ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy)

Frequently Asked Questions

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The Frequently Asked Questions (FAQs) for the ASEAN Taxonomy, developed to address common questions and provide clarity on its application, will be continuously updated to reflect the latest developments, insights, and stakeholder feedback, ensuring they remain accurate and relevant.

1. What is the ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy)?

The ASEAN Taxonomy was first published on 10 November 2021 by the ASEAN Taxonomy Board (ATB)[1] as a multi-tiered classification framework, with the latest version released on 27 March 2024. It is intended to be the overarching guide and common language used to identify and classify sustainable projects and economic activities in ASEAN Member States (AMS). In addition, it is designed to be an inclusive, credible, and where possible, science-based classification system for sustainable activities and will be one of the key building blocks in orienting capital towards sustainable activities to enable a just transition towards sustainable finance in the region. The structure of the ASEAN Taxonomy is as follows:
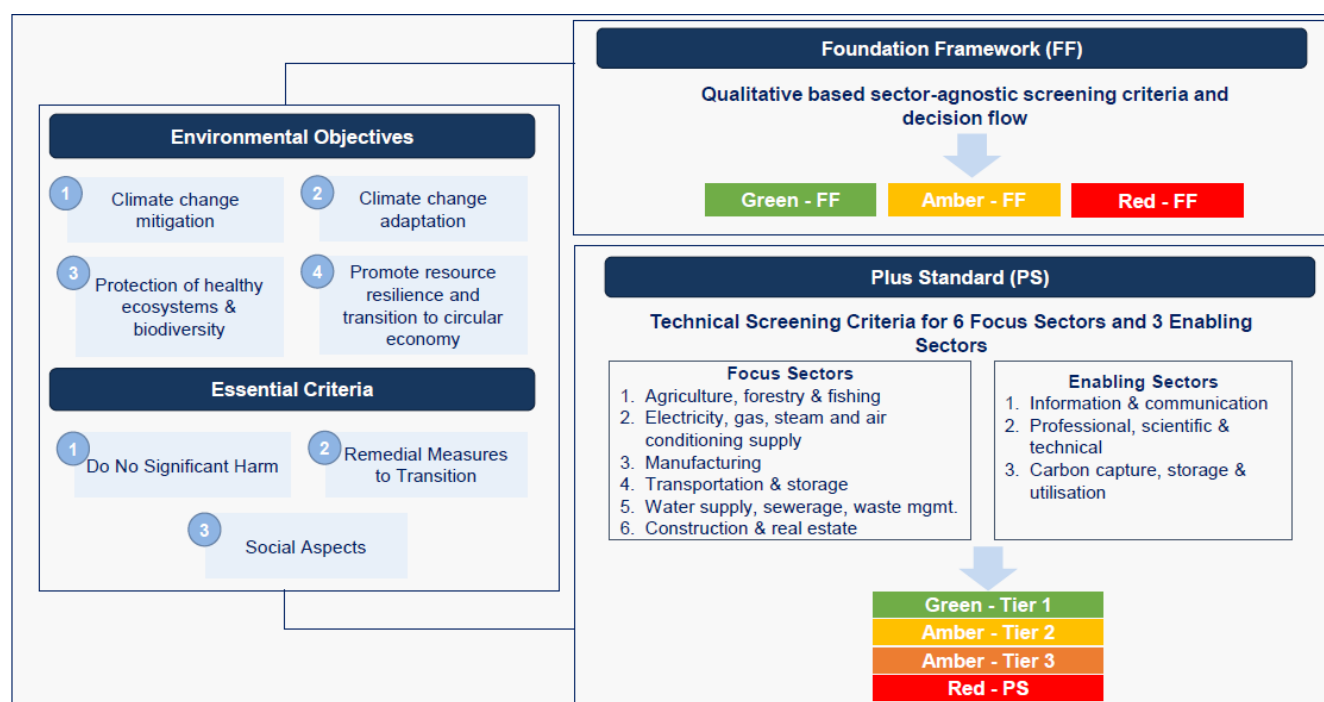
[ASEAN Taxonomy as of 27 March 2024]

Explanatory Information:

Foundation Framework (FF)

FF is a principles-based assessment of activities that is applicable to all AMS, stakeholders in the financial sector and business enterprises. The FF uses a traffic light system, guided by a sector-agnostic decision flow to classify economic activities. The economic activities must fulfil **at least one of the environmental objectives and all essential criteria**.

[See Chapter 2.4, ASEAN Taxonomy Version 1]

Plus Standard (PS)

PS contains technical screening criteria (TSC) that provide additional guidance and scope for AMS to further qualify and benchmark eligible green or transitional activities and investments. It also sets activity-level criteria and thresholds to determine if an activity contributes to the environmental objectives of the Taxonomy and can therefore be considered Taxonomy-aligned.

[See Chapter 3.1, ASEAN Taxonomy Version 1]

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[1] The ASEAN Taxonomy Board (ATB) is a dedicated body formed under the auspices of the ASEAN Finance Ministers and Central Bank Governors' Meeting (AFMGM) to develop, maintain and promote an ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy). The Board Members of the ATB comprise representatives of ACMF, AIRM, SLC and WC-CMD that are selected by the members of these bodies themselves and represent 11 ASEAN member states.

Environmental Objectives (EO)

The ASEAN Taxonomy was created to facilitate four EOs:

• EO1: Climate Change Mitigation.
• EO2: Climate Change Adaptation.
• EO3: Protection of Healthy Ecosystems and Biodiversity.
• EO4: Resource Resilience and the Transition to a Circular Economy.

Any Activity seeking classification under the ASEAN Taxonomy must demonstrate that it contributes to at least one of these EOs. The Activity may also not detract from the EO to which it is intended to contribute due to direct or indirect effects caused by the Activity to that EO.

[See Chapter 3.1, ASEAN Taxonomy Version 1 and Version 2]

Essential Criteria (EC)

EC consists of three components:
1. **Do no significant harm (DNSH)** either directly or indirectly, where an economic activity that contributes substantially to an EO shall also not significantly harm any of other EOs.
2. **Remedial measures to transition (RMT)** ensuring that any actual or potential significant harm is either mitigated or rendered insignificant.
3. **Social aspects (SA)** to be considered as part of assessment under FF and PS relating to the potential harm an activity can impose on social conditions. The three key SAs are **promotion and protection of human rights**, **prevention of forced labour** and **protection of children's rights,** and **impact on people living close to investments.**

[See Chapter 3.2, ASEAN Taxonomy Version 1 and Version 2]

What the ASEAN Taxonomy is	What the ASEAN Taxonomy is not
• The ASEAN Taxonomy serves as a guide and common language to assist AMS in identify and classify sustainable projects and economic activities. Its adoption is **voluntary**. • The ASEAN Taxonomy is a **classification system** to help investors and companies to make informed investment decisions on environmentally sustainable activities for the purpose of determining the degree of sustainability of an investment. • The ASEAN Taxonomy is a **living document that will be updated periodically** to ensure their relevance and suitability to the varying needs of AMS, while considering developments in the sustainable finance ecosystem.	• The ASEAN Taxonomy is **neither legally binding nor mandatory** for adoption by all AMS. • The ASEAN Taxonomy is **not a rating tool** and **does not specify sustainability disclosure requirements** for economic activities listed in the Taxonomy. • The ASEAN Taxonomy **does not operate in isolation** and cannot be fully effective without alignment and collaboration with global taxonomies and other frameworks such as transition finance or disclosure frameworks. It **does not supersede the legal and regulatory requirements nor national policy drive of respective AMS**.

2.   What are the development principles of the ASEAN Taxonomy?

The five high-level principles on which the ASEAN Taxonomy is being developed are:

Principle 1
The ASEAN Taxonomy will be the overarching guide for all ASEAN Member States, providing a common language and complementing their respective national sustainability initiatives.

Principle 2
The ASEAN Taxonomy will take into consideration widely used taxonomies and other relevant taxonomies, as appropriate, and shall be contextualised to facilitate an orderly transition towards a sustainable ASEAN.

Principle 3
The ASEAN Taxonomy shall be inclusive and beneficial to all ASEAN Member States.

Principle 4
The ASEAN Taxonomy shall provide a credible framework, including definitions, and where appropriate, be science-based.

Principle 5
The ASEAN Taxonomy will be aligned with the sustainability initiatives taken by the capital market, banking and insurance sectors, or at least not in conflict.

[See Chapter 2.3, ASEAN Taxonomy Version 1]

3.   Why do we need an ASEAN Taxonomy?

ASEAN, which as a bloc is the fifth largest economy in the world with a total GDP of USD3.6 trillion[2], is committed to transitioning towards a low-carbon and environmentally sustainable future. It is an economic bloc comprising of diverse economic structures, as well as varying stages of development and exposures to climate change that are unique to each individual AMS. This distinctiveness creates the need for a taxonomy tailored specifically to the ASEAN context, serving as a common reference for green and transition activities across the region. The taxonomy seeks to be a consistent and credible reference for the classification of green and transition activities, reduce cross-jurisdictional due diligence costs for investors, and boost investor confidence in the region.
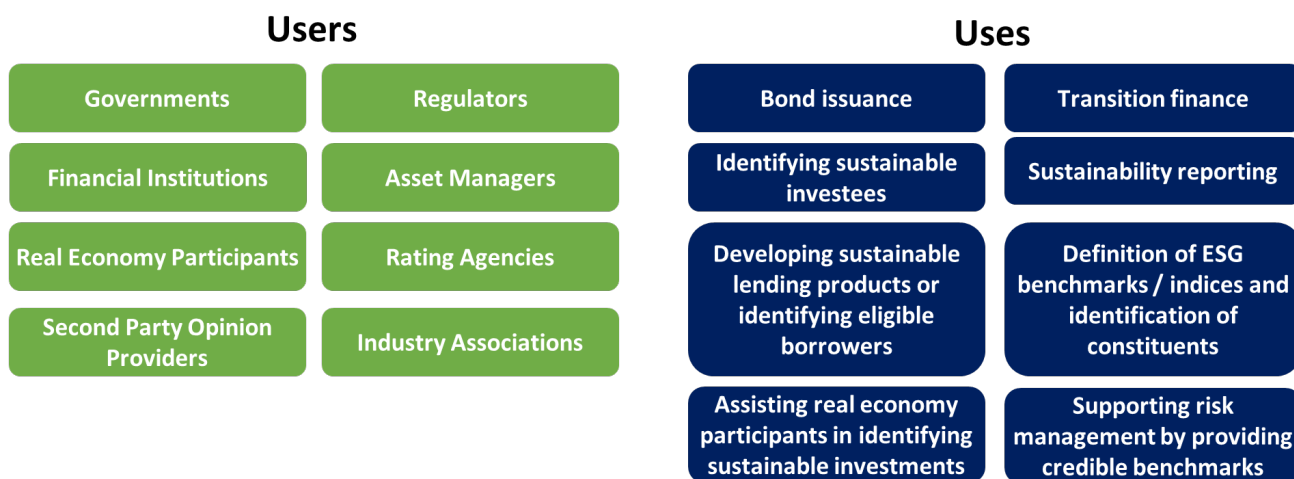
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[2] ASEAN Statistical Brief, Volume IV, January 2024

Creating an ASEAN-centric taxonomy significantly reduces the need to adopt an international framework that may not be suited to the region's distinctiveness and diversity. Developed by ASEAN central banks, capital market regulators, insurance regulators and financial agencies, the ASEAN Taxonomy provides a regional, cohesive voice, thus ensuring an integrated and holistic sustainable finance ecosystem. The taxonomy also provides consistency and credibility, thereby securing global acceptance for sustainable investments in ASEAN.

4. Who are the intended users of the ASEAN Taxonomy?

The ASEAN Taxonomy can be adopted by ASEAN government agencies and regulatory bodies, as well as participants in the financial sector and business enterprises operating in or looking to raise sustainable finance in any AMS.

Users		Uses	
Governments	Regulators	Bond issuance	Transition finance
Financial Institutions	Asset Managers	Identifying sustainable investees	Sustainability reporting
Real Economy Participants	Rating Agencies	Developing sustainable lending products or identifying eligible borrowers	Definition of ESG benchmarks / indices and identification of constituents
Second Party Opinion Providers	Industry Associations	Assisting real economy participants in identifying sustainable investments	Supporting risk management by providing credible benchmarks

[Further information on the users and uses of the ASEAN Taxonomy can be found in Section 6.2, ASEAN Taxonomy Version 3]

Adoption of the ASEAN Taxonomy is voluntary, although it is expected that all ASEAN Member States should be able to adopt the Foundation Framework to commence their sustainability journey.

5. How has the ASEAN Taxonomy been received?

The ASEAN Taxonomy has been referenced by Indonesia, Malaysia, Philippines, Singapore, and Thailand in the development of their national taxonomies, while taking into account respective national contexts to ensure alignment and interoperability. Meanwhile, the national taxonomies of other ASEAN Member States have yet to be developed or are in development, but nonetheless would or are being developed in alignment with the ASEAN Taxonomy.

Other countries/jurisdictions that have referenced the ASEAN Taxonomy include Australia, Hong Kong, New Zealand and South Korea.

The ASEAN Taxonomy has been utilized in assessments by the following companies in the issuance of sustainability instruments, and verified by Second Party Opinion providers:

- Bangkok Expressway and Metro Plc Sustainable Financing Framework in September 2024, in their issuance of sustainability finance instruments using the ASEAN Taxonomy Transportation & Storage Criteria, as well as DNSH
- The Provincial Electric Authority (PEA), a Thai State Utility Operator in August 2024, in their issuance of Sustainability Bonds using the ASEAN Taxonomy Energy Criteria and DNSH
- Wasco Berhad, a Malaysian energy infrastructure conglomerate in November 2024, in their issuance of sustainability-linked loans using the ASEAN Taxonomy Energy Criteria and DNSH

The ASEAN Taxonomy has also received international recognition from various entities to date:

- The ASEAN Taxonomy Version 2's Coal Phase Out (CPO) TSC has been referenced in a public consultation by the Glasgow Financial Alliance for Net Zero (GFANZ)
- Version 2 was listed as a major initiative to support CPO in Asia in the Asia Transition Finance Study Group (ATF SG)'s Annual Report in 2023
- The ASEAN Taxonomy was regarded as one of three most influential taxonomies in Natixis's report, The New Geography of Taxonomies in July 2023
- The ASEAN Taxonomy was named as one of three acceptable taxonomies by the Financial Services Regulatory Authority of the Abu Dhabi Global Market in July 2023

The ASEAN Taxonomy has also been referenced in the development of various other international taxonomies and frameworks, such as but not limited to:

- The ATF SG Annual Report 2024 – mentions that the ASEAN Taxonomy provides clear guidance that accommodates different levels of readiness, as it is designed to be a practical tool to help SMEs understand the requirements and take the necessary steps towards sustainability.
- SMBC Group's Transition Finance Playbook 2.0 – as part of SMBC Group's initiative to support its customers' transition and efforts to develop new technologies and maximize its contributions in realizing a decarbonized society. The Playbook referenced the ASEAN Taxonomy for its examples of transition activities.
- The national utility company in Malaysia, Tenaga Nasional Berhad, which referenced the ASEAN Taxonomy and the ASEAN Transition Finance Guidance in the development of its Transition Finance Framework.

6. What are the focus sectors and enabling sectors and how are they selected?
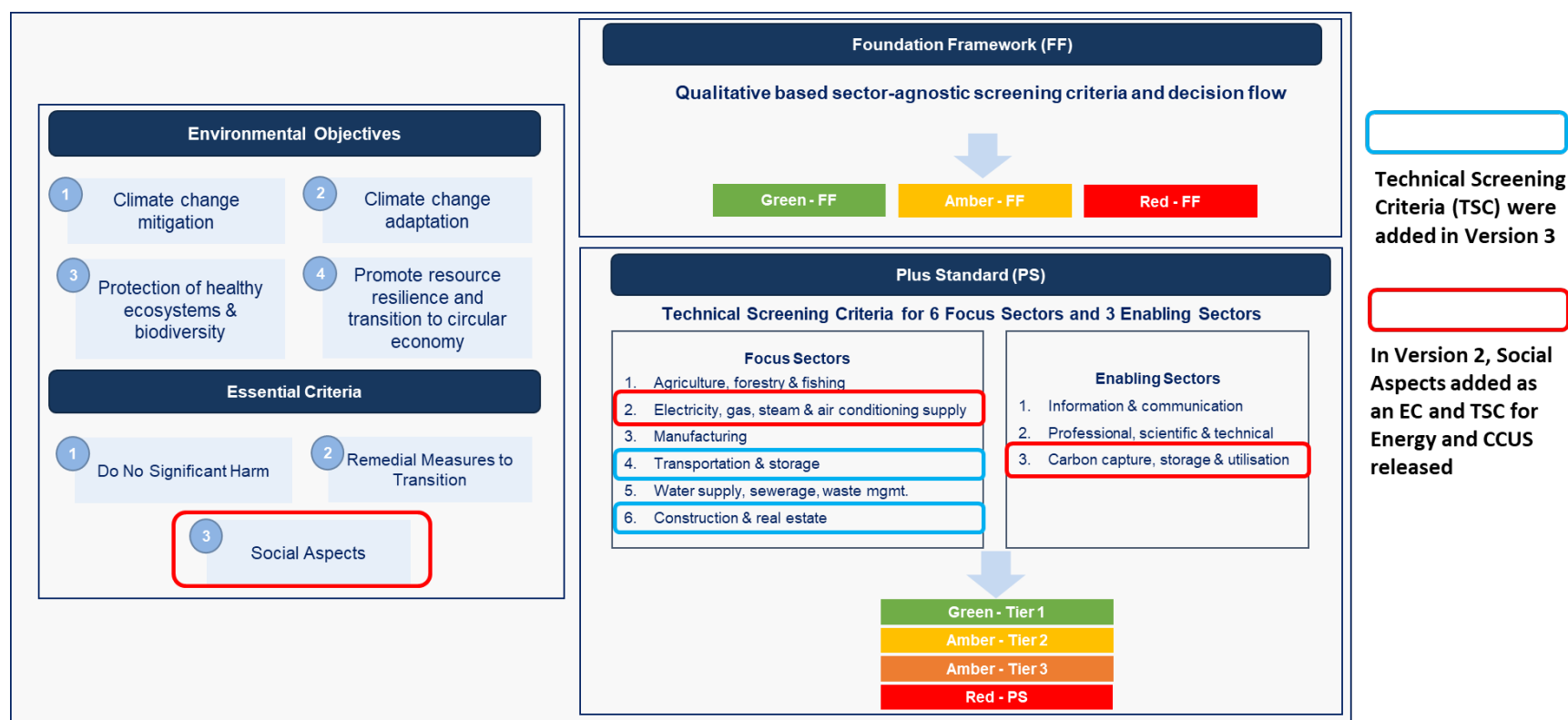
The ASEAN Taxonomy's focus sectors were selected based on their GHG emissions profile and contribution to gross value added, both at the ASEAN and national levels. In addition, enabling sectors were identified based on the ability of their products and services to substantially contribute to climate change mitigation. The ASEAN Taxonomy consists of the following focus sectors and enabling sectors:

Focus Sectors
- Agriculture, forestry & fishing
- Electricity, gas, steam and air conditioning supply
- Manufacturing
- Transportation & storage
- Water supply, sewerage & waste management
- Construction & real estate

Enabling Sectors
- Information & communication
- Professional, scientific & technical
- Carbon capture, storage & utilization

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7. What are the key differences between the ASEAN Taxonomy Version 1, 2 and 3?

The ASEAN Taxonomy is reviewed periodically by the ATB to ensure that the Taxonomy is relevant and updated to reflect developments in science, technology and economic circumstances. New versions of the ASEAN Taxonomy thus far have typically expanded the scope of the taxonomy to include criteria for more focus and enabling sectors, incorporating enhancements following stakeholder consultation exercises. Other enhancements were also included to provide clarity and pertinent information is updated – true to the Taxonomy's characteristic as a living document that takes into account developments in the sustainable finance ecosystem. The relevant updates made to the ASEAN Taxonomy Version 1, 2 and 3 are as follows:

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

8. What is the 'stacked' and 'multi-tiered' approach of the ASEAN Taxonomy?

The ASEAN Taxonomy's multi-tiered approach comprising the principles-based Foundation Framework (FF) and the Plus Standard (PS), facilitates inclusivity among AMS, allowing for different levels of adoption depending on individual AMS' readiness.

The 'stacked approach' is used to determine thresholds and technical screening criteria under the Plus Standard, which will be developed progressively.

The Plus Standard will take a 'stacked approach' in developing activity-level thresholds. This means that for each activity, there are multiple decarbonisation pathways and hence there could be more than one threshold referenced at a single point in time.

The main motivation for multiple thresholds is to cater to the diverse characteristics and readiness of entities across ASEAN undertaking a particular activity, taking into account the different economic circumstances, financial systems, and transition paths of each AMS.

9. What are the Foundation Framework (FF) and Plus Standard (PS)?

The FF and PS refer to the same set of four environmental objectives and three essential criteria. The classification of activities can be assessed through the FF or the PS. This reflects the multi-tiered nature of the ASEAN Taxonomy, where the FF provides for a qualitative assessment of activities while the PS uses metrics and thresholds (Technical Screening Criteria (TSC))[3] to further qualify and benchmark eligible green and transitional activities and investments. AMS and relevant entities can refer to the PS according to their respective readiness to do so, including but not limited to national policies regarding the mandatory use of national and/or other taxonomies, and the availability of data necessary to facilitate a PS assessment.

Users of the ASEAN Taxonomy can also utilise the illustrative assessment flow for the FF and PS respectively, to determine whether activities should be assessed under the PS and/or FF. If an AMS policy designates the PS as the primary assessment method, activities may only be assessed under the FF in exceptional cases where assessment via the PS is not possible due to a lack of data, coverage of the PS, or other limitations. In addition, the FF is sector-agnostic and can be used for applications beyond the 6 focus sectors and 3 enabling sectors available at present. The FF can also be used in cases where data is not available or sufficient for a PS assessment. For more information on applying the FF and PS, please see Chapters 4, 5 and 6 of the ASEAN Taxonomy Version 3, as well as the Supplementary Document: Foundation Framework Use Cases.

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[3] TSC classify Activities based on their contributions to EOs using quantitative, qualitative, or nature of Activity-based criteria. Under the ASEAN Taxonomy, "classification" refers to an Activity's contribution to an EO, while "Tier" refers to the different levels of TSC. PS has Tiers 1-3 aligned with Green, Amber Tier 2, and Amber Tier 3 classifications, while the FF does not use the Tier system and only has Green and Amber classifications. In all cases, a Red classification means that an Activity is not aligned with the ASEAN Taxonomy.
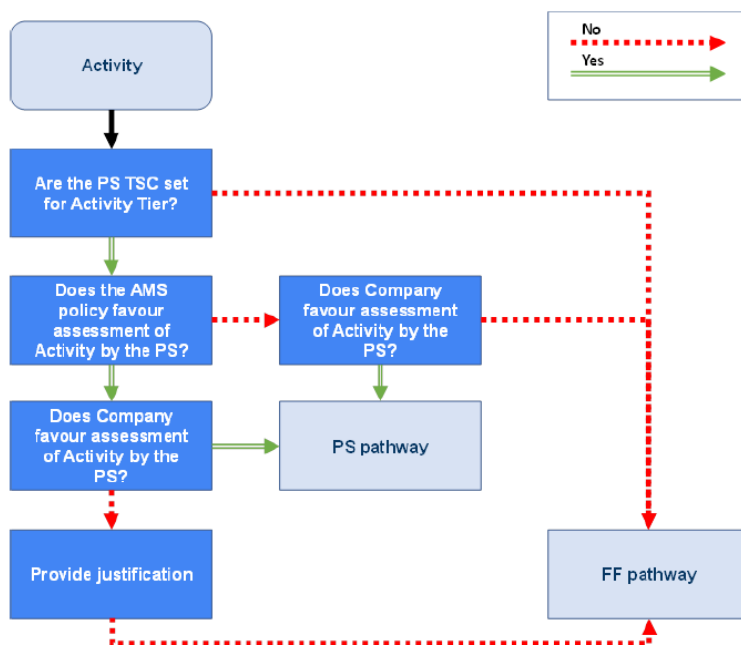
[See Chapter 5.1.2. of the ASEAN Taxonomy Version 3]

10. How is the ASEAN Taxonomy interoperable with other frameworks?

The ASEAN Taxonomy is designed to be interoperable with other widely used international taxonomies, such as the EU Taxonomy for Sustainable Activities and Climate Bonds Taxonomy. It also aligned with procedures under the ASEAN Green Bond Standards, ASEAN Social Bond Standards, and ASEAN Sustainability Bond Standards. For example, the ASEAN Taxonomy Plus Standard's Green Tier is also largely aligned with the EU Taxonomy.

As developers of the national taxonomies of AMS are also represented in the ATB, their respective national taxonomies have been developed alongside or following issuance of the ASEAN Taxonomy, albeit contextualized to meet domestic needs. This also applies to AMS that are developing or have yet to develop their national taxonomies, to facilitate interoperability and avoid fragmentation of sustainable finance frameworks globally.

Among the AMS – Indonesia, Malaysia, Singapore, Thailand and the Philippines have introduced national taxonomies, or consultation papers for their national taxonomies. The framework of these taxonomies is consistent with that of the ASEAN Taxonomy, particularly on key design features such as environmental objectives, essential criteria, classification system, transition imperative and coverage of focus sectors and activities.

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