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GFIT Issues Third Consultation Paper on Taxonomy for Green and Transition Activities for Singapore-Based FIs

Introduction

On 15 February 2023, the Green Finance Industry Taskforce ("**GFIT**") issued the third consultation paper ("**2023 Consultation Paper**") on the taxonomy it has been developing for Singapore-based financial institutions (FIs) ("**Singapore Taxonomy**") to identify and classify green and transition activities. A taxonomy provides a framework to classify economic activities to, among other things, facilitate green financing, funding and investment, risk management and promote investments to meet robust sustainability goals.

The key proposals in the 2023 Consultation Paper include: (i) the thresholds and technical screening criteria to classify economic activities as green, amber or red categories under the traffic light approach for five sectors; and (ii) Do No Significant Harm ("**DNSH**") criteria.

The consultation period for the 2023 Consultation Period will end on **15 March 2023**, and GFIT intends to issue the final taxonomy by the first half of 2023. The 2023 Consultation Paper follows two earlier consultation papers: the first consultation paper issued in January 2021 ("**2021 Consultation Paper**"), and the second consultation paper issued in May 2022 ("**2022 Consultation Paper**").

This Update provides a broad outline of the key proposals covered in the 2023 Consultation Paper.

Key Features of the Singapore Taxonomy

By way of background, the 2021 Consultation Paper set out the broad principles and approach for the Singapore Taxonomy, and introduced the traffic light approach to classify an economic activity as green, amber, or red, to differentiate an activity's contribution to one or more of the environmental objectives proposed by GFIT. The 2022 Consultation Paper expanded on the traffic light approach and proposed more detailed application and thresholds for classification, that are supported by science and data. For details, please refer to our earlier Client Updates on the 2021 Consultation Paper and 2022 Consultation Paper, available [here](#) and [here](#).

Client Update: Singapore

2023 FEBRUARY

Sustainability | Funds & Investment Management | Financial Institutions Group

Environmental objectives

From the earlier Consultation Papers, it is proposed that the Singapore Taxonomy covers green and transition activities with regard to five environmental objectives: 1. Climate change mitigation; 2. Climate change adaptation; 3. Protect biodiversity; 4. Promote resource resilience and circular economy; and 5. Pollution prevention and control. For now, GFIT is focused on developing criteria and thresholds in relation to climate change mitigation.

Traffic light system to classification

Broadly speaking, activities are classified under the traffic light system as follows:

- Green category if the activities contribute substantially to climate change mitigation by operating at net zero, or are on a pathway to net zero by 2050. Generally, new activities (e.g. new power plant, new building etc.) have to meet the green criteria.
- Amber category includes activities that are not currently on a net zero pathway but are either: transitioning towards a green transition pathway within a defined time frame; or facilitating significant emissions reductions in the short term with a prescribed sunset date. Generally, the sunset date is 2030, and all amber traffic lights will disappear after this time unless stated otherwise in the criteria. The amber category does not apply to new projects, and is relevant only for transitioning of existing infrastructure and activities.
- Red category if the activities are not currently compatible with a net zero trajectory. This means that the activities should either: be phased out if emissions (including Scope 3 emissions) cannot be reduced (e.g. most fossil fuels); or reduce emissions (including Scope 3 emissions) to be in line with a green transition pathway (e.g. high carbon cement producer).

Generally, activities that do not comply with green or amber criteria are red (i.e. deemed as "significant harm") and are not eligible for financing under the Singapore Taxonomy.

Thresholds and Technical Screening Criteria for Activities in Five Sectors

The Singapore Taxonomy covers activities in eight focus sectors, namely: Energy; Transport; Building; Industry; Information and Communications Technology ("**ICT**"); Waste and Water; Agriculture and Forestry; and Carbon Capture and Storage/Sequestration ("**CCS**").

The 2022 Consultation Paper consulted on the thresholds and technical screening criteria for activities in three sectors: Energy, Transport and Building. In the 2023 Consultation Paper, GFIT sets out the proposed thresholds and technical screening criteria to classify economic activities under either green, amber or red categories for the other five focus sectors: 1. Industry; 2. ICT; 3. Waste and Water; 4. Agriculture and Forestry; and 5. CCS.

Client Update: Singapore

2023 FEBRUARY

Sustainability | Funds & Investment Management | Financial Institutions Group

Do No Significant Harm (DNSH) criteria

GFIT proposed a DNSH assessment based on a set of DNSH criteria to ensure that when an activity makes a substantial contribution to climate change mitigation, the activity does not cause significant harm to all the other environmental objectives of the Singapore Taxonomy (i.e. climate change adaptation, protect healthy ecosystems and biodiversity; promote resource resilience and circular economy; and pollution prevention and control). The details of the DNSH criteria are contained in the document "[Proposed DNSH Criteria](#)" (15 February 2023). GFIT indicated that the application of the DNSH criteria has not been decided at this stage.

Further Information

Feedback on the 2023 Consultation Paper may be submitted through the Association of Banks in Singapore ("ABS") website (www.abs.org.sg), link [here](#).

For more information, please refer to the documents of the 2023 Consultation Paper which are available on the ABS website at the following links:

- [Third GFIT Taxonomy Consultation Paper \(15 February 2023\)](#)
- [Proposed DNSH Criteria \(15 February 2023\)](#)

The Monetary Authority of Singapore also published a media release on the 2023 Consultation Paper, available [here](#) (on the MAS website www.mas.gov.sg).

If you have any queries on this development, please feel free to contact our team below.

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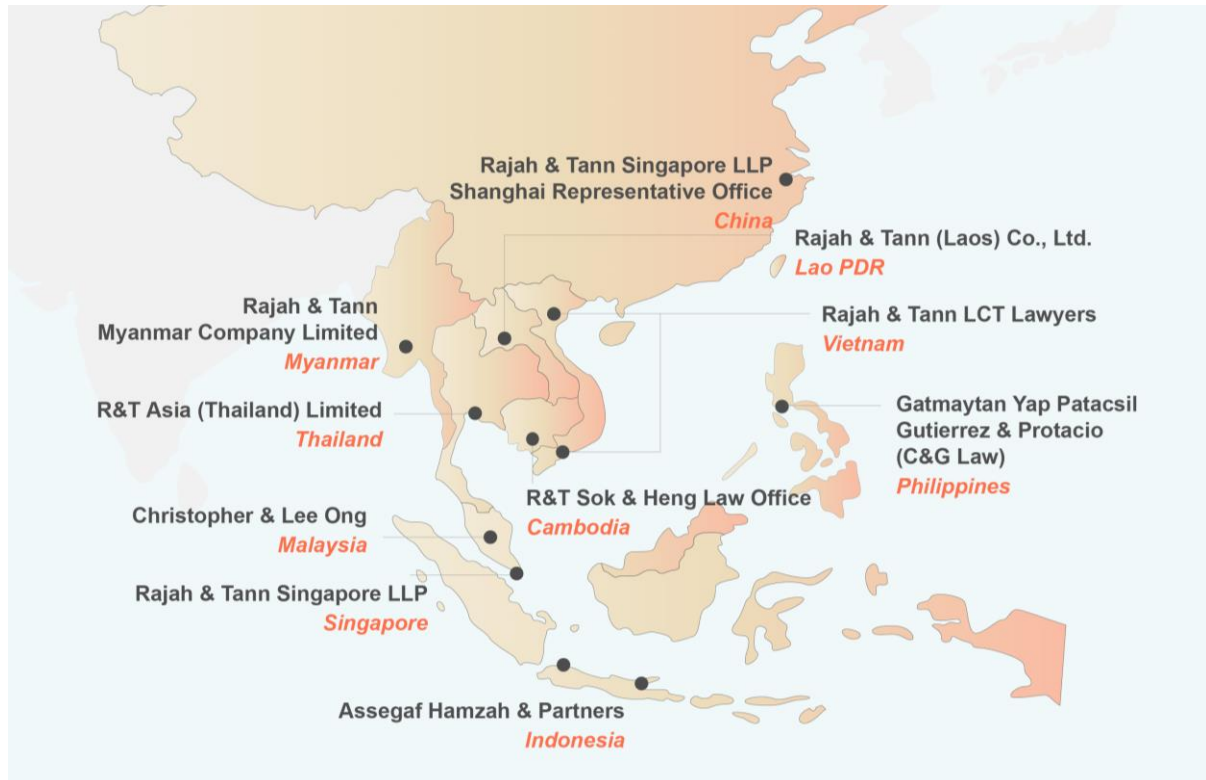
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