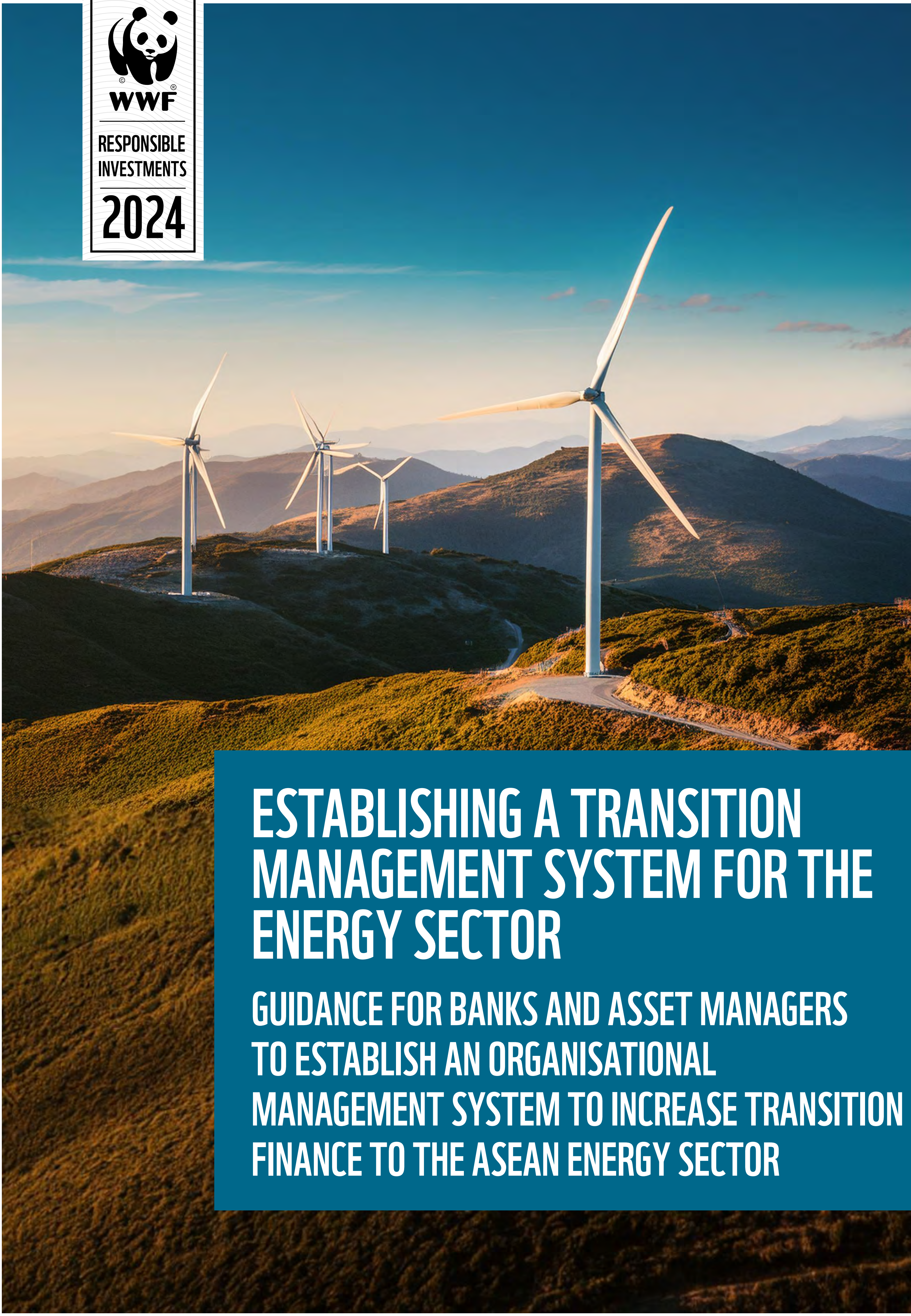
WWF

RESPONSIBLE INVESTMENTS

2024



ESTABLISHING A TRANSITION MANAGEMENT SYSTEM FOR THE ENERGY SECTOR

GUIDANCE FOR BANKS AND ASSET MANAGERS TO ESTABLISH AN ORGANISATIONAL MANAGEMENT SYSTEM TO INCREASE TRANSITION FINANCE TO THE ASEAN ENERGY SECTOR

ACKNOWLEDGMENTS

WWF commissioned 2°Investing Initiative (2DII) to conduct this research. WWF would like to gratefully acknowledge the assistance of colleagues within the WWF network for their valuable input and support in developing this report. We also wish to express our deep appreciation to the 2DII team for their diligent efforts and exceptional work in compiling this guidance report.

ABOUT WWF-SINGAPORE

World Wide Fund for Nature (WWF) is one of the world's largest and most respected independent conservation organisations. WWF's mission is to stop the degradation of the earth's natural environment and to build a future in which humans live in harmony with nature.

As one of WWF's international hubs, WWF-Singapore supports a global network spanning over 100 countries. WWF-Singapore works closely with local stakeholders towards a greener and more sustainable Singapore and the region around us. We work to address key conservation areas, such as climate change, sustainable finance, deforestation, illegal wildlife trade, marine conservation, and sustainable production and consumption, through collaboration, education, and outreach efforts involving the community, businesses, and governments.

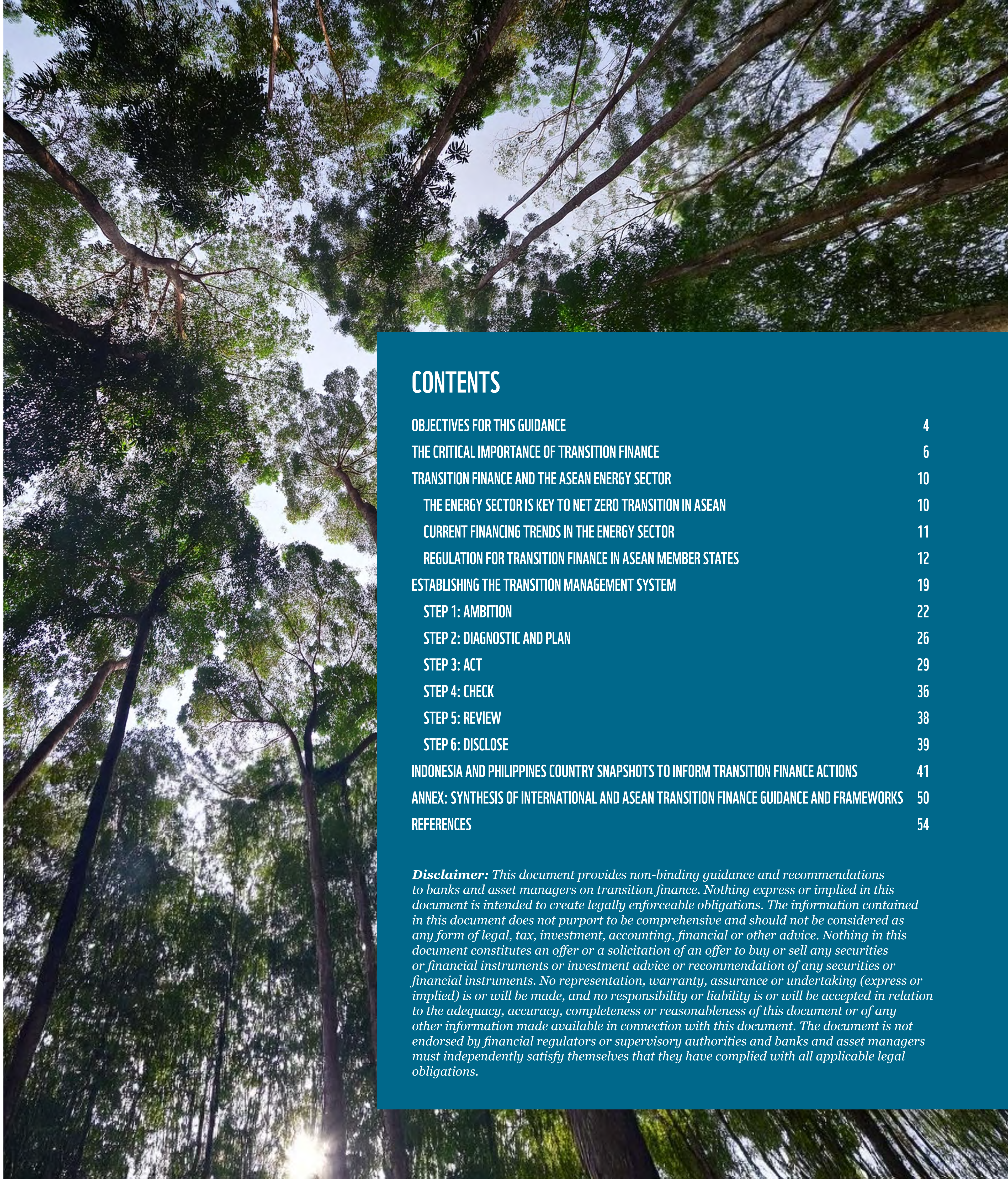
For more information, please visit wwf.sg.

ABOUT 2° INVESTING INITIATIVE

2° Investing Initiative (2DII) is an independent, non-profit think tank working to align financial markets and regulations with the Paris Agreement goals.

2DII coordinates some of the world's largest research projects on sustainable finance. Our team of finance, climate and risk experts develop research, tools, and policy insights to help financial institutions and regulators hasten and adapt to the energy transition.

To ensure our independence and the intellectual integrity of our work, we have a multi-stakeholder governance and funding structure, with representatives from a diverse array of financial institutions, governments and NGOs.



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SECTION 1

OBJECTIVES FOR THIS GUIDANCE

This Guidance is designed to support ASEAN banks and asset managers to increase their transition finance actions and ensure these transition finance actions effectively contribute to the net zero transition of the ASEAN economy by 2050 (referred to in this Guidance as the *net zero transition*).

The Guidance has a primary focus on transition finance to the ASEAN energy sector and reflects WWF network positions on the required energy transition. Revolutionising the energy sector is critical to the net zero transition in the ASEAN region and key to averting the worst effects of climate change. Owing to a high and growing dependency on fossil fuels, there is an urgent need for ASEAN Member States to prioritise fossil fuel phase out (especially for those that are committed to the Paris Agreement) and at the same time there is high potential for clean and renewable energy solutions. However, the Guidance is similarly relevant for increasing transition finance to other economic sectors.

The Guidance articulates a Transition Management System to guide banks and asset managers in defining their best possible transition finance ambition based on available scientific evidence, organisational expertise and capacity and regulatory and commercial constraints. It supports banks and asset managers to implement the necessary steps to meet their transition finance ambition and continuously improve transition finance actions to increase the level of transition finance ambition and clearly communicate to relevant stakeholders.

By adopting a management system approach, this Guidance is tailored to the ASEAN context because it accommodates the variable transition pace expected of real economy corporates in ASEAN Member States. The level of transition finance ambition that the Transition Management System encourages to operationalise is the maximum support for the net zero transition which the financial institution can commit to. This means it also accommodates differing levels of ambition or organisational capacity and expertise by financial institutions in relation to transition finance.

There is a significant body of guidance and frameworks for transition finance – either at international level (through the work of the net zero financial alliances,[1] Network for Greening the Financial System (**NGFS**)[2] and various other market and civil society initiatives) or at ASEAN level through more regionally focussed guidance. This body of guidance and frameworks is continually growing – and while there are significant commonalities between these different guidance and frameworks the volume of content can be difficult to navigate. This Guidance does not seek to generate new technical content – rather it synthesises and signposts this existing body of guidance and frameworks (see various figures throughout the Guidance as well as *Annex: Synthesis of international and ASEAN transition finance guidance and frameworks*) and integrates it into the management system approach reflected in the Transition Management System.

Therefore, what sets this Guidance apart is that it outlines a practical approach which all banks and asset managers can adopt to best use the resources at their disposal to achieve maximum effect in the context in which they operate.

1 The Glasgow Financial Alliance for Net Zero (**GFANZ**) is a global coalition of eight independent net-zero financial alliances whose members have committed to support the transition to net zero by 2050 and help achieve the objectives of the Paris Agreement. The eight sector specific financial alliances are: Net-Zero Asset Owner Alliance (**NZAOA**); Net-Zero Asset Managers initiative (**NZAM**); Paris Aligned Asset Owners (**PAAO**); Net-Zero Banking Alliance (**NZBA**); Net-Zero Insurance Alliance (**NZIA**); Net Zero Financial Service Providers Alliance (**NZFSPA**); Net Zero Investment Consultants Initiative (**NZICI**) and The Venture Climate Alliance (**VCA**).

2 For example, the NGFS has recently published three reports and a cover note exploring the role of transition plans in enabling the financial system to mobilise capital, manage climate-related financial risks, and the relevance of transition plans to micro-prudential supervision.

SECTION 2

THE CRITICAL IMPORTANCE OF TRANSITION FINANCE

This section articulates the concept of transition finance and its critical importance in facilitating the net zero transition as well as its synergies with the more established concept of green finance.

It is imperative that the global economy must transition to net zero by 2050. But according to the UN, the net zero transition is 'one of the greatest challenges humankind has faced'[3] as it will require comprehensive and significant technological and behavioural change across all sectors of the global economy. 'Achieving rapid and deep GHG emission reductions across all sectors globally, and especially in energy-intensive and hard-to-abate sectors [such as steel, chemicals, cement] is paramount to achieving the goal of the Paris Agreement.'[4] And it is critical that all countries, no matter what their level of economic development, are supported by international and regional actors to transition.

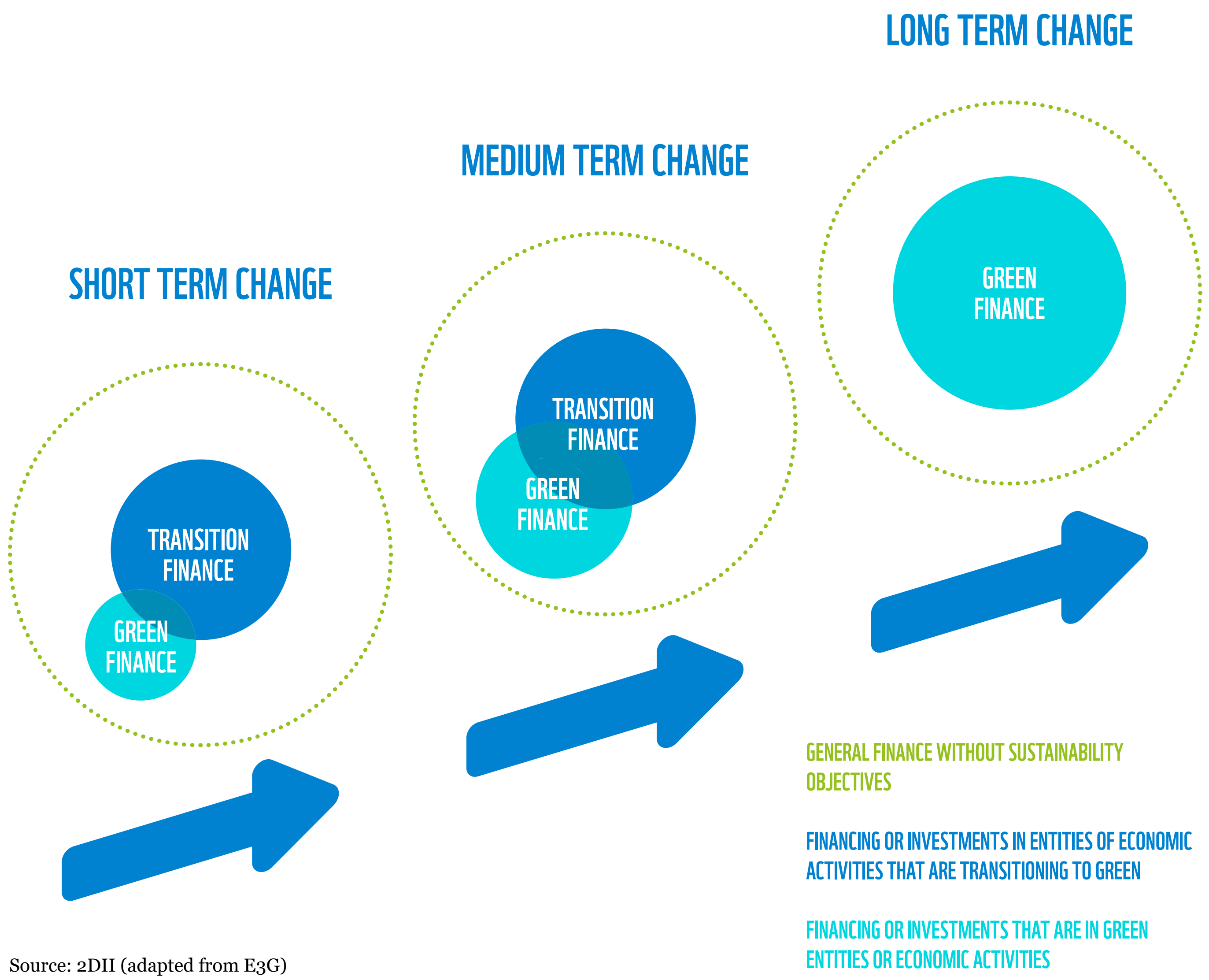
These changes will require significant investment - with some estimates reaching up to US$200 trillion globally between now and 2050.[5] The finance sector is therefore critical to the net zero transition by facilitating the allocation of capital and providing related services. Financial institutions must focus not only on reducing financed GHG emissions but also on financing GHG emissions reductions. Financial institutions should clearly state their support for real economy corporates net zero transitions and commit to their own net zero targets.

This is where transition finance comes in. While there is no commonly agreed definition of transition finance[6], broadly speaking transition finance is financing that supports and enables a global net zero transition through a range of means. It is more than dividing between the clean and dirty businesses of today as the concept of transition finance relates to being on a committed journey to net zero in the future. Transition finance is capital directed where it is most needed to facilitate the transition. This can include financing the development and scaling of climate solutions but also financing carbon-intensive companies which are transitioning towards net zero. Finance that meaningfully advances a client's or investee company's net-zero journey can be considered under the umbrella of transition finance if that client or investee company has a credible transition plan (see *Information Box: Climate transition plans as a key aspect to transition finance planning*).[7]

Transition finance can be considered as a sub-category of sustainable finance which includes: (1) *green finance* of organisations and economic activities already at the performance level considered green; and (2) *transition finance* of organisations and economic activities that supports their transition from any current performance level to a level which can be considered green.

Figure 1 shows that over time as the performance level of organisations and economic activities increases so that they can be considered green, then transition finance is integrated into green finance.

FIGURE 1: RELATIONSHIP BETWEEN TRANSITION FINANCE AND GREEN FINANCE OVER TIME



Source: 2DII (adapted from E3G)

3 UN, 2024, For a liveable climate: Net-zero commitments must be backed by credible action

4 OECD, 2022, Guidance on Transition Finance, Ensuring Credibility of Corporate Climate Transition Plans

5 BloombergNEF, 2022, The $7 Trillion a Year Needed to Hit Net-Zero Goal

6 For example, the UN explains transition finance as aiming to 'mobilise financing and provide forward-looking solutions for a whole-of-economy decarbonisation' while the Glasgow Financial Alliance for Net Zero (**GFANZ**) adopts an expansive definition: 'investment, financing, insurance and related products and services necessary to support an orderly real-economy transition to net zero.' Meanwhile the EU articulates another definition in its Commission Recommendation (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy. These are just a few examples to illustrate the varying definitions which are apparent across the globe.

7 NZBA, 2022, NZBA Transition Finance Guide

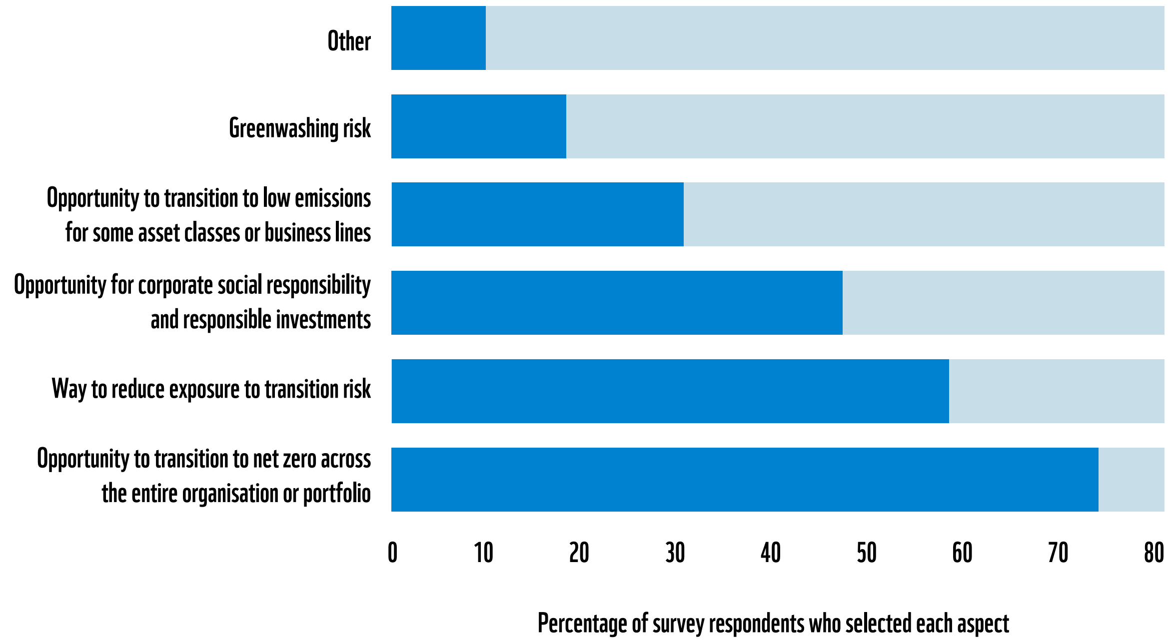
Countries around the globe are pursuing a variety of approaches to identify and designate investments (e.g. specific loan types or capital market issuances with specific features) that align with their domestic priorities while contributing to the net zero transition. These approaches include developing taxonomies of what economic activities can be considered as green or transitioning, developing transition pathways and sectoral roadmaps, issuing high-level guidelines and principles etc. Given the different starting points, geographic contexts, economic structures and growth potentials, no two countries will have identical policy measures.

Up to now, many financial institutions' sustainable finance activities have focussed on orienting capital towards sustainable economic activities (e.g. green finance). International efforts to promote transition finance have not been as effective as hoped and uptake has been slower than expected. This is not just because green finance is a more familiar concept, it is also because of concerns about greenwashing allegations should transition plans be insufficiently credible (and the lack of a common definition of transition finance does not help).

However, the net zero transition requires finance to help currently unsustainable activities transition towards sustainable activities. This represents a huge strategic opportunity for financial institutions as well as a key aspect of managing operational business risks. Indeed several countries have established regulatory mechanisms to increase financial institution transition finance activities.[8]

Figure 2 below illustrates the different aspects of what transition finance can mean for financial institutions themselves.

FIGURE 2: PROFILE OF DIFFERENT VIEWS ON WHAT TRANSITION FINANCE REPRESENTS TO THEM (AS PERCENTAGE OF RESPONDENTS)



Source: 2022 OECD Industry Survey on Transition Finance. Available at: https://www.oecd-ilibrary.org/[9]

8 In the EU, the European Central Bank (**ECB**) has recently stressed the need for banks to have Paris Agreement-compatible transition plans with concrete intermediate milestones and associated KPIs, as part of a bank's strategy-setting and business plan. The ECB also highlighted the need for transparency and appropriate disclosure of banks' transition plans.

9 The number of respondents for this survey was 178 of which 39% accounted for financial market participants while other respondents represented academia, data and service providers, public finance institutions (such as central banks and development banks) non-governmental organisations and other relevant actors. About 58% of the respondents were from Eastern Asia and the Pacific. Multiple answers per respondent were possible.

INFORMATION BOX

CLIMATE TRANSITION PLANS AS A KEY ASPECT TO TRANSITION FINANCE PLANNING

A transition plan articulates how a company will 'take credible, immediate term steps as an effective way of translating the international decarbonisation challenge into a company's operational roadmap to transition its strategy and operations to align with the 1.5°C trajectory recommended in the Paris Agreement.'[10]

As shall be shown throughout this Guidance, transition plans are a key concept which can support transition finance activities. Banks and asset managers can articulate and publish their own transition plans and can analyse those of clients and investee companies to inform their transition finance actions.

There are competing conceptions of the specific details of what should be included in a transition plan. The *Say on Climate* initiative articulates the following key elements of a transition plan (although note that other guidance and frameworks can articulate these constituent components differently):

— Short-term targets required: 5 year and science-based;
— Average absolute Scope 1-3 emissions reduction of 7-8% pa to 2030;
— Phase out fossil fuel use and production, no financing of new supply;
— Executive compensation, strategy and lobbying aligned with plan;
— Necessary capex commitments, R&D for decarbonisation technology
— End deforestation, credible use of offsetting only if strictly necessary;
— Independent auditing of emissions;
— Annual performance reporting to shareholders.[11]

Although transition plans emerged from shareholder engagement on climate issues (and were therefore voluntary) some jurisdictions have established regulatory requirements to develop and disclose a transition plan.

In the EU, the 2022 Corporate Sustainability Reporting Directive[12] (**CSRD**) requires relevant companies[13] to include in the management report 'the plans of the undertaking, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement [...] and the objective of achieving climate neutrality by 2050 [...] and, where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities.'[14] Furthermore relevant companies are required to include 'a description of the time-bound targets related to sustainability matters set by the undertaking, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the undertaking has made towards achieving those targets.'[15] Further assistance for how to comply with this reporting requirement is included in the European Sustainability Reporting Standards[16] (**ESRS**).

10 Say on Climate, 2024, Climate Transition Plans

11 Say on Climate, 2024, Climate Transition Plans

12 Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (which entered into force on 5 January 2023)

13 Large undertakings, and small and medium-sized undertakings, except micro undertakings, which are public-interest entities as defined in point (a) of point (1) of Article 2

14 Art 1(4) CSRD amending Art 19(a) Directive 2013/34/EU

15 Art 1(4) CSRD amending Art 19(a) Directive 2013/34/EU

16 Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards

SECTION 3

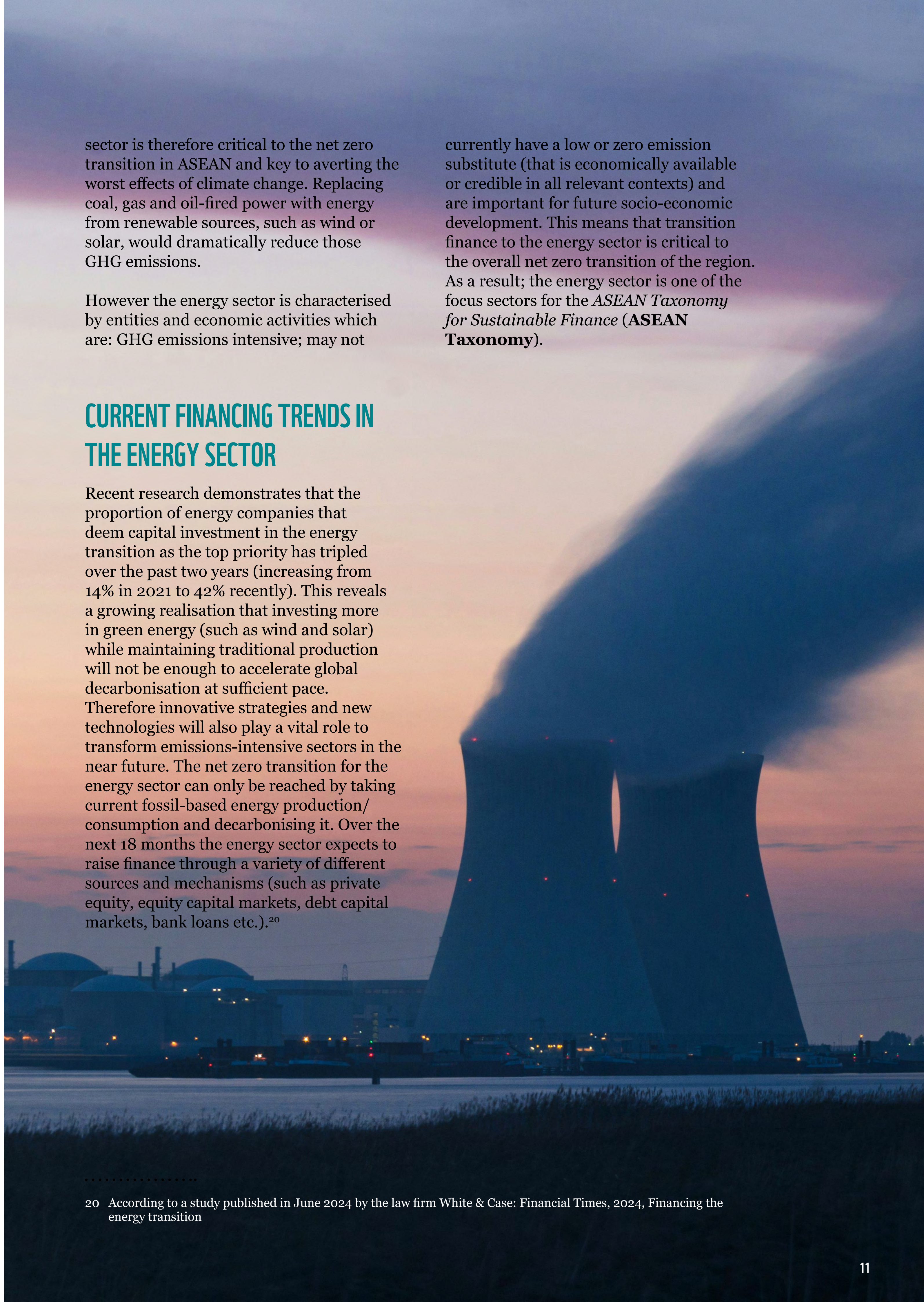
TRANSITION FINANCE AND THE ASEAN ENERGY SECTOR

This section articulates how the energy sector is key to the net zero transition in ASEAN together with current trends in the energy sector in relation to accessing finance. It then discusses the regulatory context in ASEAN Member States to illustrate how it can assist banks and asset managers increase their transition finance actions and ensure the effectiveness of these transition finance actions.

THE ENERGY SECTOR IS KEY TO NET ZERO TRANSITION IN ASEAN

ASEAN is on the frontline of the fight against climate change, and some have claimed that the 'war against climate change will [indeed] be won or lost in Asia.'[17] Southeast Asia will be the fourth largest economic bloc by 2030 and is one of the most at-risk regions. Many of its major cities lie in coastal areas that are subject to typhoons and storm surges, and wildfires and droughts are expected to increase in terms of frequency and severity. Indeed, three ASEAN Member States are among the ten most vulnerable countries to climate change.

In Southeast Asia the energy sector currently accounts for around three-quarters of GHG emissions[18] and was responsible for 6.5% of global energy-related GHG emissions in 2020 (with Asia as a whole the largest current source of emissions in the world). According to the International Energy Agency, coal accounted for around 70% of the increase in global emissions from energy combustion in 2023 (+270 Mt). There is high dependency on coal in Asia and a growing use of gas as a transition fuel. Hence, there is an urgent need for ASEAN Member States to prioritise fossil fuel phase out (especially for those that are committed to the Paris Agreement).[19] Revolutionising the energy



sector is therefore critical to the net zero transition in ASEAN and key to averting the worst effects of climate change. Replacing coal, gas and oil-fired power with energy from renewable sources, such as wind or solar, would dramatically reduce those GHG emissions.

However the energy sector is characterised by entities and economic activities which are: GHG emissions intensive; may not currently have a low or zero emission substitute (that is economically available or credible in all relevant contexts) and are important for future socio-economic development. This means that transition finance to the energy sector is critical to the overall net zero transition of the region. As a result; the energy sector is one of the focus sectors for the *ASEAN Taxonomy for Sustainable Finance* (**ASEAN Taxonomy**).

CURRENT FINANCING TRENDS IN THE ENERGY SECTOR

Recent research demonstrates that the proportion of energy companies that deem capital investment in the energy transition as the top priority has tripled over the past two years (increasing from 14% in 2021 to 42% recently). This reveals a growing realisation that investing more in green energy (such as wind and solar) while maintaining traditional production will not be enough to accelerate global decarbonisation at sufficient pace. Therefore innovative strategies and new technologies will also play a vital role to transform emissions-intensive sectors in the near future. The net zero transition for the energy sector can only be reached by taking current fossil-based energy production/consumption and decarbonising it. Over the next 18 months the energy sector expects to raise finance through a variety of different sources and mechanisms (such as private equity, equity capital markets, debt capital markets, bank loans etc.).[20]

17 ASEAN Capital Markets Forum, 2023, ASEAN Transition Finance Guidance
18 UN, 2024, For a liveable climate: Net-zero commitments must be backed by credible action
19 IEA, 2024, CO2 emissions in 2023

20 According to a study published in June 2024 by the law firm White & Case: Financial Times, 2024, Financing the energy transition

REGULATION FOR TRANSITION FINANCE IN ASEAN MEMBER STATES

ASEAN TAXONOMY

ASEAN Member States and market participants have developed a broad range of guidance and frameworks. However, the regulatory frameworks in ASEAN Member States are generally at an earlier stage of development regarding transition finance, real economy corporate transition plans and related disclosure requirements compared to other jurisdictions across the globe (see *Indonesia and Philippines country snapshots to inform transition finance actions*).

However the ASEAN Taxonomy is a key framework which is designed to assist financial institutions contribute to the net zero transition. This was developed in response to the identified need for a credible sustainable taxonomy, which is interoperable with other regional and international taxonomies, to promote sustainable finance in ASEAN Member States amongst policy makers, the financial sector and real economy.[21 22]

The ASEAN Taxonomy provides the common language for sustainable finance across ASEAN by acting as 'a common building block to enable an inclusive, orderly and just transition and foster sustainable finance adoption by ASEAN member states.'[23] It is:

— being developed progressively (in parallel with taxonomies in other parts of the world, including but not limited to those being developed by the EU, Australia, Canada and South Africa);
— science-based and reviewed periodically to keep up with the global sustainability agenda and technological progress for continued relevance and effectiveness; and
— tailored according to the ASEAN context (i.e. designed to cater to different ASEAN economies, financial systems and transition paths) thanks to a multi-tiered approach.[24]

In common with many taxonomies for other jurisdictions, the ASEAN Taxonomy is non-binding – but it is distinct from other taxonomies through incorporating a transition focus. Previous versions highlighted transitioning away from fossil fuels in energy systems to achieve net zero by 2050 and included guidance on coal phase out which was a global first for a regional taxonomy. The coal phase out criteria is designed to encourage decarbonisation by reducing dependence on coal power in the region. This has been reinforced in the current Version 3 (not yet effective) which further emphasises the importance of transitioning.

The ASEAN Taxonomy allows a choice between using either a principles-based approach or quantitative thresholds or a combination thereof.[25] This multi-tiered approach facilitates inclusivity among ASEAN Member States and allows for different levels of adoption depending on individual readiness.

For the assessment and classification of Activities[26], the ASEAN Taxonomy uses a hybrid approach which includes the principles-based Foundation Framework (**FF**) which is applicable to all ASEAN Member States, and the Plus Standard (**PS**) which allows for a deeper benchmarking of eligible green activities and investments.

21 ASEAN Taxonomy Board, ASEAN taxonomy for sustainable finance, 2024, Version 3
22 Since 2021 three versions of the ASEAN Taxonomy have been published by the ASEAN Taxonomy Board (established under the auspices of the ASEAN Finance Ministers and Central Bank Governors' Meeting in March 2021). Version 3 was released in February 2024 and followed by a stakeholder consultation process to become effective in the future.
23 ASEAN Taxonomy Board, ASEAN taxonomy for sustainable finance, 2023, Version 2
24 ASEAN Taxonomy Board, ASEAN taxonomy for sustainable finance, 2024, Version 3
25 OECD, 2022, Guidance on Transition Finance, Ensuring Credibility of Corporate Climate Transition Plans, Policy Highlights
26 An Activity is defined in the ASEAN Taxonomy as an action and not as the assets used to perform that action. Any Activity can be assessed under the FF, even if it is not listed in the ASEAN Taxonomy Annex.

Principles-based assessment of Activities (FF): The FF was developed based on the principles of inclusivity and is intended as a starter assessment approach for ASEAN Member States. This principles-based approach allows Activities to be assessed and classified as Green, Amber or Red by using qualitative guiding questions despite challenges in availability and accessibility of data.

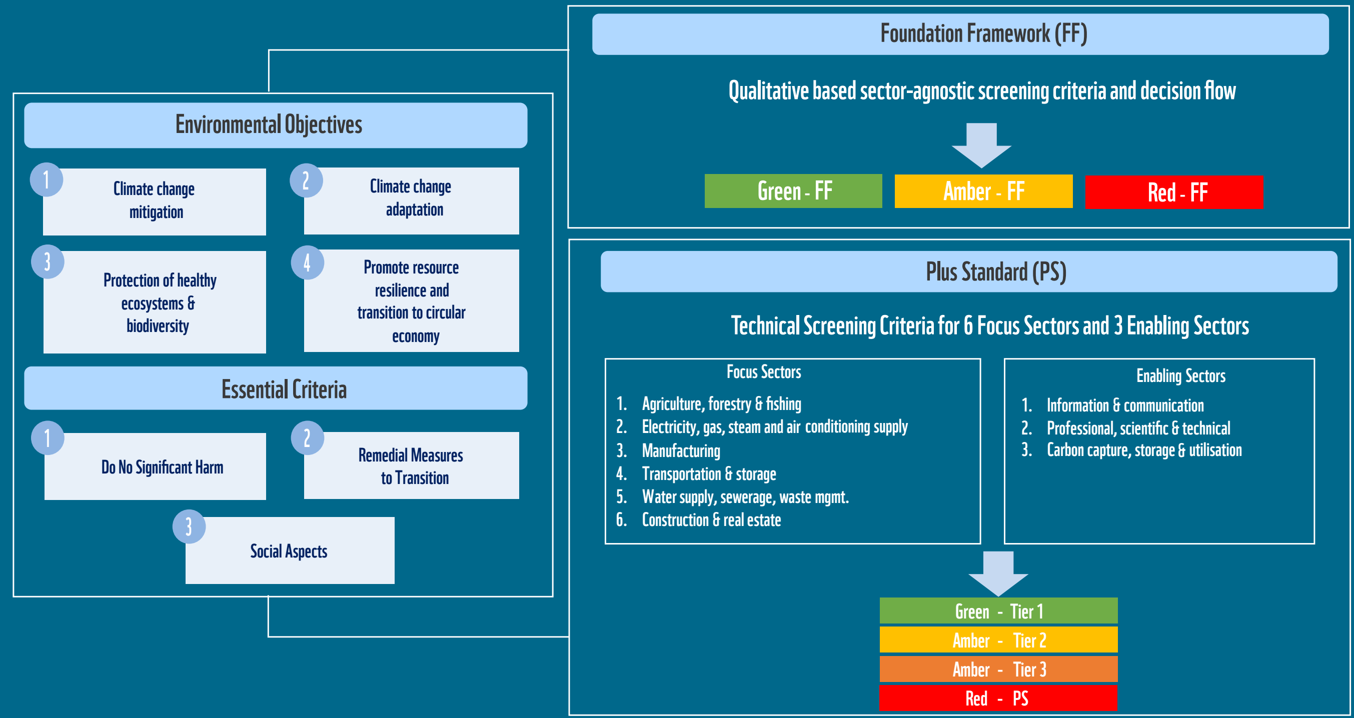
This colour-coded classification system represents different levels of contribution to an Environmental Objective (**EO**) by the Activity:

— The Green classification means that the Activity is making a substantial contribution to the EO.
— The Amber classification denotes transitional Activities.
— The Red classification means that the Activity is not aligned to any EO or is causing significant harm to an EO.

Threshold-based and process-or practice-based assessment of Activities (PS): The PS was developed as a more robust form of assessment using both threshold-based (quantitative) and process-or practice-based (qualitative) Technical Screening Criteria (**TSC**).

TSC are defined for a range of Activities and used to classify Activities into three Tiers[27] as either Green (Tier 1) or Amber (Tier 2 and Tier 3) based on their contributions to an EO. The Green tier generally refers, where relevant, to widely used international taxonomies such as the EU Taxonomy. The Amber tiers are transitional tiers and encourage continued progression towards a sustainable future. There is no Tier aligned with Red classification under the PS.[28]

FIGURE 3: STRUCTURE OF THE ASEAN TAXONOMY



Source: ASEAN Taxonomy Board, 2024, ASEAN Taxonomy Version 3. Available at: https://www.theacmf.org/images/downloads/pdf/ASEAN-Taxonomy-Version-3.pdf

27 Tiers are not used in the FF approach.
28 ASEAN Taxonomy Board, ASEAN taxonomy for sustainable finance, 2024, Version 3

Classification of Activities can also be affected by the Do No Significant Harm (**DNSH**) principal, Remedial Measures to Transition (**RMT**) and the Social Aspects status of the proposed Activities. This applies to both the FF and the PS.

The ASEAN Taxonomy is therefore a key tool that can support ASEAN financial institutions increase their transition finance actions and improve the effectiveness of these transition finance actions (as well as sustainable finance more broadly).

FIGURE 4 IDENTIFIES DIFFERENT WAYS IN WHICH THE ASEAN TAXONOMY CAN BE USED TO SUPPORT INVESTMENT AND LENDING ACTIVITIES.

BANKS	POTENTIAL USE CASE	ASSET MANAGERS
Taxonomy used as a reference for bond green credentials to guide investment decisions.	Bond issuance	Taxonomy applied in the process of issuing green bonds and reportung on bond sustainability credentials.
Taxonomy applied in the process of designing sustainable investment funds and assessing suitability to receive green funding.	Identifying sustainable investes	Taxonomy applied in the process of making investment decisions for capital held and for reporting on green credentials of the portfolio.
Taxonomy applied in the process of designing green debt investment funds and assessing suitability to receive green funding.	Developing sustainable lending products or identifying eligible borrowers.	Taxonomy applied in the process of designing green loan products such as mortgages for sustainable housing or loans for low-emission cars as well as identifying eligible borrowers for green funds.
Taxonomy applied in defining ESG benchmarks to track in the design of sustainable investment funds.	Definition of ESG benchmarks indices and identification of constituents.	Taxonomy applied in defining ESG benchmarks for investment management.
Taxonomy used as a reference for evaluation of company performance including financials, risk governance and sustainability performance.	Corporate sustainability reporting.	Taxonomy applied in the due diligence process when vetting counterparties as well as for portfolio sustainability assessments.
Taxonomy alignment reported to demonstrate sustainability credentials of portfolios and financial products to reduce possibilities of greenwashing, improve competitiveness and risk management.	Financial Market participant sustainability reporting.	Taxonomy alignment reported to demonstrate sustainability credentials of financial products to reduce possibilities of greenwashing.
Taxonomy used as a reference to adapt to changing investor preferences and regulations (such as ESG) when considering investments.	Transition finance.	Reporting done on alignment with the Taxonomy to assess environmental risks associated with lending activities and disclose impacts to customers and stakeholders.

Source: ASEAN Taxonomy Board, 2024, ASEAN Taxon omy Version 3. Available at: https://www.theacmf.org/images/downloads/pdf/ASEAN-Taxonomy-Version-3.pdf

he ASEAN Taxonomy has also influenced the development of national taxonomies in ASEAN Member States. All ASEAN Member State national taxonomies released to date[29] have incorporated transition activities and related guidance in their respective documents – and two have also provided coal phase out guidance in their respective taxonomies. There is also considerable effort to ensure alignment of key design elements including thresholds for relevant activities between the ASEAN Taxonomy and these national taxonomies.[30] [31] [32]

DISCLOSURE REQUIREMENTS

Alongside the ASEAN Taxonomy, disclosure requirements are similarly important for creating transparency and enabling key information from real economy corporates to be evaluated by financial institutions for the purpose of transition finance planning.

Despite the high ambition of the ASEAN Taxonomy, there is a risk that the regulatory framework which operates in some ASEAN Member States may not require mandatory disclosure of information which is relevant to support transition finance activities. Different national jurisdictions may have different regulatory frameworks in relation to disclosure of information which is relevant to the transition activities of a client/investee company. This results in fragmented and unharmonised information for banks and asset managers with operations spanning several jurisdictions. There may be no regulatory requirements that relate to mandatory disclosure of transition plans (see *Information Box: Climate transition plans as a key aspect to transition finance planning*).

However, use of the International Sustainability Standards Board's (**ISSB**) Standards *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* is common in ASEAN Member States.[33] IFRS S2 contains several provisions which are relevant to transition planning although it does not require *mandatory* disclosure of a transition plan (see *Information Box: Summary of IFRS S1 and IFRS S2 disclosure requirements).*

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29 Such as the Indonesia Taxonomy for Sustainable Finance (ITSF), the Philippine Sustainable Finance Taxonomy Guidelines (SFTG) as well as Thailand Taxonomy and the Singapore Asia Taxonomy.

30 Indonesia Financial Services Authority, 2024, Indonesia Taxonomy for Sustainable Finance

31 Bangko Sentral NG Pilipinas, 2024, Circular No 1187, Subject: Philippine Sustainable Finance Taxonomy Guidelines

32 ASEAN Taxonomy Board, 2024, ASEAN Taxonomy Version 3

33 Although whether use of these standards if a formal regulatory requirement or a recommendation is variable.

INFORMATION BOX

SUMMARY OF IFRS S1 AND IFRS S2 DISCLOSURE REQUIREMENTS

IFRS S1 GENERAL REQUIREMENTS FOR DISCLOSURE OF SUSTAINABILITY-RELATED FINANCIAL INFORMATION

IFRS S1 requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term (collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects').

IFRS S1 prescribes how an entity prepares and reports its sustainability-related financial disclosures. It sets out general requirements for the content and presentation of those disclosures so that the information disclosed is useful to users in making decisions relating to providing resources to the entity.[34]

IFRS S2 CLIMATE-RELATED DISCLOSURES

IFRS S2 requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term (collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects').

IFRS S2 applies to:

- climate-related risks to which the entity is exposed, which are:
  - climate-related physical risks; and
  - climate-related transition risks; and
- climate-related opportunities available to the entity.

IFRS S2 requires an entity to disclose information that enables users of general-purpose financial reports to understand:

- the governance processes, controls and procedures the entity uses to monitor, manage and oversee climate-related risks and opportunities;
- the entity's strategy for managing climate-related risks and opportunities;
- the processes the entity uses to identify, assess, prioritise and monitor climate-related risks and opportunities including whether and how those processes are integrated into and inform the entity's overall risk management process; and
- the entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set and any targets it is required to meet by law or regulation.[35]

IFRS S2 includes several provisions that are relevant to transition planning including the requirement in paragraph 14(a)(iv) that an entity disclose information about any climate-related transition plan it has including information about key assumptions used in developing its transition plan, and dependencies on which the entity's transition plan relies.

However beyond this requirement (and the definition of a climate-related transition plan as '[a]n aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions') there are no specific content requirements. And it should also be noted that a requirement to disclose information about any climate-related transition plan the entity *has*, is *not a mandatory requirement* to disclose a climate-related transition plan (if the entity does not have a climate-related transition plan it is not required to disclose one).

34 IFRS Foundation, 2024, IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information
35 IFRS Foundation, 2024, IFRS S2 Climate-related Disclosures

WWF NETWORK POSITION ON ENERGY TRANSITION

Since 2011, the WWF network's general position has required a transition to 100% clean renewable energy and energy efficiency no later than 2050. WWF's Global Energy Policy Framework[36] urges action in five areas:

1. energy demand must be cut through energy efficiency and self-sufficiency;
2. fossil fuels must be phased out;
3. energy systems must be powered by renewable energy only;
4. all energy use, including transport, industry and heating, must be electrified; and
5. where electrification with renewables is not possible today, innovative renewable energy solutions must be developed.

The WWF network has adopted a position on phase-out of coal[37] (thermal coal and lignite) since 2015. This led to the initiative known as REpowering Asia.[38] WWF works through international climate negotiations, national policy discussions and local on-the-ground initiatives to advocate for the urgent phase-out of all fossil fuels. The WWF network regularly reviews its policy positions which are updated to consider new scientific and regulatory developments.

Technology and finance cooperation mechanisms between nations must be part of the transition and integrated into any future international climate treaty to accelerate the transition from coal to clean renewables and energy efficiency in both the developed and developing world. The transition pathway will vary from country to country owing to different geographic, political and economic contexts.

36 WWF, 2023, Global Energy Policy Framework
37 WWF, 2015, WWF Policy briefing paper - coal and climate
38 REpowering Asia is an Impact Initiative as part of WWFs global Climate and Energy Practice: Over a five-year period, the initiative's goal is to significantly reduce, and ultimately completely stop public finance for new coal and accelerate the shift towards renewables in Asia. REpowering Asia initiative focuses on driving systemic change in public overseas finance for the power sector in the major 'supply' countries of China and South Korea and reducing demand for new coal by accelerating the transition to renewable energy in the 'demand' countries of Indonesia, Vietnam, the Philippines and Myanmar.

WWF NETWORK POSITION ON FOSSIL FUELS AND RENEWABLE ENERGY

(ACCORDING TO WWF'S GLOBAL ENERGY POLICY FRAMEWORK)

Global energy transition to 100% clean renewable energy and energy efficiency: Phase-out of coal to transition to 100% renewable energy.

Developed countries should rapidly transition to renewables, while developing countries should 'leapfrog' fossil fuels (coal, oil and gas) and power their development with renewables.

During the transition period, existing fossil fuel infrastructure, particularly power plants, should be retired as soon as adequate alternatives come online, ensuring that baseload energy supply remain uninterrupted.

MAIN RECOMMENDATIONS ON FOSSIL FUEL PHASE-OUT AND TRANSITION TO RENEWABLE ENERGY

- High- and upper-middle income countries need to end oil and gas extraction by 2040 at the latest and low-income countries should end extraction by 2050.[39]
- Countries should define clear plans with targets and timelines for fossil fuel phase out.
- Phase out and repurpose all subsidies for fossil fuel (coal, oil, and gas) production and consumption to support increased energy efficiency and deployment of renewable energy.
- No new investment in coal production or development of oil and gas reserves.
- Ban exploration for new oil and gas reserves.
- Phase out coal power stations, regardless of the duration of licences and economic life span of the installation.
- No new infrastructure for production, refining, transport or use of oil and gas (including power plants) that produce emissions exceeding the carbon budget aligned with the 1.5°C threshold.
- Ban methane flaring/venting immediately.
- Policies must encourage the active phase out of coal using experience from countries that have already adopted associated measures.
- In the transport sector, promote conversion to electric vehicles with associated supplies of renewable energy.
- Facilitate the identification of appropriate sites for wind and solar technologies.
- Raise the profile of benefits associated with the transition to renewable energy including reduced social and environmental impact and benefits for human health.
- Highlight the low level of disruption to biodiversity from renewables compared to fossil fuels.
- Highlight the economic benefits of wind and solar as low-cost forms of energy.
- Raise awareness of all energy-related stakeholders including users, suppliers and financiers regarding the potential for utility-scale wind and solar installation worldwide.

39 For specific WWF network position on transition away from oil and gas see WWF, 2021, The transition away from oil & gas: a WWF network policy position

SECTION 4

ESTABLISHING THE TRANSITION MANAGEMENT SYSTEM

This section summarises the six steps of the Transition Management System and includes a synthesis of international and ASEAN guidance and frameworks which relate to transition finance.

The Transition Management System introduced in this Guidance will enable banks and asset managers to leverage their strengths to actively support the net zero transition in ASEAN. It specifically guides banks and asset managers in defining their best possible transition finance ambition based on available scientific evidence, organisational expertise and capacity and regulatory and commercial constraints. It supports banks and asset managers implement the necessary steps to meet their transition finance ambition and continuously improve transition finance actions to increase the level of transition finance ambition and clearly communicate accurately to relevant stakeholders. In short the Transition Management System outlines a practical approach which all banks and asset managers can adopt, no matter what their starting point is, to best use the resources at their disposal to achieve maximum effect in the context in which they operate.

The Transition Management System reflects a management system approach[40] and therefore focusses on the framework and processes which banks and asset managers should establish rather than prescribing a specific output. Figure 5 below illustrates a broad overview of this management system approach and the six steps established therein.

40 2DII has previously developed a management system approach to support financial institutions increase impact finance activities. In 2021, 2DII and the French Ecological Transition Agency (**ADEME**) developed the Climate Impact Management System (**CIMS**) tool which provides financial institutions with clear guidelines to devise, refine and communicate about impactful climate strategies. The CIMS tool was developed through incorporating feedback from global financial institutions during a consultation period and various pilot testing initiatives. It builds on existing standards and frameworks such as ISO14097 and 14001, the Eco-Management and Audit Scheme (**EMAS**), and the Impact Management Project's framework, and references various tools and guidance documents that can further assist financial institutions in setting up evidence-based climate strategies.

FIGURE 5: THE TRANSITION MANAGEMENT SYSTEM FOR BANKS AND ASSET MANAGERS

STEP 1

Ambition Define the level of transition finance ambition and associated targets for the transition finance strategy

STEP 2

Diagnostic and Plan Assess the current transition finance performance of the loan book/portfolio and identify internal and external constraints which influence what transition finance actions can be implemented

STEP 3

Act Implement the transition finance actions in accordance with the Plan

STEP 4

Check Track the transition finance actions implemented to monitor the transition finance performance of the loan book/portfolio

STEP 5

Review Establish a cycle of continuous improvement for the transition finance strategy

STEP 6

Disclose Communicate to ensure regulatory compliance and facilitate peer learning

INFORMATION BOX

ENSURING THE RIGHT GOVERNANCE ARRANGEMENT

Successful integration of the Transition Management System at a bank or asset manager requires leadership commitment and clear allocation of responsibility. Effective corporate governance is critical for a financial institution to effectively implement the Transition Management System across the business, manage ambition and disclosure processes, strengthen relations with external stakeholders and ensure overall accountability.

There is no one size fits all corporate governance structure which is optimal for each financial institution. The approach must be tailored to the specific business model, existing organisational structure and capacity and ambition in relation to transition finance. However common aspects of effective corporate governance structures are:

- ***Top-down commitment:*** Commitment to the transition finance ambition and targets from the leadership of the institution will secure the best chance of success. Reporting to leadership can help demonstrate the institution is serious about meeting its transition finance ambition and targets and provides the capital for implementing the procedural steps in the Transition Management System. Oversight by the board of directors can be through a dedicated board committee or across several board committees and can be an important mechanism for educating the board and leveraging the top-down commitment.
- ***Clearly established accountability:*** Accountability should ensure that the transition finance ambition and targets sit alongside other business goals. A cross functional committee that engages across business divisions, geographic regions and functions is required to ensure comprehensive and thorough implementation of transition finance ambition and targets and the necessary transition finance actions. Integrating transition finance related performance metrics into employee performance reviews and compensation can be a useful internal incentive mechanism to ensure the requisite attention.
- ***Integration with existing corporate governance structure:*** Aligning or complementing existing business model and organisational structures will be more likely to be effective compared to introducing additional or competing structures. A governance structure for execution of the Transition Management System should be integrated into existing oversight and decision-making processes.

The corporate governance structure for transition finance should be reflected in the relevant disclosure requirements the financial institution is subject to (see *Step 6: Disclose)*. But irrespective of the regulatory requirements these disclosures should ideally cover the processes to ensure board oversight of activities and monitor progress against targets as well as management's role in implementation. These disclosures provide insights into whether the financial institution has implemented the necessary measures to ensure the success of the ambition and targets for transition finance. They are therefore critical to assessing the credibility of the transition finance ambition and targets and should form part of any financial institution's disclosures in relation to its own transition plan.

STEP 1: AMBITION

Define the level of transition finance ambition and associated targets for the transition finance strategy

The first step of the Transition Management System is to define the level of transition finance ambition for the transition finance strategy to be developed. The level of transition finance ambition that the Transition Management System encourages to operationalise is the maximum support for the net zero transition which the financial institution can commit to. In this first step of the Transition Management System, the financial institution should articulate the transition finance ambition in a dedicated document which should form a key part of public disclosures (see *Step 6: Disclose*) to send a clear message to clients and investee companies of the financial institution's support for real economy companies' net zero transition (therefore incentivising clients and investee companies to commit to net zero targets and develop credible transition plans).[41]

As a concept, defining the level of transition finance ambition is closely related to climate target setting for financial institutions. Most guidance on climate target setting for financial institutions is developed in the context of the net zero financial alliances.[42] This body of guidance is therefore focussed on assisting financial institutions develop and implement net zero targets where the term 'net zero' refers to 'a state wither anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals.'[43] Transition finance ambition need not amount to a net zero target (but in most international transition finance guidance and frameworks, financial institutions are encouraged to set a net zero target as part of their transition finance strategy). For reasons explained elsewhere in this Guidance, for many ASEAN banks and asset managers, the business model, commercial and operational context and existing loan book/portfolio may mean that defining a credible net zero strategy is not possible at this stage. But the core purpose of transition finance is to reduce GHG emissions across all scopes at client/investee company level to contribute to macro level GHG emissions reduction in the real economy. Therefore, it is entirely possible to set a transition finance ambition even in the absence of a net zero climate target.

As a result, guiding principles for net zero target setting can be informative for setting transition finance ambition and associated targets. Below are key principles which are apparent in different climate target setting approaches which can inform financial institutions when defining the level of transition finance ambition and associated targets.[44] These key principles are reflected throughout the remaining steps of the Transition Management System.

41 Note that disclosure of the transition finance ambition is a key supporting activity for the impact mechanism: signalling that impact matters (see *Information Box: Impact in the real economy*).

42 The Glasgow Financial Alliance for Net Zero (**GFANZ**) is a global coalition of eight independent net-zero financial alliances whose members have committed to support the transition to net zero by 2050 and help achieve the objectives of the Paris Agreement. The eight sector specific financial alliances are: Net-Zero Asset Owner Alliance (**NZAOA**); Net-Zero Asset Managers initiative (**NZAM**); Paris Aligned Asset Owners (**PAAO**); Net-Zero Banking Alliance (**NZBA**); Net-Zero Insurance Alliance (**NZIA**); Net Zero Financial Service Providers Alliance (**NZFSPA**); Net Zero Investment Consultants Initiative (**NZICI**) and The Venture Climate Alliance (**VCA**).

43 NZBA, 2022, NZBA Transition Finance Guide, p.7.

44 The principles in Figure 6 are based on the Key Principles articulated in NZBA, 2024, Guidelines for Climate Target Setting for Banks but can be interpreted as of broad application for banks and asset managers.

FIGURE 6: KEY PRINCIPLES TO INFORM THE LEVEL OF TRANSITION FINANCE AMBITION AND ASSOCIATED TARGETS

LEVEL OF AMBITION

- Targets should reflect maximum support for the net zero transition which the financial institution can commit to. The target should be science based and as far as possible should align with a goal to limit global warming to 1.5°C above the preindustrial average by the end of the century.

TIMESCALES

- Targets should be set for 2030 (or sooner) and 2050. Further intermediate targets should be set at least every five years after the initial intermediate target. As each subsequent intermediate target year is approached, the next intermediate five-year target shall be set.

CONTEXT

- Targets should consider any internal and external constraints such as limited data availability, availability of relevant methodologies, regulatory requirements and commercial sensitivities (see Step 2: Diagnostic and Plan). Targets should be sector specific and consider where sector emissions and/or financial exposures are significant. Specific targets in relation to finance to the energy sector should reflect the WWF network positions (see WWF network position on the energy transition).

IMPACT IN THE REAL ECONOMY

- Targets should focus on maximising the impact in the real economy in preference to simply winding down exposure to specific economic sectors. See Information Box: Impact in the real economy.

GOVERNANCE

- Targets should be approved by the highest leadership team in the financial institution and be reviewed by the governance body that provides oversight of strategic planning. Performance against targets should be reviewed every year. See Information Box: Ensuring the right governance arrangement.

DISCLOSURE

- Financial institutions should publicly disclose their targets and report annually on progress even in the absence of regulatory requirements mandating this information. Where possible, financial institutions should disclose information to facilitate peer learning. See Step 6: Disclose.

INFORMATION BOX

USE OF SCENARIOS

Climate target setting should be based on widely accepted science-based decarbonisation scenarios which are aligned with a 1.5°C by 2100 outcome. The most relevant scenario/approaches include IPCC scenarios and those derived from IPCC-qualifying models, IEA scenarios and scenarios developed by regulators or sector specific scenarios (if they are expected to align with a net-zero by 2050 goal).

In addition, scenarios should be 'no-overshoot' or 'low-overshoot' scenarios, rely conservatively on negative emission technologies and have science-based assumptions on carbon sequestration achieved through nature-based solutions and land use change.

FIGURE 7: OVERVIEW OF FRAMEWORKS AND GUIDANCE FOR CLIMATE TARGET SETTING BY FINANCIAL INSTITUTIONS[45]

NET-ZERO BANKING ALLIANCE, 2024, GUIDELINES FOR CLIMATE TARGET SETTING FOR BANKS VERSION 2

- Guidelines for banks to set and assess climate targets aligned with net-zero emissions by 2050 which emphasise the importance of robust, science-based targets, independent decision-making and regular reviews to ensure consistency with climate science.

NET-ZERO ASSET OWNER ALLIANCE, 2024, TARGET-SETTING PROTOCOL (FOURTH EDITION)

- Consolidates all pertinent information for NZAOA members to set, implement and report on climate targets. It includes detailed protocols for different sectors and emphasises the need for interim targets and regular progress reporting.

UNEP FI, 2023, CLIMATE ADAPTATION TARGET SETTING

- Provides guidance to help banks set climate adaptation targets and incorporate adaptation factors in bank transition plans using the Principles for Responsible Banking Framework.

IIGCC, 2023, NET ZERO INVESTMENT FRAMEWORK: IIGCC'S SUPPLEMENTARY GUIDANCE ON TARGET SETTING

- Guidance to support asset owners and asset managers utilising IIGCC's Net Zero Investment Framework to establish their targets in line with the Paris Aligned Asset Owners commitment and the Net Zero Asset Managers initiative commitment. The guidance covers asset level target setting and portfolio level target setting.

SCIENCE BASED TARGETS, 2022, FOUNDATIONS FOR SCIENCE-BASED NET-ZERO TARGET SETTING IN THE FINANCIAL SECTOR AND THE SBTI FINANCIAL INSTITUTIONS NET-ZERO STANDARD (SUBJECT TO CONSULTATION)

- Constructs a conceptual framework for setting and evaluating financial institution net-zero targets and aims to clarify key concepts without providing definitive criteria or detailed guidance.

45 Note that this overview of frameworks and guidance for climate target setting includes those directed at asset owners – but these can be informative for banks and asset managers.

INFORMATION BOX

IMPACT IN THE REAL ECONOMY

Financial institution impact relates to a causal, demonstrable relationship between a financial institution's action and a real-world change (e.g. a reduction in GHG emissions by the client or investee company). Many other factors beyond the financial institution's actions can also affect the activities of clients and investee companies (e.g. consumer pressure, regulation etc.) but the financial institution's impact is the share of the observed change at client/investee company level that was caused by the financial institution's actions.

By way of example, exiting or divesting from carbon-intensive sectors may sound like a simple way for a financial institution to lower its financed emissions and meet climate targets. However, this may not lead to impact in the real economy because exiting or divesting from carbon-intensive sectors leaves the client or investee company free to seek funding from other financial institutions (that may not have climate targets) and therefore carry on their business practice as before with no reduction in GHG emissions in the real economy. If the GHG emissions of the real economy reach zero, then the financial institution's financed emissions will similarly reach zero – but the reverse is not true. Therefore, existing or divesting from carbon intensive sectors for any single financial institution on its own will not reduce GHG emissions in the real economy.

Having impact in the real economy implies making an additional change (i.e. that would not have occurred otherwise) through an additional action (i.e. that would not have been done by someone else). Such an additionality criterion may be hard to meet, especially when actions are performed through secondary markets. But, even in primary markets additionality is not ensured. For instance, at issuance financial instruments central for transition finance (e.g. use-of-proceeds or KPI-linked bonds) may be oversubscribed. Therefore, in such a context the purchase of those instruments would not translate to additional financing for transition but would only lead to the substitution of one market participant by another.

There is now general acceptance[46] that there are four main impact mechanisms available to financial institutions:

- ***Active engagement:*** Financial institutions can use their privileged position to influence the companies they are invested in through different means (voting at shareholder meetings, dialogue with management, taking board seats etc.).
- ***Growing new or undersupplied capital markets:*** Financial institutions can make a difference by enabling the growth of impactful companies whose growth is constrained by limited access to external financing.
- ***Providing flexible capital:*** Financial institutions can help impactful companies by offering beneficial financing, for instance by accepting below-market returns, taking subordinated debt or equity or agreeing on custom-made exit terms.
- ***Signalling that impact matters:*** Financial institutions can send market and non-market signals that they are committed to impact. If many financial institutions send the same market signals through investments and divestments based on sustainable screening, this can contribute to change the conditions to access capital in financial markets for clients and investee companies. Financial institutions can also send signals that do not directly affect financial markets but may influence stakeholders through stigmatisation (publicly stating opposition to certain companies or industries), endorsement or benchmarking (passively applying benchmark portfolios of companies with the highest sustainability performance) etc.

Financial institution investment strategies can mobilise one or more of the above identified impact mechanisms.[47]

46 In academic research and through the work of the Impact Management Project.

47 Please refer to the research programme from 2° Investing Initiative for the latest research and analysis in relation to the financial institution impact.

STEP 2: DIAGNOSTIC AND PLAN

Assess the current transition finance performance of the loan book/ portfolio and identify internal and external constraints which influence what transition finance actions can be implemented

The second step of the Transition Management System is to assess the current actions of the loan book/portfolio and identify what transition finance actions will be taken to meet the transition finance ambition established in *Step 1: Ambition*.

ASSESS THE CURRENT TRANSITION FINANCE PERFORMANCE OF THE LOAN BOOK/PORTFOLIO

As set out earlier in this Guidance, there is no commonly agreed definition of transition finance, but it should be broadly understood as financing that supports and enables a global net zero transition through a range of means. Financial institutions should therefore clearly articulate a conception of transition finance which is aligned with the emerging consensus to define a framework for assessing what financial assets and/or accompanying financial institution activity can be considered as transition finance for the financial institution. This framework can incorporate additional aspects of the financial institution's operational context and transition finance strategy. For example, a financial institution may articulate a conception for transition finance as satisfying the following criteria:

- Be compatible with a 1.5°C trajectory, established by science.
- Meet all environmental and social standards articulated in any management framework of the financial institution.
- Reflect just transition thinking *(see Informationx Box: Just transition thinking)*.

In relation to the energy sector, the conception of transition finance should ensure that it does not contribute to lock-in of carbon intensive assets or constrain the development of low-carbon alternatives.

Once this framework is established the current loan book/portfolio can be assessed against the criteria to evaluate the current transition finance performance of the loan book/portfolio. The framework which is established should be consistent with the transition finance actions identified in *Step 3: Act:*

- Supporting transitioning real economy corporates must be linked to credible transition plans
- Supporting transitioning economic activities through use of specific financial instruments
- Engagement with clients/investee companies to support transition

IDENTIFY CONSTRAINTS

Constraints which impact on the financial institution's ability to implement transition finance actions must be identified as they will influence what transition finance actions are best suited for the financial institution.

Many of these constraints will be specific to the business model, operating context and organisational structure but constraints which are generally applicable in the ASEAN context should also be identified.

FIGURE 8. GENERALLY APPLICABLE CONSTRAINTS FOR IMPLEMENTING A TRANSITION FINANCE STRATEGY IN THE ASEAN CONTEXT

LIMITED DISCLOSURE REQUIREMENTS IN ASEAN REGULATORY FRAMEWORKS

As discussed elsewhere in this Guidance, a key constraint for financial institutions will relate to what information is available as a matter of course from clients and investee companies. Different national jurisdictions have different regulatory frameworks in relation to disclosure of information which is relevant to the transitional activities of a client/investee company. This results in fragmented and unharmonised information for banks and asset managers with operations spanning several jurisdictions. For those jurisdictions which have adopted or recommended IFRS ISSB S1 and S2 standards, compliance with these standards by clients and investee companies may not always reveal targeted and actionable information on their transitioning activities. Measures to address this information deficiency should be a key focus for financial institutions in relation to their transition finance actions *(see Information Box: Market initiatives for disclosure of transition related information - CDP)*.

REGULATORY ENVIRONMENT FOR KEY ECONOMIC SECTORS NEEDS TO STRENGTHEN IN LINE WITH PARIS AGREEMENT OBJECTIVES

ASEAN Member States operate in diverse regulatory environments, with varying levels of commitment and non-interoperable climate policies. This diversity jeopardies regional cooperation and the implementation of unified strategies necessary to meet the Paris Agreement objectives. In many ASEAN Member States, the regulatory framework to enable infrastructure and clean technology to support the large-scale transition to renewable energy is lacking.48 The heavy reliance on coal for energy needs and some national policies that categorise certain specific coal investments49 as part of the green transition undermine efforts to shift to cleaner energy sources and phase out coal. In addition, enforcement mechanisms are often insufficient.

LIMITED NUMBER OF ASEAN REAL ECONOMY COMPANIES WITH TRANSITION TARGETS

As a result of the above constraints, the proportion of ASEAN real economies with net zero targets is reduced compared to other jurisdictions. Research by the ASEAN Capital Markets Forum reveals that just over half of researched ASEAN companies did not have a net zero target and just under half of ASEAN companies did not disclose alignment to any transition pathway.50 In addition, of those companies with net zero targets, only 6 in 10 have explicitly committed to interim targets that illustrate how they intend to align with pathways over time. This means that at present there is a limited supply of real economy corporates and/or economic activities which are easily identifiable as transitioning.

48 WWF, 2021, Mapping Pathways Towards Inclusive And Resilient Linear Infrastructure in ASEAN. Available at: https://asiapacific.panda.org/our_work/people_conservation/mekong_for_the_future/inclusive_and_resilient_linear_infrastructure_in_asean/

49 Green Central Banking, 2024, Indonesia Sparks Criticism with Role For Coal in Green Taxonomy. Available at: https://greencentralbanking.com/2024/02/26/indonesia-coal-power-green-taxonomy/

50 ASEAN Capital Markets Forum, 2023, ASEAN Transition Finance Guidance

FOCUS EFFORTS

Based on the constraints which influence what transition finance actions are best suited for the financial institution, the next step is to identify the main areas to focus efforts. Just as constraints will be specific to the business model, operating context and organisational structure so too will the transition finance actions which are best suited for the financial institution. Accordingly financial institutions should develop their own approach.

GFANZ have developed a framework of key financing strategies for transition finance and evaluation of real economy corporates' transition approaches which financial institutions can use as a tool to focus efforts.

— **(Climate solutions) Financing or enabling entities and activities that develop and scale climate solutions:** This strategy encourages the expansion of low-emitting technologies and services, including nature-based solutions, to replace high-emitting technologies or services, remove greenhouse gases from the atmosphere, or otherwise accelerate the net-zero transition in a just manner.

— **(Aligned) Financing or enabling entities that are already aligned to a 1.5°C pathway:** This strategy supports climate leaders and signals that the financial sector is seeking transition alignment behaviour from the real-economy companies with which it does business.

— **(Aligning) Financing or enabling entities committed to transitioning in line with 1.5°C-aligned pathways:** This strategy supports both high-emitting and low-emitting firms that have robust net-zero transition plans, set targets aligned to sectoral pathways, and implement changes in their business to deliver on their net-zero targets.

— **(Managed phaseout) Financing or enabling the accelerated managed phaseout (e.g. via early retirement) of high-emitting physical assets:** This strategy facilitates significant emissions reduction by the identification and planned early retirement of assets while managing critical issues of service continuity and community interests.

Understanding the resources needed to implement transition finance actions is also paramount. To effectively implement the transition finance actions which are best suited for the financial institution, the required organisational resources and expertise to implement the actions must be clearly identified.

STEP 3: ACT

Implement the transition finance actions in accordance with the Plan

The third step of the Transition Management System is to implement transition finance actions in accordance with the Plan defined in *Step 2: Diagnostic and Plan*. As reiterated throughout this Guidance, the core purpose of transition finance is to reduce GHG emissions across all scopes at client/investee company level to contribute to macro level GHG emissions reduction in the real economy. Therefore, when implementing financing activities, financial institutions should ask themselves two fundamental questions:[51]

— Does the client/investee company have a sufficiently ambitious and credible transition plan?

— Does the financing in question (or accompanying financial institution activity) meaningfully advance the client/investee company transition?

Financial institutions should consider the following key transition finance actions in support of their transition finance strategy.

51 Adapted from NZBA, 2022, NZBA Transition Finance Guidance

BANKS ASSET MANAGERS

SUPPORTING TRANSITIONING REAL ECONOMY CORPORATES MUST BE LINKED TO CREDIBLE TRANSITION PLANS

Across the globe there is an increasing number of regulatory requirements related to disclosure of transition plans. At its core a transition plan articulates how a company will 'take credible, immediate term steps as an effective way of translating the international decarbonisation challenge into a company's operational roadmap to transition its strategy and operations to align with the 1.5°C trajectory recommended in the Paris Agreement.'[52] Clearly a client's or investee company's transition plan is therefore a key consideration for transition finance decision making by the bank or asset manager (see *Information Box: Climate transition plans as a key aspect to transition finance planning*).

Market practice is still developing in relation to what should be included in a transition plan. A key area where expertise needs to develop is in relation to ensuring the *credibility* of a transition plan. Broadly speaking a credible transition plan is contingent on two overarching elements:[53]

— Climate ambition: The presence of a target for net zero emissions by 2050 or at a minimum a sufficiently ambitious decarbonisation trajectory aligned with the objectives of the Paris Agreement and/or the sectoral or jurisdiction decarbonisation pathways in which they operate.

— Ability to Deliver: A robust strategy for activities that will enable progress towards achieving the climate ambition, underpinned by consistent disclosure and monitoring.

Assessing the credibility of a transition plan should therefore be understood as an assessment of the climate ambition and ability to deliver to form a view as to the likelihood that the transition plan will be successful.

Given the nascency of market practice in relation to developing and disclosing transition plans, there is a significant (and ever increasing) number of frameworks and guidance in relation to performing an effective assessment of a transition plan as shown in Figure 9 below.

52 https://www.sayonclimate.org/climate-transition-plans/

53 These two dimensions to the concept of a credible transition plan are referred to in most transition finance frameworks and guidance (albeit the precise terminology may differ).

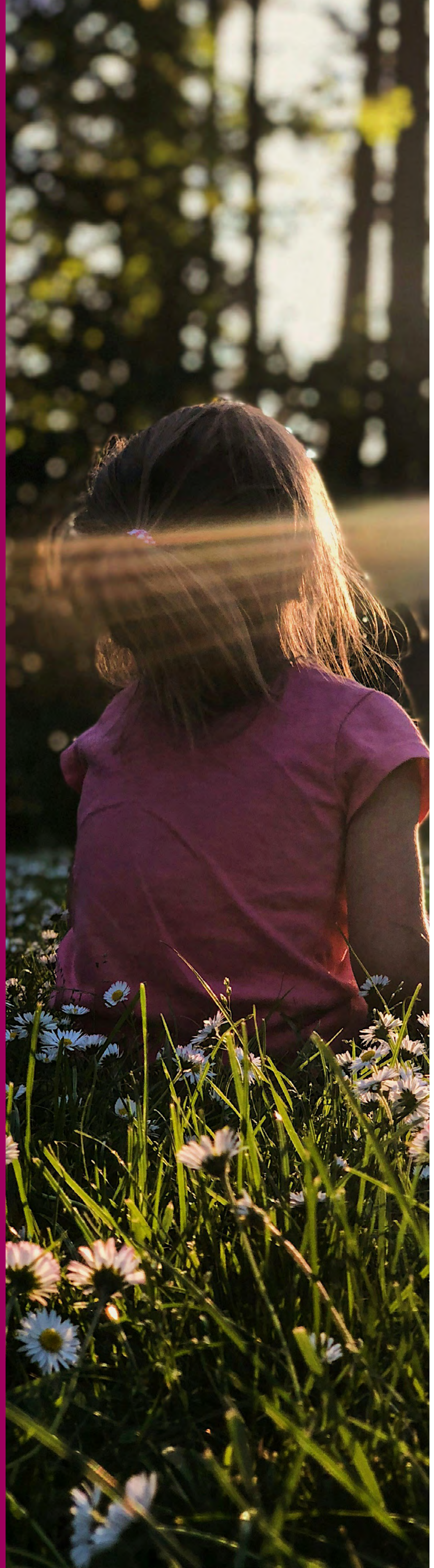

FIGURE 9: OVERVIEW OF FRAMEWORKS AND GUIDANCE FOR DEVELOPING A TRANSITION PLAN[54]

GFANZ, 2022, EXPECTATIONS FOR REAL-ECONOMY TRANSITION PLANS

- This report outlines the components of transition plans that financial institutions will be looking for from companies in the real economy to inform their allocation of capital and services and how they engage. It aims to help real-economy companies understand and navigate the growing expectations from financial institutions that are aligning their investment and finance strategies with net zero.

TPT, 2024, THE TPT DISCLOSURE FRAMEWORK

- Draws on the transition plan components identified by GFANZ to set out the five key elements of a good practice transition plan.

CDP, 2023, CDP TECHNICAL NOTE: REPORTING ON CLIMATE TRANSITION PLANS

- To assist CDP disclosure requests this technical note provides a technical definition of climate transition plans, the principles which govern their credibility and the elements which should be included. Also provides additional resources and lists the frameworks and initiatives which relate to climate transition plan.

CLIMATE BONDS INITIATIVE, 2024, NAVIGATING CORPORATE TRANSITIONS

- This proposes a methodology to classify corporate transitions, based on the maturity, ambition and credibility of the corporate's transition. It can be used by any financial institution to categorise its corporate exposures and track their transition progress over time.

ASEAN CAPITAL MARKETS FORUM, 2023, ASEAN TRANSITION FINANCE GUIDANCE

- Includes guidance on assessing transition credibility for financing in the ASEAN context through defining principles which stakeholders may assess another company's transition credibility at entity level as the basis for financing.

CLIMATE BONDS INITIATIVE, 2022, SCALING CREDIBLE TRANSITION FINANCE, ASEAN, THE TRANSITION PLAN

- Presents the results of an examination of published sustainability and transition plans of several entities operating in the hard-to-abate sectors in ASEAN to assess the current state of transition planning and provide recommendations for next steps.

ADEME AND CDP, UNDATED, VARIOUS TOOLS UNDER THE ACT INITIATIVE

- CDP and ADEME founded the Assessing low-Carbon Transition (ACT) initiative to recognise companies setting and implementing ambitious climate commitments to enable the transition to a low-carbon economy. ACT provides a forward-looking, integrated framework that supports companies to align their climate transition strategies with low-carbon pathways.

54 Note that some of these frameworks and guidance focus on guidance for developing a transition plan but these can be similarly informative for assessing transition plans.

In addition to the frameworks and guidance identified in Figure 9 above, banks and asset managers should also be aware of the ATP-Col initiative which aims to create a consensus framework to assess the credibility of transition plans, which will lay the foundation for future standards and regulations. ATP-Col aims to provide stakeholders with trustworthy and transparent assessments of companies' transition plans, enabling them to make informed decisions towards a sustainable future.

As identified in *Step 2: Diagnostic and Plan*, a likely constraint for financial institutions relates to limited disclosure requirements in ASEAN regulatory frameworks. This means that transition plans for clients and investee companies may not be readily available as a matter of course. In this context banks and asset managers may have to use other means at their disposal to request relevant information from their clients and investee companies. Financial institutions are encouraged to make use of existing market initiatives for disclosure of transition related information *(see Information Box: Market initiatives for disclosure of transition related information – CDP).*

INFORMATION BOX

MARKET INITIATIVES FOR DISCLOSURE OF TRANSITION RELATED INFORMATION – CDP

CDP is a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with more than 700 financial institutions globally with over US$142 trillion in assets, CDP uses a collaborative investor engagement mechanism to motivate companies to disclose their environmental impacts, risks, and opportunities and how they are being addressed. Notably, companies can disclose targets and transition plans to reduce GHG emissions, safeguard water resources and protect forests.

Over 24,000 organisations around the world disclosed data through CDP in 2023, including listed companies worth two-thirds of global market capitalisation and over 600 companies in ASEAN. The data is shared with relevant stakeholders worldwide such as banks, investors and clients, so that a single disclosure can be read and used for many purposes, ultimately reducing the reporting burden for companies.

In a globalised world where companies often have international investors and financing sources, and operate across various markets, it is important to account for the many disclosure standards emerging globally, notably regulatory and mandatory ones. From this year, CDP is aligned with the ISSB climate standard while progressing critical alignment with key regional standards (including the European Sustainability Reporting Standards) to enable all companies to disclose on indicators relevant to them and their stakeholders. Companies can also report alignment to various sustainable finance taxonomies including the ASEAN Taxonomy.

From 2024, CDP will issue a single corporate questionnaire covering climate, forests, water, biodiversity and plastics, empowering organisations to better assess the environmental risks, impacts and opportunities in their operations, supply chain, product & service offerings and financial decisions. This is particularly important in SEA, a region with rich biodiversity, including 30% of the world's coral reefs, one-third of the world's mangroves and nearly 15% of the world's tropical forests. CDP's regional activity is anchored by close collaboration with key stakeholders in Southeast Asia. Recent partnerships include stock exchanges and financial regulators in Indonesia, Malaysia, Singapore, and Thailand.

SUPPORTING TRANSITIONING ECONOMIC ACTIVITIES THROUGH USE OF SPECIFIC FINANCIAL INSTRUMENTS

Depending on the framework developed by the financial institutions under *Step 2: Diagnostic and Plan*, finance which contributes to a client's net zero journey or decarbonisation can be considered transition finance regardless of the financing structure. To this end, banks should consider the following to promote transition finance in a disciplined manner.[55]

USE OF PROCEEDS INSTRUMENTS

- These enable banks to finance a specific activity or project (e.g. an investment in new technology) that will make a meaningful contribution to a client's GHG emissions reduction strategy. The ICMA defines use of proceeds instruments for transition finance as those aligned to the *Green Bond Principles*[56] or *Sustainability Bond Guidelines*[57] (but there are many other certification frameworks such as the *Climate Bonds Standard*[58]). Banks need to be mindful whether these certification frameworks can relate to green/sustainable activities or transitioning activities *(see Figure 1: Relationship between transition finance and green finance over time)*. In addition, the ASEAN context entails differing socio-economic circumstances, national government policy and regulation and visions for pre- and post-2050 resulting in varying availability and viability of technologies in each region (with many advanced technologies not accessible or viable for some regions or clients). Given that context, financing for the best available, viable and appropriate net-zero or low emissions technological alternatives in such regions could be classified as transition finance. The onus should fall on the client to demonstrate that the activity or technology is operating at the best available standard, but banks should conduct their own due diligence of the client's claims. [59] The ASEAN Taxonomy and any relevant national taxonomies will be important for assessing whether the activity or technology meets the required standard.

GENERAL CORPORATE PURPOSE INSTRUMENTS

- These will implicate the full range of economic activities and may be considered as transition finance if they meaningfully advance the client's net zero journey at entity level. Whereas use of proceeds instruments require analysis and assessment of the economic activity they relate to, general corporate purpose instruments should be contingent on the bank's analysis of the client's transition plan *(see Supporting transitioning real economy corporates must be linked to credible transition plans)*. Certain types of instruments such as those aligned with the *Sustainability-Linked Bond Principles*[60] or Sustainability/Transition Linked Loans (where one or more KPI relates to GHG emissions reduction – either directly (e.g. absolute/intensity GHG emission metrics) or indirectly e.g. metrics that act as levers to advance GHG emission reduction targets) – are particularly appropriate in view of the objective of advancing a client's net zero journey.

55 NZBA, 2022, NZBA Transition Finance Guide
56 ICMA, 2021, Green Bond Principles, Voluntary Process Guidelines for Issuing Green Bonds
57 ICMA, 2021, Sustainability Bond Guidelines
58 CBI, 2024, Climate Bonds Standard
59 NZBA, 2022, NZBA Transition Finance Guide
60 ICMA, 2023, Sustainability Linked Bond Principles

BANKS ASSET MANAGERS

ENGAGEMENT WITH CLIENTS/INVESTEE COMPANIES TO SUPPORT TRANSITION

Engagement with clients and investee companies is a key accompanying activity which can reduce GHG emissions across all scopes at client/investee company level to contribute to macro level GHG emissions reduction in the real economy. In addition to addressing risk management at client/investee company level, engagement should encourage clients and investee companies towards net zero or alignment with the objectives of the Paris Agreement and/or the sectoral or jurisdiction decarbonisation pathways in which they operate.

Banks can engage their clients through the contractual relationship associated with the financing arrangement. Specific actions in relation to the client's transition can be a condition to receiving finance in the first place and ongoing monitoring and progress can be stipulated and explicitly referred to in the financing arrangement.

Asset managers can engage effectively through the typical corporate governance model by virtue of their shareholding in an investee company. Many of the most important corporate decisions (e.g. authorising new issues of equity, changing the articles of association etc.) require shareholder approval in the form of a vote. This gives shareholders ultimate power over these key decisions. Shareholder voting is seen by many as the bedrock of corporate governance. But even outside of the formal process for voting, asset managers can engage with investee companies in a specific and detailed way according to their own beliefs and policies. As a final resort, shareholder resolutions[61] or the threat of divestment can be used as a pressure mechanism and an escalation measure in the engagement process.

Financial institution resources will likely be too limited to enter direct dialogue with all clients and investee companies. Therefore focusing engagement efforts at clients and investee companies where sector emissions and/or financial exposures are significant (as identified in *Step 1: Ambition*) is a good way to prioritise the most effective engagement actions.

Engagement can include a wide spectrum of approaches including dialogue with clients and investee companies, creating industry standards, taking board seats and management support that all contribute to the same goal: improving the sustainability performance of the targeted companies. It can be split into two main categories: (1) 'traditional' engagement to influence clients and investee companies to implement certain activities and (2) providing non-financial support for clients and investee companies to build their capacity to implement these measures. Depending on the loan book/portfolio, many clients and investee companies may have limited resources, organisational capacity and expertise in relation to developing a transition plan. Therefore, banks and asset managers can have a key role in furnishing companies with advice and best practice. Decarbonisation of the ASEAN economy will span decades, as such, support from banks and asset managers, particularly for firms in carbon-intensive sectors will also be needed for decades to come.

This transition finance action also extends to policy advocacy. Through their engagement with clients and investee companies (particularly those in carbon-intensive sectors) banks and asset managers are well positioned to coordinate with the public sector to establish public policy measures to support the transition to address challenges that are beyond the market's ability to solve. This is a further key aspect to how banks and asset managers can be a significant catalyst for the transition of the real economy.

61 Shareholder resolutions are a key mechanism granting shareholders more of a say in company decision making. It affords shareholders the opportunity to raise a topic of their choice (rather than being limited to topics which are either legal requirements or those which are otherwise proposed by the board of directors).

INFORMATION BOX

JUST TRANSITION THINKING

This Guidance provides a practical framework to support ASEAN banks and asset managers to increase transition finance and improve the effectiveness of their transition finance. However, an equitable distribution of the social and economic benefits of the transition is not automatically guaranteed. Some regions, stakeholders and population groups may be disadvantaged during the transition if the focus is solely on climate and environmental criteria.

The concept of a *just transition*, as outlined in the *ILO Guidelines for a just transition*,[62] emphasises the necessity of aligning the shift to a low-carbon economy with equitable practices that leave no one behind. Just transition considerations require action tailored to the specific contexts of each region, sector and stakeholder constituency.

Ensuring a just transition is crucial to obtain societal support for climate and environmental policy, ensuring benefits to environment and society and manage any adverse societal impacts. Indeed, there are many examples of protests around the globe which demonstrate how efforts to implement policies to enable the required economic transition can be undermined if a societal or economic group is disadvantaged.

While the objective of ensuring a just economic transition is now widely shared (e.g. many multilateral institutions seek to promote a just transition and national policymaking will often explicitly refer to just transition considerations), operational implementation of just transition principles in transition finance is still lagging. Several reviews63 of transition finance frameworks that have emerged at both government and market level have found that most do not cover social considerations or social safeguards to prevent negative social consequences. This observation may be attributable to challenges stemming from the complexity and interconnectivity of social matters, or the perceived lack of definitions, standardisation and measurement methodologies for social metrics (together with the knock-on consequences for obtaining relevant, quantifiable and decision useful data). These challenges reflect the more nascent approach to social considerations as compared to for example climate considerations.

Currently there is a scarcity of guidance on addressing just transition challenges in transition finance. The accumulated body of guidance and practice is piecemeal and scattered among a set of issue specific frameworks. As a result, this critically undermines aligning transition finance flows with just transition objectives. In this context, there is a pressing need to increase access to, and availability of, the different guidance and practice to align the evolution of transition finance with just transition objectives.

FIGURE 10: OVERVIEW OF THE JUST TRANSITION FINANCE FRAMEWORKS AND GUIDANCE

INTERNATIONAL LABOUR ORGANISATION AND UNEPFI, 2023, JUST TRANSITION FINANCE, PATHWAYS FOR BANKING AND INSURANCE

Provides financial institutions with practical recommendations and examples of emerging practices on how to embed just transition considerations in financial products and business operations in alignment with the Paris Agreement's objectives and Human Rights frameworks.

As this is an evolving area, financial institutions should ensure they are aware of new frameworks and guidance as they emerge.

62 International Labour Organisation, 2015, Guidelines for a just transition towards environmentally sustainable economies and societies for all

63 For example: LSE Grantham Research Institute on Climate Change and the Environment, 2022, Where are the people in transition finance? and OECD, 2021, Transition finance: Investigating the state of play: A stocktake of emerging approaches and financial instruments.

STEP 4: CHECK

Track the transition finance actions implemented to monitor the transition finance performance of the loan book/portfolio

The fourth step of the Transition Management System is to monitor and track progress of the transition finance actions implemented in accordance with the Plan defined in Step 2: Diagnostic and Plan.

Banks and asset managers should ideally establish and maintain a centralised register to track key information for all relevant financial transactions.

SUPPORTING TRANSITIONING REAL ECONOMY CORPORATES MUST BE LINKED TO CREDIBLE TRANSITION PLANS

BANKS ASSET MANAGERS

Where the justification for transition finance relies on client or investee company transition plans, as these are forward-looking, it is necessary to monitor actual progress and achievements against the targets established in those transition plans. In addition to tracking progress of the client or investee company commitments against net zero and intermediate commitments, this allows the bank or asset manager to weigh modest carbon reductions compared to intermediate targets and peers' carbon performance and update their assessment based on most recent scenarios and up-to-date technologies.

As discussed elsewhere in this Guidance, a good transition plan by a client or investee company should provide for its own ongoing monitoring of progress against its targets and comprehensive disclosure of this information (which should mean that this information should be available for banks and asset managers). However, where information is not available, financial institutions are encouraged to make use of existing market initiatives for disclosure of transition related information (see *Information Box: Market initiatives for disclosure of transition related information – CDP*).

SUPPORTING TRANSITIONING ECONOMIC ACTIVITIES THROUGH USE OF SPECIFIC FINANCIAL INSTRUMENTS

BANKS

For use of proceeds instruments, ongoing monitoring of the performance level of the economic activity should be implemented for justification for transition finance. Many of the associated certification standards will have requirements in this regard and requirements can also be included in the financial contract (e.g. requirement for the independent verification of GHG emissions reductions).

For general purpose corporate instruments then it is necessary to monitor actual progress and achievements against the targets established in the client's transition plan (see *Supporting transitioning real economy corporates must be linked to credible transition plans* above)

ENGAGEMENT WITH CLIENTS/INVESTEE COMPANIES TO SUPPORT TRANSITION

BANKS ASSET MANAGERS

Monitoring of engagement activities should include regular cross team meetings to review the engagement programme and roadmap and identify future action. To ensure good oversight of engagement activities, monitoring indicators should be developed which are relevant for transition finance actions:

- Dialogue status: Prepared, Initiated, Ongoing, Closed
- Dialogue objective: Disclosure of transition plan, Enhancement of transition plan etc.
- Related client/investee company dialogues
- Dialogue outcomes etc.

STEP 5: REVIEW

Establish a cycle of continuous improvement for the transition finance strategy

The fifth step of the Transition Management System is to use the information revealed in *Step 4: Check* to inform the review for the purpose of revision and improvement. *Step 5: Review* should be performed at least every year but should also occur whenever necessary to respond to unexpected changes that might impact the success of the transition finance strategy.

In addition to the information revealed in *Step 4: Check* about collecting information on the financing arrangements which are under the umbrella of the transition finance strategy, the review should also focus on other matters which are relevant to implementation of transition finance actions:

— Seeking to alleviate the external and internal constraints restraining transition finance actions. The financial institution should actively work to remove or limit any constraints identified in Step 2: Diagnostic and Plan. Key aspects here are likely to be: (1) the lack of information available as a matter of course from clients/investee companies and whether the financial institution's measures to address this information gap are working well; (2) whether there is sufficient organisational resources and expertise in relation to assessing credibility of client and investee company transition plans etc.

— Reassessing the changes that should happen at client/investee company level. As companies' business models evolve (from a combination of the financial institution's actions and other factors) the analysis of their transition options needs to be updated. This information should form a key part of the engagement activities of the bank or asset manager.

The objective of this *Step 5: Review* is to implement a cycle of continuous improvement to ensure that the effectiveness of transition finance actions increase over time and so that the transition finance ambition is met and ideally increased in accordance with the process for setting intermediate targets (see *Step 1: Ambition*).

STEP 6: DISCLOSE

Communicate to ensure regulatory compliance and facilitate peer learning

The final step in the Transition Management System is to disclose relevant information about the transition finance strategy and transition finance actions.

This information is typically what would be included in the financial institution's own transition plan. As discussed elsewhere in this Guidance, different national jurisdictions will have different regulatory frameworks in relation to disclosure of information which is relevant to the transition activities of a client/investee company, and this is similarly true for transition activities of banks or asset managers. This means that there may be no regulatory requirement for the bank or asset manager to disclose this information.

Nevertheless, disclosing information in relation to the transition finance ambition and how relevant transition finance actions will be implemented (albeit recognising that commercially sensitive information should be withheld) can push clients and investee companies in relation to their own transition.[64] In addition, disclosures can help facilitate peer learning which can foster similar practices from other financial institutions to support the net zero transition.

While there may be no formal regulatory requirement to disclose a transition plan and much of the information caught by the transition finance strategy may go beyond the risk-based focus of typical sustainability reporting, information relating to governance, strategic and risk management context is likely to be captured by reporting requirements in most jurisdictions. Financial institutions are therefore encouraged to disclose this information in the annual report. However, where financial institutions choose to use other channels of reporting, this information and means of reporting should ensure that the information is credible, subject to scrutiny and updated at least on an annual basis to provide an understanding of the financial institution's activities and progress in accordance with the Transition Management System. It is highly recommended that reporting is conducted by the general reporting team rather than by the ESG team.

64 Indeed, it should be considered as an impact mechanism under signalling that impact matters (see *Information Box: Impact in the real economy*).

FIGURE 11: OVERVIEW OF GUIDANCE AND FRAMEWORKS FOR FINANCIAL INSTITUTION TRANSITION PLANS

GFANZ, 2022, FINANCIAL INSTITUTION NET-ZERO TRANSITION PLANS, FUNDAMENTALS RECOMMENDATIONS AND GUIDANCE
This report aims to provide voluntary guidance regarding the development of net-zero transition plans by financial institutions.

GFANZ, 2022, FINANCIAL INSTITUTION NET-ZERO TRANSITION PLANS - SUPPLEMENTAL INFORMATION
This report aims to provide voluntary guidance regarding the development of net-zero transition plans by financial institutions.

NGFS, 2024, CREDIBLE TRANSITION PLANS: THE MICRO-PRUDENTIAL PERSPECTIVE
Explores the issue of credibility of transition planning and plans of financial institutions from the micro-prudential perspective, and the potential role of micro-prudential authorities to provide regulatory oversight.

NGFS, 2024, CONNECTING TRANSITION PLANS: FINANCIAL AND NON-FINANCIAL FIRMS
This document sets out analysis of the interlinkages between real economy transition plans and financial institution transition plans. In particular, the extent to which different types of information from real economy transition plans can inform financial institutions' own climate-related risk management and facilitate transition finance.

INDONESIA AND PHILIPPINES COUNTRY SNAPSHOTS TO INFORM TRANSITION FINANCE ACTIONS

This section contains country snapshots on the energy context for Indonesia and Philippines which can be used to inform the initial steps of establishing the Transition Management System focusing on the ASEAN energy sector.

High and growing dependency on fossil fuels requires prioritising fossil fuel phase out and leapfrogging to renewable energy instead of building coal or gas plants to align with the Paris Agreement.[65] This is the background context for transition finance to the ASEAN energy sector.

The following country snapshots for Indonesia and the Philippines contain further information on the national energy context in these countries. These countries have been selected due to their significant climate vulnerabilities and high potential for effective transition finance to the energy sector - meaning they can be a useful focus for banks and asset managers seeking to increase their transition finance to the ASEAN energy sector.

Indonesia and the Philippines are the highest GHG emitters in the region due to their overwhelming reliance on fossil fuels (with Indonesia being the largest coal exporter[66] and the Philippines being one of the largest coal importers[67] particularly for energy). Both countries are starting to implement a regulatory and policy framework to reach the climate ambition reflected in their NDCs. For example, both countries have made progress in enhancing disclosure requirements and have established a national taxonomy to help direct finance and investment where it is needed to support the net zero transition. Indonesia and the Philippines have made significant strides in defining and implementing these taxonomies, serving as a model for other ASEAN Member States.

In relation to energy, Indonesia has made strong progress in renewable energy adoption and the Philippines is shifting its energy mix through reducing reliance on coal and investing more in renewable energy. In both countries, the regulatory environment is evolving to incentivise private sector participation in renewable energy projects and create a more favourable investment climate. Although regulatory frameworks differ, both countries provide essential support for transition.

Banks and asset managers can use these country snapshots to inform the initial steps of establishing the Transition Management System focusing on the ASEAN energy sector. They provide a snapshot on the national situation for each country which is key information:

- on the context which should inform the level of transition finance ambition and associated targets (see *Step 1: Ambition*);
- on the constraints which impact on the financial institution's ability to implement transition finance actions (see *Step 2: Diagnostic and Plan*); and
- for focusing efforts on the transition finance actions which are best suited for the financial institution (see *Step 2: Diagnostic and Plan*).

65 ASEAN Centre for Energy, 2023, Outlook on ASEAN Energy 2023
66 IEA, 2021, Indonesia – Coal
67 IEA, 2021, Philippines – Coal

INDONESIA COUNTRY SNAPSHOT

BROAD DESCRIPTION OF COUNTRY

- **The Republic of Indonesia (referred to as Indonesia) is the world's fourth most populous country with over 270 million inhabitants.[68]**
- **Indonesia is the largest economy in the ASEAN region and has sustained eight sequential quarters of growth of around 5% per quarter.[69]**
- **Macroeconomic effects from global shocks have been handled effectively, resulting in declining inflation and stabilised currency volatility.[70]**
- **There is notable progress in areas of poverty reduction, education and adoption of clean energy.[71]**
- **Key challenges remain in relation to environmental sustainability and reducing inequality across its numerous islands.**

CLIMATE POLICY

Indonesia, with about 17,500 islands, faces significant climate challenges.[72] High population density in hazard-prone areas and reliance on natural resources rank it 12th in mortality risk from multiple hazards.[73] The country is prone to natural disasters including floods, droughts and landslides. Sea level rise threatens its extensive coastline and increases by up to 1.2 cm per year.[74]

Indonesia's strategic focus on low-carbon development and climate resilience aims to reduce GHG emissions by 32% unconditionally or 43% conditionally by 2030 and achieve carbon neutrality by 2060.[75] [76] The country aims for the share of renewable energy in primary energy supply to reach at least 23% by 2025 and 31% by 2050, with a pledge of phase out coal by 2040.[77] [78] Indonesia is a top-ten GHG emitter globally, with its power sector contributing the most (48%) to national GHG emissions (556 MtCO_2e in 2021[79]). GHG emissions per capita emissions were 2 tCO_2e in 2021, marking a 71% increase since 2000. The unconditional NDC target aims to reduce GHG emissions to 834 MtCO_2e by 2030, while the conditional target set at 1,185 MtCO_2e.[80]

68 United Nations Indonesia, 2024, About
69 World Bank, 2023, Climate Action for Development
70 World Bank, 2023, Climate Action for Development
71 SDG Index, 2024, Sustainable Development Report
72 World Bank & ADB, 2021, Climate Risk Country Profile
73 World Bank, 2024, Indonesia, Historical Hazards
74 OECD, 2023, FDG on Transition Finance in Indonesia
75 White&Case, 2024, Indonesian Energy Transition – A Snapshot
76 UNESCAP, 2022, Net-Zero Emission Roadmap of Indonesia
77 UNFCCC, 2022, ENDC
78 IEA, 2022, Southeast Asia Energy Outlook 2022
79 IEA, 2024, Indonesia, Emissions
80 NDC Partnership, 2021, Indonesia's Updated NDC for a Climate Resilient Future

FINANCE GAP

The Indonesian Government has established Climate Budget Tagging to channel and monitor funding for climate projects.[81] To meet the 2030 NDC target, Indonesia needs at least US$285 bn. The government allocates nearly US$97 bn, which corresponds to 34% of the required amount and 4.3% of the annual State Budget.[82] The financial sector contributes 15% (US$42 bn), with public financial institutions contributing US$3.5 bn per year. There remains a significant climate finance gap of circa US$146 bn.

Indonesia's climate actions are supported by international funding commitments exceeding US$4 bn from climate funding such as ADB[83], Environment Fund[84], Green Climate Fund[85] and Adaptation Fund.[86]

ENERGY SECTOR

Indonesia ranks fourth in coal production with 3% of global reserves and is Southeast Asia's largest gas supplier.[87] In 2023, energy consumption per capita surged by nearly 13% reaching 1.3 MWh.[88] Total energy supply, as of 2021, is comprised of coal (30%), oil (29%), natural gas (14%), wind, solar and others (12%), and biofuels and waste (14%).[89]

Government Regulation No. 79 of 2014 sets targets for an energy mix with a minimum contribution of 23% from renewable energy sources by 2025 and 31% by 2050[90], and as of 2024, the renewable energy mix has reached 13%.[91] Since 2022, the Indonesian Government has established the legal framework for energy transition. Presidential Regulation No.112 of 2022[92] mandates the state electricity company (PLN)[93] to procure electricity from renewable plants, phase out coal-fired power plants and prohibits new ones. Ministerial Regulation No. 103 of 2023[94] provides guidelines for mobilising financial resources and investments to facilitate the shift from fossil fuels to renewable energy sources.

Indonesia faces formidable obstacles on its path to energy transition. Full implementation of Just Energy Transition Partnership requires US$96 bn by 2030, and US$580 bn by 2050, far exceeding planned mobilisation of US$20 bn to support just energy transition by 2030.[95] Current fossil fuel subsidies distort the market and act as a barrier to competitive parity of renewable energy thereby acting against widespread adoption of cleaner energy technologies.[96] The economic and political challenges of coal phase out are significant, given the vested interests and employment in the coal sector. Indonesia's grid infrastructure needs major upgrades to accommodate the variability in renewable energy generation and is insufficiently prepared to support widespread integration of renewable energy. Regional disparities in access to energy across the Indonesian archipelago complicate an equitable energy transition, requiring targeted policies and investments.[97]

81 UNDP, 2023, Indonesian Local Government's Participation to Achieve National Climate Target
82 CPI, 2023, Landscape of Climate-Aligned Investment in Indonesia's Financial Sector
83 ADB, 2022, SDG Indonesia One: Green Finance Facility
84 BPDLH, 2024, Indonesian Environment Fund
85 GCF, 2024, Republic of Indonesia
86 Adaptation Fund, 2024, Projects & Programs
87 IEA, 2024, Indonesia
88 Enerdata, 2022, Indonesia Energy Information
89 IEA, 2024, Indonesia, Energy Mix
90 Climate Change Laws, 2014, **Government Regulation No. 79/2014**
91 Kementerian Energi Dan Sumber Daya Mineral, 2024, Menteri ESDM Ungkap Strategi Penuhi Target Bauran Energi dari EBT.
92 Climate Change Laws, 2022, **Acceleration of Development of Renewable Energy for Electricity Provision (PR 112)**
93 PLN, 2024, Company Profile
94 **MOF, 2023, Granting of Fiscal Support through Funding and Financing Framework for Acceleration of Energy Transition in Electricity Sector (PM 103)**
95 Climate Action Tracker, 2023, Indonesia
96 IRENA, 2022, Indonesia Energy Transition Outlook
97 IEA, 2022, An Energy Sector Roadmap to Net Zero Emissions in Indonesia

ENERGY SECTOR FINANCE

In 2020, the total investment in Indonesia's energy sector was around IDR257 tn (US$18 bn). Of this, IDR20 tn (US$1.4 bn) was directed towards renewable energy, making up about 8% of the total investment. Most of the investment, IDR237 tn (US$16.5 bn) went into fossil fuels, making up about 65% of the total investment and demonstrating a substantial reliance on non-renewable energy sources.[98]

Just Energy Transition Partnership[99], was launched in 2022 by Indonesian government and International Partners Group[100], is formed to accelerate Indonesia's transition from coal-based energy on renewable energy sources. JETP aims to mobilise US$20 bn financing, with US$10 bn from public sector pledges and US$10 bn from private financing coordinated by GFANZ. The primary target to limit total power sector emissions at 290 MtCO2 by 2030 and enhance the share of renewable energy to 34% of total power generation and set a target to achieve net-zero in the power sector by 2050.

Subsidies, tax incentives, and strategic tariff policies in Indonesia aim to foster renewable energy investment and capitalise on its economic benefits. Fiscal incentives include tax and duty exemptions, investment tax deductions, accelerated depreciation, VAT and import duty allowances and tax holidays. Direct support is disbursed via the State Budget and the Special Allocation Fund for activities, such as off-grid projects. Tariffs allow renewable energy costs to be included in customer tariffs and employ subsidised loans and supporting infrastructure to lower project costs. Pricing policies provide direct subsidies to PLN to cover cost difference between renewable energy purchase prices and retail tariffs. These measures are underpinned by laws that authorise government compensation and incentives.[101]

FINANCIAL REGULATION

The Sustainable Finance Roadmap, established by Financial Services Authority (OJK), integrates sustainability principles into the financial system to the achieve the country's NDC. The scope of this Roadmap was expanded in Phase II (2021-2025) beyond the banking sector to include the entire financial sector.[102] The OJK has published Indonesia Financial Services Sector Master Plan 2021-2025 and Technical Guidelines[103] along with Climate Risk Management and Scenario Analysis Guide.[104] This comprehensive guide includes governance, transition strategy, risk management and disclosure aspects to assess the resilience of bank business models and strategies.

The Indonesian Green Taxonomy (IGT)[105] was developed in 2022 to facilitate periodic monitoring, credit, financing, and investment portfolio record-keeping, while preventing greenwashing and standardizing green definitions and criteria.[106] In February 2024, the OJK introduced the Indonesia Taxonomy for Sustainable Finance (ITSF).[107] Evolving from the IGT, the ITSF is designed to be interoperable with other taxonomies, including ASEAN Taxonomy. Initially focusing on the energy sector, it categorises activities into mitigation, adaptation, ecosystem and biodiversity protection, and circular economy transitions.[108]

Regulatory bodies in Indonesia collaborate with key stakeholders, including the Ministry of State-Owned Enterprises, the Central Bank of Indonesia, the OJK, and Technical Readiness Working Group to ensure development of standards.

98 IISD, 2022, Using Public Funding to Attract to Private Investment in Renewable Energy in Indonesia
99 JETP Indonesia, 2024, About JETP
100 The IPG consists of the governments of Japan and the United States, who co-lead the partnership, along with Canada, Denmark, the European Union, Germany, France, Norway, Italy, and the United Kingdom.
101 ADB, 2020, Renewable Energy Tariffs and Incentives Indonesia
102 SBF Network, Indonesia – Country Progress Report
103 OJK, 2017, Technical Guidelines for Banks on the Implementation of OJK Regulation
104 OJK, 2024, Climate Risk Management & Scenario Analysis 2024.
105 OJK, 2022, Indonesia Green Taxonomy Edition 1.0
106 ASEAN, 2024, ASEAN Taxonomy for Sustainable Finance
107 OJK, Indonesian Taxonomy for Sustainable Finance
108 IEEFA, 2024, Will the New Indonesian Taxonomy for Sustainable Finance Really Serve Its National Interest

To support implementation of sustainability reporting, the Indonesian Accountants Association (IAI) established the Sustainability Standards Monitoring Council (DPSK) and the IAI Sustainability Standards Council (DSK). These councils, formed through a two-tier mechanism to ensure robust governance, include stakeholders from government ministries, Bank Indonesia, the Financial Services Authority, industry, and academia.[109]

RECOMMENDATIONS

INTERNAL STRATEGIES FOR FINANCIAL INSTITUTIONS

- **Implement the ITSF and ASEAN Taxonomy, including adoption of IFRS S1 and S2, for regulatory and industry guidance on reporting and disclosure.**
- **Make a public commitment to phase out coal investments and implement specific policies for new coal-fired power plants and coal-related infrastructure.**
- **Strengthening commitments to elevate investment levels to boost renewable capacity growth, thereby implementing commitments pertinent to energy sector as outlined in NZE Roadmap 2060.**
- **Expand the range of sustainable finance products (funds, bonds, sukuks, insurance products etc.).**
- **Create financial products for investors for energy-efficient infrastructure projects.**

ADVOCACY TO POLICYMAKERS AND REGULATORS

- **Lobby for incentives for bankable renewable projects: tax incentives, subsidies, and feed-in-tariffs.**
- **Engage with the OJK and Bank of Indonesia to ensure stable and clear regulations for channelling capital through the macroprudential liquidity policies, including seeking further clarifications on categorizing on coal-fired power plants as transitional activities in the ITSF.**
- **Work with OJK to establish project finance structures for renewable energy and energy efficiency projects that could be standardised and widely replicated across various banks.**
- **Establish public-private partnership models to leverage public funding and de-risk private investment.**

INTERNATIONAL COOPERATION

- **Collaborate with MDBs to co-finance large-scale projects and leverage grants and funds.**
- **Implement global standards and frameworks to enhance transparency.**

109 Indonesian Accountants Association, 2023, Pastikan Standar Keberlanjutan di Indonesia, IAI Sahkan Pembentukan DPSK dan DSK.

PHILIPPINES COUNTRY SNAPSHOT

BROAD DESCRIPTION OF COUNTRY

- **The Philippines is an archipelago of over 7,100 islands located in Southeast Asia and with a population of a120 million.[110]**
- **Due to urbanisation, a rising young population and an expanding middle class, it has become one of the most vibrant economies in the ASEAN region.**
- **Over the last decade, the country's GDP growth has consistently exceeded 6% (except for a 10% decline during the 2020-pandemic) and is the fastest-growing economy in Southeast Asia[111], transitioning from a lower middle-income country in 2023, towards upper middle-income status.**

CLIMATE POLICY

The Philippines is vulnerable to physical climate change risks such as tropical cyclones, flooding and landslides. As per the *Global Climate Risk Index 2021*, it ranks as the 17th most impacted country by extreme weather events.[112] Since 1990, the country has experienced 565 disasters, including around 20 tropical cyclones per year[113], resulting in 70,000 deaths and costing US$23 bn in damage.[114]

The Philippines' NDC prioritises energy security, climate justice and transitioning to a disaster-resilient low-carbon economy. It pledges a projected 75% reduction and avoidance of GHG emissions for the period 2020-2030, with 3% unconditionally and 72% conditionally. However, GHG emissions per capita equalled approximately 1.2 tons in 2022 which marked a 3% increase from the previous year. And GHG emissions from energy consumption amounted to over 146 million tons which represented a 10% increase from the previous year.[115] Additionally, the GHG emissions-to-GDP ratio was 0.7, showing a decrease of 3% from the previous year.[116]

FINANCE GAP

The Philippines projects annual losses to public and private assets amounting to PHP177 bn from typhoons and earthquakes. In the next 50 years, there is a 40% likelihood of losses surpassing PHP989 bn and a 20% likelihood of losses surpassing PHP1,525 bn.[117] The UNFCCC First Needs Report unfolds the Philippines' quantified needs through its NC, NDC and TNA reports, totalling US$5 bn[118] as of 2021.

110 Worldometers, 2024, Philippines Population
111 McKinsey&Company, 2024, The Philippines economy in 2024: Stronger for longer?
112 Congressional Policy and Budget Research Department of the House of Representatives, 2021, Global Climate Risk Index 2021
113 Republic of the Philippines, 2021, Nationally Determined Contribution Communicated to the UNFCCC
114 World Bank, Climate Change Knowledge Portal, 2024, Historical Hazards
115 Statista, 2024, Carbon dioxide emissions from energy consumption in the Philippines from 2012 to 2022.
116 DOE, 2023, Key Energy Statistics.
117 Department of Finance, 2023, Climate Finance in the Context of Philippines.
118 UNFCCC, 2021, First Report On The Determination Of The Needs Of Developing Country Parties Related To İmplementing The Convention And The Paris Agreement

Due to Ondoy and Pepeng typhoons, GDP losses of 3% and 5% occurred in 2009. Based on these estimates, annual adaptation finance needs range from US$884 mn and US$1.5 bn.[119] On the mitigation front, the estimated cost of mitigation measures is US$4.2 bn from 2015 to 2030.[120] For 2024, Philippines Economic Zone Authority targets 15% growth in sustainable finance investments, reaching PHP202 bn. The central bank (**BSP**) has approved key strategies to scale up sustainable finance, including an increase by 15% single borrower's limit for loans to eligible green projects and a reduction of reserve requirements rate to 0% for new sustainable bonds.[121]

ENERGY SECTOR

As of 2021, the energy mix comprises 55% coal, 22% oil and gas, 7% hydropower, 11% geothermal, 1% bioenergy and 4% solar PV and wind.[122] Energy consumption per capita was 5,067 kWh in 2022.[123] The power industry relies heavily on fossil fuels with 59% of electricity generation relying on coal and 22% from renewable energy.[124] Installed capacity grew by 5% in 2022 to reach 28,258 MW.[125] Unreliable and expensive energy (averaging US$0.2 per kWh in 2023) and dependence on imported fuels hinders economic activity and investment[126] and exposes the economy to price fluctuations and trade imbalances.[127]

The Philippines faces an energy crisis due to depletion by 2027 of the Malampaya natural gas field[128] which currently supplies 30% of the energy need. In response, the Government launched the National Renewable Energy Program (NREP) 2020-2040[129] aligning with the Philippines Energy Plan (PEP) and Renewable Energy Act of 2008. NREP targets increasing the share of renewable energy to 35% by 2030 and over 50% by 2040.[130] The National Energy Efficiency and Conservation Act mandates energy efficiency and conservation measures, and as of 2023, 38 policy issuances have been implemented by the Department of Energy.

ENERGY SECTOR FINANCE

The Electric Power Industry Reform Act of 2001 liberalised the energy generation sector and promoted competition. In 2013, retail competition[131] further opened up access to distribution networks and attracted independent power producers.[132] Despite the retail competition, the power distribution sector remains largely monopolistic, requiring a national franchise from the Philippine Congress (e.g. the Meralco).[133] The power transmission sector is monopolised by the National Grid Corporation of the Philippines.[134] The Energy Regulatory Commission and Philippines Electricity Market Corporation ensure fair competition and consumer protection.

119 Care Climate Change, 2020, Climate Finance Adaptation Study Report
120 The figure excludes the additional cost required to achieve its NDC target of 75% reduction and avoidance in GHG emissions
121 Bangko Sentral Ng Philippinas, 2023, Circular No. 1185, Subject: Grant of Additional Single Borrower's Limit for Financing Eligible Projects and Zero Percent Reserve Requirement Rate Against Sustainable Bonds
122 IEA, 2023, ASEAN Renewables: Opportunities and Challenges
123 Our World in Data, 2020, CO2 and GHG Emissions Data
124 Energy transition Partnership, 2022, Increased Share of Renewable Energy in Philippines
125 DOE, 2023, Key Energy Statistics
126 Philippines News Agency, 2024, Meralco Announces Higher Rates in 2024
127 Asian Development Bank, 2021, Sector Assessment (Summary): Energy
128 Fair Observer, 2024, Philippine Energy Crisis Threatens to Escalate Tensions with China
129 DOE, 2021, National Renewable Energy Program
130 Philippines News Agency, 2021, New RE plan targets 35% share of power generation by 2030
131 DOE, 2015, Retail Competition and Open Access
132 The Economic Research Institute for ASEAN and East Asia, 2022, Power Industry and Power Price in the Philippines
133 Meralco, 2024, About Meralco
134 National Grid Corporation of the Philippines, 2024, The Company

The Philippines is aiming to attain the PEP's 2040 Clean Energy Scenario Target and is installing additional 74MW of renewable energy capacity. This requires total energy investments of US$153 bn across various energy sectors. For the power sector, US$115 bn is required for the construction of new power plants, with US$21 bn dedicated to conventional energy and US$94 bn to renewable energy.[135 136] Since 2010, the country has invested US$11 bn in renewable energy projects. In 2022, restrictions on foreign ownership in renewable energy generation projects were lifted[137] to attract capital, promote technology and competition, resulting in over US$2.5 bn in approved foreign investments as of Q1 2024.[138]

The Philippines introduced a tax reform package, zero-rating VAT on the sales and import of equipment and materials for renewable energy projects.[139] The Government offers fiscal incentives, such as income tax holidays and exemptions from various dues and fees, including wharf-age dues and export tax, duty, impost and fees[140] to enhance investments. The Energy Auction Program (**GEAP**)[141] is another incentive that secures long term power purchase agreements, guarantees market access and revenue stability for developers.

The Philippines has significant investment opportunities in the energy sector. Increment in Renewable Portfolio Standards, currently requires 2.5% of electricity sold by utilities to come from renewable energy sources[142] and preferential dispatch policy[143] that prioritises renewable energy plants in the wholesale electricity spot market ensure a stable market for renewable energy, augment market demand and stimulate developers to invest in new renewable energy projects. The RPS Off-Grid Rules/Microgrid Act mandates renewable energy integration in off-grid and underserved areas and GEAP fortifies investment viability through competitive procurement, reducing financial risks and increasing the bankability of renewable energy projects.

FINANCIAL REGULATION

The Philippines aims for a net-zero economy by 2040 through comprehensive frameworks. The *Sustainable Finance Framework* (**SFF**)[144] outlines strategies for using sustainable finance instruments and allocating funds to eligible projects. The BSP's *Sustainable Finance Roadmap*[145] is based on three pillars (policy, financing and investment) and integrates sustainability into macroeconomic policies, promotes green financial products, tracks sustainable finance flows, develops a sustainable pipeline for investments and monitors progress toward NDC targets. The BSP released the *Sustainable Finance Taxonomy Guidelines* (**SFTG**) in 2024, aligning with the sustainable financing principles.[146] To qualify under the SFTG, economic activities must have an Environmental Objective, with an initial focus on climate adaptation and mitigation should meet the essential criteria which comprises the Do Not Significant Harm[147], Remedial Measure to Transition[148] and Minimum Social Safeguards.[149]

The Securities and Exchange Commission (**SEC**) and the BSP oversee legal and regulatory requirements. The SEC has issued sustainability reporting guidelines for publicly listed companies[150] [151], a corporate governance code[152], and regulations governing sustainability products[153], SRI funds[154] sustainability linked bonds[155] and blue bonds.[156] BSP Circular No.1085 allows banks aligning with the SFF a 3-year transition period from 2020. By August 2023, 489 banks had submitted their transition plans for BSP evaluation.[157] The Philippine Sustainability Reporting Committee (**PSRC**) is established to provide guidance on IFRS S1 and S2 for local implementation.[158]

135 IRENA, 2022, Scaling Up Renewable Energy Investment in the Philippines
136 DOE, 2023, Accelerating Coal Transition Investment Plan for the Philippines
137 OECD, 2024, Clean Energy Finance and Investment Roadmap of the Philippines
138 Philippines Statistic Authority, 2024, Approved Foreign Investments Reach PhP 148.43 Billion in the First Quarter of 2024
139 IRENA, 2024, Renewable Energy Policies in a Time of Transition
140 DOE, 2024, Incentives
141 The first auction aims at a capacity of 2,000 MW and second is planned to take place in 2024.
142 DOE, 2021, Circular No: DC2021
143 DOE, 2022, Circular No: DC2015-03-001
144 Department of Treasury, 2021, Sustainable Finance Framework
145 Bangko Sentral Ng Philippinas, 2022, The Philippine Sustainable Finance Roadmap
146 Bangko Sentral Ng Philippinas, 2022, The Philippine Sustainable Finance Guiding Principles
147 An activity that makes a significant contribution to one EO cannot significantly harm any other EO.
148 Measures that need to be taken to eliminate or minimise any real or potential significant damage to an EO.
149 Entities' activities should comply with national regulatory requirements

RECOMMENDATIONS

INTERNAL STRATEGIES FOR FINANCIAL INSTITUTIONS

- **Adopt local and international regulatory disclosure standards.**
- **Implement SFTG and ASEAN Taxonomy to classify and disclose sustainable activities and investments.**
- **Offer funding opportunities to increase foreign ownership in energy sector.**
- **Make a public commitment to phase out coal investments and implement specific policies for new coal-fired power plants and coal-related infrastructure.**

ADVOCACY TO POLICYMAKERS AND REGULATORS

- **Advocate in support of continuing development and implementation of SFTG and ASEAN Taxonomy.**
- **Form coalitions to lobby for governmental incentives, subsidies and grants (including incentives for (1) renewable energy projects (tax breaks, auctions, feed-in-tariffs and net-metering schemes) and (2) issuers of sustainable financial products).**
- **Advocate for a sustainability index to measure the performance of companies.**
- **Develop sustainable pipeline and create a pipeline database for public and private sectors.**
- **Promote Public & Private Partnerships to leverage public funds to attract private capital.**

INTERNATIONAL COOPERATION

- **Collaborate with MDBs to co-finance large-scale projects and leverage grants and funds.**
- **Implement global standards and frameworks to enhance transparency.**

150 Securities Exchange Commission, 2019, Sustainability Reporting Guidelines for Publicly Listed Companies
151 SEC is set to release a memorandum circular with updated guidelines for PLCs, which will feature the Sustainability Reporting (SuRe) form which is a tool to assist PLCs in their reporting.
152 Securities Exchange Commission, 2019, Code of Corporate Governance for Public Companies and Registered Issuers
153 Securities Exchange Commission, 2018, Guidelines on the Issuance of Green Bonds Under the ASEAN Green Bonds Standards in the Philippines
154 Securities Exchange Commission, 2022, Rules on Sustainable and Responsible Investment Funds
155 Securities Exchange Commission, 2023, Guidelines on the Issuance of Sustainability-Linked Bonds under the ASEAN Sustainability-Linked Bond Standards in the Philippines
156 Securities Exchange Commission, 2023, Guidelines on the Issuance of Sustainability-Linked Bonds under the ASEAN Sustainability-Linked Bond Standards in the Philippines
157 WWF, 2023, Susreg Annual Report, An Assessment of Sustainable Financial Regulations and Central Banks
158 SGV, 2023, IFRS S1 and S2: Game changers in global sustainability reporting

SYNTHESIS OF INTERNATIONAL AND ASEAN TRANSITION FINANCE GUIDANCE AND FRAMEWORKS

There is a vast amount of international guidance which provides an overview of what makes a transition of real economy corporates and financial institutions credible. This Guidance has synthesised many of the key principles from this body of different guidance and integrated it into the management system approach reflected in the Transition Management System to articulate clear and actionable steps that a bank or asset manager can follow to develop and implement a transition finance strategy. In addition to the guidance and frameworks identified in this Guidance, financial institutions can access the guidance and frameworks identified in Figures 12 and 13 below for further detail and information.

FIGURE 12: OVERVIEW OF KEY INTERNATIONAL TRANSITION FINANCE GUIDANCE AND FRAMEWORKS

GFANZ, 2023, SCALING TRANSITION FINANCE AND REAL-ECONOMY DECARBONISATION

- This report outlines technical considerations regarding transition finance and potential decarbonisation contribution methodologies.

ICMA, 2023, CLIMATE TRANSITION FINANCE HANDBOOK

- Offers clear guidelines and uniform expectations regarding the practices, actions, and disclosures that issuers should provide when raising funds for their climate transition strategy.

IIGCC, 2021, THE NET ZERO INVESTMENT FRAMEWORK

- A framework and a guidance tool for investors, particularly asset managers and asset owners, to align their portfolios. It emphasises the implementation of net zero strategies through a combination of portfolio alignment, engagement with investee companies, and policy advocacy.

INTERNATIONAL PLATFORM ON SUSTAINABLE FINANCE, 2023, IMPLEMENTING TRANSITION FINANCE PRINCIPLES - INTERIM REPORT

- Provides an overview of ongoing IPSF work on transition finance and pinpoints four dimensions of transition finance: credibility, disclosure, financing and assessment.

NZBA, 2022, NZBA TRANSITION FINANCE GUIDE

- This guidance aims to provide non-binding guidance and recommendations to financial institutions on transition finance.

NZBA, 2023, TRANSITION FINANCE CASE STUDIES

- Offers differing case studies of the banks which are located in different jurisdictions regarding their transition finance objectives, strategies, challenges, among others.

OECD, 2022, GUIDANCE ON TRANSITION FINANCE

- Sets out factors of credible transition plans that are needed to address the risk of greenwashing in transition finance and provides market actors, policy makers and regulators with a comprehensive overview of existing transition finance approaches.

TCFD, 2021, GUIDANCE ON METRICS, TARGETS AND TRANSITION PLANS

- Guidance to support preparers in disclosing decision-useful metrics, targets and transition plan information and linking those disclosures with estimates of financial impacts. Such information will enable users to appropriately assess their investment and lending risks.

UNEP FI, NZBA, 2023, DEVELOPING METRICS FOR TRANSITION FINANCE

- Aims to advance the discussion of which metrics may be most useful for banks to publish to increase transparency on their transition finance activities. The paper does not seek to replace current metrics pertinent to banks' activities and portfolio emission reductions but considers transition finance metrics which may sit alongside existing metrics.

WWF FRANCE, 2021, NET ZERO - AN INTRODUCTORY GUIDE FOR FINANCIAL INSTITUTIONS 2021

- Supports financial institutions in navigating the technical questions pertinent to assessing their portfolio alignment with the net-zero scenario and provides insights for key technical challenges which will support the transition finance.

As explained elsewhere in this Guidance, interpreting and applying this international guidance in the ASEAN context can prove challenging. As a result, there is also a body of ASEAN specific guidance and frameworks which incorporate more specific regional perspectives.

FIGURE 13: OVERVIEW OF KEY ASEAN TRANSITION FINANCE GUIDANCE AND FRAMEWORKS

ASIAN CAPITAL MARKETS FORUM, 2023, ASEAN TRANSITION FINANCE GUIDANCE

- Guidance to accelerate the efforts of financial institutions to direct finance to transitioning companies and create incentives for real companies to create more ambitious and credible transition plans.

ASIA TRANSITION FINANCE STUDY GROUP, 2022, ASIA TRANSITION FINANCE GUIDELINES

- For financial institutions beginning to contribute transition finance and that need support for financing and outlines main steps for adaptability to the transition process.

ASIAN DEVELOPMENT BANK, 2023, CLIMATE FINANCE LANDSCAPE OF ASIA AND THE PACIFIC

- Provides a comprehensive assessment of climate finance in Asia and the Pacific. It scrutinises climate financial flows, evaluates effectiveness and identifies challenges and opportunities in mobilising and scaling up climate finance in the region.

MINISTRY OF ENVIRONMENT JAPAN, 2021, BASIC GUIDELINES ON CLIMATE TRANSITION FINANCE

- Guidelines to strengthen the position of climate transition finance in hard-to-abate sectors and popularise transition finance while ensuring the credibility of financing in labelling as transition finance.

FIGURE 14: OVERVIEW OF TAXONOMIES OPERATING IN ASEAN

ASEAN TAXONOMY BOARD, 2024, ASEAN TAXONOMY VERSION 3

- ASEAN Taxonomy serves as the common language for sustainable finance in the region and underscores the importance of inclusiveness, as well as an overarching guide for the region.

BANGKO SENTRAL NG PILIPINAS, 2023, PROPOSED PHILIPPINE SUSTAINABLE FINANCE TAXONOMY GUIDELINES

- This guide serves for a variety of users including companies, investors, financial institutions, regulators and consumers, to help them make an informed decisions based on a classification system that is applied to each financed sustainable activity.

INDONESIAN FINANCIAL SERVICES AUTHORITY (OJK), 2022, INDONESIA GREEN TAXONOMY

- The IGT Edition 1.0 is used as: (1) the basis for development of incentive and disincentive policy of various ministries and institutions, including OJK; and (2) guidelines for information transparency, risk management, and creation of innovative sustainable finance products and services issuers. Furthermore, the development of Green Taxonomy is expected to provide an overview on the classification of sectors/sub-sectors that have been scientifically categorised as green, to avoid greenwashing practices.

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