



D DREW & NAPIER

**Key Developments
in relation to Green
Finance and the
Lending Market in
Singapore – Q2
2023**

18 July 2023

**LEGAL
UPDATE**

In this Update

The second quarter of 2023 saw several developments that may affect the Singapore lending market.

In this update, May Ng, Eleanor Pang, Vimal Sadhwani and Anita Gill highlight developments relating to (i) the criteria for early-phase-out of coal-fired power plants under the Singapore-Asia Taxonomy, (ii) credible transition planning by financial institutions (“**FI**s”), (iii) the launch of the Finance for Net Zero Action Plan (“**FinZ**”), and (iv) the collaboration between Singapore and China in financial connectivity and green and transition finance.

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SINGAPORE-ASIA TAXONOMY – CONSULTATION ON COAL PHASE-OUT CRITERIA

We had shared in our last update, titled “Key Developments in Green Finance and the Lending Market in Singapore – Q1 2023”, that the Green Finance Industry Taskforce (“**GFIT**”), which was convened by the Monetary Authority of Singapore (“**MAS**”), had published the third version of the Singapore-Asia Taxonomy for public consultation. GFIT had carried out three phases of taxonomy consultations before its term ended in April 2023.

On 28 June 2023, MAS launched the fourth and final public consultation on the detailed thresholds and criteria for financing the early phase-out of coal-fired power plants (“**CFPPs**”) under the Singapore-Asia Taxonomy. The inclusion of managed coal phase-out under the Singapore-Asia Taxonomy aims to provide a credible standard to increase participation in projects for the early retirement of CFPPs that are aligned with a “1.5 degrees Celsius (“**1.5°C**”) transition pathway”, which sets out key actions and measures to limit global warming to 1.5°C above pre-industrial level.¹

The Singapore-Asia Taxonomy sets out the Technical Screening Criteria that apply to the CFPP facility (“**facility level**”) and the CFPP owner (“**entity level**”). At the facility level, some of the key criteria are that the CFPP must:²

- (a) have an operating duration that is capped at 25 years and be phased out by 2040, in line with guidance from the International Energy Agency on what is consistent with a 1.5°C-aligned decarbonisation pathway for the global energy sector;
- (b) have positive fair value remaining and demonstrate internationally and independently verifiable positive absolute emissions savings over the expected total lifetime of the CFPP compared with a case without it; and
- (c) be replaced by clean energy capacity that is no less than the phased-out electricity capacity, to prevent ‘emissions leakage’ where the closure of a CFPP is offset by new CFPPs being built or by existing CFPPs being operated at increased capacity.

¹ MAS’ press release: <https://www.mas.gov.sg/news/media-releases/2023/mas-launches-consultation-on-coal-phase-out-criteria-under-the-singapore-asia-taxonomy>

² Fourth GFIT Taxonomy Consultation Paper released by MAS (28 June 2023)

At the entity level, key criteria require that the CFPP owner commit to:³

- (a) no new development of CFPPs; and
- (b) a transition plan which has to reach full alignment to 1.5°C by 2030.

CREDIBLE TRANSITION PLANNING BY FINANCIAL INSTITUTIONS

In a press release published on 8 June 2023, MAS announced that it will set supervisory expectations to steer the transition planning processes of FIs to facilitate credible decarbonisation efforts by their clients.⁴

Speaking at the Financing Asia's Transition ("FAST") Conference in June 2023, then Senior Minister and Coordinating Minister for Social Policies and Chairman of MAS, Mr Tharman Shanmugaratnam, emphasised the need for financial supervisors to incentivise FIs and their customers to bring forward their actions to support longer term climate-positive outcomes. The FAST Conference (jointly organised by MAS, BlackRock and Temasek) brought together key decision-makers across FIs and the real economy to catalyse green and transition finance.

Key takeaways from the press release:

- (a) **Guidance on transition planning:** Guidance on transition planning will cover FIs' governance frameworks and client engagement processes to manage climate-related financial risks and enable transition in the real economy towards net-zero. FIs should not indiscriminately de-risk from particular sectors and should instead carefully assess clients' transition plans and provide financing for transition where plans are credible. In reviewing FIs' implementation of transition plans, MAS will recognise that a short-term increase in their financed emissions may occur due to actions supporting longer term climate positive outcomes. MAS will issue a consultation paper later this year.

³ Fourth GFIT Taxonomy Consultation Paper released by MAS (28 June 2023)

⁴ MAS' press release: <https://www.mas.gov.sg/news/media-releases/2023/mas-to-set-expectations-on-credible-transition-planning-by-financial-institutions>

- (b) **Platforms to channel blended finance at scale into transition and green infrastructure projects:** MAS and other government agencies are collaborating with industry players to explore platforms to channel blended finance at scale into transition and green infrastructure projects in the region. MAS aims to bring together patient, concessionary capital from philanthropies, multilateral development banks, development finance institutions and donor partners. This will in turn help to crowd in more conventional infrastructure financiers, including banks and institutional investors. Details will be announced when the plans are more developed.
- (c) **Singapore Sustainable Finance Association (“SSFA”):** MAS and the financial industry will establish SSFA to build a vibrant ecosystem for green and transition finance. SSFA will initially focus on initiatives to scale voluntary carbon markets, transition finance and blended finance. SSFA will include representatives from FIs, financial industry associations, relevant corporates and service providers such as ESG rating agencies. The Association of Banks in Singapore is leading the coordination and setting up of SSFA.

FINANCE FOR NET ZERO ACTION PLAN

The On 20 April 2023, MAS announced the launch of the MAS’ FiNZ Action Plan. The FiNZ Action Plan sets out MAS’ strategies to mobilise financing to catalyse Asia’s net zero transition and decarbonisation activities in Singapore and the region. It is an expansion of the scope of the Green Finance Action Plan launched in 2019 to include transition finance, which refers to investment, lending, insurance, and related services to progressively decarbonise areas such as power generation, buildings, and transportation. The 4 strategic outcomes of the FiNZ Action Plan are set out below.⁵

- (a) **Data, Definitions & Disclosures:** MAS will continue to promote consistent, comparable, and reliable climate data and disclosures to guide decision making by financial market participants, and safeguard against greenwashing risks.
 - i. MAS has been working with the industry to co-create a code of conduct, which will require ESG ratings and data product providers to disclose how transition risks are factored into their products. A public consultation to gather wider feedback will be conducted in the second half of the year.

⁵ MAS’ press release: <https://www.mas.gov.sg/news/media-releases/2023/mas-launches-finance-for-net-zero-action-plan>

- ii. MAS will work with relevant counterparts and stakeholders to enhance interoperability of taxonomies across jurisdictions, to catalyse cross-border green and transition financing flows.
 - iii. MAS has been working with the Singapore Exchange and other government agencies to set out a roadmap for key FIs and listed companies to make disclosures aligned with the International Sustainability Standards Board on a risk-proportionate basis. MAS will partner with relevant bodies to build up companies' capabilities in sustainability reporting.
- (b) **Climate Resilient Financial Sector:** MAS will continue to engage FIs by fostering sound environmental risk management practices and deepen climate scenario analysis and stress testing to identify climate-related financial risks by incorporating evolving international best practices in the supervision of FIs' transition planning.
- (c) **Credible Transition Plans:** To support FIs' adoption of science-based transition plans, MAS will engage international partners such as the International Energy Agency to support the development of credible regional sectoral decarbonisation pathways. FIs can reference these pathways when they set emission reduction targets, and when they engage with their clients on initiatives to decarbonise their businesses.
- (d) **Green & Transition Solutions & Markets:** MAS will promote innovative and credible green and transition financing solutions and markets in support of decarbonisation efforts and climate risk mitigation.
- i. MAS will expand the scope of its sustainable bond and loan grant schemes to include transition bonds and loans, with safeguards in place to mitigate the risk of "transition-washing" and ensure alignment with internationally recognised taxonomy and transition finance principles. To promote transparency in the sustainable debt market, the MAS will incentivise the early adoption of entity-level sustainability disclosures by issuers or borrowers. MAS has set aside S\$15 million over the next five years till end 2028 for the enhanced grant schemes.
 - ii. MAS will extend the Insurance-Linked Securities Grant Scheme till end 2025 to support the continued growth of catastrophe bonds and additional climate risk financing instruments such as sidecars and collateralised reinsurance arrangements. This will enable additional financing for protection against disaster risks to be raised from the capital markets. The S\$15 million grant will defray the cost of

issuing catastrophe bonds and the expanded suite of insurance-linked securities that focus on Asia risks.

- iii. Building on past efforts, MAS will scale blended finance, in partnership with the private sector and philanthropic foundations, to mobilise financing for the decarbonisation of carbon-intensive sectors (e.g., managed phase-out of coal-fired power plants). In addition, the MAS will support the development of carbon services and carbon credits markets in Singapore, to channel financing towards carbon abatement and removal projects in Asia.

SINGAPORE & CHINA – STRENGTHENING COLLABORATION IN GREEN AND TRANSITION FINANCE

The 5th China-Singapore (Chongqing) Connectivity Initiative Financial Summit (“**Summit**”) took place on 20 and 21 April 2023. The two-day Summit focused on opportunities to deepen financial collaboration between Singapore and Chongqing, and between ASEAN and Western China.

MAS highlighted the following two initiatives which were discussed at the Summit: (1) boosting financial connectivity and (2) strengthening the collaboration in green and transition finance. We discuss these initiatives in further detail below.

Financial connectivity

On 20 April 2023, MAS affirmed the ongoing efforts to boost financial connectivity between Singapore and the Western Region of China in a press release.⁶

In her keynote remarks at the Summit, Minister for Communications and Information and Second Minister for Home Affairs, Mrs Josephine Teo, highlighted the growing presence of Singapore FIs in Chongqing which is expected to add further vibrancy to Chongqing’s financial landscape. She outlined how greater financial cooperation and connectivity between Singapore, Chongqing and ASEAN would have a positive effect on increasing trade flows and cross-border investments across the region.

⁶ MAS’ press release: <https://www.mas.gov.sg/news/media-releases/2023/financial-connectivity-between-singapore-and-the-western-region-of-china-strengthens#1>

Managing Director of MAS, Mr Ravi Menon, noted financial markets connectivity and green and transition finance as two important long-term imperatives for China and Singapore. He proposed to leverage the China-Singapore (“**Chongqing**”) Connectivity Initiative (“**CCI**”) platform and Chongqing’s green financial reform and innovation pilot zone to incubate initiatives that can scale up the green financial flows between Singapore and China’s western region.⁷ In 2022, the CCI catalysed about US\$6 billion in cross-border financing deals from the Western Region, bringing the total value of deals facilitated since the CCI’s inception in 2015 to over US\$29 billion.⁸

17 Memoranda of Understanding (“**MOUs**”), covering cooperation in a range of areas, relating to cross-border financing, FinTech and talent development, were inked between Singapore and Chongqing corporates and FIs at the Summit. The MOUs are listed in Annex A to the MAS’ 20 April 2023 press release.

Strengthening the collaboration in green and transition finance

On 21 April 2023, MAS and the People’s Bank of China (“**PBC**”) announced the establishment of the China-Singapore Green Finance Taskforce (“**GFTF**”). GFTF sets to deepen bilateral cooperation in green and transition finance between Singapore and China and facilitate greater public-private section collaboration to better meet Asia’s needs as it transitions to a low carbon future. At the Summit, the GFTF discussed joint initiatives aimed at scaling up green and transition financing flows between Singapore, China and the region. GFTF will establish three initial workstreams to focus on the following priority areas:⁹

- (a) **Taxonomies and Definitions:** MAS and PBC will work together under the International Platform on Sustainable Finance (“**IPSF**”) to achieve interoperability between the Singapore and China taxonomies and will thereafter collaborate to improve the use of the IPSF’s Common Ground Taxonomy, as well as strengthen understanding of transition activities defined by China and Singapore.

⁷ "Chongqing-Singapore Co-operation in Green Finance" - Keynote Address by Mr Ravi Menon, Managing Director of Monetary Authority of Singapore, at the Singapore-China (Chongqing) Financial Summit on 20 April 2023

<https://www.mas.gov.sg/news/speeches/2023/chongqing-singapore-co-operation-in-green-finance>

⁸ MAS’ press release: <https://www.mas.gov.sg/news/media-releases/2023/financial-connectivity-between-singapore-and-the-western-region-of-china-strengthens#1>

⁹ MAS’ press release: <https://www.mas.gov.sg/news/media-releases/2023/singapore-and-china-establish-green-finance-taskforce>

- (b) **Products and Instruments:** The Singapore Exchange and China International Capital Corporation will establish a workstream to strengthen connectivity between China and Singapore sustainability bond markets, including the issuances of and mutual access to green and transition bond products in China and Singapore.
- (c) **Technology:** Metaverse Green Exchange and Beijing Green Exchange will establish a workstream that leverages technology to facilitate the adoption of sustainable finance, including using carbon credits to pilot digital green bonds.

CONCLUSION

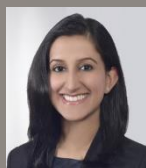
Drew & Napier LLC looks forward to continuing to support its clients as they navigate the above developments as well as new opportunities and challenges that arise in the second half of 2023 and beyond.

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