27 July 2023

To
Monetary Authority of Singapore (MAS)
10 Shenton Way,
MAS Building
Singapore 079117

Re: ASIFMA's response to draft Fourth GFIT Consultation Paper released by MAS

Dear Sir/Ma'am(s),

The Asia Securities Industry and Financial Markets Association ("ASIFMA")[1], on behalf of its members, appreciates the opportunity to provide feedback on the Fourth Taxonomy Consultation Paper from the Green Finance Industry Taskforce ("GFIT"), released by the Monetary Authority of Singapore ("MAS"). We refer to our views from ASIFMA's previous submissions to the GFIT's past consultation papers on the Singapore-Asia Taxonomy here and here.

The Managed Phase Out ("MPO") of Coal Fired Power Plants ("CFPPs") is a critical issue for Asia Pacific as it proceeds with its energy transition. The financial services industry can play a crucial role in accelerating the pace and scale of MPO transactions in the region, together with policymakers and civil society. ASIFMA members welcome the clarity of approach presented by the GFIT within this consultation.

However, there are certain points of principle we would flag at the outset, having reviewed the proposed criteria in the consultation paper:

- ASIFMA advocates the pursuit of maximum alignment between standards developing here and those already found within the ASEAN taxonomy. Such interoperability provides strong foundations upon which the financial services industry can look to build engagement with and advancement of CFPP MPO transactions within the region.
- The emergence of differing standards in this space will do more hinderance than help to the investment landscape as it pertains to CFPP MPO transactions. Thus, alignment with the ASEAN taxonomy wherever possible, is essential.
- The 'hybrid' approach proposed by the GFIT sets a high bar for compliance with the detailed criteria. ASIFMA members would welcome any further information that can be provided on how a proposed CFPP MPO transaction will be viewed, if is not taxonomy aligned.

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[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 Global Financial Markets Association ("GFMA") alliance with the Securities Industry and Financial Markets Association ("SIFMA") in the United States and the Association for Financial Markets in Europe ("AFME") , ASIFMA also provides insights on global best practices and standards to benefit the region

In the Annex below, we elaborate further on each of these points, alongside several others.

Our response has been drafted with the support of our professional firm member PwC Singapore, based on feedback from the wider ASIFMA membership. We thank GFIT for the opportunity to provide feedback and for considering our comments. We would be happy to meet with MAS and the GFIT to further discuss any of the issues raised and provide clarity on our response.

Should you have any questions, please do not hesitate to contact me Diana Parusheva (dparusheva@asifma.org), Head of Public Policy and Sustainable Finance at ASIFMA.

Yours faithfully

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Annex – Consultation Paper Question Responses

1.What additional issues need to be covered by the criteria?

ASIFMA's view is that the range of issues covered within the proposed criteria is largely suitable. It is important that taxonomy criteria do not become too unwieldy and that there is a clear emphasis on usability.

Regarding the transition planning criteria, ASIFMA looks forward to prospective guidance in this regard from the MAS, as announced in July 2023[2], that will complement and provide greater detail on what high-quality transition planning denotes.

This will be particularly helpful when it comes to complying with paragraph b.ii – and more appropriate than providing extensive further detail within the taxonomy itself.

2. What are the usability challenges and potential issues with operationalisation of the criteria?

Interoperability and alignment

The pursuit of maximum alignment between differing taxonomies in the region - in regards CFPP MPO transactions, and generally – is of critical importance.

As things stand, there are differences in the proposed treatment of CFPP MPO transactions in the ASEAN and Singapore-Asia taxonomies, respectively. This prompts a clear question: which criteria should be applied by financial institutions when considering these transactions? If it remains, this question will have a chilling impact on investor appetite to engage with CFPP MPO transactions.

For example, and on current reading, a given MPO transactions might align with the 'green' categorisation under the ASEAN taxonomy but fall short of fulfilling all the proposed facility, entity and system level criteria under the Singapore-Asia taxonomy. Such a scenario could cause confusion and lead to one taxonomy being favoured over another, or transactions being avoided altogether before greater clarity is available.

For the Singapore-Asia taxonomy's proposed 'hybrid' approach to work (i.e., not using the 'traffic light' categorisation'), it feels necessary that finalised taxonomy criteria be accompanied by concerted efforts by the MAS to tackle the stigma associated with coal financing that will remain, even as part of MPO transactions.

Finally, any guidance that can be provided on how prospective CFPP MPO transactions will be treated, should they fall short of the facility, entity and system level criteria as put forward in the consultation paper, would be welcome.

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[2] MAS (2023) 'MAS to Set Expectations on Credible Transition Planning by Financial Institutions' - https://www.mas.gov.sg/news/media-releases/2023/mas-to-set-expectations-on-credible-transition-planning-by-financial-institutions

Reviewing the criteria

The potential review date of 2025 for these criteria may present certain challenges.

It is welcome and correct that there is a commitment to continually revise standards and guidelines in this field – considering that MPO transactions are still so rare within the market.

But such an immediate review date may deter financial institutions from engaging with MPO transactions now – which must be the aim. As the view may hold that with potential revisions coming so soon, it is best to await those rather than committing early.

ASIFMA would therefore recommend that a potential review takes place at least 12 months after January 2025. To give the final criteria sufficient time to bed in, but in turn, ensure they do not remain impervious to experience gained by policymakers and financial institutions alike, that can make the framework still more effective.

Thereafter, it would be in the interests of market participants for criteria to be reviewed at suitably regular intervals. To ensure criteria take account of relevant developments in this field, e.g., in the field of technology, but also remain sufficiently stable to ensure certainty for financial institutions when planning potentially taxonomy-aligned activities.

Plant generation replacement

Under paragraph A.vii, ASIFMA members would welcome clarity around whether 1-1 replacement is something that entities must have immediately, or if a plan is sufficient. Given that certain regions may have oversupply of energy as it stands today, it may not be feasible to commission such replacement projects immediately.

Also, on this point, we would request further detail around expectations from the prospective replacement power supply. For example, alongside requirements for replacement resources to be suitably clean, does the 1-1 expectation extend to other modalities such as electricity cost? ASIFMA members would appreciate further detail on this point, to the extent that it is aligned with market realities around current and projected costs from renewables in the region, for example.

3. Are there any loopholes that might lead to perverse outcomes?

The operation duration cap proposed at paragraph A.v may lead to perverse outcomes.

There is the potential to deliver emissions reductions over the lifetime of a CFPP via retrofitting/repurposing. Indeed, this is recognised in paragraph a.vii.4. It may not be possible to realise this potential if there exists a 25-year cap on operation duration of existing CFPPs.

ASIFMA does recognise, however, that any prospective pursuit of emissions reductions via retrofitting must be balanced against increased risks of moral hazard. Unproven retrofitting potential cannot lead to an extended use of coal-firing beyond that which would have otherwise been achievable via a full decommissioning.

For that reason, we would recommend awaiting the findings of further research into this sensitive topic before introducing a 25-year cap. It appears this is necessary before a more informed, evidence-based decision can be made, possibly when these criteria are next reviewed.

In the meantime, aligning with the ASEAN taxonomy's 35-year operation duration cap appears a sensible approach[3].

This feels particularly important, given that a 25-year cap may not be financially practical to deliver without significant public sector financial commitments. To that end, ASIFMA would welcome any further guidance/clarity that the MAS can provide on the potential for/availability of additional support in this area.

4. Is there a room to increase the level of ambition with regards to any of the criteria?

The level of ambition proposed appears suitable – assuming greater alignment can be found with standards presented in the ASEAN taxonomy.

It is encouraging to see the degree of consistency that exists with emerging standards around transition planning in this field, most notably those provided in the recent GFANZ consultation on this topic.

Moreover, the level of clarity these provided by the GFIT here is welcome and are befitting of an emerging taxonomy that aspires to be very usable.

One area that does warrant comment is the provision within paragraph B.ii for the entity to have a "1.5°C aligned transition plan that is aligned with the principles of transition finance outlined by International Platform on Sustainable Finance." (IPSF)

In the first instance, ASIFMA would welcome clarity on what 'aligned with' practically means in this regard. Does this mean adherence to every one of the IPSF's nine Principles?[4]

If so, this would seemingly require public disclosure of the transition plan, in line with the following wording contained within the IPSF's November 2022 report: "Organisations should publicly disclose their transition plans in a way that makes them comparable (as described in Delivery Principle 1, Element 1.3)."[5]

Public disclosure of transition plans is not yet a uniform standard, either globally or in the Asia Pacific region. While ASIFMA agrees that it constitutes best practice in this regard, we would recommend it being acknowledged as such for the moment and advised, rather than required.

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[3] ASEAN (2023) Asean Taxonomy for Sustainable Finance - https://asean.org/wp-content/uploads/2023/03/ASEAN-Taxonomy-Version-2.pdf

[4] Principle 1: The (collective) goal is to keep global warming to 1.5 degrees Celsius (TARGETS); Principle 2: Targets must embed deep, rapid and sustained change (TARGETS); Principle 3: Transition is all-encompassing (TARGETS); Principle 4: The climate mitigation transition must be compatible with other environmental and social goals (TARGETS); Principle 5: The transition plan is sufficiently comprehensive to be credible (DELIVERY); Principle 6: Put in place strong internal governance (DELIVERY); Principle 7: Promote active external engagement to create enabling environment (DELIVERY); Principle 8: External reporting and engagement (DELIVERY); Principle 9: Credible assessment mechanisms (DELIVERY)

[5] International Platform on Sustainable Finance (2022) Transition Finance Report November 2022 – P.40 - https://finance.ec.europa.eu/system/files/2022-11/221109-international-platform-sustainable-report-transition-finance_en.pdf

5. Which provisions might require further guidance and what type of guidance?

ASIFMA would simply request that the wording at paragraph A.viii be tightened so that it is very clear the financial institution need only have one transition plan which includes the requisite just transition elements.

Not have a climate transition plan and another, separate, just transition plan.