

Journey to a Low-Carbon Economy Through Transition Finance

MAS launches the world's first multi-sector transition Taxonomy on December 3rd in 2023. The Taxonomy sets out detailed thresholds and criteria for defining green and transition activities that contribute to climate change mitigation across eight focus sectors.

Benefits of the Taxonomy

The aim of the Taxonomy is to establish a unified framework for categorising economic activities, aiding stakeholders in accessing information crucial for green financing, funding, and investment decisions. Over time, corporates should be well able to disclose their economic activities and environmental profiles transparently and consistently. In doing so, this aims to stimulate the growth of sustainable products and services by eliminating ambiguity and uncertainty surrounding classifications and labels.



1. Provide a **common language** for financiers, issuers, policymakers and regulators



2. Help translate commitments to the **Paris Agreement** and other sustainable investment goals for investors



3. Provide **clarity and consistency** for financiers, companies and government agencies



4. Support understanding of **risk and opportunities based on environmental factors** and support investment styles and strategies for **green and transition investment**



5. Put environmental data in context and **make it easier to understand** how companies are working towards a **low-carbon transition**



6. **Avoid reputational risks** by screening out economic activities that undermine broader environmental, climate, and social objectives



7. **Incentivise companies** to access finance for R&D while rewarding those undertaking environmentally sustainable activities

Taxonomy features - Understand what the Environmental Objectives are



Climate Change Adaptation



Resource Resilience



Climate Change Mitigation



Biodiversity Protection

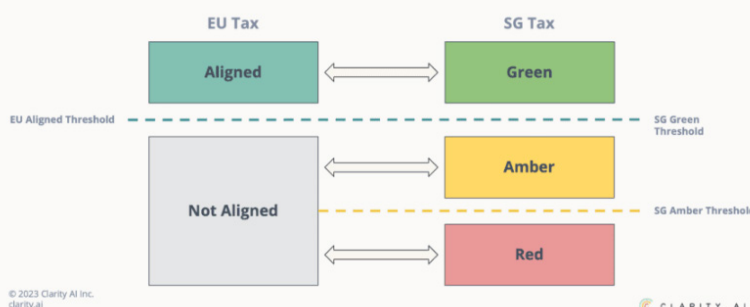


Pollution Prevention & Control

These five main environmental objectives are aligned with the EU Taxonomy^[1], although at present this Taxonomy has only determined economic activities and technical screening criteria for **climate change mitigation**. The remaining four to follow in future iterations of the Taxonomy.

Economic activities and projects are to be classified as **Green** or **Amber** on the basis of their contribution to at least one of the five environmental objectives, whilst not causing any potential or actual harm to any of the other four objectives.

Mapping of EU Taxonomy in Singapore Taxonomy
Shared Activities



For the activities defined within the Singapore Taxonomy for climate change mitigation:

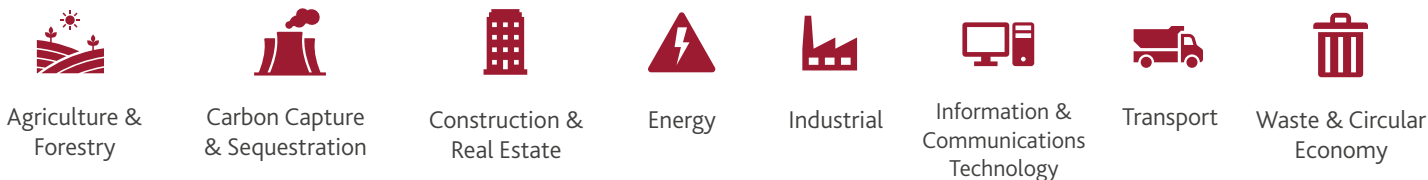
- 44 activities (70%) of the SG Taxonomy have the same alignment criteria as the EU Taxonomy
- 7 activities (11%) of the SG Taxonomy have different alignment criteria from the EU Taxonomy
- 13 activities (19%) are exclusive to the SG Taxonomy

Source: Clarity AI

[1] The six objectives outlined in the EU Taxonomy are: climate change mitigation; climate change adaptation; the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; the protection and restoration of biodiversity and ecosystems.

Taxonomy features - Know what the Focus Sectors are

The Taxonomy covers sectors that **constitute 90% of the region's greenhouse gas emissions**, providing extensive coverage. This breadth will act as a roadmap, directing capital towards both green and transitional activities within the region.



Taxonomy features - Early phase-out Coal-Fired Power Plants (CFPPS)

CTMs^[2] and frameworks governing early coal phase-out processes are still nascent, and the promise of devising an actionable strategy for coal phase-out remains uncertain. As such, early coal phase-outs will not be classified using the traffic light system but will be separately evaluated under the Taxonomy.

Acknowledging the limitations, the Taxonomy introduces a **hybrid approach** to assess the sustainability of individual economic activities and determine the impact of the transition plans on climate change mitigation objective.

To ensure that:

- CFPPs phase-out by 2040 or before 25 years of operations at the latest
- CFPPs have positive fair economic value and early phase-out results in verifiable emissions savings
- Coal plant's generation is replaced 1-for-1 with a portfolio of clean resources
- Entity has Just Transition plans to mitigate impact on stakeholders and community

Traffic lights: Green, Amber and Ineligible classifications

The Taxonomy employs a traffic light system that categorises economic activities as Green, Amber ('transition'), or Ineligible depending on how aligned they are with climate goals. Clarifying the definitions of sustainable and transition financing will mitigate the risk of greenwashing or the misrepresentation of transition efforts.

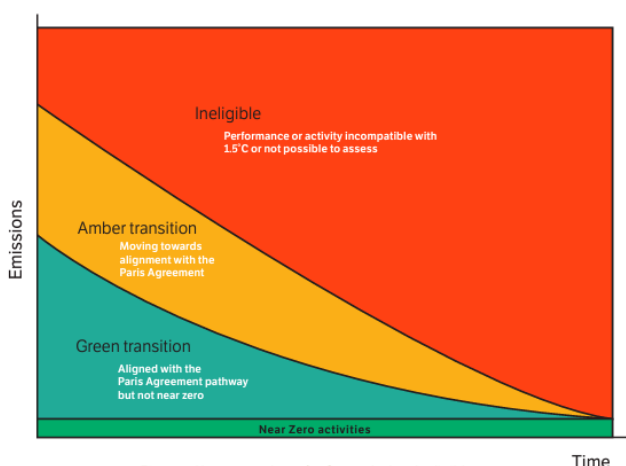



Figure 1: Net-zero pathway for Green, Amber, Ineligible


Source: Monetary Authority of Singapore (2023)

The challenge lies with defining what counts as amber.

Therefore, transition activities are defined through two approaches:



Activities that do not currently meet the green thresholds but are on a pathway to net-zero or contributing to net-zero outcomes, to facilitate significant emissions reductions in the short term with a prescribed sunset date^[3]



A “measures-based approach” that seeks to encourage capital investments into decarbonisation^[4] measures or processes that will help reduce the emissions intensity of activities over time

[2] Innovative climate finance tools, often labelled coal transition mechanisms (“CTMs”), could help to accelerate the goal to green transition and have been seen to gain momentum in key coal markets; however, these mechanisms are still in early stages of design, and widespread acceptance have yet been established.

[3] Typically, the sunset date is set for 2030. however, it is important to note that certain industrial sectors might have extended sunset dates because they lack efficient technological options to operate in accordance with a 1.5oC pathway.

[4] Decarbonisation means reducing the amount of greenhouse gas emissions that a society produces, as well as increasing the amount that is being absorbed. (UNDP, 2023)

How BDO can help you move towards a low-carbon economy through transition financing



Develop Taxonomy-aligned financial instruments



Apply the Taxonomy into financial decision making



Internal policy and procedure development



Device a strategy for customer and corporate engagement



Regardless of where you are at in your journey, we can help you:

- Conduct a current state assessment of your investment portfolio or financing activities
- Evaluate whether the projects or businesses you fund meet the Taxonomy's criteria for environmental sustainability
- Identify where you already possess expertise or have established engagement in a few priority sectors based on existing investment portfolios or financing activities
- Using the traffic light system, classify economic activities as 'Green', 'Amber', or 'Ineligible' against the technical screening criteria outlined in the Taxonomy
- Apply the technical screening criteria to set specific thresholds, metrics, and key performance indicators related to environmental sustainability
- Prepare voluntary disclosures on your transition plans, giving you the opportunity to explain how the Taxonomy fits within your transition strategies and get credit for overall efforts

Tap onto taxonomy-aligned incentives schemes

The MAS Sustainable Loan Grant Scheme (SLGS)

- SLGS supports corporates^[1] in securing sustainable financing
- Covers costs of engaging independent service providers to validate the sustainability credentials of the loan^[2]
- Offsets up to S\$125,000 for eligible expenses^[3], including external reviews
- Capped at a maximum of **2 loan instruments**
- Funding period of **three years** from the applicant's loan origination date

[1] Qualifying borrower includes company (international organisations, such as the International Finance Corporation or World Bank, but excludes sovereigns) or financial institution based onshore or offshore.

[2] Qualifying loan instrument includes Green Loan, Social Loan, Sustainability Loan, Sustainability-Linked Loan, and Transition Loan.

[3] Costs incurred by the Qualifying Borrower that are directly attributable to a Qualifying Loan in respect of engaging sustainability advisory and assessment service providers for the following: Development of a loan framework or Sustainability Performance Targets (SPTs); Pre- and post- loan origination external review or assurance, based on internationally recognised sustainable and transition loan guidance/principles/standards and/or taxonomies; Reporting on the use of proceeds of the loan and their expected impact, or SPT achievement and impact.

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