CONSULTATION RESPONSE

SINGAPORE GREEN FINANCE INDUSTRY TASKFORCE: TAXONOMY PUBLIC CONSULTATION

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PRI Association

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An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

ABOUT THE PRI

The Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI is now a not-for-profit company with over 3,500 signatories (pension funds, insurers, investment managers and service providers) to the PRI's six principles with approximately US $100 trillion in assets under management.

The PRI supports its international network of signatories in implementing the Principles. As long-term investors acting in the best interests of their beneficiaries and clients, our signatories work to understand the contribution that environmental, social and governance (ESG) factors make to investment performance, the role that investment plays in broader financial markets and the impact that those investments have on the environment and society as a whole.

The PRI works to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

ABOUT THIS CONSULTATION

Convened by the Monetary Authority of Singapore, the Green Finance Industry Taskforce (GFIT) is an industry-led initiative to accelerate the development of green finance through four key initiatives: (i) develop a taxonomy (ii) enhance environmental risk management practices of financial institutions (iii) improve disclosures, and (iv) foster green finance solutions. Under the first focus area, the GFIT is exploring the development of a taxonomy for Singapore-based financial institutions, with particular relevance to those active across ASEAN.[1] The document for consultation sets out thinking around the potential development of a taxonomy that classifies activities that can be considered green or in transition, the benefits and risks, and a proposed way forward. The GFIT is particularly interested to hear views on the need for a taxonomy, its environmental objectives, focus sectors, focus on transition, and proposed 'traffic light' classification system for activities within these focus sectors.

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[1] https://abs.org.sg/industry-guidelines/gfit-taxonomy-public-consultation/

PRI'S RESPONSE

The purpose of a sustainable taxonomy is to set a common language between investors, issuers, project promoters and policy makers, and to help investors assess whether investments meet robust sustainability standards and are aligned with high-level policy commitments.

A taxonomy can:

- provide clarity on what is a green – or sustainable – activity, and under which conditions;
- help to measure the degree of sustainability of an investment and of companies' activities, for example, through identifying the proportion of revenues or expenditures which are green, and which are not;
- help investors and companies to plan and report on the transition to a low-carbon, inclusive economy, by setting the objectives and the direction of travel for different economic activities, including when engaging with investees;
- help policy makers to make informed decisions, developing more effective policies consistent with relevant long-term objectives such as the Paris Agreement; and
- provide a shared reference point and encourage collaboration between policy makers, investors and companies.

A taxonomy can to help to increase investments that are consistent with sustainability goals, such as creating a net-zero, resilient and sustainable economy.

Key features of a sustainable taxonomy and policy design considerations are presented in the Policy Toolkit published by the PRI and the World Bank.[2]

Below, we share some feedback on specific questions raised in the present consultation.

Q1. The workstream seeks comments on the useful measures of success, and whether other measures may be considered in addition when evaluating the implementation of a taxonomy.

A key measure of success should be the extent to which the taxonomy redirects capital flows towards more sustainable activities and away from unsustainable activities. The EU Platform on Sustainable Finance has committed to monitor and report on capital flows towards sustainable investments and has set up a subgroup to work on this issue.[3] A report from the UK's Climate Change Committee recently proposed a similar "regular assessment of investment needs and financial flows for climate action in the UK, including net-zero, resilience and a just transition".[4]

Q3. The workstream seeks feedback on potential risk considerations around the development of a taxonomy, including other risk considerations not mentioned in this section.

An additional risk factor is that a broad definition of transition activities could be misleading for investors who may choose to invest in a fund classified as environmentally sustainable with the expectation that investee companies are aligned with the goals of the Paris Agreement and their current emissions are consistent with best practices and the best available technology.

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[2] https://www.unpri.org/policy/regulation-database/policy-and-regulation-toolkit
[3] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance/platform-sustainable-finance_en#subgroups
[4] https://www.theccc.org.uk/

Additional analysis on challenges and solutions in developing a taxonomy are available here:

https://www.unpri.org/eu-taxonomy-alignment-case-studies/testing-the-taxonomy-insights-from-the-pri-taxonomy-practitioners-group/6409.article

Question 7 – The workstream seeks and welcomes feedback on the inclusion of transition fuels such as natural gas in the proposed taxonomy. In particular, the workstream seeks views on whether: a) There are certain types of activities involving transition fuels and chemicals which should be included in the taxonomy- e.g. natural gas, lower emissions shipping, aviation fuel which are blended with fossil fuels, less emissions intensive petrochemicals, and under what circumstances, b) Natural gas could be included as a transition fuel, on an abated basis, and only where it plays a role in materially lowering the carbon emissions of a company (e.g. as it moves away from coal / oil and towards abated natural gas), c) Such inclusion would necessarily need to be accompanied by clear alignment with, and trajectory towards, science-based low-carbon scenarios at a national or international level, alongside investment-specific emissions targets that are necessarily disclosed, and / or d) Abated natural gas could be included as a transition fuel, including where a company is an existing natural gas operator and has no existing coal / oil exposure (i.e. natural gas investment is not part of a transition towards a lower carbon footprint) The workstream welcomes any other views / suggestions on this issue, including: e) Thoughts around the level of abatement or intensity thresholds for natural gas that may be required, and f) The degree to which Nationally Determined Contributions (NDCs) should be included in assessments of transition, or whether alternate transition goals (e.g. other international transition / climate guidance) would be preferable

The PRI recommends that the Taxonomy is used to assess whether an economic activity is aligned with the environmental objectives or not, using science-based, technology neutral, technical screening criteria. To ensure the taxonomy allows for an objective assessment of the environmental sustainability of economic activities no exceptions should be included.

Transition to environmental sustainability should be informed by the taxonomy, but guided by other policy instruments, including real-economy policy reforms, carbon pricing etc.

Question 8 – The workstream seeks specific feedback on four environmental objectives identified, namely: a) Climate change mitigation b) Climate change adaptation c) Protect biodiversity d) Promote resource resilience

The PRI recommends two additional environmental objectives: pollution prevention, and a transition to a circular economy. Both objectives would add valuable contribution to the overall goal of the taxonomy, and ensure, in the context of the do no significant harm clause, that activities that are classified as sustainable do not increased waste generation and air, soil and water pollution.

Q9. The workstream seeks specific feedback on the negative requirements identified, ie that an activity must not:

a) Impose negative impact on communities' social and economic well-being in the long-term

b) Impose negative impact on communities' social and economic well-being, unless the trade-offs can be justified in the long run

c) Breach local laws and regulations

The PRI recommends that, where a Singapore-based financial institution is investing in a market where a separate taxonomy is in place, and where that local taxonomy sets a more stringent threshold for an economic activity to be deemed "sustainable", the financial institution's investments would have to meet this higher standard. This could be a modification of c), or an additional negative requirement.

For example, if a Singapore-based financial institution were to invest in an EU-based energy company, the activities of the company would have to meet the energy generation thresholds set out in the EU taxonomy (where higher than that of Singapore's taxonomy) to be considered as "sustainable" or "green" under Singapore's taxonomy.

Q12. The workstream seeks feedback on the use of a traffic-light system, including suggestions for expansion and granularity in any subsequent taxonomy.

The PRI is concerned with the proposed definition of "yellow" activities. In particular, the proposal to include activities or companies that may not have undertaken any steps to transition but have a long-term plan to do so may undermine confidence in the taxonomy.

At a minimum, a long-term commitment to net zero or another climate goal should not be deemed sufficient to classify a company as "yellow" absent a publicly-disclosed and detailed transition plan. Such plans should be consistent with the principles set out in best practice benchmarks such as the Climate Action 100+ Net-Zero Company Benchmark.[5]

[5] https://www.climateaction100.org/progress/net-zero-company-benchmark/