

3 June 2022

BY email to atbconsultations@sfinstitute.asia

Dear Sir / Madam,

ASIFMA Response to the ASEAN Taxonomy Stakeholder Consultation

The Asia Securities Industry and Financial Markets Association (“ASIFMA”)¹, on behalf of its members (“the Industry”) appreciates the opportunity to provide feedback on the ASEAN Taxonomy Stakeholder Consultation. ASIFMA welcomes the opportunity for engagement which reflects the leadership and commitment of the ASEAN Taxonomy Board (“ATB”) towards sustainable finance, and the willingness to receive opinions and expectations from key stakeholders.

Overall, our members believe that the ASEAN Taxonomy provides a good model of a taxonomy that is globally designed to facilitate interoperability, which helps bridge different stages of development and circumstances between jurisdictions. ASIFMA especially commends the flexible multi-tiered approach adopted by the ASEAN Taxonomy, which supports inclusion of transition and allows alignment to transition pathways. This would be important when considering different levels of ambition and development across the region.

On alignment with international taxonomy standards, ASIFMA believes that such alignment is essential for encouraging the adoption and utilization of the ASEAN Taxonomy across jurisdictions. International coordination and references to international best practices in taxonomy development are key to ensuring successful and effective regional and national taxonomy development in an international capital markets context.

Potential Barriers to Successful Implementation of the ASEAN Taxonomy

ASIFMA welcomes the consultation initiated by the ATB, as we believe an ongoing, open dialogue with industry participants, including the financial institutions operating across borders in the Asia Pacific region, is pivotal to the implementation of the ASEAN Taxonomy, as well as the design and implementation of national taxonomies in the ASEAN region. There are, however, several potential barriers that we would like to highlight for the ATB to take into consideration, including (i) rising complexity and cost, (ii) usability and ease of implementation, (iii) lack of interoperability and fragmentation, and (iv) other enabling factors.

¹ ASIFMA is an independent, regional trade association with over 160 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.

1. Rising Complexity and Cost

We believe that it is critical for ATB to be clear about the purposes that the taxonomy is intended to serve (e.g. guiding investment capital) and what it is not (e.g. regulatory reporting by financial institutions). The taxonomy must then be designed to be easily and practically applicable to achieve those purposes. Complexity will arise when a taxonomy lacks a clear and simple purpose, especially when subsequent decisions and the usage of the taxonomy are not in line with the original purpose of the taxonomy. For example, if the purpose of the taxonomy is to guide investment capital, there may be additional costs and unintended market consequences when regulators impose new requirements on financial institutions to report percentages of the balance sheet that is taxonomy-aligned, which may not fulfil the original purpose of benefitting investors.

Additional costs and complexity arising from fragmentation will be elaborated further in point 3 below. Nonetheless, the industry urges the ATB to be mindful of emerging complexity, which may lead to significant compliance costs becoming greater than any incremental pricing benefits from demonstrating alignment. These additional costs and complexity may result in the industry taking a tick-the-box approach towards compliance and reporting against the taxonomy, rather than using the taxonomy to meaningfully inform decision making. This may go against the intended purpose of benefitting the users of the taxonomy, such as the investor community.

2. Usability and Ease of Implementation

In considering the utility of taxonomies, we would suggest ATB to consider the usability for both investors and issuers, and to balance the trade-offs from taxonomy alignment. The availability of necessary data and the ability to verify taxonomy alignment remain important issues for facilitating implementation. We encourage ATB to refer to the [ASIFMA/FOSDA Paper](#) on Data Challenges for ESG and Sustainable Finance in APAC, which explains some of the key data challenges that must be addressed before a taxonomy can work successfully.

ASIFMA urges ATB to consider company disclosures in parallel with the implementation of the taxonomy. Corporates should be encouraged to disclose high quality and comparable ESG data, thereby facilitating the implementation and adoption of taxonomies. However, it should be noted that taxonomy disclosure can require significant auditing and information systems changes for companies, training for employees, staff bandwidth, external support, etc. Coordination between jurisdictions and regulators, coupled with capacity building initiatives will help facilitate implementation of these disclosure standards. We would also encourage any disclosure frameworks to adopt a proportionate approach by considering the size, balance sheet, resources, and capability of each firm to avoid creating excessive burden for producing the necessary data.

In addition, we would also like to highlight that if taxonomies require companies to make any subjective assessments, it could also result in companies reporting differently on the same activities.

3. Lack of Interoperability and Fragmentation

ASIFMA commends the ATB for its efforts and framework in accommodating the differences in emerging markets' transition paths from that of developed markets, to the extent that the ASEAN Taxonomy serves as an overarching guide and guard rail to national taxonomy development. That said, the ASEAN Taxonomy needs to remain compatible and interoperable with other APAC and

international taxonomies to avoid additional fragmentation, which may ultimately undermine cross-border capital flows of green financing. Further fragmentation in taxonomy schemes may also incur additional costs, such as duplication of certification costs for cross-border transactions where multiple taxonomies apply.

While the recognition and accommodation of transitioning economies is particularly important for the economies in the ASEAN regions, it will also require agreement between all participating jurisdictions regarding the respective thresholds and conditions to ensure consistency in approaches.

4. Other enabling factors

The industry believes that the success of taxonomies such as the ASEAN Taxonomy also rests on the adoption of other enabling factors such as aligned policies on the use and pricing of carbon, etc.

Moreover, it would be helpful if the ATB could provide further examples and tools to guide understanding and implementation of the ASEAN Taxonomy. Given the financial services sector is subject to increasingly significant obligations, it would be challenging for firms to fully evaluate the effects of the ASEAN Taxonomy within a limited timeframe. Any use guides from the ATB will help stakeholders to navigate the constantly evolving environment which may exert significant pressure on existing resources to meet new requirements.

Encouraging organisations to adopt / align their activities with the ASEAN Taxonomy

ASIFMA believes that it should help encourage adoption of the ASEAN Taxonomy by reducing complexity in the taxonomy and improving its usability as described above. As discussed, we would suggest that ATB provides clarity on the purpose of the taxonomy and ensure that the taxonomy is simple to implement across industries and jurisdictions.

We would like to reiterate the importance for alignment between the ASEAN Taxonomy and other taxonomies, which will also be a key factor for companies and locations to adopt the ASEAN taxonomy. It will be helpful to map the ASEAN disclosure standards to international standards to help the different stakeholders understand the requirements and demonstrate compliance with the taxonomy. Companies should also be held to the same level of reporting requirements across countries and industries to ensure a level playing field for all.

We would also encourage the ATB to obtain explicit agreement from impacted industries, countries, and government bodies, through continuous and open dialogues to drive international acceptance.

Comments on the Environmental Objectives and Essential Criteria

ASIFMA would caution on the use of EC1 (Do No Significant Harm [“DNSH”]), as the DNSH principle may create difficulties from the perspectives of both interoperability and implementation. In the GFMA submission to the on the CGT², it was discussed that the DNSH principle is challenging to fulfil in practice as it requires both the definition and measurement of a full set of supporting objectives. Further, some activities are difficult to compare and map across jurisdictions, such as the construction of buildings.

² [GFMA Response to the IPSF Consultation on Common Ground Taxonomy](#), Dec 2021

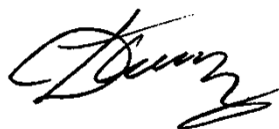
Additional complexity lies in the situation where DNSH criteria may be tied to compliance with a local law – these criteria may not be applicable in different jurisdictions and could create an impact on cross-border capital flows in funding green transitions. Furthermore, the implementation of the DNSH principle could add additional complexity and cost to users, especially when taking into account the lack of consistency and data available. Therefore, we would suggest ATB to carefully consider the use of the DNSH principle.

Our members believe that the Essential Criteria EC2 (Remedial Measures to Transition) is necessary when setting minimum criteria, as we find transition to be an important consideration for APAC economies, given jurisdictions in this region often varies in their stages of development. It would be helpful for the ATB to provide guidance and criteria on these transition measures to ensure consistency in its application, measurement, and achieving interoperability.

Conclusion

ASIFMA appreciates your consideration of our comments, and we welcome any further discussion with your members. In the meantime, if you have questions, please contact me (dparusheva@asifma.org) or Christine Terng, Associate, Public Policy and Sustainable Finance (cterng@asifma.org).

Sincerely,



Diana Parusheva
Executive Director, Head of Public Policy and Sustainable Finance at
Asia Securities Industry and Financial Markets Association (ASIFMA)