

BNM Climate Change and Principle-based Taxonomy

What this means for FIs

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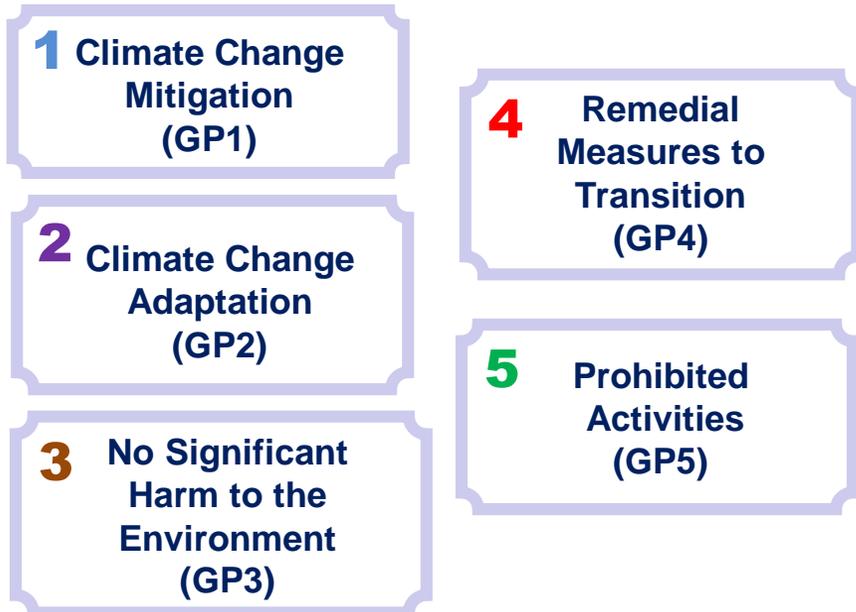
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CCPT as a Key Building Block in Supporting an Orderly Transition

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
Supporting	Activities with positive impacts on climate change, and causing no significant harm to the environment	GP1 or GP2 or both		✓	
Transitioning					
Activities causing significant harm to the environment but remedial measures taken to reduce harm	C2	GP1 or GP2 or both		X	✓
	C3		X	X	✓
Watchlist	Activities causing significant harm to the environment and no remedial measures taken to reduce harm	GP1 or GP2 or both		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

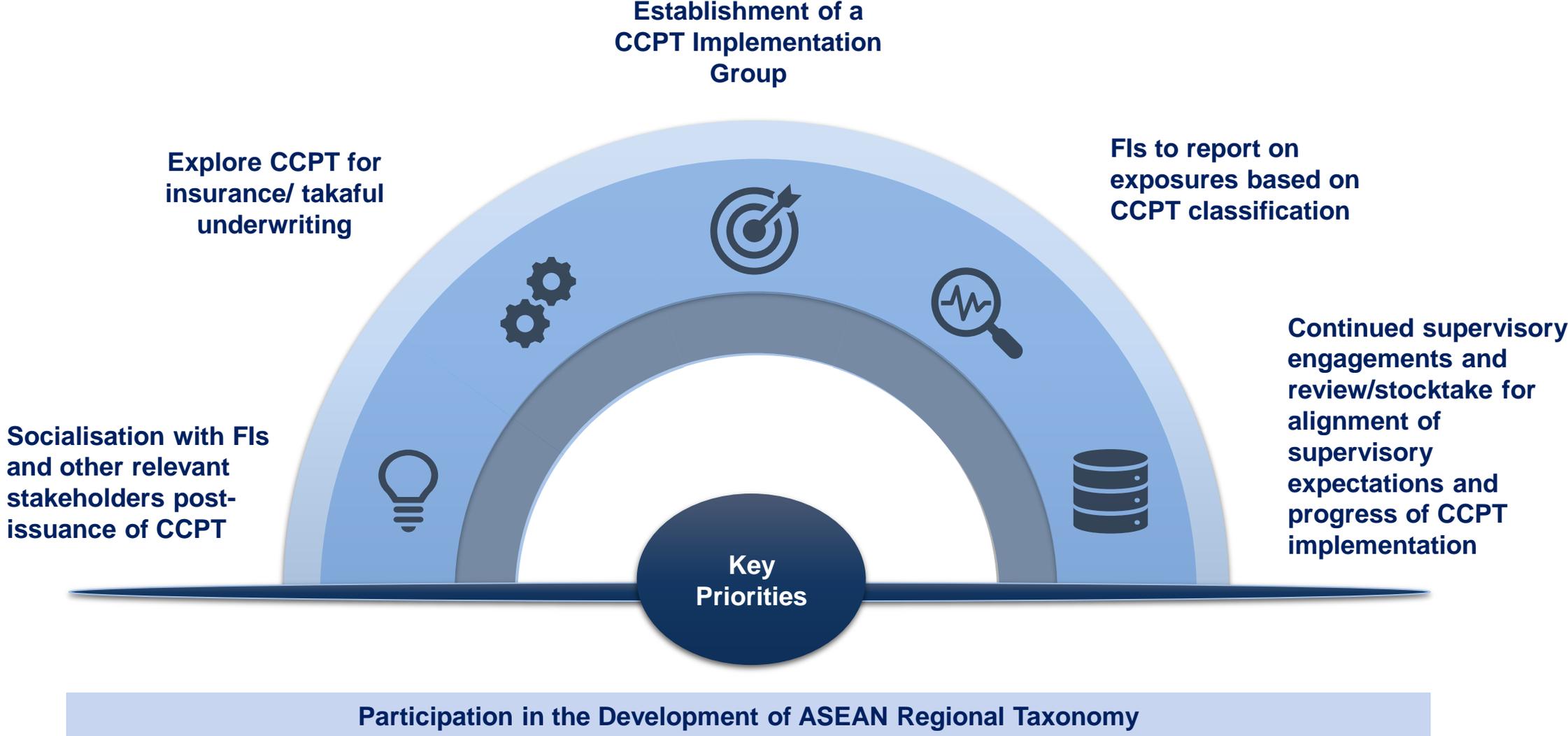
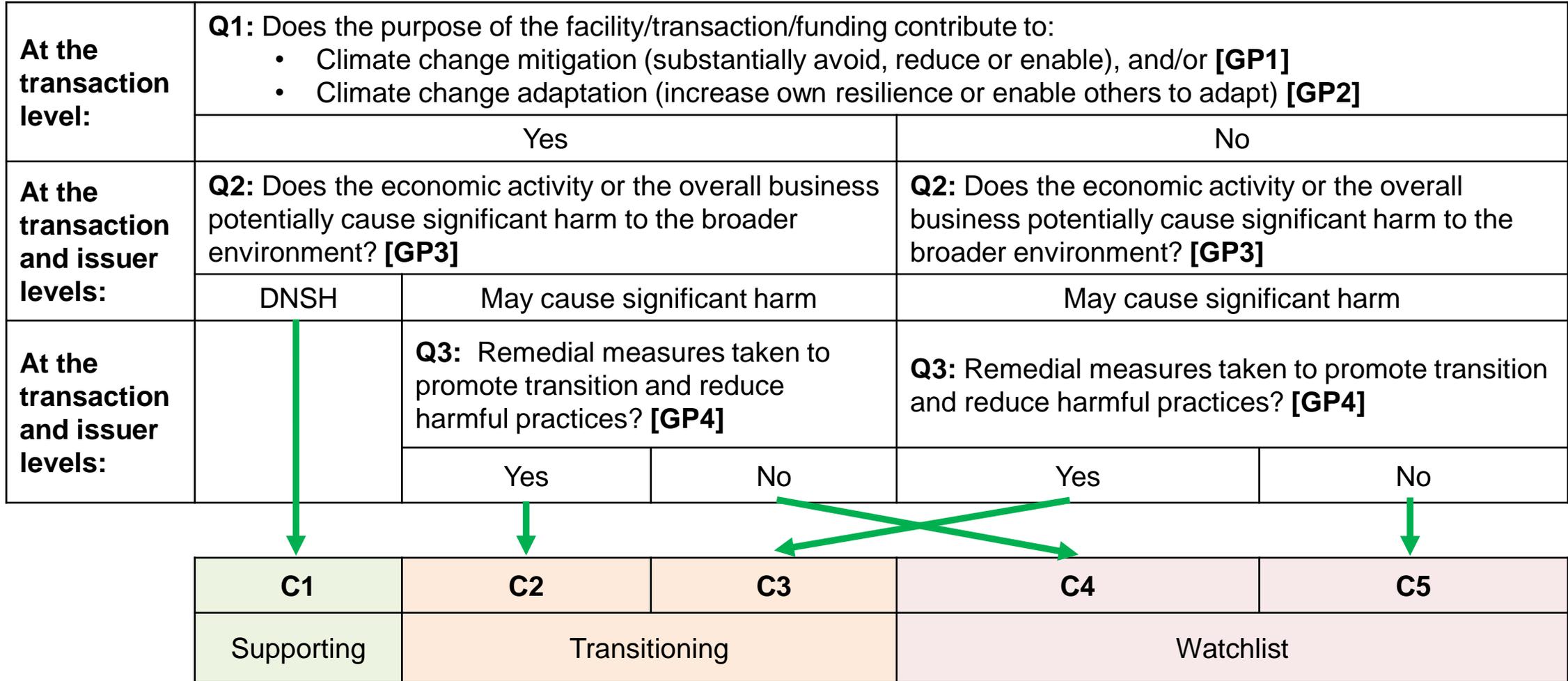


Illustration of CCPT classification process



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.

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.

C2

Scenario 2 (Revolving Credit)

GP1

GP2

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

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.

C3

Legend : ■ Meets GP
■ Does not meet GP

Case 3 : Financing for Expansion of Oil Palm Plantation

Background	Transaction level	Overall Business Level	
<ul style="list-style-type: none"> 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. 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"> ✓ Management commitment & responsibility ✓ Transparency ✓ Comply with legal req. ✓ Social responsibility, health, safety and employment conditions ✓ Environment, natural resources, biodiversity and ecosystem services ✓ Best practices ✓ Development of new planting 	<div style="display: flex; justify-content: space-around; margin-bottom: 10px;"> GP1 GP2 </div> <p>MSPO certified and has taken measures to reduce GHG emissions:</p> <ul style="list-style-type: none"> i) Systematically collect, accumulate and transfer oil palm biomass for processing by biofuel producer ii) Use of hybrid vehicles for maintenance work and transportation of palm fruits <p>Has also taken measures to increase climate resilience:</p> <ul style="list-style-type: none"> i) Install water harvesting system (e.g. redirecting water from drainage and storage of rainwater as contingency for dry spells periods) 	<div style="display: flex; justify-content: space-between; align-items: center; margin-bottom: 10px;"> GP3 GP4 </div> <p style="text-align: right;">Scenario 1</p> <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"> i) No use of open burning for cultivation and waste disposal ii) Management of water table in existing peat areas to reduce peat subsidence rate i.e. release of GHG emission from peat soil iii) Use palm oil mill effluent as a substitute for inorganic fertiliser 	<div style="background-color: #FFD700; padding: 10px; border-radius: 10px; font-size: 24px; font-weight: bold; color: #008080;">C2</div>
		<div style="display: flex; justify-content: space-around; margin-bottom: 10px;"> GP3 GP4 </div> <p style="text-align: right;">Scenario 2</p> <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"> i) No new deforestation and no new cultivation on peatland ii) Maintain a ground cover of natural vegetation in existing peatland to keep surface moist, minimize irreversible drying and reduce GHG emission iii) Construct water management and drainage systems to maintain acceptable level of water table for existing peatland iv) No new cultivation on steep terrains (slope of 25 degree or more) v) Conduct periodic soil testing to determine its organic matter and pH structure, and maintain soil fertility 	<div style="background-color: #90EE90; padding: 10px; border-radius: 10px; font-size: 24px; font-weight: bold; color: #008080;">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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