

6 October 2023

Attn: Financial Sector Forum Secretariate

ASIFMA Letter regarding the Philippine Sustainable Finance Taxonomy Guidelines

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 Philippine Sustainable Finance Taxonomy Guidelines (SFTG) consultation. ASIFMA welcomes the opportunity for engagement and the willingness of the Financial Sector Forum (FSF) to receive opinions and expectations from key stakeholders.

Members welcome the development of the SFTG and appreciate that it could serve multiple purposes such as; helping to mobilise capital towards environmentally sustainable activities, developing the sustainable financial sector in Philippines and also serve as a capacity building tool in location.

Below we provide specific responses to questions posed within the Consultation Paper.

Question: What design considerations do you consider the most important for the Philippines Sustainable Finance Taxonomy Guidelines?

Members agree that the principles outlined in the consultation paper are important and it's positive to see that the FSF have taken into account the lessons learnt from the ASEAN consultations.

At this stage in the development of the SFTG it's important to prioritize:

- **Interoperability** to reduce fragmentation across APAC and globally and ensure capital is able to flow freely.
- **Usability**: ease of use is important as to not deter companies utilizing the framework. This is also important given the differing size and needs of companies across the Philippines and APAC.
- **Dynamic**: the framework needs to be flexible and take into account future developments within the Philippines economy, technological advancements and growing business needs. It also needs to stay current and up to date with other taxonomy developments in the region and globally.

Members commend the multi-tiered traffic light approach the FSF have incorporated into the Philippines taxonomy; this is important aspect in supporting transition and providing high Green House Gas (GHG) emitting sectors and activities a transition pathway.

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 [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.

Members also acknowledge FSF's efforts to align objectives and activities with key taxonomies used globally and within the APAC region. As section 7.1 of the consultation paper notes that this taxonomy will in the first phase be 'principles-based' and going ahead will convert into an activities-based taxonomy (like EU taxonomy) we recommend that FSF considers beginning with an activities-based taxonomy itself if that is where FSF would ultimately like to reach – this in our view could avoid confusion re. methodology of identification of whether an activity is green/amber/ red (first principle based and then activity based). Appreciating the complexity with activities-based taxonomy, this approach would be the same as EU taxonomy which arguably is the most advanced amongst taxonomies globally.

Until then we would like to seek clarity on how you envisage the Philippine principles-based taxonomy working alongside those in the region that include TSC's, i.e how will interoperability work in practice and how will be ensured that what is green under the SFTG will be green under another taxonomy? One aspect FSF could consider is engaging with peer regulators on how national taxonomies can be interoperable across APAC. 'of the STFG.

Question: Are there specific adaptation assessment standards your institution is already applying?

Our members use among others the IOS Standard for Adaption to climate change: ISO 14091:2021 – Guidelines on vulnerability, impacts and risk assessment and hence members seek clarity from FSF on the direction of this question and if they are intending to integration ISO standards into the SFTG?

Question: Do you have any suggestions regarding the list of prohibited activities in Appendix 1?

Members acknowledge there will be activities that would not be aligned with the SFTG, however as per the approach taken by other national taxonomies, members do not see a clear need for non-aligned activities to be listed. However, if FSF do proceed with the list members suggest the following:

- The prohibited activities not to impede transition activities
- To be aligned with the taxonomy objectives i.e how do non-environmental activities (gambling and weapons) relate to the climate objectives?

Question: Do you think the proposed sustainable finance taxonomy adequately prioritises the mitigation and adaption sectors for initial coverage? The approach taken by FSF to focus on the highest emitting sectors is in line with approaches taken for other APAC national taxonomies. Members support this approach. However we suggest that the choice of economic activities and sectors should NOT only be based on their share of overall greenhouse gas emissions, but also on their potential to contribute to avoid producing greenhouse gas emissions, to reduce such emissions or to contribute to greenhouse gas removal, or to enable such avoidance, reduction, removal or long-term storage for other activities.

Question: Is a 5 year period to allow for potential harm to be remediated appropriately? What sectors may require more than 5 years to remediate? Should activities that cause any significant harm be automatically excluded? Would a questionnaire be a viable interim solution pending global efforts to simplify DNSH?

- Members view a 5 year remediation period as appropriate and in-line with the ASEAN Taxonomy approach. but do suggest excluding those that cause 'significant' harm.
- Could FSF confirm how remediation will work if the 'harm' impacts Philippines laws? i.e if the harm contravenes a law but it's being remediated, will it still be green or amber under the taxonomy?
- We understand the SFTG will cover DNSH via a set of guiding questions – which is in line with the ASEAN FF approach and members believe at this point in time, is a suitable approach for the SFTG. Therefore, creating a questionnaire is not necessary as the guiding questions will achieve the same yes/no outcome.

Question: Do the proposed three essential criteria provide enough guidance for taxonomy users to make their assessments of compliance?

As currently proposed, for an activity to be green, it should fulfil all 3 conditions:

- Do no Significant Harm (DNSH)
- Remedial Measures to Transition
- Minimum Social Safeguards (MSS)

We recommend that 2nd condition should rather be a subset of 1 (DNSH) which should be used to determine if an activity is amber as per the approach outlined in the previous comment.

Question: Which options for defining the green and amber categories above would be considered most suitable in an initial phase of the taxonomy and why?

The descriptions outlined under option 1 are less complicated and easier to understand. We support Red/Amber/Green alignment with other taxonomies such as the ASEAN Taxonomy. We recommend that an activity is:

- **Green:** when substantial contribution to an EO + DNSH other EOs + meets MSS
- **Amber:** See comment above
- **Red:** Simply those activities which are neither green nor amber.

Unless carefully drafted and mutually exclusive, having a specific definition of red may leave us with the risk of certain activities not falling under any of the three categories

Question: Do E&S assessments already take into account biodiversity and circular economy considerations?

Members encourage FSF to develop specific guiding questions for biodiversity and circular economy objectives. Especially as the SFTG will look to address these topics in future phases.

Question: Are the guiding questions across the three essential criteria clear and usable? Do the MSS criteria appear reasonable and practical?

Yes the guiding questions for the essential criteria are clear and usable. In line with the EU taxonomy, it would be useful for the taxonomy to be applicable across industries (and not only to the financial services industry). This will enable financial institutions to pick up data from their counterparties (CPs) rather than being required to go through and perform detailed and complicated assessments on whether a CP activity meets the Technical Screening Criteria (TSC), does not significant harm other environmental objectives and meets minimum social safeguards.

The determination of whether an activity is green/ amber/ red should be required to be done by our CPs. Being closest to their own economic activities, CPs would be best placed to a) categorize their business activities into activity descriptions noted in the taxonomies (CGT or China mainland or EU taxonomy) and b) review whether TSCs are met.

Question: The taskforce seeks feedback whether the use of international and relevant domestic standards on a voluntary basis would help to strengthen the assessment process of an activity without imposing undue burden to an issuer or borrower.

No comment.

Question: What is the market potential for verifiers of taxonomy alignment? What specific guidance would be needed to support the growth of such a matter?

Members encourage industry adoption of the taxonomy prior to assurance or auditing requirements are considered. Imposing these requirements could deter companies from using the taxonomy.

Members would like to seek clarity from FSF on the below questions:

- 1) Members would appreciate clarification on proposed reporting timelines, such as the period of data in scope for the first reporting timeline and whether there are any specific formats or templates to be used for such reporting.

- 2) The consultation paper states the first phase taxonomy document will be produced and formalised into regulatory instruments and an appropriate compliance timetable will be provided. Could FSF elaborate on what regulatory instruments will be utilised and what is the compliance timeframe?

Thank you for the opportunity to provide feedback on the SFTG. We hope the FSF will take the points raised in this letter into consideration as they continue to develop this taxonomy.

We do look forward to providing feedback on further iterations of the SFTG and contributing to its overall development.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Diana Parusheva', with a stylized flourish at the end.

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