4 August 2023

To
Glasgow Financial Alliance for Net Zero (GFANZ)

Re: ASIFMA's response to GFANZ Public Consultation – Financing the Managed Phaseout of Coal-Fired Power Plants in Asia Pacific

Dear Sir/Madam

The Asia Securities Industry & Financial Markets Association ("**ASIFMA**")[1], on behalf of its members, welcomes the opportunity to respond to this Consultation Paper ("CP") from the Glasgow Financial Alliance for Net Zero ("GFANZ") on this crucial topic.

Accelerating the Managed Phase Out ("MPO") of Coal Fired Power Plants ("CFPPs") is a necessary precondition of any successful energy transition within the Asia Pacific ("APAC") region. Financial institutions have an important part to play here, alongside policymakers, regulators, standard setters, and energy companies. ASIFMA would encourage continued and active engagement with all of these groups moving forward, as their input will be needed to deliver effective guidance in this regard.

The proposed guidance provided by GFANZ, detailing a high-integrity approach to transition planning for financial institutions looking to engage with a CFPP MPO transaction, is a welcome contribution to this debate. This is an incredibly complex and challenging area of sustainable financing – and usable guidance that can help demystify it for financial institutions is extremely useful. For this reason, ASIFMA welcomes the work that GFANZ is doing here. It has the potential to play an important role in delivering greater transparency on the necessary steps that need to be taken to deliver successful CFPP MPO transactions.

Having reviewed the proposed three-stage approach to CFPP MPO transition planning and associated ten recommendations, we would emphasise the need for clarity, interoperability, and proportionality wherever possible, within the finalised guidance. Taking each of these points in turn:

- **Clarity** – Accelerating the pace of MPO of high-emitting assets is a global challenge. But the MPO of CFPPs is a problem that is particularly acute within APAC. ASIFMA would therefore encourage the provision of APAC-specific, usable, guidance around implementation for financial institutions, that accounts for the circumstances found within this part of the world.

- **Interoperability** – There are likely to be differing standards and guidelines emerging across the region and globally, in regards CFPP MPO. As these develop, ASIFMA would encourage GFANZ to continue advocating for alignment and interoperability between them, to provide greater additional clarity and

[1] ASIFMA is an independent, regional trade association with over 170 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.

consistency around desired approach from financial institutions. Global alignment on standards, wherever possible, will be important to delivering the required engagement from private finance to help deliver these complex transactions.

- **Proportionality** – The approach taken by GFANZ – defining best practice in the first instance – is welcome. But a balance must be struck between ensuring high integrity and generating sufficient momentum within industry to take the first step to engaging with these complex transactions. As such, ASIFMA would support the addition of a set of minimum standards under each recommendation, alongside a recommended approach, to ensure decommissioning has the best chance of starting in a timely manner.

We elaborate on each of these points in greater detail below. Our response has been drafted with the support of our professional firm member PwC Singapore, based on feedback from the wider ASIFMA membership.

Naturally, we would be happy to discuss further any of the points raised in this response. Please do let us know if this would be helpful.

Yours faithfully

Diana Parusheva-Lowery
Executive Director, Head of Policy and
Sustainable Finance at Asia Securities Industry
and Financial Markets Association (ASIFMA)
F: +852 9822 2340
DParusheva@asifma.org
www.asifma.org

Part 1: APAC Considerations

1. **Are the most relevant considerations and contexts when considering energy transition and coal phaseout for APAC countries captured? Is anything material missing?**

The CP appears to capture the most relevant considerations and contexts when considering energy transition and coal phaseout for APAC countries.

The following statement from page 31 of the CP appears particularly significant in this regard:

"To have the highest confidence that there will be no leakage within a jurisdiction, there needs to be both a commitment to (1) 'no new coal' and (2) a coal phaseout date, both of which are ideally aligned with a science-based pathway such as the IEA Net Zero Scenario. However, <u>the reality is that few jurisdictions within APAC have done this today. While governments examine how they may raise their ambition over time, climate action needs to happen now</u>." [emphasis added]

Considering this, it may be appropriate that a host country's NDC – assuming that it is Paris aligned – be used as a more suitable reference/benchmark with a CFPP MPO transition plan, rather that the IEA Net Zero Scenario. To best reflect where APAC is now.

This example speaks to a wider point: how can a good understanding and recognition of the specific contexts and considerations within APAC best inform the application of the final three step process and associated ten recommendations, in practice?

ASIFMA would welcome GFANZ providing recommendations on available resources/literature that a given financial institution should use while conducting, for example, an entity level review within APAC.

As it stands, information of the kind provided is seemingly a) more generally applicable, rather than APAC specific and b) provided more as reference material, rather than usable guides for action.

With this clarification added, financial institutions would have more certainty around how the recommendations underpinning the CFPP MPO transition planning framework should be applied most effectively in the region.

Moving forward, ASIFMA supports ongoing exploration by GFANZ APAC on the MPO of CFPP. This should continue to reflect the needs and challenges in this region (e.g., rising demand on and economic dependency of coal in many developing Asian countries), and policymakers' emphasis on Just Transition in emerging markets, balancing climate, and energy security/affordability with economic development.

Such ongoing exploration is crucial to ensuring that references/materials featured in future guidance are contextually relevant and up to date.

2. **Given existing policy frameworks in APAC, what additional frameworks or enabling mechanisms are needed to incentivize and scale early phaseout transactions? How can the final GFANZ APAC Coal MPO Guidance best support these needs?**

We would highlight the critical importance of the Just Energy Transition Partnerships ("JETPs"), here. They can provide a necessary testing ground/sandbox environment within which innovative frameworks and enabling mechanisms can be trialled and refined.

The sheer complexity of CFPP MPO transactions demands such an approach. Only via road testing innovative mechanisms to mobilising private finance here – within Indonesia and Vietnam in the first instance, together with the active support of these countries' respective governments – can a greater understanding of what works be gained. And with that, proven precedent that can attract/encourage greater levels of private investment at scale across the region.

As is acknowledged within the CP, governments in the APAC region will not all have clear commitments to end new coal investment, or detailed coal phaseout plans. As such, JETP platforms can provide important credentials that can give investors comfort that participation in an MPO transaction has credibility and government support.

This is not to recommend that efforts at MPO of CFPPs outside the JETPs should be de-prioritised. Rather, that the hard-won buy-in of host and partner governments within these partnerships, alongside private finance, must be used now to its fullest extent.

On a practical note, here, we would simply request that engagement with potential CFPP MPO transactions, emerging out of initiatives such as the JETPs or the Asian Development Bank's Energy Transition Mechanism, be signposted to financial institutions at regular intervals.

ASFIMA would also highlight the importance of alignment and interoperability regarding the treatment of CFPP MPO transactions within differing taxonomies found across the region and globally. Since the launch of GFANZ' CP on this topic, a fourth taxonomy consultation paper from the Green Finance Industry Taskforce ("GFIT"), released by the Monetary Authority of Singapore ("MAS"), has been issued.

This proposes a 'hybrid' approach to the treatment of CFPP MPO transactions – containing both taxonomy and transition planning criteria. While still in draft, this approach represents a deviation from the treatment of CFPP MPO transactions under the ASEAN taxonomy – as does the proposal by the GFIT to carve such transactions out of the 'traffic light categorisation', that underpins both ASEAN and Singapore-Asia taxonomies.

More detail from policymakers detailing what high integrity CFPP MPO transactions denote is both inevitable and welcome. But ASIFMA would encourage GFANZ to advocate for maximum alignment between differing standards emerging, thus providing financial institutions with certainty around what good looks like.

3. **Is there a role for regulators / official sector authorities when developing MPO guidance? Where might regulators agree or disagree with the proposed guidance?**

Regulators/official sector authorities will be critical partners in any successful delivery of MPO of CFPPs, at asset and country level. 'Government level considerations' correctly feature prominently with Step A of GFANZ' proposed three-step process.

As such, regulators/offical sectors authorities should be involved at every turn, as this guidance develops and matures. The support provided by the MAS in preparing this CP is, therefore, particularly welcome.

Furthermore, successful CFPP MPO transactions will likely demand expertise that often falls outside the remit of financial services regulators and Finance Ministries. The participation of utilities regulators, energy departments (and energy companies themselves and their shareholders), and those covering social affairs, for example, should be actively sought to help provide expert opinion on what good looks like when it comes to managing the unfamiliar aspects of these extremely complex transactions for financial institutions. The JETPs are a good illustration of this approach in practice.

In turn, active engagement from regulators/official sector authorities in developing CFPP MPO guidance should also present opportunities for frequent engagement with financial institutions on this topic. Thus ensuring a regular flow of information around latest private sector activity and sentiment in this regard.

Part 2: Recommendations for financial institutions

4. **Achieving climate goals require both a 'high bar' to mitigate leakage and moral hazard risks, and measures to support urgent action. To avoid precluding MPOs based on current country-level policy: What is the best way to balance the realities of where APAC is today with more stringent policies that are likely in the future? How can we encourage financial institutions to take action on MPO today while government-level commitments are still evolving?**

Fundamentally, delivering successful CFPP MPO transactions without accommodating government-level commitments will be extremely difficult. Compounding this reality is the reputational risk still facing financial institutions looking to engage in such decommissioning strategies.

At a high level, the active efforts being made by GFANZ and associated member firms to 'legitimise' transition financing in the public domain are welcome and necessary. Finance 'going where the emissions are' is crucial – so keeping this debate live and well informed is essential.

It is important however that the public debate surrounding CFPP MPO remains sober. We should not over-promise what frameworks like this can achieve, given the need for projects to be bankable/investible from a risk/return perspective, and the continued learning that will be required in the next few years before proof of concept can become more assured.

More specifically, the proposed framework should recognize coal-to-natural gas as an interim pathway to accelerating carbon emissions reduction, concurrent with required increases in renewables investment. Assuming that such an approach is compliant with both the financial institutions and entity's climate targets.

This would allow not only for renewables activity to increase in parallel – which will take time – but also necessary upgrades to grid infrastructure to be made, to help counteract some of renewables' limitations (e.g., intermittency).

5. **While this report is focused on CFPP MPO plans, is it useful to capture the potential for emissions reduction from retrofits ahead of retirement? How might this be integrated into the guidance?**

The provision of greater clarity on the opportunities and risks associated with retrofitting appears crucial.

One of the most challenging aspects for financial institutions considering a potential CFPP MPO transaction is how to make up the shortfall in revenue associated with the early retirement of the asset. The correct approach will likely differ depending on which CFPP is being reviewed.

While this debate remains relatively nascent, our view is that all options for reducing lifecycle emissions associated with CFPPs should be considered – including the potential for emissions reductions from retrofits ahead of retirements.

This is an area that may benefit from a standalone, detailed evaluation of APAC's CFPP fleet, with retrofitting in mind and a particular focus on the risk of moral hazard. This appears a necessary step before determining how/if any guidance on this topic should be integrated within this workstream's financial recommendations.

6. **Alongside approaches to evaluate expected emissions reduction from a coal phaseout plan, is there value in simpler guardrails relating to the maximum operating life of a CFPP (both in total and from now)? What analysis could the guidance draw on to support use of such guardrails?**

Within such a complex topic, the presence of simple guardrails appears a necessary, if not sufficient, way of ensuring the integrity of prospective transactions.

A good example of this comes under 'Asset level considerations' and 'Recommendation 4', with the advice to review whether a plant was commissioned prior to international or national commitments to phase out coal i.e., 2021 Glasgow Climate Pact'.

It is important however that such guardrails do not stifle innovations that might otherwise have happened and, in this case, potentially reduce lifecycle emissions associated with the CFPP.

If our recommendation under Question 4 is accepted, we would advise awaiting the results of such an assessment before determining whether a maximum operating life guardrail would be additive. A lifecycle emissions cap for the CFPP in question may be more appropriate, especially if there is genuine potential within pioneering retrofitting technologies for CFPPs ahead of retirement.

ASIFMA has also conveyed this view to the GFIT when responding to its proposed introduction of a 25-year operation duration cap for CFPPs in the Singapore-Asia taxonomy criteria.

7. **In relation to assessing socio-economic considerations in a coal phaseout plan, are there additional areas the Final Report should aim to cover or guidance / references financial institutions could draw on?**

It would be very helpful if final guidance could detail those considerations within a socio-economic assessment that are essential pre-requisites/minimum standards before any MPO begins - and those which can be built out over time.

The introduction of a spectrum of this kind, within the finalised guidance, would be extremely welcome for financial institutions considering all ten recommendations, not just those in relation to socio-economic considerations.

Ultimately, a balance needs to be found which spurs action now – with sufficient integrity – rather than demanding every aspect of a plan is fully articulated before work begins.

Returning to socio-economic considerations, ASIFMA would also highlight the important role the public sector can play in helping prepare for and deliver reskilling for workers affected by CFPP MPO transactions. For example, the Queensland Energy and Jobs Plan in Australia, contains provisions for:

"A new $150 million Job Security Guarantee, backed by a fund and an Energy Workers' Charter, [that] will support workers in publicly owned coal-fired power stations by guaranteeing opportunities to continue their careers within these energy businesses or pursue other career pathways"[2]

While this Guarantee relates to publicly owned coal-fired power plans, it shows the importance of public sector support when it comes to reskilling/training. This will be critical in the successful delivery of MPO transactions, given they are multi-stakeholder initiatives by their nature.

8. **Does the three-step process capture the right stages and considerations for financing for a coal phaseout plan from a financial institution's perspective?**

ASIFMA welcomes the proposed guidance.

However, its recommendations remain largely theoretical for the moment. It is therefore crucial that this framework and associated, more detailed, guidance is continually revisited and updated considering emerging best practice and experience – especially coming out of the JETPs.

We also very happy to see GFANZ commit to the provision of case studies in the final report. Practical illustrations of how each and every recommendation is being/should be translated in the real world will be crucial for financial institutions as they begin to navigate these complex transactions in greater numbers.

Finally, ASIFMA naturally acknowledges that the active and leading participation of financial institutions will be crucial to the successful delivery of prospective MPO transactions. But effective retirement in line with the CP's guidance is not something they can deliver unilaterally.

---

[2] Queensland Government (2022) Queensland Energy and Jobs Plan – P.13 -
https://www.epw.qld.gov.au/__data/assets/pdf_file/0031/32989/queensland-energy-and-jobs-plan-overview.pdf

It is welcome that this is recognised.

9. **Do the ten recommendations cover the most important considerations for determining whether to participate in the financing of an MPO project? What other areas should a CFPP MPO plan include to support assessment of the plan's: a) Climate impact b) Financial viability c) Socioeconomic considerations d) Accountability**

The ten recommendations present a comprehensive starting point for evaluation.

Reflecting a point made above, it will be crucial that these elements are applied to MPO transactions launched within the JETPs. This experience will be essential in showcasing considerations that are potentially missing – and those that might require further refinement.

10. **Does the guidance, when taken together, strike the right balance between facilitating early transactions that could help accelerate peak coal emissions in APAC, and ensuring that each transaction has sufficiently positive impact?**

The three-step process and ten associated recommendations are both comprehensive and ambitious.

Defining best practice at this point, especially given the voluntary nature of the guidance, appears sensible. However, the final guidance would also benefit from information detailing the minimum recommendations a planned MPO transition plan must adhere to, alongside best-in-class aspirations.

The approach presented within the frequently referenced Working Paper from the Climate Bonds Initiative ("CBI"), Climate Policy Initiative ("CPI"), and Rocky Mountain Institute ("RMI") does this. With certain recommendations presented within its Guidelines for Financing a Credible Coal Transition representing a minimum bar for credibility and climate alignment, which can be increased over time. This with a view to enabling "*positive transactions [that] can go a long way in creating the necessary proof points and demonstrating the capital can be mobilised for the coal transition*"[3]

Presenting this level of optionality for financial institutions in the first instance appears sensible, to ensure necessary levels of momentum behind coal phaseout are generated.

It is also important that there are mechanisms available that allow for a legitimate decision not to proceed with a MPO, such as in the case of it proving socially/economically/politically infeasible despite good-faith efforts, without undue penalty to market participants.

11. **This report refers to additional guidance, benchmarks and thresholds that could inform assessments on aspects such as the credibility and impact of coal phaseout plans. Is there additional existing guidance that could be provided? What are the merits/issues of the different options set out?**

A helpful medium-term objective here would be the provision of Due Diligence Questionnaires (DDQs) that financial institutions could use, for example, to conduct entity or asset level assessments.

[3] CBI/CPI/RMI (2022) Working Paper: Guidelines for Financing a Credible Coal Transition – A Framework for Assessing the Climate and Social Outcomes of Coal Transition Mechanisms – P.5 - https://rmi.org/insight/guidelines-for-financing-credible-coal-transition/#download-form

DDQs of this kind could help tailor financial institutions' prospective engagements at entity or asset level, depending on the nature of the energy market within which the CFPP is operating (e.g., wholesale or regulated markets).

12. What are the relative roles for private sector, policymakers and standard setters to develop more granular guidelines (e.g., thresholds and conditions) on financing MPOs at this time? Would regulatory standards for MPO help incentivize FIs participation in transitions?

As multi-stakeholder processes, MPOs will demand active but differentiated engagement from the private sector, policymakers, and standard setters.

For policymakers and standard setters, it is crucial they develop as conducive an environment as feasibly possible for CFPP MPO transactions to occur. It is only within such a context that the private sector – both the entity that runs the CFPP and the connected financial institution(s) – can best mobilise their collective resources in pursuit of an accelerated decommissioning timeframe and MPO plan.

Introducing regulatory standards for MPOs at this stage appears premature.

It is more prudent for this guidance to remain voluntary in the first instance, especially considering there should be ample opportunity to road test implementation within the two regional JETP programmes over the coming year. Drawing upon feedback gained there, a more informed decision can be made on the nature and timing of any potential regulatory standards.

Part 3: Financing mechanisms

13. Are there other ways financing mechanisms for a coal phaseout plan can lower the cost of capital? Which elements are likely to be most impactful at reducing risk / crowding in private finance?

In our experience, the potential of innovative financing mechanisms is not used to its fullest extent.

This can simply come down to awareness. Financial institutions are often unclear about how to access the range of innovative financial instruments available. GFANZ might consider preparing dedicated communications materials that can help map the ecosystem of and access points to, for example, concessionary capital providers/blended finance solutions.

Increased awareness is a necessary pre-condition of greater engagement, which will ultimately drive financing activity and scale in this regard.

14. What are the most important alternative revenue streams for APAC coal phaseout plans? What other alternative revenue streams are possible from coal closure? What real examples of these provide the most instructive case studies?

ASFIMA would support further information on/research into the potential benefits avoided emissions credits might provide in this regard. In principle, their potential here appears very significant.

We therefore welcome the fact the CP contains the following comment/action: *"There may be cases where it is appropriate to deploy emerging energy transition carbon credits, and these are being explored* *through various initiatives currently, and as such may be addressed in more detail in the final version of this report."*

Fundamentally, ASIFMA is in favour of an approach to CFPP MPO that offers the greatest possible chance of emissions reductions in the shortest possible timeframe. We would therefore encourage an open-minded approach to alternative revenue streams for CFPPs wherever possible, based around what works in this crucial decade of delivery. As awaiting the closure of CFPPs is not an optimal outcome from a climate perspective.

15. Early retirement may pose particular challenges with respect to writing down the value of CFPP assets or associated financing. What additional considerations could be useful in the final guidance with respect to write downs? How important is this to consider in structuring transactions?

ASIFMA members have expressed an interest in further consideration being given to the potential benefits that compliance emissions trading schemes for CFPPs might provide from an MPO perspective. We would be keen to understand how this area is being considered by GFANZ.

16. Are the proposed safeguards for financing mechanisms the right ones? Are they sufficient?

The proposed safeguards appear comprehensive.

Given the broad and varied nature of the sustainable bond market, it will be important to ensure that, over time, targeted safeguards accounting for the specifics of the MPO-linked debt instruments emerge to complement and catalyse a prospective, dedicated, fixed income market here.

Part 4: Enabling financial institutions to take action

17. GFANZ seeks inputs on how internal financial institution policies and conditions may impact financing of coal phaseout plans, while at all times remaining cautious of identifying any non-public, commercially sensitive information. In particular, the following would be helpful: a. Specific wording around coal transactions (e.g., what types of coal transactions are allowed or not); b. Treatment of financed emissions for MPO (e.g., carve-outs or use of additional metrics outlined in the RMI Managed Coal Phaseout: Metrics & Targets for FIs); c. How financed emissions from MPO exposures are treated in the broader context of net-zero target setting.

ASIFMA would make the point that 'legitimising' CFPP MPO financing at a high level is one of the most significant enabling steps that can be taken in this regard.

This is not the job of one set of stakeholders, or something that will be achieved overnight.

However, in many quarters, CFPP MPO financing would likely be deemed equivalent to regular coal financing. Which presents significant reputational risk for financial institutions.

Managing the reputational issues in this regard requires an active and informed public discourse. The contribution of GFANZ' work here is therefore potentially significant. But this cannot be a one-off.

There must be regular interventions from policymakers, regulators, standard setters, etc, alongside groups such as GFANZ. To ensure the importance and legitimacy of CFPP MPO financing is well understood and recognised across society.

This will provide a more enabling environment for these transactions to take place. Which in turn will inform the development and refinement of more specific corporate policies on coal financing/phaseout that can deliver further benefits here.

ASIFMA agrees that the pursuit of consensus around the potential exemption from related policies on coal financing is an important feature of MPO guideline development, but one that likely merits further examination before a position is settled upon.

18. **Given the potential for widely used financed emissions targets to disincentive financing of coal phaseout plans, should coal phaseout plans be treated separately? Can this be achieved through greater transparency or do MPO transactions need to be fully carved out from financed emission targets? Does the need to finance coal phaseout justify amendments to financial institutions' emissions reduction targets**

This is a complex issue.

As with the potential for emissions reductions arising from retrofitting, this appears to be a topic that warrants/demands dedicated and thorough investigation before any decision is made.

The potential benefits that may arise from a possible carve out of CFPP MPO transactions from financed emissions targets need to be weighed against the practical and reputational challenges of synchronising new/continued CFPP MPO financing with legacy financed emissions targets and possible coal exclusion policies.

Given the potential for unintended consequences here, and the early learnings the JETPs may provide regardless, we would recommend reflection first to ensure any decision made is sufficiently evidence-based.