

ASEAN Taxonomy V2: Enabling a Just Transition Towards Sustainable Finance Adoption by ASEAN

Introduction

The ASEAN Taxonomy for Sustainable Finance Version 2 ("**ASEAN Taxonomy V2**") was released on 27 March 2023 by the ASEAN Taxonomy Board. The release follows extensive stakeholder consultations upon the earlier released ASEAN Taxonomy for Sustainable Finance Version 1. A crucial addition to the ASEAN Taxonomy V2 is the inclusion of social aspects as the third essential criteria, adding a holistic dimension to the taxonomy principles. Other additions include the completion of the Foundation Framework, building upon the broad framework laid out previously, and also finalisation of the details in the initial Plus Standard.

The ASEAN Taxonomy seeks to enable a just transition towards sustainable finance adoption by ASEAN Member States ("**AMS**") by providing a common and credible framework for AMS and their stakeholders to assess and classify sustainable economic activities. Catering for diversity among the AMS, the ASEAN Taxonomy adopts a multi-tiered approach that allows AMS to use the ASEAN Taxonomy based on their own economic development, financial sector, infrastructure maturity and transition paths.

Having an ASEAN Taxonomy will attract more capital flow into the region to help AMS and their stakeholders to transition to a low carbon economy and achieve AMS' climate change goals.

This Update provides a brief overview of the ASEAN Taxonomy V2 and what it means for AMS and businesses in the region.

Uniqueness of ASEAN Taxonomy V2

While designed to be interoperable with other international taxonomies, there are unique aspects of the ASEAN Taxonomy V2, such as:

- The adoption of a multi-tiered approach with two main elements: (1) A Foundation Framework that uses principles-based guiding questions and a decision tree to assess and classify sustainable activities; and (2) A Plus Standard which is developed as an advanced form of assessment approach that uses both threshold-based (quantitative) and process-based or practice-based (qualitative) technical screening criteria ("**TSC**") to assess and classify sustainable activities.

Regional Sustainability Update

2023 APRIL

- A global first for a regional taxonomy, the ASEAN Taxonomy V2 introduces coal phase-out as an activity eligible for classification as a sustainable activity. The novel inclusion of coal phase-out provides an avenue to expedite energy transition efforts within ASEAN.

How is an Activity Classified as Sustainable?

The ASEAN Taxonomy V2 provides a detailed classification system for assessing the sustainability level of an activity.

Environmental objectives and essential criteria

To be classified under the ASEAN Taxonomy, an activity must contribute to at least one of the four environmental objectives ("**EOs**") and fulfil all three essential criteria ("**ECs**").

The four EOs are:

- *Climate Change Mitigation* – by ensuring activities are aligned with decarbonisation trajectories that aim to meet the 1.5°C target under the Paris Agreement, which was ratified by all AMS in 2017.
- *Climate Change Adaptation* – by reducing the ramifications of climate change and increasing resilience through implementing processes or actions.
- *Protection of Healthy Ecosystems and Biodiversity* – by promoting sustainable use of natural resources, and minimising adverse environmental impact.
- *Resource Resilience and the Transition to a Circular Economy* – by minimising resource use, optimising resource yield, and utilising effective waste management systems to close resource loops.

The three ECs are:

- *Do No Significant Harm* - an activity that contributes to one EO should not cause significant harm to another EO.
- *Remedial Measures to Transition* – if an activity does cause significant harm, then that significant harm should be removed or rendered insignificant within five years.
- *Social Aspects* – activities should avoid causing social harm. Key social aspects currently included are human rights, labour rights, and impact on people residing close to the investments. Other social aspects, such as poverty reduction, job creation, and human capital development, will be considered in future versions of the ASEAN Taxonomy. Unlike the other two ECs, assessment of social aspects is undertaken by assessing the policies/conduct of the organisation seeking classification of an activity, rather than assessing the activity itself.

Regional Sustainability Update

2023 APRIL

How to Assess whether an Activity Falls under the Framework?

The assessment approaches seek to determine if the activity meets the principles of at least one of the EOs (or the primary EO if the activity is aligned with more than one EO) and all ECs with reference to either the Foundation Framework or the Plus Standard.

a) Foundation Framework

- Activities are assessed and classified using qualitative guiding questions, decision trees and use cases to determine the fulfilment of the primary EO and all ECs.
- Employs a traffic light classification concept where classification of an activity is an indication of its contribution to an EO.

GREEN	AMBER	RED
<ul style="list-style-type: none"> • Makes substantial contribution to an EO 	<ul style="list-style-type: none"> • Meets principles for Green classification with outstanding un-remediated harm 	<ul style="list-style-type: none"> • Does not meet principles for Green classification

b) Plus Standard

- Will cover the six focus sectors (namely: (1) agriculture, forestry and fishing; (2) electricity, gas, steam and air conditioning supply; (3) manufacturing; (4) transportation and storage; (5) water supply, sewerage and waste management; and (6) construction and real estate) and the three enabling sectors (namely: (1) information and communication; (2) professional, scientific and technical; and (3) carbon capture, storage and utilisation) that have been identified as being of paramount importance in the ASEAN sustainability journey. Presently, the TSC covers activities under the Energy focus sector (electricity, gas, steam and air conditioning supply). The ASEAN Taxonomy Board ("**ATB**") will continue to develop the TSC for activities in the other five focus sectors and publish them in subsequent versions of the ASEAN Taxonomy.
- Employs a traffic light tier concept that relates to the different TSC levels.

GREEN	AMBER (Transitional - To be gradually phased-out (sunsetting) and shifted to Tier 1)
<ul style="list-style-type: none"> • Tier 1 (Green) - benchmarked to the 1.5°C Paris Agreement target 	<ul style="list-style-type: none"> • Tier 2 (Amber T2) • Tier 3 (Amber T3) - where there is outstanding un-remediated harm

Regional Sustainability Update

2023 APRIL

The ATB does not provide direction as to whether an organisation seeking classification of an activity should adopt the Foundation Framework or the Plus Standard. However, if an activity does not have TSC defined under the Plus Standard, by default that activity can only be assessed under the Foundation Framework.

For activities where there are TSC defined under the Plus Standard, the organisation seeking assessment needs to decide, with due consideration of country-level preference, on the appropriate assessment approach. Where an AMS states or establishes as policy its preference for the Plus Standard to be used as the primary assessment approach, then assessment of activities may only be conducted using the Foundation Framework in exceptional circumstances and where it is effectively impossible to conduct an assessment using the Plus Standard.

Potential Uses of the ASEAN Taxonomy

The ASEAN Taxonomy acts as an overarching guide for the classification of sustainable activities and creates a common language for sustainable finance in the region. Consistency between the ASEAN Taxonomy and AMS' national taxonomies is key. Hence, AMS national taxonomies, which have been developed or are in the process of being developed, by Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam are, or will be, consistent with the ASEAN Taxonomy.

The ASEAN Taxonomy also details how it can be applied by different users. For example:

- AMS governments and regulators can be guided by the ASEAN Taxonomy when setting sustainability reporting requirements;
- A company or banking institution may apply the ASEAN Taxonomy in issuing corporate "green" bonds and reporting on bond sustainability credentials;
- Asset managers may use the ASEAN Taxonomy as a reference for green bond credentials to guide their investment decisions; and
- Rating agencies may apply the ASEAN Taxonomy to derive ESG ratings of bonds and the issuers, etc.

Concluding Words

The ASEAN Taxonomy strives to be an interoperable and inclusive guide that can be utilised by all AMS as they move forward in their sustainability journey. Following the release of the ASEAN Taxonomy V2, the ATB will engage in further targeted consultations with key stakeholders. The ATB aims to release further updates to the ASEAN Taxonomy in early 2024 and 2025. Click [here](#) to access the ASEAN Taxonomy V2.

If you have any queries regarding the above developments, please contact our team members below.

Contacts

Cambodia



Heng Chhay
R&T Sok & Heng Law Office
Managing Partner
Partner, Sustainability
Partner, Business Law

T +855 23 963 112/113
heng.chhay@rajahtann.com

Indonesia



Ibrahim Sjarief Assegaf
Assegaf Hamzah & Partners
Partner, Sustainability
Partner, Banking & Finance

T +62 21 2555 7825
ibrahim.asegaf@ahp.id

Indonesia



Kanya Satwika
Assegaf Hamzah & Partners
Partner, Sustainability
Partner, Energy & Resources

T +62 21 2555 7825
kanya.satwika@ahp.id

Lao PDR



Lee Hock Chye
Rajah & Tann (Laos) Co., Ltd
Managing Partner
Partner, Sustainability

T +603 2273 1919
hock.chye.lee@christopherleeong.com

Lao PDR



Khanti Syackhaphom
Rajah & Tann (Laos) Co., Ltd
Legal Advisor, Sustainability
Legal Advisor, Banking & Finance

T +856 21 454 239
khanti.syackhaphom@rajahtann.com

Malaysia



Jack Chor
Christopher & Lee Ong
Partner, Sustainability
Partner, Energy & Natural Resources

T +60 3 2273 1919
Jack.chor@christoperleeong.com

Myanmar



Dr U Min Thein
Rajah & Tann Myanmar
Company Limited
Managing Partner
Partner, Sustainability
Partner, Corporate Commercial

T + 959 7304 0763
min.thein@rajahtann.com

Myanmar



Chester Toh
Rajah & Tann Myanmar
Company Limited
Director
Partner, Sustainability
Partner, Corporate Commercial

T +65 6232 0220
chester.toh@rajahtann.com

Philippines



Jaime Renato B. Gatmaytan
Gatmaytan Yap Patacsil
Gutierrez & Protacio (C&G
Law)
Senior Partner
Co-Head, Energy,
Construction & Infrastructure

T + 632 8894 0377 to 79
jrbgatmaytan@cagatlaw.com

Philippines



Annalisa J. Carlota
Gatmaytan Yap Patacsil
Gutierrez & Protacio (C&G Law)
Partner, Energy, Construction &
Infrastructure
Partner, General Corporate
Practice (including Banking &
Finance)

T +632 8894 0377 to 79
annalisa.carlota@cagatlaw.com

Singapore



Lee Weilin
Rajah & Tann Singapore LLP
Head, Sustainability
Partner, Banking & Finance

T +65 6232 0707
weilin.lee@rajahtann.com

Singapore



Kala Anandarajah, BBM
Rajah & Tann Singapore LLP
Partner, Sustainability
Head, Competition & Antitrust
and Trade

T +65 6232 0111
kala.anandarajah@rajahtann.com

Singapore



Soh Lip San
Rajah & Tann Singapore LLP
Partner, Sustainability
Partner, Construction &
Projects

T +65 6232 0228
lip.san.soh@rajahtann.com

Singapore



Sandy Foo
Rajah & Tann Singapore LLP
Partner, Sustainability
Deputy Head, Corporate and
Transactional Group
Head, Mergers & Acquisitions

T +65 6232 0716
sandy.foo@rajahtann.com

Singapore



Ng Sey Ming
Rajah & Tann Singapore LLP
Partner, Sustainability
Co- Head, Banking & Finance

T +65 6232 0473
sey.ming.ng@rajahtann.com

Singapore



Disa Sim
Rajah & Tann Singapore LLP
Partner, Sustainability
Head, Appeals & Issues

T +65 6232 0415
disa.sim@rajahtann.com

Singapore



Cindy Quek
Rajah & Tann Singapore LLP
Partner, Sustainability
Partner, Banking & Finance

T +65 6232 0492
cindy.quek@rajahtann.com

Singapore



Cynthia Wu
Rajah & Tann Singapore LLP
Partner, Sustainability
Partner, Mergers & Acquisitions

T +65 6232 0775
cynthia.wu@rajahtann.com

Singapore



Loh Yong Hui
Rajah & Tann Singapore LLP
Partner, Sustainability
Partner, Construction &
Projects

T +65 6232 0550
yong.hui.loh@rajahtann.com

Singapore



Alvin Tan
Rajah & Tann Singapore LLP
Partner, Sustainability
Partner, Competition & Antitrust
and Trade

T +65 6232 0904
alvin.tan@rajahtann.com

Singapore



Priscilla Soh
Rajah & Tann Singapore LLP
Partner, Sustainability
Partner, Restructuring &
Insolvency

T +65 6232 0495
priscilla.soh@rajahtann.com

Thailand



Piroon Saengpakdee
R&T Asia (Thailand) Limited
Partner, Sustainability
Partner, Banking & Finance

T +66 2656 1991
piroon.s@rajahtann.com

Vietnam



Nguyen Hung Du
Rajah & Tann LCT
Partner, Sustainability
Partner, Corporate Regulatory

T +84 28 3821 2382
du.nguyen@rajahtannlct.com

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

Regional Sustainability Update

2023 APRIL

LAWYERS
WHO
KNOW
ASIA

Regional Contacts

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 | *Myanmar*

Rajah & Tann Myanmar Company Limited

T +95 1 9345 343 / +95 1 9345 346

F +95 1 9345 348

mm.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

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

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 | *Singapore*

Rajah & Tann Singapore LLP

T +65 6535 3600

sg.rajahtannasia.com

RAJAH & TANN | *Thailand*

R&T Asia (Thailand) Limited

T +66 2 656 1991

F +66 2 656 0833

th.rajahtannasia.com

RAJAH & TANN | *Lao PDR*

Rajah & Tann (Laos) Co., Ltd.

T +856 21 454 239

F +856 21 285 261

la.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

CHRISTOPHER & LEE ONG | *Malaysia*

Christopher & Lee Ong

T +60 3 2273 1919

F +60 3 2273 8310

www.christopherleeong.com

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.

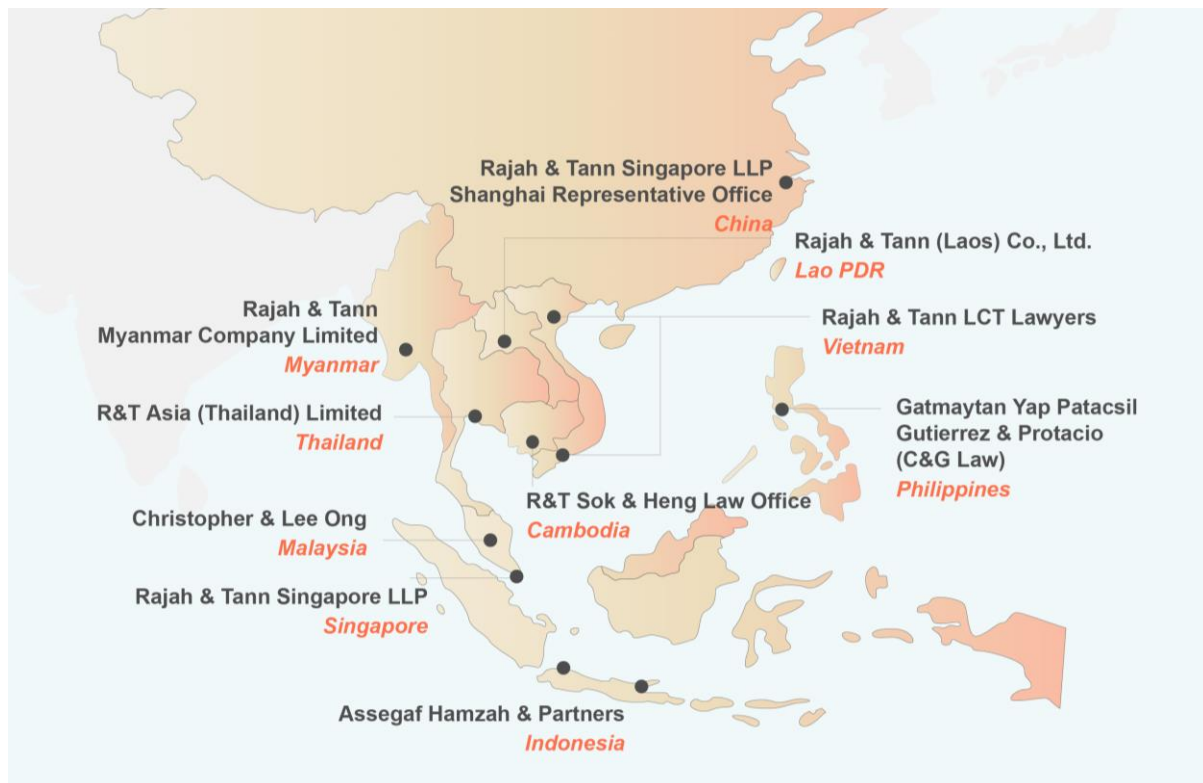
Member firms are independently constituted and regulated in accordance with relevant local legal requirements. Services provided by a member firm are governed by the terms of engagement between the member firm and the client.

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.

Regional Sustainability Update

2023 APRIL

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 Cambodia, China, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, 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 Management at eOASIS@rajahtann.com.