SUSTAINABILITY
What it means for FIs in Southeast Asia
WHY THIS IS NOT JUST A TRENDS
• **Direct Business Impact.** It’s been reported that up to now, parties that have pledged net zero cover 31 regions, 733 cities, 3,067 companies, 624 educational institutions, 173 investors and over 3,000 hospitals from 37 healthcare institutions. Customers are starting to look at the carbon footprint of their suppliers very seriously. Businesses that are not climate aligned face a real risk of being excluded from supply chains

• **Financial Losses** as a result of asset impairment, damage or stranding. Actual damage to assets such as to properties because of floods, decline in the values of assets in vulnerable areas and changes in the lifespan of assets as a result of regulations or customer shifts cause the value of financial assets to decline.

• **Society has also Grown More Knowledgeable and Enlightened.** Customer boycotts and societal pressure, including on government policy can affect businesses

• **Technological Feasibilities** that change the landscape as we have seen with cost reductions in solar and wind power makes such technologies not only competitive but preferred
The climate agenda is winning in courts all over the world. The impacts of such cases to businesses are significant. Cases are also being taken directly against the private sector from big oil to agriculture. There are more and more views globally that directors of companies need to consider climate risk as part of their fiduciary duties.

Source: CCLW and Sabin Center for Climate Change Laws.
Sustainable Finance in ASEAN
Global Sustainable Finance Efforts

**International Initiatives**

- Equator Principles
- Financial Stability Board – Task Force on Climate-related Financial Disclosures (TFCD)
- G20 Sustainable Finance Study Group
- Network of Central Banks and Supervisors for Greening the Financial System (NGFS) – 6 ASEAN CBs
- Sustainable Banking Network (SBN) – 8 ASEAN members
- United Nations Sustainable Development Goals (SDGs)
- Principles for Responsible Banking
- Principles for Responsible Investment
- Sustainable Stock Exchanges Initiative
- UNEP FI Principles for Sustainable Insurance Initiative

.....And more
ASEAN Bond Standards Suite
The Sustainable Finance Agenda in ASEAN is guided by:

ACMF **Roadmap** for ASEAN Sustainable Capital Markets

SLC **Report** on The Roles of ASEAN Central Banks in Managing Climate and Environment-related Risks

WC-CMD **Report** on Promoting Sustainable Finance in ASEAN
Sustainable Finance in ASEAN

Strengthening Demand and Supply for Sustainable Finance

Disclosures

ASEAN Sustainable Finance Taxonomy

Transition Standards
ASEAN Sustainable Finance Taxonomy
The ASEAN Taxonomy Board

• Under the ASEAN Finance Cooperation Process, four sectoral bodies have come together to coordinate progress on cross-cutting sustainable finance initiatives:
  - ASEAN Capital Markets Forum (ACMF)
  - ASEAN Insurance Regulators’ Meeting (AIRM)
  - ASEAN Senior Level Committee on Financial Integration (SLC)
  - ASEAN Working Committee on Capital Market Development (WC-CMD)

• The four sectoral bodies established the ASEAN Taxonomy Board (ATB) to facilitate the development of the ASEAN Taxonomy

• Establishment of the **ASEAN Taxonomy Board (ATB)** to develop, maintain and promote the Taxonomy endorsed by the 7th ASEAN Finance Ministers and Central Bank Governors’ Meeting (AFMGM) held on 30 March 2021

• The ATB is overseen by the AFMGM and hosted by the Sustainable Finance Institute Asia (SFIA)
Endorsement of the ATB by the AFMGM

• The establishment of the ATB was endorsed at the 7th AFMGM held on 30 March 2021. Paragraphs 18 and 19 of the Joint Statement of the 7th AFMGM read as follows:

  o We welcomed the initiative that has been jointly launched by 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) to develop an ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy). The ASEAN Taxonomy will be the overarching guide for all AMS, complementing their respective national sustainability initiatives and serving as ASEAN’s common language for sustainable finance.

  o We endorsed the establishment of the ASEAN Taxonomy Board to develop, maintain and promote a multi-tiered taxonomy that will take into account ASEAN’s needs, as well as international aspirations and goals. We believe that such a multi-tiered ASEAN Taxonomy is inclusive and will be beneficial to all AMS and facilitate an orderly and effective transition towards a sustainable ASEAN. We look forward to the announcement on the progress of the development of the ASEAN Taxonomy by the end of 2021.
Roles and Responsibilities of the ATB

• The ATB is tasked with:
  o Developing, maintaining and promoting the use of the ASEAN Taxonomy
  o Determining the design and classification system used in developing the ASEAN Taxonomy
  o Developing, reviewing and updating the Standards and Technical Criteria to be issued under the ASEAN Taxonomy
  o Interpreting the Principles, Standards and Technical Criteria issued under the ASEAN Taxonomy
  o Developing and implementing the ATB’s market facing strategies, including stakeholder engagement, outreach and promotion programmes and interfacing with other Taxonomy initiatives; and
  o Ensuring there are sufficient funds and resources.
Features of the ASEAN Taxonomy

• The ASEAN Taxonomy is intended to be the principal reference point for sustainable projects and activities in ASEAN, thus it needs to be able to cater to the diversity of ASEAN Member States’ (AMS) economies, financial systems and transition paths.

• As such, the ASEAN Taxonomy will be designed as a tiered framework where AMS will be able to adopt the tiers that are suitable and appropriate for the needs of their respective financial sectors.

• These tiers will build on common principles as a foundation, with subsequent tiers containing more layered definitions and criteria being developed progressively to cater to the different states of readiness within ASEAN.

• The ASEAN Taxonomy will cater for ASEAN’s transition pathway – a very important aspect of ASEAN’s sustainability agenda. It is important for the region to be able to chart its transition path towards a sustainable ASEAN. The Taxonomy will deliver an effective pathway for an orderly transition by providing clear and credible guidance as to what qualifies as sustainable.

• The ASEAN Taxonomy’s focus is on decarbonisation as a priority, while incorporating other sustainability aspects over time.
Sustainable Finance in ASEAN (cont’d)

Transition Standards
A Just Transition

ACBs must take account of the social and economic structures, as well as level of development of each AMS. These considerations underline ACB’s gradual and/or phased approach in promoting and facilitating the transition towards a low carbon and climate resilient economy. It is imperative that ACBs continue to adopt a gradual and/or phased approach in promoting and facilitating the transition towards a low carbon and climate resilient economy; and exercising flexibility when adopting international best practices.

- Report on The Roles of ASEAN Central Banks in Managing Climate and Environment-related Risks

The level and nature of economic and industrial development among ASEAN member countries is diverse. The heterogeneity of the levels of development signifies the possibilities of tiered approaches that certain nations can commit to as they transition to a sustainable economy.

- ACMF Roadmap for ASEAN Sustainable Capital Markets

However, given the need to move faster, there has been a loud call for support to be given to those who are trying (or need) to move gradually to get to that ‘perfect’ point. After all, some progress is better than no progress with issuers who cannot meet the ‘green’ standards but who want to be less ‘brown’.

- WCCMD Report on Promoting Sustainable Finance in ASEAN
Disclosures
Initiatives of some Central Banks in ASEAN
Climate risk in ASEAN is real

Types of Disasters in ASEAN Countries 2012–2020

- **Flood**: 1089
- **Wind**: 276
- **Storm**: 214
- **Landslide**: 212
- **Earthquake**: 76
- **Drought**: 44
- **Volcano**: 28
- **Wildfire**: 6
- **Tsunami**: 3

Source: adinet, Jan 2012-24 Sept 2020

Initiatives of some Central Banks in ASEAN

Malaysia


• CCPT developed for the financial institutions, a stock-take on disclosure practices of selected financial institutions in Malaysia against recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and a gap analysis on the green finance landscape. Financial institutions licensed by BNM will begin capturing exposures based on the CCPT for internal risk management and supervisory purposes over the course of 2021.

• For 2021, JC3 will build on these initiatives to further strengthen the financial industry’s capacity in managing climate-related risks, and enhance its role in scaling up green finance.

Singapore

- Monetary Authority of Singapore (MAS) Green Finance Action Plan
- MAS Guidelines on Environmental Risk Management for Financial Institutions
- The Green Finance Industry Taskforce (GFIT), convened by MAS, has consulted on a proposed taxonomy for Singapore-based financial institutions to identify activities that can be considered green or transitioning towards green
- GFIT also issued a detailed implementation guide for climate-related disclosures by financial institutions; a framework to help banks assess eligible green trade finance transactions; and a whitepaper on scaling green finance in the real estate, infrastructure, fund management and transition sectors.
Indonesia

- In 2017, the Financial Services Authority of Indonesia (OJK) issued the Regulation on the Implementation of Sustainable Finance for Financial Services Companies, Issuers and Public Companies – incorporation of sustainability criteria in banking products and internal and risk management systems and disclosure by 2025.

The Philippines

• Bangko Sentral ng Pilipinas (BSP) issued the Sustainable Finance Policy Framework (Circular 1085) that sets out the expectations of the BSP on the integration of sustainability principles, including those covering environmental and social (E&S) risk areas, in the corporate governance and risk management frameworks as well as in the strategic objectives and operations of banks.

• Banks are expected to embed sustainability principles, including those covering environmental and social risk areas, in their corporate governance framework, risk management systems, and strategic objectives consistent with their size, risk profile and complexity of operations.

Source: Banko Sentral ng Pilipinas
Trends affecting FIs
Main trends for FIs

1. **Regulatory steering**: Supervisors issuing guidance and E&S frameworks

2. **Investors** – pressure on FIs and their clients – both need to shift business models – effect on Cost of Capital

3. **Social pressure** – public perceptions on FIs

4. **Extraterritorial impact** – EU Carbon Border Adjustment Mechanism, Trade Agreements

What FIs need to prepare for

1. **Transitions**: Strategy, Frameworks and Products & Services

2. **Risks**: Dealing with multi-faceted risks – across time and areas: regulatory (prudential capital), financial (credit and market), legal, reputational

3. **Client responses**: new business models need new tools to address

4. **More change**: Circular economy

5. **New Opportunities**: Products and Services, Clients, Areas to finance

Some challenges
Challenges

• **FIs need to reposition their strategy.** Sustainability is not merely just an aspect. It is core. FIs may have their own sustainability frameworks and are making the disclosures. However, evaluation, measurement and implementation are not easy.

• **Second, FIs will need to gather data and synthesise that data.** The availability of the right data, including the level of granularity, and collecting such data is a critical area that needs to be addressed early. We are likely looking at gathering data in a way that is relatively new. For instance, the granularity of information will be different. New data sources may also be needed. And this data needs to be credible.

• **Following all that, the data needs to be analysed.** This may require new tools and techniques. Benchmarks, including policies (e.g. sustainable finance policy) may be required to analyse data. This requires self discipline and capabilities. FIs also have to do their own due diligence. FIs need to weigh the quality and the impact of the evidence that they gather. An approach needs to be developed to decide how to weigh qualitative and quantitative data.

• As part of the data analysis, issues will surface and FIs will have to find ways to resolve them. This may include being able to verify, obtain assurance and examine track records.
Thank You