

Transparency and credibility (AM) with a focus on the avoidance of greenwashing and maladaptation

Second Workshop in 2024 under the Sharm el-Sheikh Dialogue on Article 2, paragraph 1(c) of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement



**27 September 2024
Singapore**

Article 2 – Implementation Challenges

Article 2

1.

- (a) Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;
- (b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and
- (c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

2. This Agreement will be implemented to reflect equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances.

Some Challenges

- Interpretation
- Distinguishing CBDR and Greenwashing
- Ecosystem development
- Holistic action

Greenwashing / Sustainability-washing

Lock-ins and Lock-outs

Backloading

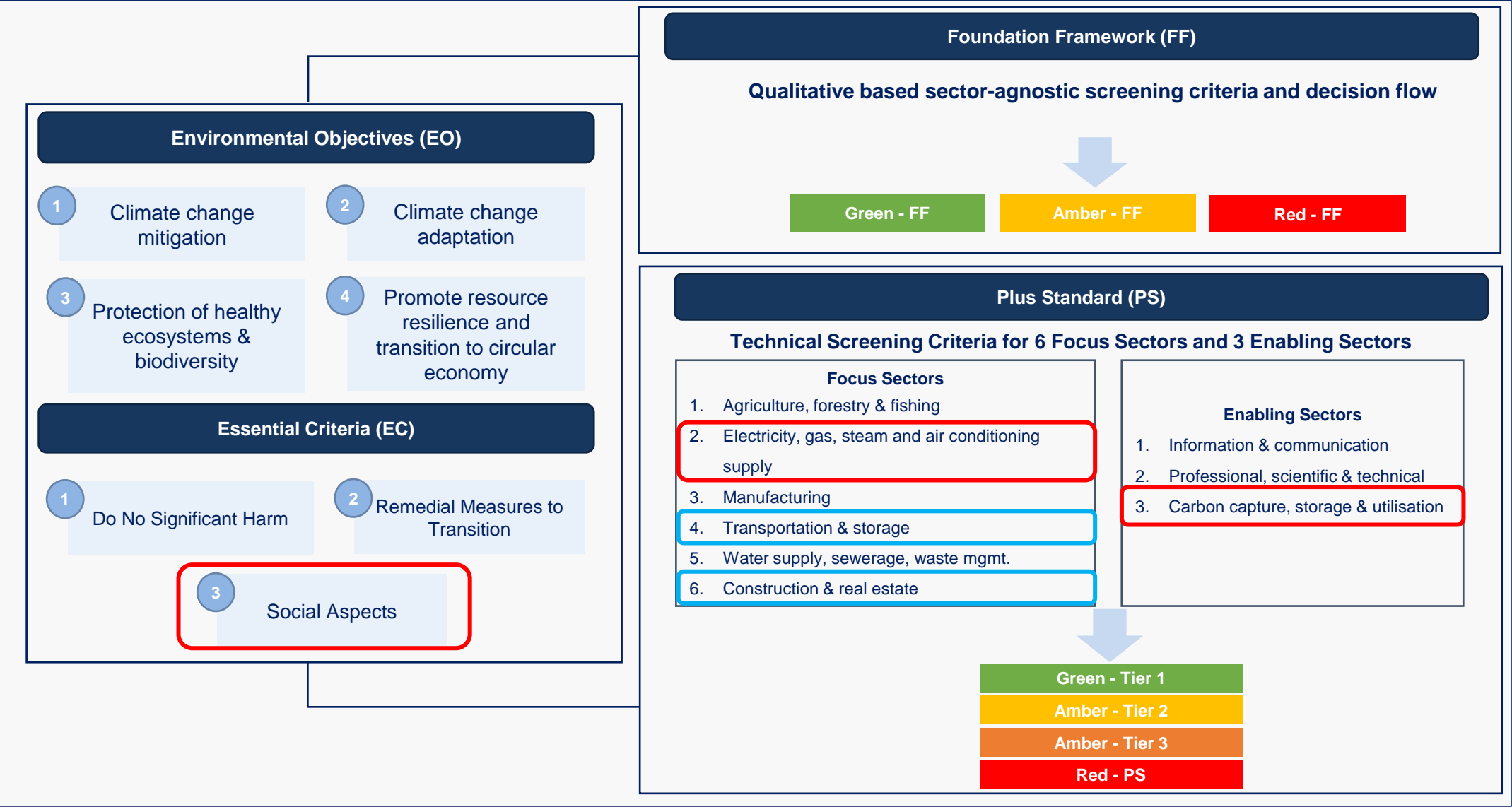
Arbitrage (including use of carbon offsets)

Consequential impact

Just transitions

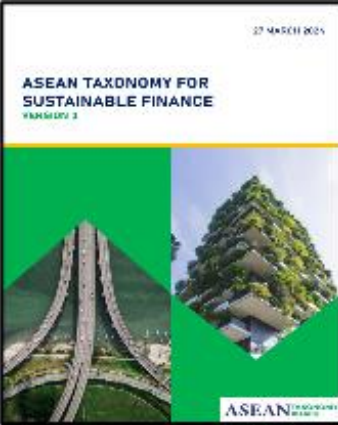
ASEAN Taxonomy Elements

ASEAN Taxonomy - Overview



Technical Screening Criteria (TSC) were added in Version 3

In Version 2, Social Aspects added as an EC and TSC for Energy and CCUS released



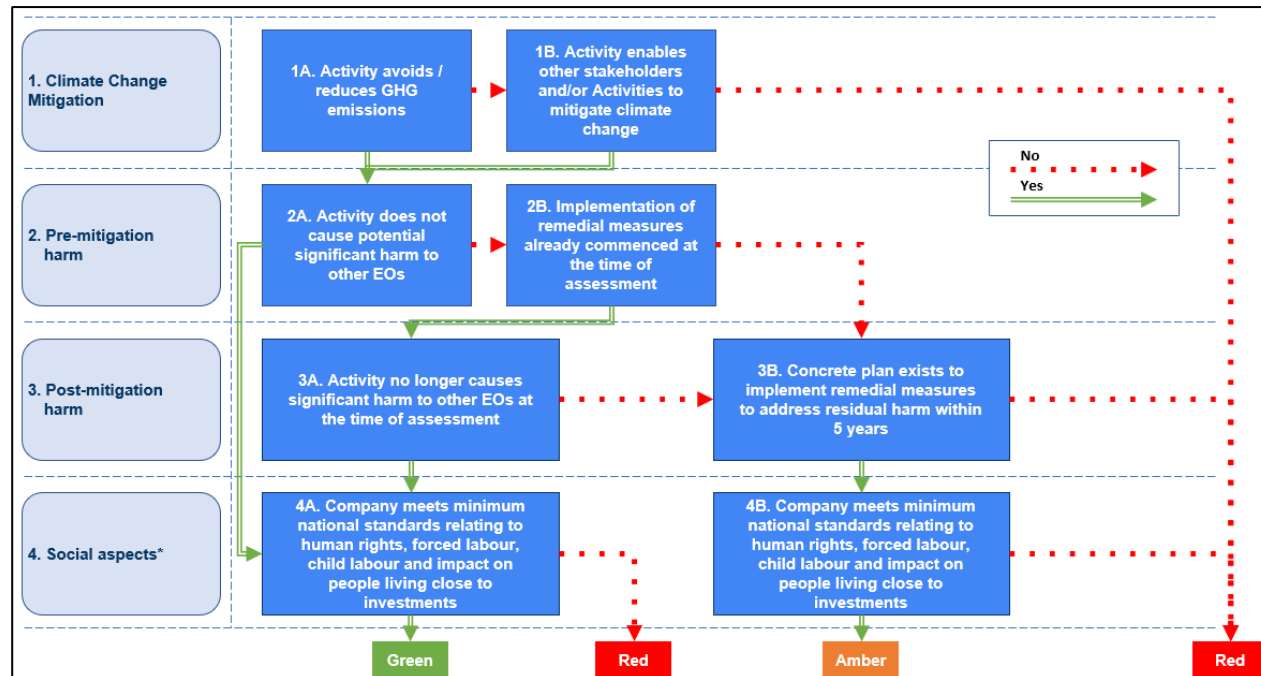
Element #1 – Reducing inconsistencies in interpretation

1 Multiple sector-agnostic Decision Trees that cover each environmental objective and incorporates all three essential criteria.

2 Guiding Questions that supplement each Decision Tree.

3 Use Cases that address all environmental objectives and essential criteria.

Decision Tree for EO1



Guiding Questions for EO1

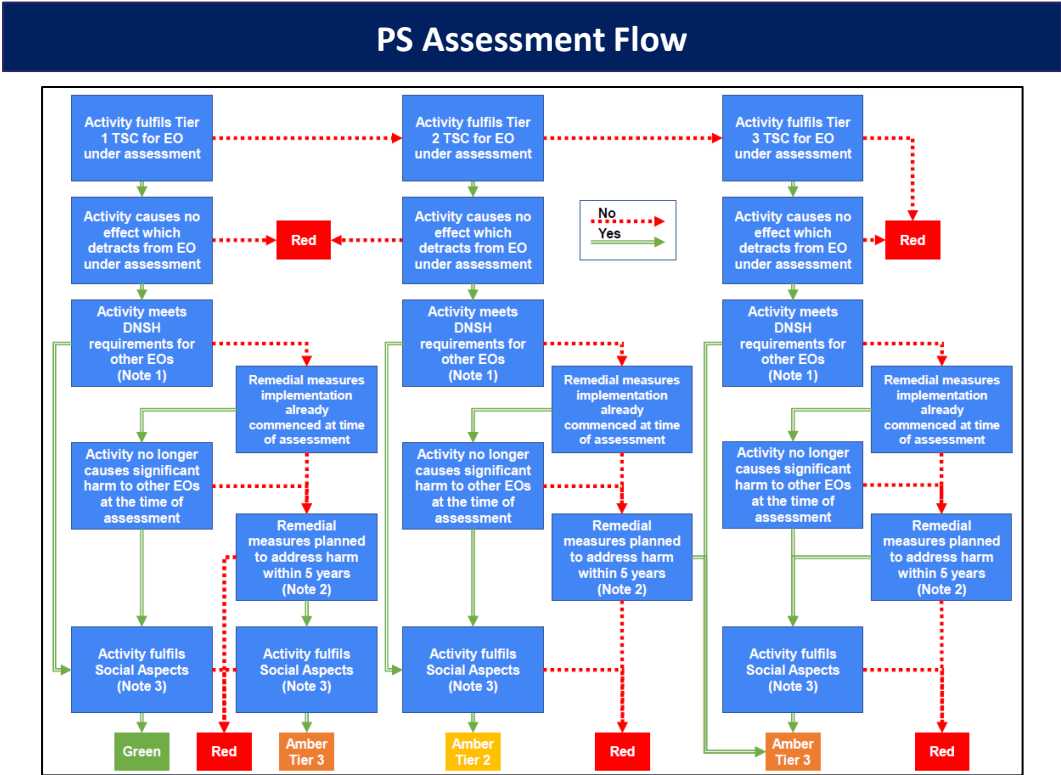
S/N	Guiding questions - EO1 (Climate Change Mitigation)
1A	<p>Does the Activity avoid / reduce GHG emissions?</p> <ol style="list-style-type: none"> How does the Activity avoid or help reduce emissions? (e.g., generation of electricity through renewables) <ul style="list-style-type: none"> Does the Activity avoid locking in high-carbon activity? (i.e., delaying or preventing the transition towards low carbon alternatives) Does the Activity avoid leading to significant GHG emissions, incl. CO₂, CH₄, N₂O, SF₆, NF₃ and/or HFCs? Does the Activity avoid leading to or causing extensive deforestation practices? Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified EO1 principles? Where applicable and relevant, is a 3rd party certification or verification of alignment of Activity with EO1 available? Does the Activity fulfil relevant environmental law(s) applicable to EO1? Are the effects of climate change mitigation efforts measurable and observable? (e.g., data on amount of carbon emissions avoided)
1B	<p>Does the Activity enable other stakeholders and/or other Activities to mitigate climate change?</p> <ol style="list-style-type: none"> Does the Activity help other stakeholders (including the community) to mitigate climate change? (e.g., construction of a building that facilitates urban planting) <ul style="list-style-type: none"> Does the Activity avoid impeding upstream and/or downstream stakeholders from reducing their GHG emissions? Does the Activity promote intersectoral collaborations for climate change mitigation without negatively affecting other sectors? How does the Activity enable other Activities to mitigate climate change? (e.g., operation of power transmission and distribution equipment that enables the incorporation of solar power) Are the effects of climate change mitigation efforts by the enabled Activity measurable and observable? (e.g., data on amount of carbon emissions avoided)
<p>* Once evaluation is complete, proceed to Section 5.3.6 to evaluate the Activity under Do No Significant Harm & Remedial Measures to Transition.</p>	

*Note: This is an illustration for EO1 only however the completed FF also provides guidance for other EOs.

Element #1 – Reducing inconsistencies in interpretation (2)

1 The methodology to set TSC including metrics and thresholds, for all EOs that will apply to focus and enabling sectors. It also includes a guide for users to navigate the assessment flow, should they intend to use the PS.

2 The TSC for all four environmental objectives for the Energy, Transportation & Storage and Construction & Real Estate focus sectors and Carbon Capture, Utilisation and Storage enabling sector in the Plus Standard is included in Annex 1. **Use of Science-based pathway wherever possible**



Summary of Setting, Review, Adjustment and Sunsetting of TSC	
Type	Description / Definition
TSC Setting	<ul style="list-style-type: none">TSC will be set for each Tier applicable to an Activity.Future TSC for subsequent TSC Periods will also be set until the Tier is sunset for that Activity.The extant TSC at the time of assessment must be used as the basis of classification of an Activity under the PS.TSC are considered extant until an adjusted TSC has been approved and published by the ATB.
TSC Period	<ul style="list-style-type: none">The TSC Period is the period between the setting of an TSC and the subsequent adjustment of that TSC.A TSC Period of 5 years is recommended as standard but may vary by Activity at the discretion of the ATB, in line with expected developments in technology in the coming years.The TSC for all Tiers of the same Activity may be adjusted at the end of each TSC Period, normally in line with future TSC.The TSC Period ends when an adjusted TSC come into force.At this point, a new TSC Period commences, except when the Tier is sunset (see below).
Sunsetting	<ul style="list-style-type: none">Sunset date must be confirmed 12 months before sunset, after which time no change may be made to the sunset date.The sunsetting recommendation must be approved by the ATB and the decision published.When a Tier has been sunset, all TSC related to that Tier can no longer be used as the basis for classification of Activities.

Element #2: Essential Criteria – Clear Guidance

DNSH

DNSH ensures that an Activity that contributes to one EO does not cause significant harm to another objective. Assessment of DNSH to other EOs forms part of the classification assessment of an Activity and is undertaken after ascertaining the contribution of an Activity against EO-specific objectives. The assessment are conducted in the FF and PS as follows:

FF Addressing the guiding questions set out in Section 5.3.6 of the Main Report of the ASEAN Taxonomy.

PS Meeting specific criteria set out in Annex 2. The DNSH criteria references widely used international taxonomies and guidelines.

Remedial Measures to Transition

RMT is defined as measures taken to remediate or mitigate the impact of any significant harm resulting from an Activity, or any actions required to implement the Activity. Activities for which RMT is outstanding are provisionally classified as Amber Tier 3 until RMT is completed and harm has been effectively remediated. RMT is met when:

1 A **realistic and comprehensive plan** is in place to mitigate the harm.

2 The harm is **remediated within 5 years** after assessment of the Activity.

Social Safeguards

The ATB considered all existing international and regional guidance* on Social Aspects and had extensive discussions to identify the most relevant social aspects across the AMS. The key social aspects identified for the ASEAN Taxonomy were:



Promotion and Protection of
Human Rights



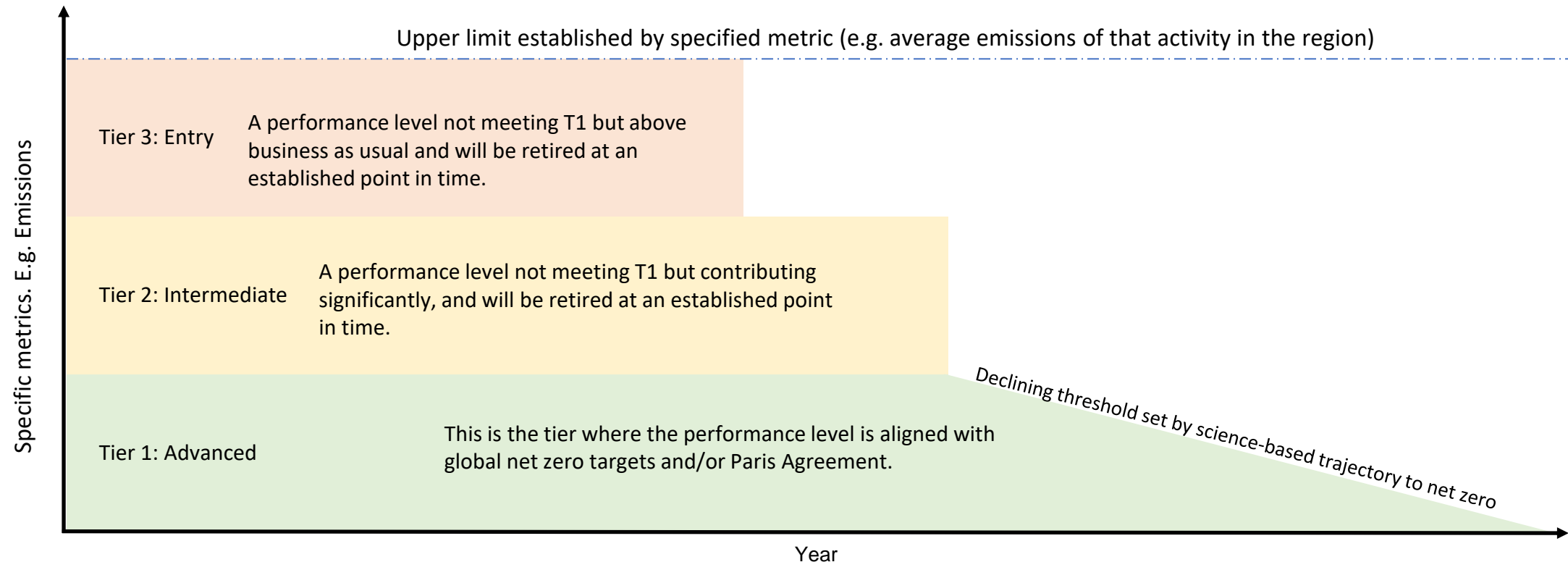
Prevention of Forced Labour
and Protection of Children's
Rights



Impact on People living Close
to Investments

Element #3: Sunsetting – Avoiding Backloading and Lock-ins

- “Stacked approach” in developing activity-level thresholds.
- There are multiple thresholds per activity at a single point in time, to cater for different starting points of entities across ASEAN undertaking a particular activity.
- Allows for higher emissions for a limited period, while incentivising progression to lower emissions by retiring the less ambitious tiers over time.
- Example of a 3 tier framework using a “stacked approach”:



Element #3: Interoperability and Consistency

ASEAN Taxonomy Features

2021

Bank Negara Malaysia – Climate Change Principles-based Taxonomy (CCPT)

Foundation Framework

2022

Securities Commission Malaysia – SRI Taxonomy

Foundation Framework

2023

Thailand Taxonomy Phase 1

Traffic Lights/ Plus Standard

Singapore-Asia Taxonomy

Traffic Lights/ Plus Standard

2024

Indonesia Taxonomy for Sustainable Finance

Plus Standard & Foundation Framework

Philippine Sustainable Finance Taxonomy Guidelines

Foundation Framework

Element #3: Interoperability and Consistency (2)

Element	ASEAN Taxonomy (AT)	EU Taxonomy	Singapore-Asia Taxonomy	Thailand Taxonomy Phase 1	Indonesia Taxonomy for Sustainable Finance	Malaysia (CCPT & SRI) Taxonomy	Philippine Sustainable Finance Taxonomy Guidelines
Environmental Objectives (EOs)	AT EOs* (all EOs have been considered in the TSC)	Aligned	Aligned	Aligned	Aligned	Aligned	Aligned
Focus Sectors	AT Focus Sectors*	Covers all 6 focus sectors in AT	Covers all 6 focus sectors in AT	Intends to cover all 6 focus sectors in AT	Intends to cover all 6 focus sectors in AT	Sector Agnostic	Intends to cover 5 focus sectors in AT*
Traffic Light System	Yes	No	Yes	Yes	Multi-tiered classification	Multi-tiered classification	Yes
Coverage of TSCs for Energy	Yes	Yes	Yes	Yes	Yes	N/A	N/A
Coverage of TSCs for T&S	Yes	Yes	Yes	Yes	To be developed	N/A	N/A
Coverage of TSCs for C&RE	Yes	Yes	Yes	N/A	To be developed	N/A	N/A
ISIC 351 Green TSC	Lifecycle $\leq 100\text{gCO}_2\text{e/kWh}$	Aligned	Aligned	Aligned	Aligned	N/A	N/A
ISIC 351 Amber TSC	Amber Tier 2 : Lifecycle $< 425\text{gCO}_2\text{e/kWh}$ Amber Tier 3: Lifecycle $< 510\text{gCO}_2\text{e/kWh}$	N/A	Within Amber Tier 2 range	Within Amber Tier 2 range	Within Amber Tier 3 range	N/A	N/A
Social Aspects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
DNSH	Yes	Yes	Yes	Yes	Yes	Yes	Yes

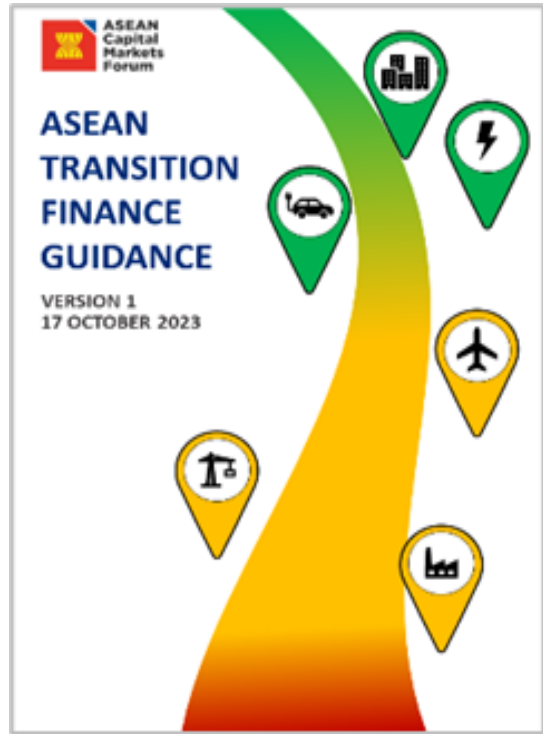
*Notes:

- ASEAN Taxonomy Environmental Objectives: Climate Change Mitigation, Climate Change Adaptation, Protection of Healthy Ecosystems and Biodiversity, Resource Resilience and Transition to Circular Economy.
- ASEAN Taxonomy Focus Sectors: Energy; Transportation & storage; Construction & real estate; Agriculture, forestry & fishing; Manufacturing; Water supply, sewerage, waste management.
- The Philippine Sustainable Finance Taxonomy Guidelines provides a principles-based framework which is sector-agnostic but focus sectors are listed to highlight the importance of those sectors

ASEAN Transition Finance Guidance Elements

Alignment with Existing Globally Referenced Guidelines

Comparison of the ASEAN Transition Finance Guidance with international transition finance frameworks

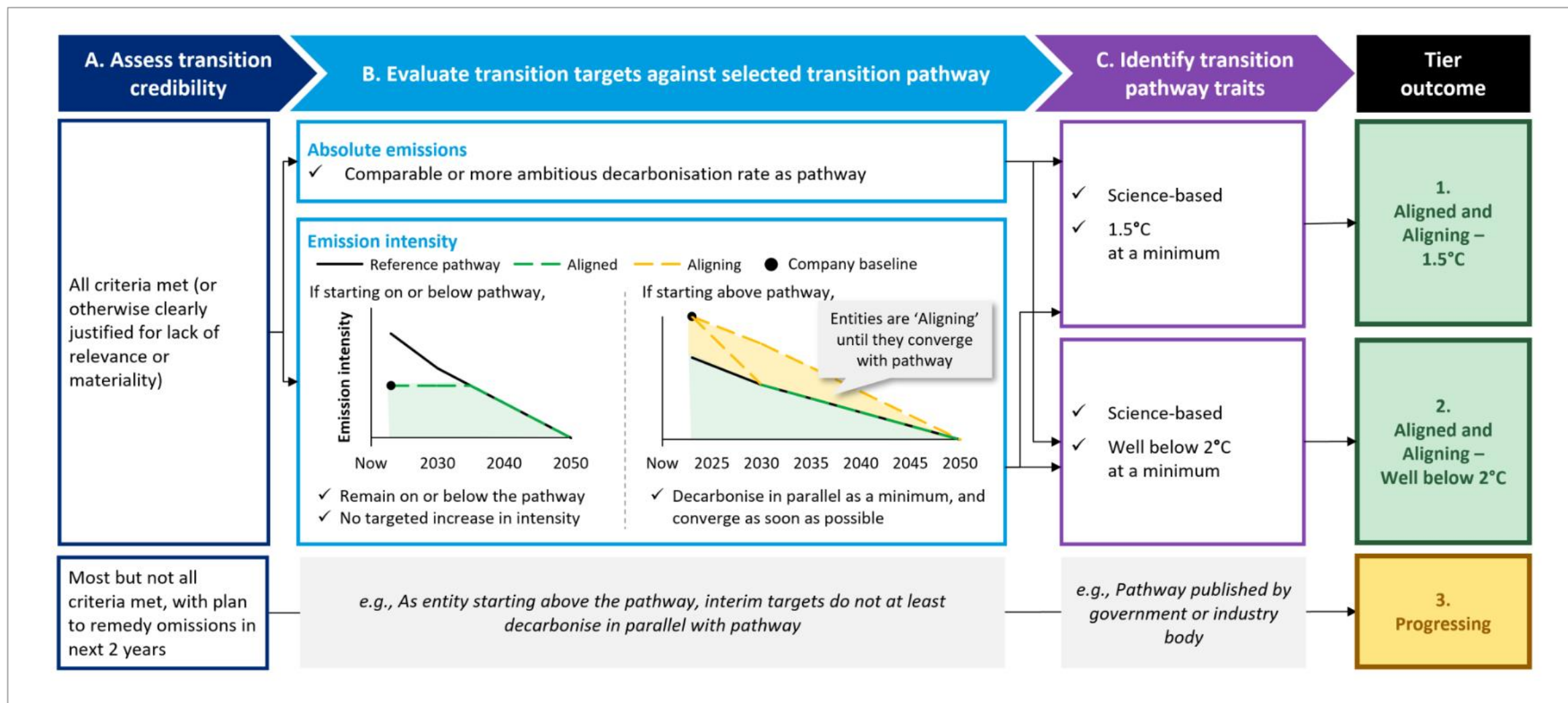


Source: ASEAN
Capital
Markets
Forum, ASEAN
Transition
Finance
Guidance
Version 1,
October 2023

			Element mapping to international transition finance frameworks					
Element	Sub-element	Description	CBI	ICMA	NZBA	G20	OECD	GFANZ
Climate Ambition	Current state assessment	Measure and disclose material sources of emissions						
	Transition pathway	Select sectoral science-based decarbonization pathway aligned with Paris Agreement						
	Transition targets	Define company-specific targets over the short, medium and long term to align with selected transition pathway						
Robustness of Ability to Deliver	Implementation strategy	Action plan						
		Capital allocation plan						
		Risk assessment and mitigation						
		Ongoing monitoring						
		Governance						
	Disclosure							
	Independent verification							
	Just transition considerations							

Note: Elements covered by international transition finance frameworks highlighted in green; elements with limited coverage in white

ATFG – Clear Definitions and Stringent Requirements



To qualify for Tier 3, entities may either (A) achieve most criteria across all sub-elements even if they may not fully meet all criteria, or (B) meet all criteria other than that required for Independent Verification, as a less critical element of transition credibility, so long as they have a plan to remedy any omissions within the next 2 years (e.g., disclosing a clear action and capital allocation plan only for the near term may be acceptable).

Transparency, UNFCCC

Transparency

- More focus on adaptation (not as a secondary issue/simply communication, ETF review process)
- Ex-ante disclosures on financial support should be integrated
- Determination of grant equivalents and other definitions of climate finance

What UNFCCC Can Do

- Help guide credible CBDR development and acceptance by linking regional and cluster efforts to the international community. Foster 'Just Transitions'
- Help governments provide signals and guiderails to the private sector, including on disclosures and transition planning
- Foster better linkage of Article 9 to Article 2.1 (c) - complementary

Thank You