

PRI RESPONSE

SINGAPORE GREEN FINANCE INDUSTRY TASKFORCE CONSULTATION ON A GREEN AND TRANSITION TAXONOMY

15 March 2023

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To inform this briefing, the following investor group has been consulted: PRI Global Policy Reference Group. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing

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United Nations
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ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the Green Finance Industry Taskforce (GFIT)'s call for feedback on a green and transition taxonomy for Singapore-based financial institutions.

ABOUT THIS CONSULTATION

The GFIT, convened by the Monetary Authority of Singapore (MAS), launched its final public consultation on a [green and transition taxonomy](#) for Singapore-based financial institutions. The consultation seeks views on the detailed thresholds and criteria for the classification of green and transition activities in five sectors, including agriculture and forestry/land use, industrial, waste and water, information and communications technology; and carbon capture and sequestration.

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KEY RECOMMENDATIONS

The PRI welcomes the proposal of the traffic light classification system to differentiate an activity's contribution to climate change mitigation. A key feature of this taxonomy is the thresholds and criteria it sets out for transition activities which allow for a progressive shift towards a net zero outcome. This transition category can potentially allow to include certain economic activities that have a role to play in the energy transition under the proposed taxonomy, without having to label them as inherently sustainable or green activities. However, the PRI would like to provide the following recommendations to improve the consistency, clarity and usability of the proposed taxonomy.

The PRI's key recommendations are:

- **Clearly define the scope of green activities and avoid confusion or inconsistency. Only include activities that are *already* sustainable in the green category, and reconsider including activities that are *on a pathway to net zero by 2050*.**
- **Consistently apply the significant contribution criteria, do no significant harm (DNSH) criteria and minimum social safeguards (MSS) criteria to define what is green, amber and red to make sure that the climate mitigation objective is not achieved at the costs of other key environmental and social objectives.**
- **Confine the application of the traffic light system to those sectors where technology solutions are available (e.g. energy, road transport), and gradually expand the application to other sectors. The PRI also recommends a piloting period for implementing the proposed taxonomy.**
- **The taxonomy should be implemented as part of a broader transition finance strategy, including sectoral transition pathways and frameworks for developing and disclosing transition plans.**

DETAILED RESPONSE

QUESTION 1: GFIT SEEKS FEEDBACK ON THE TRAFFIC LIGHT SYSTEM USABILITY AND EASE OF NAVIGATION AND USABILITY

GREATER CLARIFICATION ON THE SCOPE OF GREEN, AMBER AND RED ACTIVITIES

Under the proposed traffic lights system, classification of green, amber and red activities takes the following approach:

Green activities are those that contribute substantially to climate change mitigation by operating at net zero, or are on a pathway to net zero by 2050.

Amber activities include activities that are not presently on a net zero pathway, but are either:

- a. Moving towards a green transition pathway within a defined time frame; or
- b. Facilitating significant emissions reductions in the short term with a prescribed sunset date.

Red Activities concern activities that are not currently compatible with a net zero trajectory. This means that they should either:

- a. be phased out if emissions (including Scope 3) cannot be reduced (e.g., most fossil fuels), or
- b. reduce emissions (incl. Scope 3) to be in line with a green transition pathway (e.g. high carbon cement producer)

Greater clarification is needed on the following aspects:

The PRI welcomes the GFIT's efforts in establishing the taxonomy with a traffic light system that has a strong focus on accelerating the net-zero transition. PRI and World Bank published the Implementation Guide for Taxonomies of Sustainable Economic Activities which sets out elements of an effective taxonomy. PRI believes that, if designed and implemented appropriately, taxonomies may go beyond sustainable economic activities and include, for instance, economic activities that are needed to enable a transition towards achieving social or environmental goals or economic activities that are inherently harmful.

Such 'extended' taxonomies should always make clear that they are not only identifying sustainable economic activities, and maintain a clear distinction between the different types of economic activities (i.e. sustainable, transition, harmful) so that investors can clearly distinguish the degree to which their investments are or are not contributing to the objectives defined by the taxonomy. For the proposed traffic lights system, however, we would like to highlight some concerns about the lack of clarity which might hamper the usability of the taxonomy.

- **Clearly define the scope of green activities and avoid confusion or inconsistency:**
Activities that are *on a pathway* to net zero by 2050 may include activities that have harmful impacts on the climate change mitigation goal *at the moment*. This contradicts the principle of making significant contribution to the climate change mitigation goal. It is therefore not conceptually consistent to have these two conflicting types of activities under the same category. **The PRI recommends the GFIT reconsider including activities that are *on a pathway to net zero by 2050* into the green category.**
- The proposed traffic lights system does not mention whether green activities should comply with the DNSH it has defined in a separate document, and does not provide clarity on the shape or use of MSS criteria. The PRI believes that to be aligned with a sustainable finance taxonomy, an economic activity must significantly contribute to one of its objectives while doing no significant harm to any of the other objectives. The PRI also believes that for policy consistency, a taxonomy should not promote activities that are contrary to other government policies and international agreements, and to ensure economic activities are aligned with OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human rights. Therefore, **the PRI recommends GFIT to consistently apply the significant contribution criteria, do no significant harm criteria and minimum social safeguards criteria to define what is green, amber and red to make sure climate mitigation objective is not achieved at the cost of other key environmental and social objectives.**
- The line between green, amber, and red categories is not clear. The proposed taxonomy provides that:
 - “Activities that do not comply with green or amber criteria are red, [and] are deemed as doing ‘significant harm’ and therefore not eligible for financing with this taxonomy.”
 - One of the criteria for the amber category is “moving towards a green transition pathway within a defined time frame”.
 - One of the criteria for the green category is for an economic activity to be “on a pathway to net zero by 2050”. As outlined above, PRI recommends to reconsider including this as a criterion for the green category.

In addition, the proposed taxonomy also specified the thresholds for activities to be classified as green, amber and red. However, “moving towards a green transition pathway” refers to a dynamic progress achieved over a period of time rather than meeting a given threshold at one point in time. It is not clear what indicators and process should end-users adopt to conclude a given economic activity is “moving towards” a green transition pathway or deviating from it, and what should be expected if deviation is found after a given activity hit a threshold. It is also not clear if the indicators and net-zero pathways will be reviewed on a regular basis to keep up with technology developments. **PRI recommends the GFIT to provide further guidance that allows users to assess, review and demonstrate if and how an economic activity falls within the amber (i.e., is moving towards green transition pathway) or green (i.e., is on a pathway to net zero by 2050). The PRI also recommends the GFIT to define science-based, technology-neutral and quantified criteria as much as possible.**

A TRAFFIC LIGHT SYSTEM COVERING ALL SECTORS MAY INCREASE THE COMPLEXITY

Adding an amber and red layer potentially is a constructive solution to the challenges the EU taxonomy faced over decisions about the inclusion of certain transition activities with the green taxonomy. But it does increase the complexity and likely administrative cost of potential regulation. It would be challenging to set traffic light thresholds for all of these sectors especially for sectors where the availability of clear transition pathways may be limited. **The PRI recommends that the GFIT confine the application of the traffic light system to those sectors where technology solutions are available (e.g. energy, road transport), and gradually expand the application beyond those sectors. The PRI also recommends a piloting period for implementing the proposed taxonomy.**

BETTER INTEGRATING THE TAXONOMY WITH A BROADER TRANSITION FINANCE STRATEGY AND POLICYMAKING

In order for the proposed taxonomy to be effective, it should be integrated into a broader transition finance policy strategy, which includes setting out clear sector roadmaps and frameworks for developing and disclosing transition plans.

- Sector roadmaps will inform which economic activities are eligible under the proposed taxonomy's green category, and indicate how eligibility will evolve over time.
- Entity-level net-zero transition plans will provide companies' high-level plans, which can be complemented by disclosure of revenues and capex at economic activity level under the proposed taxonomy.

A broader transition finance policy will be particularly relevant for the industry sector under the proposed taxonomy, for which drawing the line between amber and red activities includes:

- The adoption of net-zero transition plan put in place at the company level;
- A measures-based approach – i.e., a list of eligible technologies or green/transition 'measures' that make a substantial contribution to reducing short term emissions.

The PRI recommends that the taxonomy should be implemented as part of a broader transition finance strategy, including sector transition pathways and frameworks for developing and disclosing transition plans. Such a broader framework should set out a clear definition and key metrics of transition plans and provide clear guidance on how to measure taxonomy alignment by assessing the design and implementation of science-based transition plans and sectoral pathway. This would provide helpful guidance for investment decisions and stewardship driving accelerated net-zero transition.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of GFIT and MAS in developing a sustainable finance taxonomy for Singapore and the ASEAN region.

Please send any questions or comments to policy@unpri.org.

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