jurisdictions. In particular, we refer to the work in the IPSF on the Common Ground Taxonomy, as it is a transnational attempt to find commonalities between two significant taxonomies – those of the EU and China. Hong Kong has already signalled that it will work to align with the Common Ground Taxonomy once released, and to this effect, it would be beneficial if Singapore, as another major Asia-Pacific financial centre, make efforts to not diverge. Consideration should also be given to other countries (e.g. Switzerland, UK) that are actively considering their options. If countries do adopt different approaches globally, there should be some mechanism to ensure mutual recognition across borders and for cross-border capital flows and transactions to not be required to meet multiple and potentially duplicative and/or redundant requirements.

Ultimately, the success of any taxonomy should be viewed over relevant time periods with reference to the stated emission reduction targets and development of new technologies supporting carbon mitigation and adaptation (and additional objectives as may be determined by the finalised taxonomy). These can be determined with reference to both qualitative and quantitative sources and relevant milestones, including but not limited to the following:

- Lending and financing provided to the activities included in the taxonomy. A key purpose of a taxonomy is to ensure that funding is provided to the relevant economic activities aligned with the environmental objectives (per paragraphs 16 and 18 of the preamble of the Consultation Paper). Therefore, it should be relatively easy to track the impact of the taxonomy on bank lending and financing activities specifically labelled as green, to ensure that the taxonomy is helping to direct capital flows to activities deemed to be sustainable. The taxonomy should not be applied as a general measure of the greenness of a bank's lending portfolio.
- Feedback from users of the taxonomy, including corporate issuers, investors and FIs, as to the

ease of use, implementation, and relevance of the taxonomy.

- Evidence gathered regarding financial performance and flows to companies with higher alignment of revenue and capital expenditure ("**CapEx"**) to activities classified as sustainable under the taxonomy, and a commensurate increase in the proportion of revenue and capex attributable to activities classified under the taxonomy.
- Improvement of relevant disclosures over time.

Question 2 - The workstream seeks specific feedback on the extent to which disclosure requirements may present an 'undue burden' on corporates

This question may be difficult to answer ex-ante. It may be useful to discuss with some large ASEAN corporates to get a view on workability. Among the challenges with the EU taxonomy is the fact that corporate revenues and expenditures are typically not accounted for on the activity level as activities are represented in the taxonomy. The EU seeks to address this via a new reporting obligation on financial and non-financial corporates to disclose such information. Thus, it is important for any taxonomy to be accompanied by a corresponding reporting obligation on non-financial corporates, which ideally should come into force before any reporting obligations are imposed on financial sector participants or products to ensure data availability.

Such reporting obligation should be aligned with existing global reporting standards and should ensure that third-party data providers are applying consistent standards. At present, data providers are categorising activities differently, displaying data in different categories and not always adhering to the guidance and best practices outlined by the EU Technical Experts Group ("**TEG"**) and IPSF, which potentially could cause confusion for market participants that use the data. Companies will likely also approach their reporting with varying degrees of rigour and accuracy, and as such, it is important that there be some support to normalising and comparing company reporting.

Additionally, the Do No Significant Harm ("**DNSH"**) criteria may at times be subjective in certain senses (e.g. what does it mean to be "near" a sensitive site for biodiversity). Further reference could be made to existing standards and labels that are used in the market, and potentially the DNSH and Minimum Safeguards tests could be combined into a single test. One means of combining the two could be to use the Global Compact Violations data which most ESG data providers include in their company level ESG data sets. For example, if a company is not recorded as having or being likely to have material Global Compact violation, it would pass the test and as such, all of its activities could be considered eligible for consideration under the taxonomy and judged under the technical screening criteria. While this test technically should apply at the activity level, this may not be possible at this stage as companies do not report such data on an activity basis at present, and a phased approach may be necessary instead. In the absence of an express disclosure obligation being introduced for activity-based reporting, such disclosure is likely to be in response to an event or risk, such as a litigation, and may only be possible to be judged at an entity level as it may not presently be mappable to an activity.

Separately, we also note that the EU Taxonomy might evolve to distinguish between social factors and governance considerations, in order to more closely mirror the "good governance practices" and Minimum Social Safeguards tests more broadly applied to the disclosure on financial products defined in Article 8 and 9 of the EU's Sustainable Finance Disclosure Regulation (i.e. financial products that promotes environmental and/ or social characteristics)[20].

As the OECD noted in its assessment of taxonomies, where disclosures are voluntary rather than mandatory, firms that elect to comply may disadvantageously incur additional costs compared to those that do not. However, this must be balanced against the possibility that firms that disclose data may attract more capital for taxonomy compliant activities.

We also note that some of the major index provider firms have significant experience in constructing sustainable industrial classification systems (taxonomies), which identify green products and services across entire value chains, and have been designed to align with international taxonomies. Based on these index providers' experience in gathering data for the fulfilment of sustainable activities, they note that company disclosure of revenues and R&D are not yet aligned with definitions of sustainable activity[21].

In addition, we would recommend a phased disclosure approach, whereby corporates start first by disclosing more granular and globally consistent information about their path to align with the Paris Agreement[22]. This data will then help companies to assess the extent to which they might be able to define objectives for taxonomy alignment and measure against those objectives. We note that the Paris Agreement objectives remain the main reference point globally. Aligning business strategy with the Paris Agreement targets is also consistent with the commitments which many companies have taken. Therefore, it is important to engage with issuers to ensure that they fully understand and can comply with the requirements of the taxonomy. In ASEAN, many SMEs will play an important role in the overall transition effort, and steps should be taken to ensure that they do not fall behind. To this extent, we would encourage GFIT to leverage the work done by the EU in establishing the Taxonomy Regulation to gather views on the feasibility of implementation, particularly with regards to specific metrics and criteria, and also consider proposing mandatory disclosure requirements for companies which are better resourced to provide this information. Where the impact will be greater, perhaps focus may be placed on larger firms initially. This would require further engagement with the Singapore Exchange (**"SGX"**), the regulatory body of such companies, ACRA, and the Singapore government more widely.

---

[20] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN

[21] According to information provided by an ASIFMA member index provider firm, approximately 20% of companies report in way that is aligned with the requirements of taxonomies, with a further 8% of companies disclosing relevant data following engagement. For the remaining ~70%, a research process is required that relies on company and sector- specific modelling.

[22] Response to Question 4, AFME Key Messages for the future EU Renewed Sustainable Finance Strategy: https://www.afme.eu/Portals/0/DispatchFeaturedImages/200715_Consultation%20Response%20renewed%20sustainable%20finance%20strategy_Final%20response%20and%20Key%20messages.pdf

GFMA has also proposed that "*SMEs should be allowed to adopt a simplified standard, based on a very rigorous application of the materiality principle and corporate-specific exposure to risks, that could reduce the number of metrics SMEs would report*"[23]. To the extent that GFIT aspires for the taxonomy to serve for ASEAN, it should also seek to engage similarly across ASEAN either through ASEAN structures or in individual ASEAN jurisdictions with similar bodies.

Question 3 - The workstream seeks feedback on potential risk considerations around the development of a taxonomy, including other risk considerations not mentioned in this section

The Associations share concerns over the risk factors mentioned, in particular, those related to unintended consequences on innovation, challenges with data availability, as well as the cost and compliance burden for both issuers and financial services firms, which may eventually limit the effectiveness of the taxonomy. In addition, drawing on taxonomy discussions in the EU, some member firms have highlighted that there is risk if focus is placed on expenditure as a KPI (CapEx or OpEx) to assess the degree of "greenness" of investee companies, as this may potentially lead to an unintended bias towards capital-intensive industries, and may also add further undue complexity by having to rate activities across revenues and expenditure types.

Other member firms believe that while focus on expenditure as disclosures could be a useful forward-looking measure, they should be assessed within a company's context as their degree of applicability will vary significantly depending on the sector of the green economy. For infrastructure focused sectors, such as renewable power generation, green CapEx disclosures will be highly applicable, but less so for more technologically focused sectors. An additional point worth noting is that CapEx is currently not as widely disclosed compared to green revenue, and may prove challenging for generating globally comparable figures.

Finally, with regards to the functionality of the taxonomy in practice, if financial firms and products are required to make disclosures about the taxonomy alignment of financing and investments, it should be recognised that these disclosures would be based in part on incomplete or even unaudited data. Thus, there may be need for some legal safe harbours for such disclosures required from FIs.

In determining whether an activity is environmentally sustainable, the taxonomy should adopt standards and a methodology consistent with other prominent taxonomies. This means applying core scientific outcomes where necessary to establish environmental and risk criteria and applying the principles of DNSH and Minimum Safeguards. For example, the taxonomy should specify the "transition consistent with emissions-reductions pathways aligned with meeting the objectives of the taxonomy".

As noted in the Consultation Paper, the EU Non-Financial Reporting Directive determines which companies are public-interest entities and are required to comply with the EU Taxonomy Regulation –

[23] Recommendations to Scale the Climate Finance Market Structure, Climate Finance Markets and the Real Economy: https://www.sifma.org/wp-content/uploads/2020/12/Climate-Finance-Markets-and-the-Real-Economy.pdf

this provides a legal basis for disclosures. The Consultation Paper conveys the aspiration for the proposed Singapore taxonomy to form a basis for other ASEAN member states. For a taxonomy to be consistent and effective, disclosures ultimately need to be mandated by law, and a reporting and assessment framework may also need to be agreed by relevant jurisdictions in the ASEAN region, whether by an overarching ASEAN standard setting structure or by mutual agreement.

In addition, as demonstrated by the development of the EU Taxonomy, classification systems intended to reflect and promote sustainable economic activities should ideally be developed alongside other measures relating to the establishment of efficient ecosystems for implementing and scaling sustainable finance, rather than in isolation. Singapore has executed a number of welcome measures through its Green Finance Action Plan, including establishing Centres of Excellence for climate change studies and establishing Environmental Risk Management Guidelines for banks and asset managers. GFIT could consider further clarifying the extent to which the proposed taxonomy forms part of an overall approach to climate and transition risk in the financial sector. For example, the recently published Guidelines on Environmental Risk Management for Banks (published December 2020) focuses on monitoring and assessment of environmental risk to the banks themselves, including scenario analysis and stress testing rather than on the assessment and financing of related opportunities as recommended by the TCFD. As GFIT acknowledges, taxonomies have an important macro-prudential function in orienting banks' lending activities towards more sustainable activities, so should be part of an overarching public policy approach towards climate adaptation, risk management and other environmental objectives. Monitoring and further research are necessary to understand both non-financial and financial corporates' responses to the development of taxonomies; in this respect, assessing the impact of the EU Taxonomy and others will be helpful. Taxonomies need to be monitored by their stewards (in this case GFIT) for misclassification of economic activities and to ensure that technological developments are captured, especially in relation to any detailed screening criteria.

In addition to the risks outlined by MAS, we urge caution when it comes to incorporating taxonomy-based green/non-green classifications of an asset into prudential frameworks. An asset's environmental classification might not be indicative of the level of environmental/ESG risk that the asset is subject to. This concern is, for example, reflected in the 2020 report of the NGFS on financial institutions' practices with respect to introducing risk differentials between green, non-green and brown financial assets. This report found no strong conclusions on a risk differential between green and brown on the institutions that NGFS surveyed. For example, the taxonomy may not fully take into consideration the dynamic strategy of a company, whereby, all things being equal, the business model of a client who develops, adopts and implements a robust transition strategy is expected to be more resilient than that of a client not proactively managing its transition risk. Furthermore, differentiating between brown and green assets should not be based on a static classification of economic activities established by a taxonomy, but should be done in a dynamic forward-looking risk-oriented way. A better understanding of the extent to which financial institutions' exposures to different sectors/activities are already captured in existing models is important. This needs to be based on common scenarios and disclosures that inform risk managers how these assets will perform.

Question 4 - The workstream seeks specific feedback on the extent to which the introduction of a taxonomy would introduce additional cost and compliance burden to FIs

We note that there will be significant additional costs to implement the systems to capture and report data. The reporting requirements should be kept proportionate and focus on those products which are clearly intended to have a green orientation or impact.

As noted above, taxonomies for sustainable economic activities should ideally be introduced as part of a broader framework to achieve a consistent approach which clarifies and streamlines ESG disclosures to be made for regulatory purposes, including for future product-related disclosure purposes. Compliance with taxonomies will require FIs to improve their disclosure and provide an opportunity to better align their portfolios and lending activities with sustainable outcomes and to manage reputational risks. Most FIs are currently in the process of designing systems that respond to international policy developments for sustainable finance, including taxonomies. To minimise the burden of doing this for FIs and issuers that operate cross-border, it would be better for Singapore to ensure consistency and harmonisation with taxonomies developed in other jurisdictions to prevent either an undue burden or a compliance-driven approach. This would also be consistent with the principle within the MAS' ERM Guidelines such that, subject to due consideration by local management, the application of global frameworks with cross-border institutions can support achieving the MAS' expectations.

Additional costs will also come in the form of compliance. Realistically, it will be the banks who will end up classifying or at a minimum, if the corporate does the classification, due diligence will requires the bank to still verify the corporate's classification. If banks are also monitoring misclassification, then compliance or some other department will need to do this. As the color-coding (red, yellow and green) is dynamic, this also means that it will need to be updated periodically, which may add an additional compliance burden to FIs.

Question 5 – The workstream seeks feedback on this proposed approach. If you disagree, please comment on alternative options, including:

(1) Alternative approaches to the development of a Singapore taxonomy
(2) An option where Singapore does not develop a taxonomy and makes no further contribution, or,
(3) An option whereby Singapore does not develop a taxonomy but instead provides transparency and guidance around existing taxonomies to the market.

Singapore should develop a taxonomy but, to the extent possible, in conjunction with other ASEAN markets and ideally other jurisdictions (e.g. Switzerland, UK, EU, other parts of Asia) that are also actively considering their approaches to taxonomy, while ensuring compatibility and flexibility to account for and reflect local/ regional context and different stages of development. Flexibility should be included to allow for further refinement of the framework in line with global developments and

best practice on taxonomy design. In addition, we encourage MAS to consider a system of mutual recognition of global taxonomies, ideally coordinated at the international level. As stated above, we also encourage MAS to actively participate in the IPSF's ongoing discussions around developing global principles for developing green taxonomies.

The need for harmonisation between taxonomies developed in different jurisdictions is well recognised by a wide range of stakeholders and acknowledgement of this need by the GFIT is welcomed. The Associations do not consider it appropriate for Singapore to not adopt a taxonomy, as taxonomies are important for identifying economic activities that are sustainable or transitional and critical to re-orientating the financial system. However, timing wise and as a member of the IPSF, Singapore should at least wait for the outcome of those discussions including the work on Common Ground Taxonomy to be completed before finalising its GFIT Taxonomy. International communications would be helpful if the discussion also includes consideration of how the taxonomy will work for firms. If differentiated taxonomies are being developed in parallel at the same time, this would make inter-jurisdictional and/or global coordination efforts more challenging.

On a final note, solely providing transparency and guidance in relation to existing taxonomies would not be of significant help in catalysing sustainable finance in Singapore or ASEAN more widely.

Question 6 – the workstream seeks feedback on ways in which a taxonomy can recognise and support transition efforts by, and specify pathways for, companies currently in activities that may currently be causing significant harm to be able to move to less harmful activities, and from less harmful to ultimately sustainable levels of environmental performance

The Associations support the adoption of a transition taxonomy, critical for identifying transition activities in high emitting sectors and emerging markets. The funding of transition activities is vital to achieving the ultimate aims of the taxonomy to facilitate more sustainable investment[24]. A transition taxonomy can also help incorporate long-term perspectives into the investment decision-making process and avoid high emitting activities/companies being excluded without considering their achievable level of sustainability. We also believe that transition activities should be supported and incentivised by extending the scope of the taxonomy to activities "enabling" and "supporting" the transition.

Further, the thresholds should not be overly restrictive, to provide opportunities for SMEs to adjust and react to the requirements. More work is clearly needed to specify the meaning of "activities with quantifiable and time-bound pathways towards either green or significant de-carbonisation". Nevertheless, we note this is the major challenge of the EU taxonomy as the classification approach

[24] AFME, EU Taxonomy Regulation – a practical and flexible taxonomy, supporting transition activities, is pivotal. AFME comments on the adopted texts of the Regulation by the European Parliament and the Council in light of the trialogue negotiations: https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME%20Taxonomy%20Regulation_Position%20Paper_Trilogues_01112019.pdf

currently adopted is not robust enough to engage many greenhouse gas ("**GHG"**) emitting sectors onto the necessary de-carbonisation path. The Associations believe that the taxonomy should be able to account for different degrees of sustainability, which would reward the efforts made by companies who already meet the relevant GHG emission criteria, while acknowledging and encouraging companies that are committed to transitioning.

Some in the TEG argue transition is included in some of the thresholds (e.g. hybrid cars are still permitted to 2025) and also through the CapEx indicator (i.e. green aligned CapEx is investment in the transition). Ultimately, conformity to objectives such as the Paris climate goals is what is important. Transition would be the process by which an industry or firm brings its activities in line with its obligations or role in reaching such target. It may therefore be better to extend the scope of the taxonomy to activities "enabling" and "supporting" the transition, and recognise transition through one of the alternative approaches recently proposed by Climate Bond Initiative ("**CBI"**)[25] or the International Capital Market Association ("**ICMA"**)[26]. For example, companies could be asked to disclose entity level commitments to science-based targets and pathways and report on progress (e.g. through operating metrics), so as to ascertain whether the transitional proposition is credible, and whether given financing should be considered truly transitional (i.e. is not merely a transition to 'transition').

Moreover, the Associations consider that having a positive approach would be more beneficial than a penalising approach[27]. Penalising investments in environmentally harmful activities may be detrimental to companies that are on a transition path, but have no choice but to carry out these interim activities at present. Given that much of the economy today is at a stage where a transition to low-carbon business models is needed, although the taxonomy may discourage investments in high-emitting sectors/activities, other funding sources may arise to help the companies operationalise the transition.

Where taxonomy alignment results in lower financing costs, this may act as an incentivising factor for firms to develop better reporting and disclosure models, and may encourage them to reorient their business strategies towards the provision of environmentally sustainable products and services. However, corporates also face challenges in quantifying the savings they make in pursuing sustainable investments and financing activities.

For those harmful sectors/activities having potential to transition towards a sustainable economy, setting out clear transition pathways would be more effective than a static brown/green classification to mobilise capital for green and transition investments. Such dynamic approach provides a much-needed guidance to "brown" industries looking for transition strategies with clear milestones, as well as for investors seeking to understand the transition performance of the investees against established

[25] https://www.climatebonds.net/transition-finance/fin-credible-transitions

[26] https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/climate-transition-finance-handbook/

[27] Response to Question 5, AFME Key Messages for the future EU Renewed Sustainable Finance Strategy: https://www.afme.eu/Portals/0/DispatchFeaturedImages/200715_Consultation%20Response%20renewed%20sustainable%20finance%20strategy_Final%20response%20and%20Key%20messages.pdf

trajectories. We believe it will be crucial that eligible transition pathways are defined by widely accepted standards, such as the ones of the Science Based Targets Initiatives. Apart from the transition strategies with clear milestones, a taxonomy should have the possibility to measure individual companies on their actual transition e.g. by introducing specific reporting on progress. If not, companies might claim to be on a transition pathway, but evidence of such claims will be hard to verify.

Given the significant need for a roadmap to develop scale in renewable energy infrastructure and the required investments, governments may want to consider other complementary measures to stimulate relevant investment activities, such as incentives or encouragement of carbon pricing; however, the specifics of these are beyond the scope of this consultation.

Question 7 - The workstream seeks and welcomes feedback on the inclusion of transition fuels such as natural gas in the proposed taxonomy. In particular, the workstream seeks views on whether:

a) There are certain types of activities involving transition fuels and chemicals which should be included in the taxonomy- e.g. natural gas, lower emissions shipping, aviation fuel which are blended with fossil fuels, less emissions intensive petrochemicals, and under what circumstances,

b) Natural gas could be included as a transition fuel, on an abated basis, and only where it plays a role in materially lowering the carbon emissions of a company (e.g. as it moves away from coal/oil and towards abated natural gas),

c) Such inclusion would necessarily need to be accompanied by clear alignment with, and trajectory towards, science-based low-carbon scenarios at a national or international level, alongside investment-specific emissions targets that are necessarily disclosed, and/or
d) Abated natural gas could be included as a transition fuel, including where a company is an existing natural gas operator and has no existing coal/oil exposure (i.e. natural gas investment is not part of a transition towards a lower carbon footprint)

The workstream welcomes any other views/suggestions on this issue, including:

e) Thoughts around the level of abatement or intensity thresholds for natural gas that may be required, and

f) The degree to which Nationally Determined Contributions (NDCs) should be included in assessments of transition, or whether alternate transition goals (e.g. other international transition/climate guidance) would be preferable

To date, we note that Singapore has not yet made any official commitments to a net-zero emissions objective. With regards to a broader climate or environmental plan to enable carbon neutrality in the region, it would be helpful to have a quantifiable target set, whereupon the objective of the metrics and thresholds could be specified under technical criteria, particularly in relation to the proposal to include transitional fuels in the proposed taxonomy.

In general, while we agree that NDCs should be included in the assessment of transition, if transition

fuels are to be included as proposed in the consultation paper, we highlight the importance of allowing for adjustments to the thresholds over time as renewable energy becomes more scalable and practical in use as a viable replacement to natural gas.

While it is positive that transition fuels help to move away from carbon in the immediate future, over the long-term, consideration could be given to incorporate signs of further transition alignment. For example, for gas producers, this could imply evidence of involvement in alternative low carbon fuels and evidence of mitigation of fugitive emissions. In the case of pipeline operators, it could mean strong evidence of asset integrity to manage methane leaks, and initiatives to adapt pipelines to host alternative low carbon gases such as green hydrogen. And for power generators, it could include the production from/targets to produce from renewables, or to innovate with viable Carbon Capture and Storage (**"CCS"**).

We note that the inclusion of 'clean' fossil fuels in the PBoC taxonomy is inconsistent with the EU taxonomy[28], and will be an important part of the development of the IPSF's Common Ground Taxonomy document over time. As such, we strongly encourage Singapore and other regulators in the region to monitor the development of the Common Ground Taxonomy to understand what approach is settled on by the IPSF, rather than develop a separate course early on. As a member of the IPSF, Singapore should be well placed to consider what approach the Common Ground Taxonomy will take on fossil fuels with presumed lower life cycle greenhouse gas emissions. Lastly, we would like to reiterate the importance of the role carbon pricing could play in the overall transition to a low carbon economy, as highlighted in GFMA's Climate Finance Report and in Principles for a US Transition to a Sustainable Low-Carbon Economy.

Question 8 – The workstream seeks further clarification on four environmental objectives identified, namely:

- ***(a) climate change mitigation***
- ***(b) climate change adaptation***
- ***(c) protect biodiversity***
- ***(d) promote resource resilience***

This seems to be a reasonable approach, although it does differ from the six environmental objectives of the EU Taxonomy. The above four goals are more intuitive than the EU taxonomy's six objectives and thus may be more generally applicable. However, before proceeding there should be discussion at the IPSF as to how it will work to have an EU taxonomy with six objectives and a Singapore (and possibly ASEAN) taxonomy with four objectives. For globally active firms, the deviation could also pose additional burdens on implementation. If Singapore works with its own environmental objectives, we suggest the taskforce explain how to ensure compatibility with the objectives in other key regions or jurisdictions, especially the EU, for example, by providing mapping and ample communication to market participants.

[28] The PBOC is consulting on the need to change this as of May/June 2020: http://www.pbc.gov.cn/tiaofasi/144941/144979/3941920/4052500/index.html

The climate change mitigation and adaptation environmental objectives are clear and understandable goals aligned with the first two of six objectives of the EU Taxonomy. Therefore, it may be useful to focus in the first instance on the two climate objectives as the EU did in its first taxonomy efforts. This will allow for experience to be gained with constructing and implementing the taxonomy.

With regards to the following third and fourth objectives additional clarification may be required. For the third objective (i.e. protect biodiversity), the Associations and its members believe that the sustainable finance agenda should reflect the growing importance of preserving biodiversity[29]. We think that it is important to define what a substantial contribution to biodiversity looks like and how the impact, both qualitative and quantitative, on biodiversity can be measured. Although currently quantifying, reporting and managing biodiversity risks are still a challenge due to the lack of mature tools and methodologies, exacerbated by the limited availability of data, the need for further development of consistent and widely applied standards for measuring and disclosing biodiversity risks has been recognised by the international community. We believe that it would be necessary to facilitate companies' transparency around risk exposure/assessments associated with biodiversity loss and actions to mitigate such risks; as well as increase companies' responsibilities around biodiversity protection along the value chain (regardless of geographic location of the company).

Further, although the third objective seems to be aligned with the last of the EU taxonomy's six objectives (i.e. protection of ecosystems), it would be good to consider including ecosystem services as defined by the IFC's Performance Standard 6[30] in order to facilitate comparability and inter-operability. With particular reference to objective c) 'Protect biodiversity', we would recommend amending this objective to "Protect ***and restore*** biodiversity". Restoration in this regard could refer to compensation, rehabilitation, and other suitable terms and activities. Emphasis on 'restoration' is consistent with current global initiatives including The United Nations Decade on Ecosystem Restoration (ref. "Preventing, halting and reversing the degradation of ecosystems worldwide") and the ongoing work of the UN-backed Taskforce on Nature-related Financial Disclosures.

The fourth objective (i.e. Promote resource resilience) seems to be a reasonable way to group together what is in the EU plans for objectives 3-5 (i.e. Circular Economy, Water, Pollution Prevention). However, GFIT could explain why summarising the 3 EU objectives into one is necessary. In particular, the Circular Economy Objective is important in ASEAN because waste and water management are important in ASEAN countries and because of the Chinese ban on the import of plastic waste. So it may be important to keep this objective separate.

---

[29] Response to Question 11, AFME Key Messages for the future EU Renewed Sustainable Finance Strategy: https://www.afme.eu/Portals/0/DispatchFeaturedImages/200715_Consultation%20Response%20renewed%20sustainable%20finance%20strategy_Final%20response%20and%20Key%20messages.pdf

[30] https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards/ps6

Further, it would be better to work on this fourth objective last once it is clearer what approach the EU is taking. Similarly, given the significance of the agriculture sector within ASEAN, this could also be broadened to place greater emphasis on agriculture production systems, including sustainable plantations and sustainable palm oil.

Question 9 – The workstream seeks feedback on the negative requirements identified, i.e. that an activity must not:

- ***(a) impose negative impact on communities' social and economic well-being***
- ***(b) impose negative impact on communities' social and economic well-being unless the trade-offs can be justified in the long run***
- ***(c) breach local laws and regulations***

As discussed above, it may be useful to find a way to have a single "negative" or "disqualifying" test rather than multiple different tests which will require separate evaluation criteria. We note that much of the complexity of the EU Taxonomy arises from the additional DNSH criteria, requiring assessment against additional sector legislation and regulations. Further, it is not entirely clear how firms are expected to implement the assessment of Minimum Social and Governance Safeguards in the EU taxonomy. An alternative approach for GFIT's consideration would be to assess against the Global Compact Violations as it covers E, S, and G, and have readily available data on a wide range of companies. Overall, the primary goal must be improved green standards, and it is important that wherever possible, taxonomies and standards are kept as simple as possible to avoid complexity undermining the transition.

(*Please also refer to our answer to question #2 regarding the use of Global Compact Violations as a potential way to combine negative tests*.)

Overall, we would like to note that defining "impact significance" in the context of the "No significant harm…" and "No negative impact…" test is often complicated, and particularly where ecological and social sensitive receivers are concerned. It often requires in-depth study with time and cost implications.

Question 10 – The workstream seeks feedback on the process for identifying sectors, as well as the sectors identified

The Associations agree that the proposed approach seems reasonable. We encourage Singapore to discuss this with their IPSF peers to potentially come up with a single framework that embraces the sectors reflecting both the EU and Asia Pacific regions' needs, potentially expanding to other key regions. The framework should enable the relative importance of key sectors to vary according to the economic development in each region, and the contribution of that sector to the transition.

Question 11 – The workstream seeks clarification on the proposed approach

While the Associations agree that thresholds should be capable of being different from those identified by the EU for any given metric, we think that there should be a review clause built into the taxonomy to allow for subsequent revisions to the thresholds. While the ultimate destination should end up the same, the pace and timing of activities transitioning to net-zero carbon may differ across regions and countries, and thus it would be inevitable for changes to be made to the thresholds throughout the transition process. Further, it would help if there were more publication of aggregate country/regional data to support analysis, and for consideration to be given to central data source provided along with the taxonomy for country-level data to help with interpretation of company data and to serve as proxy when such data is insufficient.

Question 12 – The workstream seeks feedback on the use of a traffic-light system, including suggestions for expansion and granularity in any subsequent taxonomy

The Associations are generally supportive of the traffic-light system, particularly as it may provide the ability to recognise different transition activities. However, it would be helpful to have additional examples to understand how such system would work in practice. For example, a large multi-national corporation (e.g. large petrochemical companies) may have both green and non-green activities, and a question arises as to how such a circumstance should be classified.

Further clarity in relation to the following areas would be helpful:

- Whether "green" activities would require technical thresholds similar to the EU taxonomy or be based on some other rating mechanisms;
- Which bodies would make the validation assessment regarding the transition plans needed to qualify for "yellow" activities; and
- How "neutral" activities that neither significantly harm nor significantly contribute to the objectives would be considered under the taxonomy. GFIT could refer to the PRI case papers/case studies for more guidance.

If such a traffic light system is to be considered, it is crucial to make sure that the approach does not over-simplify things, and therefore, having exact criteria and definitions will be critical. Such a system should furthermore be able to adopt a forward-looking view (e.g. allow for differentiation between companies in case both are active in carbon intensive areas, but one starts to implement a transition plan).

While we understand that developing an exhaustive, all-encompassing taxonomy covering all economic activities is not feasible, we think that defining red activities would be premature at this stage, and might furthermore discourage investments in those sectors/activities, ultimately hampering the necessary transition[31]. A defined red category may also cause challenges for

[31] Response to Question 82, AFME Key Messages for the future EU Renewed Sustainable Finance Strategy:

companies operating in these activities, which may potentially lead to further knock-on effects within the real economy. We suggest GFIT to instead establish clear industrial transition glidepaths for a measured and gradual reduction in GHG emissions toward the targets under the Paris Agreement.

The Associations note the importance of being able to identify exposures to sectors/activities that are most exposed to environmental risks (both physical and transition risks), and of distinguishing between sectors/activities that can and cannot transition towards sustainable targets.

Question 13 – the workstream seeks feedback on this proposed approach

Please refer to our answer in questions 9 and 11. In particular, it would be worth considering how the DNSH test may be simplified into a single test, as suggested in our response to question 2.

https://www.afme.eu/Portals/0/DispatchFeaturedImages/200715_Consultation%20Response%20renewed%20sustainable%20finance%20strategy_Final%20response%20and%20Key%20messages.pdf

4. Appendix

Table 1 – Summary of Comparison of Singapore GFIT, EU, China, and Malaysia Taxonomies

	Singapore GFIT	EU	China		Malaysia
	GFIT - Identifying a Green Taxonomy and relevant Standards for Singapore and ASEAN	**EU Sustainable Finance Taxonomy**	**NDRC Green Industry Guiding Catalogue**	**PBoC Green Bond Endorsed Project Catalogue (2020 consultation version)**	**Bank Negara Malaysia (BNM) - Climate Change and Principle-based Taxonomy**
Guiding Principles and Objectives	▪ Common framework for classification for building financial products and services ▪ Encourage the flow of capital to support low carbon transition and avoid climate change implications ▪ Alleviate greenwashing ▪ Meet carbon emission reduction objectives for Singapore and ASEAN region ▪ Recognised the benefit of external certification and verification but not specifically required	▪ Climate and environment policies and the Paris Agreement ▪ External certification not explicitly required for verifying taxonomy compliance; verification is needed for standard and labels based on EU taxonomy	▪ Pollution prevention and control ▪ Promoting green industry development ▪ Created to be in line with current environmental laws of China	▪ Ensure the robustness of the green bond market ▪ Project screening with significant environmental benefits ▪ Created to be in line with current environmental laws of China and international standards to promote green bonds ▪ Greenhouse gas (GHG) emissions NOT a primary concern	▪ Increase awareness and actively respond to climate change ▪ Identify economic activities that contribute to climate change objectives ▪ External Certification and Independent verification

	Singapore GFIT	EU	China		Malaysia
Users	Singapore-and possibly ASEAN based Financial Institutions	Financial market participants, mainly investors	Policymakers and investors	Green bond issuers	Financial market participants, mainly banks, insurers/takaful operators, investors/asset management companies
Classification	▪ Recommended International Standard Industrial Classification (ISIC) system ▪ Classification into 5 sectors and 3 enabler sectors	▪ Nomenclature of Economic Activities (NACE code), the European statistical classification of economic activities ▪ Classification into 6 macro sectors and 1 enabler sectors	▪ No specific industry classification system ▪ Classification into 6 macro sectors	▪ No specific industry classification system (2020 version aligned with NDRC's) ▪ Classification into 6 macro sectors; aligned with NDRC's	▪ Country specific industry classification system ▪ No specific sectors identified
Screening Criteria	▪ Activity specific numeric metrics to define an entity's performance (to be determined later) ▪ 4 proposed environmental objectives ▪ Traffic light system (green/yellow/red) as an intermediate step ▪ Quantitative thresholds to be developed ▪ 3 negative screening requirements (DNSH to environmental objectives, no negative impact on communities' social and economic	▪ Principles to define economic activities with substantial contribution to environmental objectives, in particular climate change ▪ 6 environmental objectives and the principles of "Substantial Contribution" and "Do No Significant Harm" (DNSH) ▪ Social Safeguards ▪ Mitigation, adaptation and DNSH developed screening criteria	▪ No principle to define eligibility of the industries ▪ No carbon emission threshold ▪ Does not exclude fossil fuels	▪ No principle to define projects aligned with environmental objectives ▪ No carbon emission threshold ▪ Does not exclude fossil fuels (in 2020 excluded coal) ▪ No systematic approach to defining green objectives and criteria ▪ No overall principles guiding criteria, but certain	▪ 5 guiding principles to define economic activities with substantial contribution to environmental objectives, in particular GHG emission ▪ No carbon emission threshold

	Singapore GFIT	EU	China		Malaysia
	well-being in long run or unless trade-offs can be justified; no breach of laws and regulations)	▪ Metrics: Methods by which environmental performance is measured ▪ Specific and quantitative carbon emission thresholds ▪ Excludes fossil fuel activities without carbon capture		sector-specific ones have been with quantitative/qualitative thresholds (e.g. energy reference values)	
Noteworthy Observations	▪ Proposes "yellow" activities with quantifiable and time-bound pathways to encourage transition ▪ Proposes a phased approach given data availability	▪ Macroeconomic impact assessment of taxonomy after implementation (e.g. liquidity risks of assets and potential distortions in competition) ▪ Financial Reporting of Revenues and Expenditures ▪ Reduction of Building GHG Emissions	▪ Originally developed to encourage financing of certain projects and activities	▪ More of an exhaustive list compared to NDRC's ▪ Covers bond issuer non-environmental requirements ▪ 2020 version removed "clean coal"	▪ Includes 'Firm Commitment and Willingness' (Categories 2, 4 of BNM's paper)

Guiding Principles and Objectives

The GFIT Consultation Paper on 'Identifying a Green Taxonomy and Relevant Standards for Singapore and ASEAN' (**GFIT taxonomy**) is a common framework for classification for building the financial products and services to encourage the flow of capital to support low carbon transition and avoid climate change implications, alleviate greenwashing, and ensure that Singapore and possibly the ASEAN region meet the carbon emission reduction objectives set out in the Paris Agreement.

The EU Sustainable Finance Taxonomy ("**EU taxonomy"**) is based on climate and environmental policies and the Paris Agreement, which classifies economic activities according to the six environmental objectives and the principles of "Substantial Contribution" to climate change mitigation or adaptation and Do No Significant Harm ("**DNSH"**) to other environmental objectives.

The NDRC Green Industry Guiding Catalogue ("**Green Industry Catalogue"**), which defines the boundary of green industry, is established based on China's ecological civilisation plan and has a focus on pollution prevention and control. The purpose of the Green Industry Catalogue is to guide the policymakers to properly allocate resources and better promote the development of green industry in China.

The PBoC Green Bond Endorsed Project Catalogue ("**Green Bond Catalogue"**), specifying the definition of green bond, is to guide the screening of projects with significant environmental benefits while keeping in line with the current environmental priorities of China (e.g. the Green Industry Catalogue) and international standards. The Green Bond Catalogue lays emphasis on the support of pollution control, climate change mitigation and adaptation, and resources efficiency, with an aim to build a green financial system and promote robustness of the green bond market.

The BNM Climate Change and Principle-based Taxonomy ("**Malaysia Taxonomy"**) is set up based on five guiding principles of climate change mitigation, climate change adaptation, no significant harm to the environment, transition and remedial efforts and prohibited activities. It serves as guidance to facilitate financial institutions in identifying and classifying economic activities that could contribute to climate change objectives.

In terms of principles and objectives, there are both similarities and differences of between the GFIT taxonomy and the EU, China, and Malaysia taxonomies. The GFIT taxonomy carries common principles and objectives of climate change mitigation and adaptation as the EU and Malaysia taxonomies do. The MAS and EU taxonomies cover broader scope of sustainability (e.g. social sustainability through the Minimum Safeguards consideration) while the Malaysia Taxonomy is focused on climate change. The Green Industry Catalogue and Green Bond Catalogue of China do not specify principles or objectives but focus on pollution prevention and control.

Users

The GFIT taxonomy is proposed to apply for Singapore-based FIs, with relevance to those active across ASEAN.

The EU taxonomy is designed for two main mandatory users: The Member States or the EU when setting requirements on environmentally sustainable financial products; and the financial market participants offering these financial products. Banks are not included, but they can use the EU Taxonomy on a voluntary basis[32].

The Green Industry Catalogue is set up for guiding the policymakers by defining the scope of the green industry in the entire economy. The Green Industry Catalogue, by setting up the priorities in the sector/region, is to help relevant authorities establish policies regarding investment, pricing, financing and tax to incentivise green industry development.

The Green Bond Catalogue is intended to guide bond issuers in identifying a green bond project with environmental benefits and taking advantages of the special treatment for green bond funded projects (e.g. allowing for a higher debt to equity ratio).

The Malaysia Taxonomy has a different applicability – applicable to institutions supervised by BNM, which include licensed banks, insurers/takaful operators, and investors/asset management companies.

Classification

The GFIT taxonomy considers the sectors based on the contribution of GHG emissions and the contribution to economic activities. The ISIC system is recommended for classification of the sectors for better alignment with emissions data and comparability with the EU Taxonomy. The GFIT taxonomy proposes 5 sectors and 3 enabler sectors, with 48 sub-sectors mapped to the ISIC. The selected sectors are: (1) Agriculture and Forestry/Land Use, (2) Construction/Real Estate, (3) Transportation and Fuel, (4) Energy, including upstream, (5) Industrial, and (6) three enabler sectors (i.e. ICT, Waste/Circular Economy, Carbon Capture & Sequestration).

The EU Taxonomy uses NACE codes for industry classification. It defines six macro-sectors (i.e. (1) Agriculture, forestry and fishing, (2) Manufacturing, (3) Electricity, gas, steam and air conditioning supply, (4) Water, sewerage, waste and remediation, (5) Transportation and storage, and (6) Construction) and one enabling sector (i.e. ICT), with 67 economic activities.

32 https://www.climatebonds.net/system/tdf/reports/comparing_chinas_green_definitions_with_the_eu_sustainable_finance_taxonomy_part_1_en_final.pdf?file=1&type=node&id=39698&force=0

The Green Industry Catalogue adopts a three-level classification framework, with six first-level sectors, 30 second-level sub-sectors and 211 third-level subsectors. The Green Bond Catalogue uses a four-level classification framework, with six first-level sectors (aligned with that of the Green Industry Catalogue), 25 second-level sub-sectors, 48 third-level micro sectors and 204 fourth-level economic activities. Both the Green Industry Catalogue and the Green Bond Catalogue use the same classification defining six macro sectors: (1) Energy saving and environmental protection industry, (2) Cleaner production industry, (3) Cleaner energy industry, (4) Ecological environment industry, (5) Green upgrading of infrastructure, and (6) Green services. Sub-sectors are at similar levels of details. No industry classification code system is applied to either catalogues.

The Malaysia taxonomy does not have a sector-specific classification system. Instead, economic activities are classified into six categories based on two principles: (1) to what extent the economic activity supports reduction or avoidance of GHG emissions or increase resilience to mitigate the physical effects of climate change and (2) whether the overall business activities cause harm to the broader environment.

In general, the sectors/projects/economic activities are classified differently in the taxonomies in scope. Please refer to **Table 2** below for a comparison of the key differences.

Table 2 – Comparing the Scope of the GFIT, EU, China and Malaysia Taxonomies by Sectors

	Singapore GFIT	EU	China	Malaysia
	GFIT - Identifying a Green Taxonomy and relevant Standards for Singapore and ASEAN	**EU Sustainable Finance Taxonomy**	**NDRC Green Industry Guiding Catalogue & PBoC Green Bond Endorsed Project Catalogue (2020 consultation version)**	**Bank Negara Malaysia (BNM) - Climate Change and Principle-based Taxonomy**
Agriculture and Forestry / Land Use	▪ Included agriculture, forestry, hunting and fishing.	▪ Included agriculture and forestry. ▪ Excluded fishing.	▪ Specifically, ecological agriculture and environmental restoration and protection.	▪ Only high-level principles, no specific sector identified.
Construction / Real Estate	▪ Mostly the same as the EU Taxonomy.	▪ Excluded buildings related to fossil fuels.	▪ Specifically, upgrading of infrastructure, construction and operation of clean energy facilities.	▪ Only high-level principles, no specific sector identified.

	Singapore GFIT	EU	China	Malaysia
	GFIT - Identifying a Green Taxonomy and relevant Standards for Singapore and ASEAN	**EU Sustainable Finance Taxonomy**	**NDRC Green Industry Guiding Catalogue & PBoC Green Bond Endorsed Project Catalogue (2020 consultation version)**	**Bank Negara Malaysia (BNM) - Climate Change and Principle-based Taxonomy**
Transportation and Fuel	▪ Included passenger railway transport ▪ Included sea, coastal and inland water transport, and air transport.	▪ Included passenger railway transport. ▪ Included water transport but excluded air transport.	▪ Excluded passenger railway transport. ▪ Focus on green / smart transport; for water and air transport, the focus is the relevant power system.	▪ Only high-level principles, no specific sector identified.
Energy, including upstream	▪ Included fossil fuel and nuclear. ▪ Proposed natural gas as transitional fuels.	▪ Excluded co-fired power without carbon capture, natural gas-fired power without carbon capture, and nuclear energy.	▪ Included nuclear, fossil fuel (including natural gas). ▪ The Green Industry Catalogue included "clean coal" while the Green Bond Catalogue excluded "clean coal".	▪ Only high-level principles, no specific sector identified.
Industrial	▪ Included agricultural manufacturing (e.g. food products) and industrial manufacturing.	▪ Focus on industrial manufacturing.	▪ Focus on manufacturing of new energy equipment and vehicles, resource recycling and energy saving.	▪ Only high-level principles, no specific sector identified.
Information and Communications Technology (ICT)	▪ Covered telecommunications.	▪ Covered telecommunication, software and data processing (e.g. data solutions for GHG emission reduction).	▪ Specifically, energy and transportation.	▪ Only high-level principles, no specific sector identified.
Waste/Circular Economy	▪ Mostly the same as the EU Taxonomy.	▪ Focus on sewage and waste treatment.	▪ Focus on pollution control, resource recycling, green transformation of industrial park and utilisation of waste.	▪ Only high-level principles, no specific sector identified.
Carbon Capture and Sequestration	▪ Not defined.	▪ Included direct air capture of CO_2, capture of anthropogenic emissions, transport of CO_2, and	▪ The Green Bond Catalogue included capture, utilisation or storage of carbon dioxide emitted from fossil energy.	▪ Only high-level principles, no specific sector identified.

	Singapore GFIT	EU	China	Malaysia
	GFIT - Identifying a Green Taxonomy and relevant Standards for Singapore and ASEAN	**EU Sustainable Finance Taxonomy**	**NDRC Green Industry Guiding Catalogue & PBoC Green Bond Endorsed Project Catalogue (2020 consultation version)**	**Bank Negara Malaysia (BNM) - Climate Change and Principle-based Taxonomy**
		permanent sequestration of captured CO_2.	combustion and industrial processes.	
Other (not proposed by MAS)	▪ Not applicable.	▪ Included financial and insurance activities. ▪ Included professional, scientific and technical activities.	▪ Included green services, covering consulting services, project operation management, project auditing and assessment, environmental monitoring and detection, and technical product certification and marketing.	▪ Not applicable - Only high-level principles, no specific sector identified.

Screening Criteria

The GFIT taxonomy proposes a 'traffic light system' as an intermediate step and will establish more granular criteria and a timeline for transition in the future. With the 'traffic light system', an economic activity is categorised into Green, Yellow or Red according to the extent it meets the four objectives (i.e. climate change mitigation, climate change adaptation, biodiversity protection and promotion of resource resilience) with relevant activity specific metrics, thresholds and criteria to be defined. In addition to the four environmental objectives, the activity must also comply with the three negative screening criteria to qualify as environmentally sustainable: (1) Not significantly harm any of the environmental objectives; (2) Do not impose negative impact on communities' social and economic well-being, unless the trade-offs can be justified in the long run; and (3) Do not breach local laws and regulations.

The EU taxonomy defines economic activities which help achieve the two environmental objectives (i.e. climate change mitigation and climate change adaptation). It also sets out detailed criteria, metrics and thresholds for defining green industry, based on EU regulations and environmental objectives from the Paris Agreement.

The Green Industry Catalogue and the Green Bond Catalogue put forward a list of eligible industries and projects. The screening criteria set out in the description/conditions are mainly based on relevant domestic standards and policies.

The Malaysia taxonomy screens the economic activities based on the five guiding principles (i.e. climate change mitigation, climate change adaptation, no significant harm to the environment, transition and remedial efforts, and prohibited activities). It also relies on third party verification or recognised certifications to provide assurance on environmentally sustainable practices. The criteria are more qualitative ones rather than quantitative, and no carbon emission threshold is specified.

Observations

The GFIT taxonomy proposed a phased approach of three-step process given data availability. In the 'traffic light system', it specifies a Yellow (transitional) category for activities or companies with quantifiable and time-bound pathways towards either green or significant de-carbonisation, which encourages companies to undertake a transition consistent with emissions-reduction pathways.

The EU taxonomy takes into consideration the macroeconomic impact assessment of the taxonomy after implementation (e.g. liquidity risks of assets and potential distortions in competition), requirements on financial reporting of revenues and expenditures and reduction of building GHG Emissions.

The Green Industry Catalogue is originally developed to encourage financing of certain projects and activities. On the contrary, the Green Bond Catalogue is more of an exhaustive list compared to the Green Industry Catalogue and it covers bond issuer non-environmental requirements. The Green Bond Catalogue (2020 version) removed "clean coal" to align with international standards.

The Malaysia Taxonomy includes 'Firm Commitment and Willingness' (Categories 2 and 4 of BNM's classification) to implement remedial measures and transition towards environmentally sustainable practices.