

Sustainability

Sustainability Financing: Taxonomy Proposed for Singapore-based Financial Institutions to Identify "Green" Activities

Executive Summary

Increasing interest in green or sustainable finance calls for a need for a recognisable framework on what green or sustainable finance is, which will help financial market participants and their stakeholders compare and assess green or sustainable products and services with reference to a common understanding.

Against this background, the Green Finance Industry Taskforce ("**GFIT**") has been convened by the Monetary Authority of Singapore ("**MAS**") to accelerate the development of green finance through four key initiatives: (i) develop a taxonomy; (ii) enhance environmental risk management practices of financial institutions ("**FIs**"); (iii) improve disclosures; and (iv) foster green finance solutions. Under the first focus area, GFIT is conducting a public consultation to seek feedback on the appropriate taxonomy, a classification tool, to help Singapore-based FIs identify economic activities that are considered "green" or are transitioning into "greener" activities in sustainability financing. The proposals are set out in the GFIT consultation paper titled "[Identifying a Green Taxonomy and Relevant Standards for Singapore and ASEAN](#)" ("**GFIT Taxonomy Consultation Paper**") made available on the website of The Association of Banks in Singapore (ABS). The consultation closes on 11 March 2021.

In particular, GFIT is seeking comments on:

- Whether there is a need for Singapore to have its own taxonomy;
- The four environmental objectives for the taxonomy, namely: (1) climate change mitigation; (2) climate change adaptation; (3) protection of biodiversity; and (4) promotion of resource resilience;
- The selection of the economic sectors that are covered by the taxonomy;
- The proposed "traffic light" classification system for activities within the selected economic sectors by grouping them into three classifications, namely, "green" for activities that are clearly aligned with the environmental objectives of the taxonomy; "yellow" for activities with quantifiable and time-bound pathway towards either green or significant de-carbonisation that will contribute to the objectives of the taxonomy; and "red" for activities that are inconsistent with the environmental objectives of the taxonomy; and
- The treatment of transition activities in the taxonomy.

Sustainability

This Update provides a summary of these key features of the proposed GFIT taxonomy.

Taxonomy for Singapore

Purpose of a taxonomy for sustainable finance

Taxonomies for sustainable finance are meant to support an overarching set of environmental goals, and determine whether the activities are consistent with these environmental goals with reference to a threshold, or tolerance. By evaluating and classifying activities as “green”, based on tolerance thresholds, a taxonomy would:

- Establish clear criteria for determining activities which are environmentally sustainable;
- Remove uncertainty as to whether certain activities are environmentally sustainable;
- Bring clarity to discussions around green and sustainable products; and
- Alleviate concerns on greenwashing (a process of creating a false or misleading impression that a product is environmentally sustainable).

It is hoped that a taxonomy would provide more certainty and confidence to the market on the classification of green products and services and therefore encourage more capital flows to support sustainable investments.

A Singapore taxonomy

Taking into account the merits as well as risks in developing a taxonomy for Singapore-based FIs, GFIT proposes to create a Singapore taxonomy, drawing on the EU taxonomy, including for example the six environmental objectives (which are relevant and hence applicable across geographies) covered in the EU taxonomy, and the broad approach to classification of economic activities, while acknowledging such standards have to be adapted to take into account the economic and institutional development within ASEAN.

The potential taxonomy for Singapore-based FIs will, among other things, adhere to the following broad principles:

- The environmental targets, and thresholds for classification, are based in and supported by science.
- The standards / requirements can be met by issuers in various ASEAN countries.
- The taxonomy must not be static, but provides for evolution in approaches and understanding.
- The taxonomy must be clear and accessible, and does not represent an undue burden on issuers. This includes ensuring that additional disclosure requirements which may stem from the introduction of a taxonomy are compatible with existing disclosure obligations, which would in turn allow issuers to translate the taxonomy at their level in the disclosure they publish, in a clear and comparable manner.

Client Update: Singapore

2021 FEBRUARY

Sustainability

- The taxonomy can be leveraged by a variety of capital market participants, including for example credit, public / private equity, infrastructure, real estate etc.
- The taxonomy must be consistent with the goals of existing initiatives, including for example the ICMA Green Bond Principles, the United Nations ("UN") Sustainable Development Goals and the UN Global Compact, at the global level.

Four Environmental Objectives

GFIT's key objective of developing a green taxonomy for Singapore-based FIs is to encourage the flow of capital to support the low carbon transition needed to avoid catastrophic climate change, and the environmental objectives of Singapore and the ASEAN nations, which are serviced by Singapore-based FIs. With reference to the policy contexts in Singapore and ASEAN, GFIT proposes for the taxonomy to cover both green and transition activities with the following four environmental objectives:

- Climate change mitigation;
- Climate change adaptation;
- Protection of biodiversity; and
- Promotion of resource resilience

In addition, an environmentally sustainable economic activity under the taxonomy must not:

- Significantly harm the four environmental objectives;
- Impose negative impact on communities' social and economic well-being, unless the trade-offs can be justified in the long run;
- Breach local laws and regulations. For example, in Singapore, green activities must comply with the requirements relating to environmental pollution control and resource conservation set out in the Environmental Protection and Management Act. The Act provides for the control of air, water, noise and land pollution as well as management of hazardous substances.

GFIT recommends relying on minimum safeguards promulgated by international bodies in identifying activities that "do no significant harm". For example, such activities should not fall short of the OECD Guidelines on Multinational Enterprises (MNEs), and the UN Guiding Principles on Business and Human Rights, with specific reference to the ILO Core Labour Conventions.

Climate change mitigation

A key environmental objective for Singapore and the ASEAN nations under the Paris Agreement is to reduce the release of greenhouse gas ("**GHG**") in the atmosphere. GFIT notes that an activity can be considered to have mitigated climate change if it contributes to:

- Avoiding or reducing GHG emissions. Activities that avoid GHG emissions are considered "green" and should involve having very low or near zero emissions. Activities that reduce GHG emissions

Client Update: Singapore

2021 FEBRUARY

Sustainability

are transition activities that are currently high carbon and critical to the functioning of the economy but are in transition to less carbon intensive business models. The key difference between the GFIT's proposed taxonomy and the EU taxonomy or other taxonomies is that GFIT's taxonomy encompasses transition activities, taking into account the unique situation in the ASEAN economies, that place emphasis of helping businesses shifting to a "green" business model that avoids GHG emissions progressively from one that is "not-so-green".

- Enabling activities that facilitate low carbon performance or substantial emissions reduction; and
- Enabling activities that are engaged in transiting to cleaner energies either through the renewable power generating sources or via de-carbonisation technologies.

Climate change adaptation

Climate change adaptation refers to activities that substantially reduce or control the risk of an adverse impact of the current and expected future climate on people, nature or assets. GFIT proposes that an economic activity can be considered to meet climate change adaptation if through the following, the economic activity:

- Can implement measures to increase own resilience to climate change;
- Can enable other economic activities to adapt to climate change; and
- Does not adversely affect adaptation efforts by others.

Protection of biodiversity

Some examples of activities that fit into the environmental objective of protecting biodiversity include activities which promote protection, restoration and sustainable use of coastal and marine environment that provides essential ecological, economic and social services in the ASEAN region, establish diverse agroforestry systems to cope with increased risk from changed climatic conditions, or conserve agrobiodiversity to provide specific gene pools for crop and livestock adaptation to climate change.

Promotion of resource resilience

Activities that promote resource resilience consist of those that aim to ensure the safe and secure supply of critical resources like food and water, and to overcome resource constraints by maximising resource efficiency and closing resource loops through the circular economy and waste management.

Selected Economic Sectors

GFIT has selected the sectors to be included in the taxonomy based on two criteria, namely, contribution to climate change and contribution to economic activity. With reference to the environmental (e.g. GHG emissions) and economic (e.g. Asian Development Bank's Multiregional Input-Output Database) data in Singapore and ASEAN countries, the proposed sectors selected by GFIT are as follows:

Client Update: Singapore

2021 FEBRUARY

Sustainability

- Agriculture and forestry or land use;
- Construction and real estate;
- Transportation and fuel;
- Energy (including upstream); and
- Industrial.

In addition, GFIT has selected sectors that are either enablers or sectors that provide goods and services that allow climate change mitigation. Such sectors consist of the information and communications technology (ICT) sector, the waste / circular economy sector and the carbon capture and sequestration sector.

The GFIT Taxonomy Consultation sets out the sub-sectors under each of these selected sectors.

Adopting a "Traffic Light" Classification System which Includes Transition Activities

The taxonomy is expected to be developed in phases. The first-phase framework proposed by GFIT in the GFIT Taxonomy Consultation contains a broad conceptual framework to differentiate green, yellow and red groups of activities within the selected sectors. The objective of this approach is to balance the near-term implementation of a taxonomy with the long-term objective of a robust, transparent and, where appropriate, globally harmonised approach as well as to define a bucket of transition activities for which to develop more granular thresholds and requirements in the next phase.

Under the "traffic light" classification system, activities are classified as:

- **Green:** Activities / companies that are clearly aligned with the four environmental objectives of the taxonomy, or undertaking a transition consistent with emissions-reduction pathways aligned with meeting the environmental objectives;
- **Yellow:** Activities / companies with quantifiable and time-bound pathways towards either green (if the technology exists), or significant de-carbonisation that will contribute to the four environmental objectives of the taxonomy (e.g. steel, cement for which no feasible alternative technologies currently exist). Activities / companies in this classification are not yet undertaking a transition consistent with emissions-reduction pathways aligned with meeting the environmental objectives; and
- **Red:** Activities / companies that are inconsistent with the four environmental objectives of the taxonomy.

Findings and ratings by third party opinion providers, certification and industry body memberships may be relied on for the "traffic light" grading in some sectors.

Sustainability

GFIT indicates that to ensure that yellow (transition) activities / companies are contributing to the environmental objectives of the taxonomy, more granular criteria for activities and industries would be developed in the next phase.

Concluding Words

To submit feedback on the GFIT Taxonomy Consultation Paper, please click [here](#). If you would like to discuss any matters raised in the GFIT Taxonomy Consultation Paper, please feel free to contact our team below who is part of the Rajah & Tann Singapore Sustainability Practice.

In full support of the Singapore Government's efforts to champion green and sustainability practices in Singapore and the region, Rajah & Tann Singapore has formalised its Sustainability Practice which comprises multi-disciplinary specialist teams who can advise you on the adaptation of your business to take into account sustainability and ESG (environmental, social and governance) issues.

Contacts



Lee Weilin
Head, Sustainability
Partner, Banking & Finance

T +65 6232 0707

weilin.lee@rajahtann.com



Kala Anandarajah
Partner, Sustainability
Head, Competition & Antitrust
and Trade

T +65 6232 0111

kala.anandarajah@rajahtann.com



Soh Lip San
Partner, Sustainability
Head, Construction & Projects

T +65 6232 0228

lip.san.soh@rajahtann.com



Sandy Foo
Partner, Sustainability
Partner, Capital Markets and
Mergers & Acquisitions

T +65 6232 0716

sandy.foo@rajahtann.com

Please feel free to also contact Knowledge and Risk Management at eOASIS@rajahtann.com

Our Regional Contacts

RAJAH & TANN | *Singapore*

Rajah & Tann Singapore LLP

T +65 6535 3600
sg.rajahtannasia.com

R&T SOK & HENG | *Cambodia*

R&T Sok & Heng Law Office

T +855 23 963 112 / 113
F +855 23 963 116
kh.rajahtannasia.com

RAJAH & TANN 立杰上海

SHANGHAI REPRESENTATIVE OFFICE | *China*

**Rajah & Tann Singapore LLP
Shanghai Representative Office**

T +86 21 6120 8818
F +86 21 6120 8820
cn.rajahtannasia.com

ASSEGAF HAMZAH & PARTNERS | *Indonesia*

Assegaf Hamzah & Partners

Jakarta Office

T +62 21 2555 7800
F +62 21 2555 7899

Surabaya Office

T +62 31 5116 4550
F +62 31 5116 4560
www.ahp.co.id

RAJAH & TANN | *Lao PDR*

Rajah & Tann (Laos) Co., Ltd.

T +856 21 454 239
F +856 21 285 261
la.rajahtannasia.com

CHRISTOPHER & LEE ONG | *Malaysia*

Christopher & Lee Ong

T +60 3 2273 1919
F +60 3 2273 8310
www.christopherleeong.com

RAJAH & TANN | *Myanmar*

Rajah & Tann Myanmar Company Limited

T +95 1 9345 343 / +95 1 9345 346
F +95 1 9345 348
mm.rajahtannasia.com

GATMAYTAN YAP PATACSIL

GUTIERREZ & PROTACIO (C&G LAW) | *Philippines*

Gatmaytan Yap Patacsil Gutierrez & Protacio (C&G Law)

T +632 8894 0377 to 79 / +632 8894 4931 to 32
F +632 8552 1977 to 78
www.cagatlaw.com

RAJAH & TANN | *Thailand*

R&T Asia (Thailand) Limited

T +66 2 656 1991
F +66 2 656 0833
th.rajahtannasia.com

RAJAH & TANN LCT LAWYERS | *Vietnam*

Rajah & Tann LCT Lawyers

Ho Chi Minh City Office

T +84 28 3821 2382 / +84 28 3821 2673
F +84 28 3520 8206

Hanoi Office

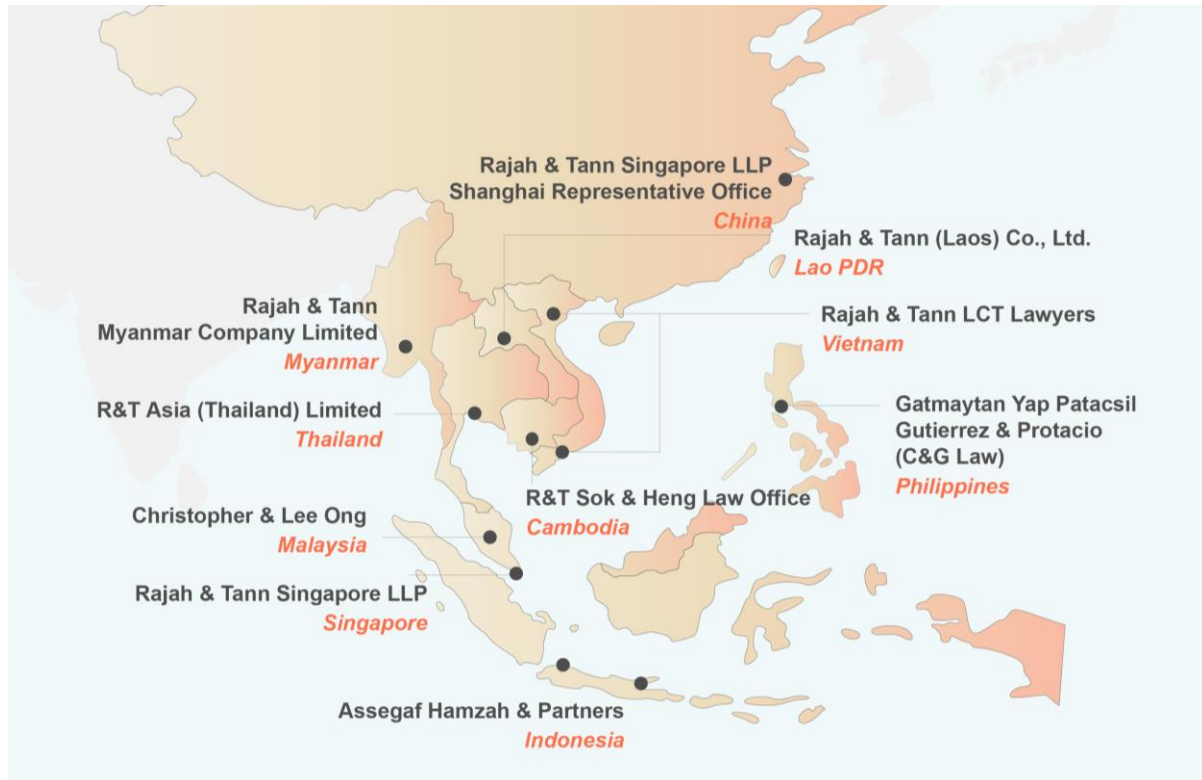
T +84 24 3267 6127
F +84 24 3267 6128
www.rajahtannlct.com

Rajah & Tann Asia is a network of legal practices based in Asia.

Member firms are independently constituted and regulated in accordance with relevant local legal requirements. Services provided by a member firm are governed by the terms of engagement between the member firm and the client.

This update is solely intended to provide general information and does not provide any advice or create any relationship, whether legally binding or otherwise. Rajah & Tann Asia and its member firms do not accept, and fully disclaim, responsibility for any loss or damage which may result from accessing or relying on this update.

Our Regional Presence



Rajah & Tann Singapore LLP is one of the largest full-service law firms in Singapore, providing high quality advice to an impressive list of clients. We place strong emphasis on promptness, accessibility and reliability in dealing with clients. At the same time, the firm strives towards a practical yet creative approach in dealing with business and commercial problems. As the Singapore member firm of the Lex Mundi Network, we are able to offer access to excellent legal expertise in more than 100 countries.

Rajah & Tann Singapore LLP is part of Rajah & Tann Asia, a network of local law firms in Singapore, Cambodia, China, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Thailand and Vietnam. Our Asian network also includes regional desks focused on Brunei, Japan and South Asia.

The contents of this Update are owned by Rajah & Tann Singapore LLP and subject to copyright protection under the laws of Singapore and, through international treaties, other countries. No part of this Update may be reproduced, licensed, sold, published, transmitted, modified, adapted, publicly displayed, broadcast (including storage in any medium by electronic means whether or not transiently for any purpose save as permitted herein) without the prior written permission of Rajah & Tann Singapore LLP.

Please note also that whilst the information in this Update is correct to the best of our knowledge and belief at the time of writing, it is only intended to provide a general guide to the subject matter and should not be treated as a substitute for specific professional advice for any particular course of action as such information may not suit your specific business and operational requirements. It is to your advantage to seek legal advice for your specific situation. In this regard, you may call the lawyer you normally deal with in Rajah & Tann Singapore LLP or email Knowledge & Risk Management at eOASIS@rajahtann.com.