

# **BNM Climate Change and Principle-based Taxonomy**

*What this means for FIs*

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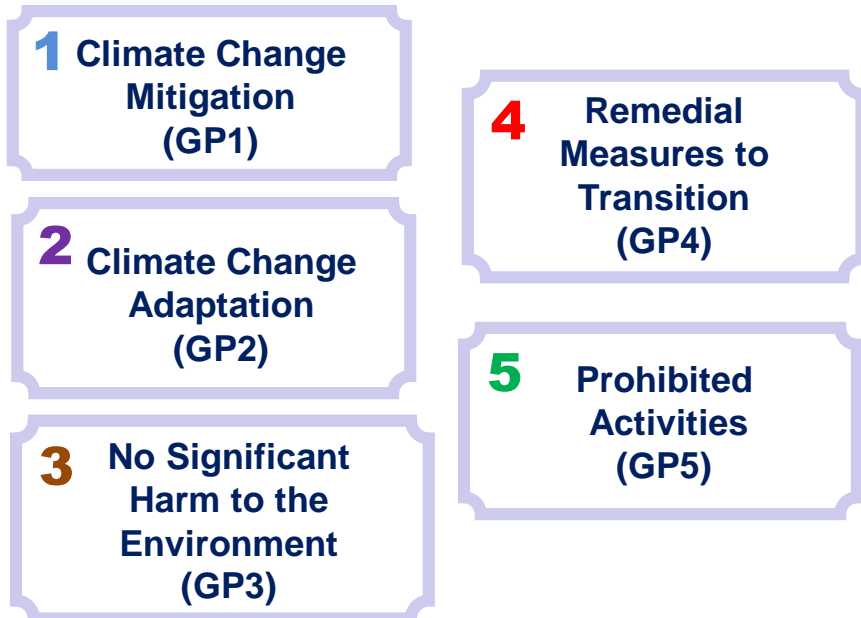
Joint Committee  
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# CCPT as a Key Building Block in Supporting an Orderly Transition

## Key Considerations

- 1 Provide a framework that facilitates robust and consistent assessments of economic activities and their associated **impacts on climate and the broader environment**
- 2 Consider the state of economic development and **different stages of transitioning** across economic agents
- 3 **Support transition** of economic activities that currently do not contribute to climate change objectives

## 5 Guiding Principles (GP)



## Progressive classification system to acknowledge concrete transition efforts and commitments

Classification		Economic Activity		Overall Business	
		GP1	GP2	GP3	GP4
<b>Supporting</b>	Activities with positive impacts on climate change, and causing no significant harm to the environment	GP1 or GP2 or both		✓	
<b>C1</b>					
<b>Transitioning</b>	Activities causing significant harm to the environment but remedial measures taken to reduce harm	GP1 or GP2 or both		X	✓
<b>C2</b>					
			X	X	✓
<b>Watchlist</b>	Activities causing significant harm to the environment and no remedial measures taken to reduce harm	GP1 or GP2 or both		X	X
<b>C3</b>					
			X	X	X
<b>C4</b>			X	X	X
<b>C5</b>			X	X	X

# Supervisory Expectations



## FIs to play nurturing role

- Accelerate customers' (including value chain) transitioning towards more sustainable practices
- Active channelling of resources towards low carbon and sustainable activities



## Conduct further due diligence on customers' business operations

- FIs to better understand how customers' business model and operations contribute to climate risk mitigation/adaptation objectives and impact on the broader environment
- Leverage on external sources to proxy customers' GHG emission data, or external validation/certification, if necessary



## Integration of climate considerations (whole-of-bank approach)

- Embed climate considerations in business strategy, operations and decision makings
- Incorporate climate-related risks in risk appetite, overall risk management framework and lending/investment policies
- Conduct stress testing/scenario analysis and incorporate results in internal capital target setting as part of ICAAP.
- Explore relevant metrics/ targets and develop new products that aid management of climate-related risks.



## Continuous staff capacity building

- Strengthen technical and assessment capabilities in climate-related risks to undertake effective risk assessment and customer due diligence

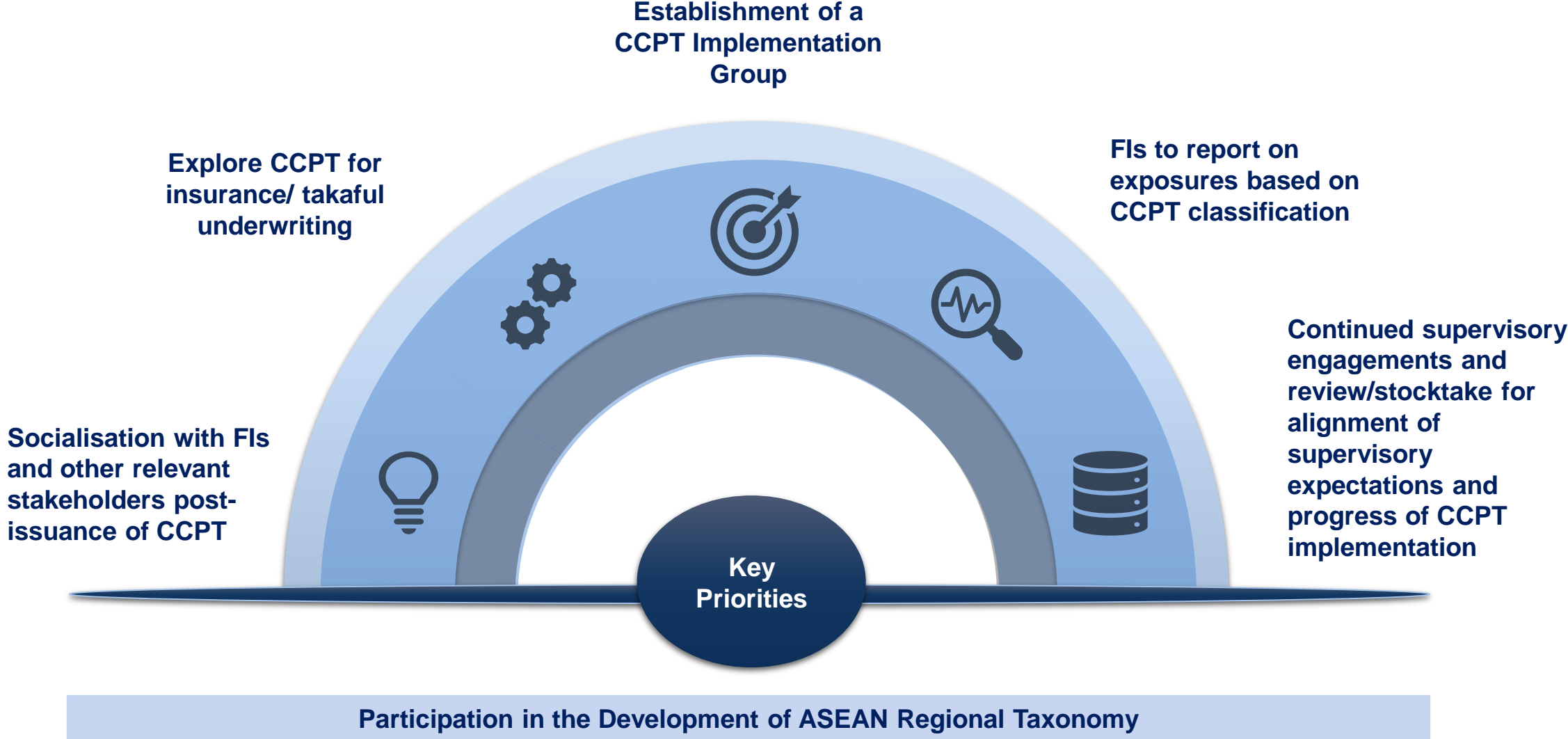


## Increased commitment on climate-related disclosures

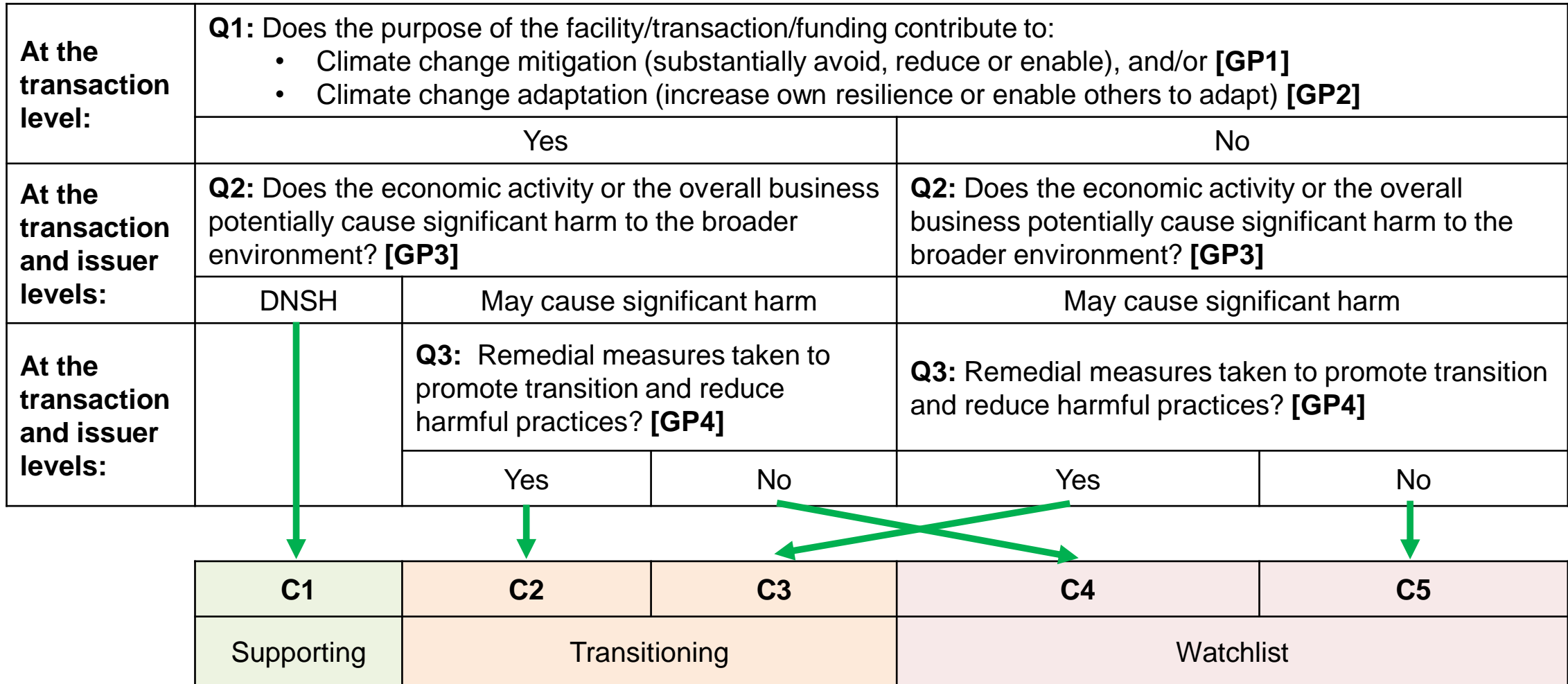
- Intensify readiness for greater climate-related risks disclosures, aligning with TCFD recommendations
- Advocate improved sustainability disclosures by customers'



# Action Plans to Ensure Effective Implementation of CCPT



# Illustration of CCPT classification process



Source: Adaptation from “Overview and Recommendations for Sustainable Finance Taxonomies” paper by ICMA (May 2021).

- Case 1: Green Building
- Case 2: Fossil Fuel
- Case 3: Oil Palm

# Case 1 : Refinancing a Green Building

## Background

- An SPV – Refinance existing credit facility to part finance construction of a green building for own use.
- Issued a provisional Green Building Index (GBI) Design Assessment certification and applying for the final GBI award.
- Complies with applicable requirements such as Environmental Management Plan and Occupational Safety & Health Management Plan.
- Adopts strict policy to ensure compliance with ESG standards which includes ensuring no deforestation, forced labour or development-induced displacement of local communities.

## Transaction Level


**GP1**

**GP2**

- Purpose of financing meets climate change mitigation objective (subject to a minimum GBI silver rating, based on the FI's risk appetite).
- GBI mainly focuses on evaluating the environmental performance of buildings, not the building's adaptive capacity to climate-related hazards.

Legend :

 Meets GP

 Does not meet GP

\* Not Applicable

## Overall Business Level

**GP3**

**GP4\***

Scenario 1

- Borrower had assessed and improved the building's design to reduce adverse impact on climate change
- Sustainability due diligence was conducted as part of the FIs approval process
- Compliance with the FIs internal real estate and construction sector guides' requirements, sustainable financing policy and controversy check
- Satisfactory report from Environmental Management Plan and Occupational Safety & Health Management Plan.

C1

**GP2**

**GP4**

Scenario 2

- Borrower facing allegations of improper waste management.
- FI assessed that the customer has put in place remediation measures and demonstrated serious commitment to improve its waste management practices with actionable, time-bound and transparent remediation plans.
- This includes the development and implementation of a company policy to require recycling and proper disposal of construction waste.

C2



# Case 2 : Financing in Fossil-Fuel Related Activities

## Background

- Customer involved in both upstream and downstream
- Good track record in terms of demonstrating commitments in addressing climate change and the associated environmental impacts
- Demonstrated a clear sustainability strategy e.g. to achieve net zero carbon emissions by 2050
- Commitment to reduce GHG emissions, focusing on liquefied natural gas while transitioning towards renewable energy solutions.
- Complies to EQA 1974 and ISO 14001:2003 Environmental Management Systems certification for 80% of its exploration with target to achieve 100% by a committed timeline

## Transaction Level

**GP1**

**GP2**

- Purpose – to facilitate diversification on renewal energy.
- Meets GP1 as directly supports climate change mitigation but not adaptation.

**GP1**

**GP2**

- Purpose – facilitate expansion of upstream business
- Do not contribute to climate change mitigation or adaptation objective

## Overall Business Level

### Scenario 1 (Bond Issuance)

**GP3**

**GP4**

- Customer engages in other upstream and downstream oil and gas activities that do have potential negative effects on the environment.
- However, customer has clear plans and practices in place to support transition efforts towards a low carbon and climate resilient economy.

### Scenario 2 (Revolving Credit)

**GP3**

**GP4**

- Customer's activities do have potential negative effects on the environment.
- Nonetheless, customer has clear plans and is adopting sustainable practices to support the transition efforts towards a low carbon and climate resilient economy such as commitment to reduce GHG emissions and focus on supplying low carbon fuels.

C2

C3

# Case 3 : Financing for Expansion of Oil Palm Plantation

Background	Transaction level	Overall Business Level	
<ul style="list-style-type: none"> <li>Mid-sized customer requests for project financing to fund new cultivation on existing agriculture land and implement measures to support the adoption of sustainable practices.</li> <li>Has obtained MSPO certification covering 7 MGP* for oil palm plantation and 6 MGP for its oil palm mills as follows:               <ul style="list-style-type: none"> <li>✓ Management commitment &amp; responsibility</li> <li>✓ Transparency</li> <li>✓ Comply with legal req.</li> <li>✓ Social responsibility, health, safety and employment conditions</li> <li>✓ Environment, natural resources, biodiversity and ecosystem services</li> <li>✓ Best practices</li> <li>✓ Development of new planting</li> </ul> </li> </ul>	<div style="display: flex; justify-content: space-around; margin-bottom: 10px;"> <span style="border: 1px solid black; border-radius: 50%; padding: 5px; background-color: #90EE90;"><b>GP1</b></span> <span style="border: 1px solid black; border-radius: 50%; padding: 5px; background-color: #90EE90;"><b>GP2</b></span> </div> <p>MSPO certified and has taken measures to reduce GHG emissions:</p> <ul style="list-style-type: none"> <li>i) Systematically collect, accumulate and transfer oil palm biomass for processing by biofuel producer</li> <li>ii) Use of hybrid vehicles for maintenance work and transportation of palm fruits</li> </ul> <p>Has also taken measures to increase climate resilience:</p> <ul style="list-style-type: none"> <li>i) Install water harvesting system (e.g. redirecting water from drainage and storage of rainwater as contingency for dry spells periods)</li> </ul>	<div style="display: flex; justify-content: space-between; align-items: center; margin-bottom: 10px;"> <span style="border: 1px solid black; border-radius: 50%; padding: 5px; background-color: #FF4500;"><b>GP3</b></span> <span style="border: 1px solid black; border-radius: 50%; padding: 5px; background-color: #90EE90;"><b>GP4</b></span> <span><b>Scenario 1</b></span> </div> <p>Taken actions on remedial actions to reduce harm to the environment and subjected to periodic due diligence on progress of actions.</p> <ul style="list-style-type: none"> <li>i) No use of open burning for cultivation and waste disposal</li> <li>ii) Management of water table in existing peat areas to reduce peat subsidence rate i.e. release of GHG emission from peat soil</li> <li>iii) Use palm oil mill effluent as a substitute for inorganic fertiliser</li> </ul>	<div style="background-color: #FFA500; padding: 10px; border-radius: 50%; font-size: 2em; color: white; width: 40px; margin: 0 auto;">C2</div>
		<div style="display: flex; justify-content: space-between; align-items: center; margin-bottom: 10px;"> <span style="border: 1px solid black; border-radius: 50%; padding: 5px; background-color: #90EE90;"><b>GP3</b></span> <span style="border: 1px solid black; border-radius: 50%; padding: 5px; background-color: #90EE90;"><b>GP4</b></span> <span><b>Scenario 2</b></span> </div> <p>On top of the remedial actions above, customer is also implementing international best practices to substantially limit harm to environment:</p> <ul style="list-style-type: none"> <li>i) No new deforestation and no new cultivation on peatland</li> <li>ii) Maintain a ground cover of natural vegetation in existing peatland to keep surface moist, minimize irreversible drying and reduce GHG emission</li> <li>iii) Construct water management and drainage systems to maintain acceptable level of water table for existing peatland</li> <li>iv) No new cultivation on steep terrains (slope of 25 degree or more)</li> <li>v) Conduct periodic soil testing to determine its organic matter and pH structure, and maintain soil fertility</li> </ul>	<div style="background-color: #90EE90; padding: 10px; border-radius: 50%; font-size: 2em; color: white; width: 40px; margin: 0 auto;">C1</div>

\*MGP – Malaysian Sustainable Palm Oil General Principle

Legend :  Meets GP  
 Does not meet GP

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**Thank you !**



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