



27 March 2023

ASEAN FINANCE SECTORAL BODIES RELEASE ASEAN TAXONOMY FOR SUSTAINABLE FINANCE VERSION 2

The ASEAN Taxonomy Board (ATB), representing ASEAN finance sectoral bodies, today took the next step towards meeting the Paris Agreement commitments, with the release of the ASEAN Taxonomy for Sustainable Finance Version 2 (Version 2). While the first version laid out the broad framework of the ASEAN Taxonomy, Version 2 consists of the (a) complete Foundation Framework comprising detailed methodologies for assessing economic activities; and (b) Technical Screening Criteria (TSC) for the first focus sector ie Electricity, Gas, Steam and Air Conditioning Supply sector (Energy sector) under the Plus Standard. TSCs for other focus sectors will be published in the subsequent versions of the ASEAN Taxonomy. Version 2 builds on the conceptual thinking of the multi-tiered framework outlined in Version 1. The multi-tiered framework is intended to facilitate transition of ASEAN Member States (AMS) recognising the diversity in economic development, financial sector, and infrastructure maturity.

Through the Foundation Framework which adopts a principles-based approach, users are now able to qualitatively assess economic activities using guiding questions, decision trees and use cases for all the four environmental objectives (EOs) and three essential criteria (EC). The environmental objectives and essential criteria, as well as guiding questions that make up the Foundation Framework are designed to be readily applicable to all AMS as well as stakeholders in the financial sector and business enterprises. Using the guiding questions, activities are classified as Green, Amber or Red.

The Plus Standard adopts a more advanced assessment and methodology that is based on specific TSC and science-based thresholds in classifying activities. To further encourage and recognise transition efforts by businesses, the Plus Standard contains Amber Tier 2 and Amber Tier 3 classifications which will be retired over time. This is in addition to the Green tier that is aligned with other relevant international taxonomies and benchmarked to the 1.5°C Paris Agreement target.

Version 2 also highlights the importance of social aspects in the Taxonomy, by incorporating it as the ASEAN Taxonomy's third EC, alongside "Do No Significant Harm" (DNSH) and "Remedial Measures to Transition" (RMT). In combination with other features such as the expansion of the "Do No Significant Harm" criteria, common building blocks are established to enable an orderly and just transition and foster sustainable finance adoption by ASEAN countries.

In considering ASEAN's specific circumstances, the Taxonomy recognises efforts to the early retirement of coal-fired power plants. A global first for a regional taxonomy, the ATB has thoroughly considered how and where coal phase-outs (CPOs) can play a role in decarbonisation in support of the Paris Agreement goals and when approached correctly, provides a powerful tool for transition.

With the release of Version 2, the ATB demonstrates its commitment to providing stakeholders with a common framework that is science-based, while being inclusive and catering to the different development stages of ASEAN Member States (AMS). Following the release of Version 2, the ATB will hold targeted consultations with key stakeholders on the assessment methodology as well as the metrics and TSC for the Energy sector under the Plus Standard. Following these consultations, the ATB intends to finalise the TSC for the Energy sector in early

2024. TSCs for the remaining five focus sectors¹ covered under the Plus Standard will be released in phases, with TSC for all six focus sectors finalised, by 2025.

The ATB looks forward to engaging further with stakeholders on the Version 2 document and will continue to take steps to achieve the mandate of developing, maintaining and promoting an ASEAN Taxonomy that meaningfully and effectively helps to orientate capital towards a sustainable ASEAN.

The ASEAN Taxonomy Version 2 can be found at the following websites:

- Association of Southeast Asian Nations – <https://asean.org/wp-content/uploads/2023/03/ASEAN-Taxonomy-Version-2.pdf>
- ASEAN Finance Cooperation Web Portal - <https://afcwp.asean.org/wp-content/uploads/2023/03/ASEAN-Taxonomy-Version-2.pdf>
- ASEAN Capital Markets Forum – <https://www.theacmf.org/> (in the Sustainable Finance section)
- Sustainable Finance Institute Asia – <https://www.sfinstitute.asia/wp-content/uploads/2023/03/ASEAN-Taxonomy-Version-2.pdf>

CHAIR

ASEAN Taxonomy Board

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Background

The ASEAN Taxonomy serves as a reference point to guide capital and funding towards activities that can help promote the systemic transformation needed for the region.

The ASEAN Taxonomy is a collaborative initiative of the four ASEAN sectoral bodies that make up the ATB, namely the ASEAN Capital Markets Forum (ACMF), the ASEAN Insurance Regulators Meeting (AIRM), the ASEAN Senior Level Committee on Financial Integration (SLC), and the ASEAN Working Committee on Capital Market Development (WC-CMD). This follows previous sustainable finance initiatives by the ASEAN sectoral bodies, such as the ASEAN Green, Social and Sustainability Bond Standards and the ASEAN Sustainable Banking Principles. The ASEAN Taxonomy represents the collective commitment of ASEAN Member States (AMS) in transitioning towards a sustainable region. It is designed to be an inclusive and science-based classification system for sustainable activities and will be one of the key building blocks in attracting investments and financial flows into sustainable projects in the region.

The ATB is set up under the auspices of the ASEAN Finance Ministers and Central Bank Governors Meeting (AFMGM) and is jointly driven by the ACMF, AIRM, SLC and the WC-CMD. Its establishment is a response to the call at the 6th AFMGM to work towards:

“... furthering a cohesive sustainable finance agenda cutting across banking, capital markets and insurance areas at the ASEAN Finance Ministers’ Meeting and AFMGM respectively, with greater coordination amongst the relevant ASEAN working committees.”

The importance of a common taxonomy for ASEAN was identified in the ACMF’s Roadmap for ASEAN Sustainable Capital Markets, the SLC’s Report on The Roles of ASEAN Central Banks in Managing Climate and Environment-related Risks and the WC-CMD’s Report on Promoting Sustainable Finance in ASEAN.

¹ Agriculture, forestry and fishing; manufacturing; transportation and storage; water supply, sewerage and waste management; and construction and real estate

The current Board comprises representatives from all 10 ASEAN Member States, as follows:

- ***Brunei Darussalam Central Bank (Chair)***
- ***Monetary Authority of Singapore (Vice-Chair)***
- ***Non-Bank Financial Services Authority (NBFSA) of Cambodia***
- ***Financial Services Authority of Indonesia***
- ***Bank of the Lao PDR***
- ***Bank Negara Malaysia***
- ***Securities Commission Malaysia***
- ***Ministry of Planning and Finance of Myanmar***
- ***Securities and Exchange Commission Philippines***
- ***Bank of Thailand***
- ***Office of Insurance Commission of Thailand***
- ***State Securities Commission of Viet Nam***

The Sustainable Finance Institute Asia (SFIA) provides support as host of the ATB.

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