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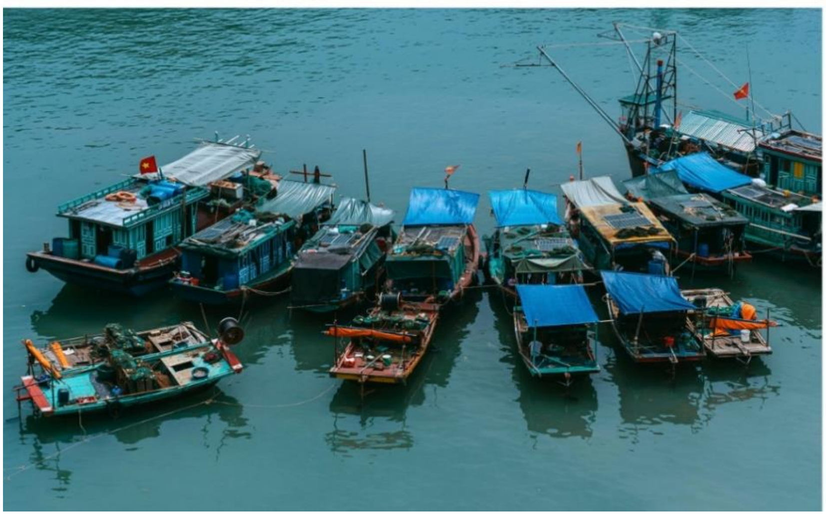
ASEAN TAXONOMY FOR SUSTAINABLE FINANCE

VERSION 4



ASEAN TAXONOMY BOARD

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VERSION 4

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The information contained in this document is dated as of 27 October 2025 – kindly refer to the full publication of the ASEAN Taxonomy online for the latest versions.

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FOREWORD

Message from the Chair of the ASEAN Taxonomy Board

The ATB is pleased to issue the ASEAN Taxonomy for Sustainable Finance Version 4 (ASEAN Taxonomy Version 4), following a targeted stakeholder engagement process from August to September 2025. ASEAN Taxonomy Version 4 contains comprehensive coverage of all six focus[1] and three enabling sectors[2] of the Plus Standard, complementing the Foundation Framework which was completed in March 2023. The completion of the ASEAN Taxonomy is particularly significant following recent challenges in the global sustainability agenda, including commitment pullbacks, and thus reinforces the Association of Southeast Asian Nations (ASEAN)'s commitment to pursue its sustainability ambitions as outlined in *ASEAN 2045 Our Shared Future* (ASEAN, 2025).

From the outset, the ASEAN Taxonomy's multi-tiered framework aimed to be science-based and inclusive to cater to the different development stages of ASEAN Member States (AMS), which reinforces its role as the taxonomy of equivalence for the region. Since the establishment of the ATB under the auspices of the ASEAN Finance Ministers and Central Bank Governors' Meeting in March 2021, efforts to grow the sustainable finance ecosystem have accelerated commendably. When the conceptual approach of the ASEAN Taxonomy was released in November of the same year, its innovative approach engendered dialogue but now, the ASEAN Taxonomy is recognised by international financial institutions and other stakeholders as a pragmatic and sensible approach to driving ASEAN's sustainability agenda. The ASEAN Taxonomy's design philosophy could be considered prescient when the First Global Stocktake (UNFCCC, 2023)[3], released on 13 December 2023, is taken into account. Specifically, the statement called for a common but differentiated approach that recognises the need for rapid reductions in global emissions and to consider different national circumstances, pathways and approaches. The ATB continues to be committed to the ASEAN Taxonomy's principles of interoperability, credibility and ASEAN inclusivity as tenets for serving this region's climate ambitions. For example, the 'Green' tier of the ASEAN Taxonomy generally makes reference to widely used international taxonomies such as the EU Taxonomy for Sustainable Activities (EU Taxonomy) and where relevant, is tailored according to ASEAN's unique circumstances, whereas the 'Amber' tiers allow progressive pathways to 'Green' as it gets sunset over time.

In reaching this completed version of the ASEAN Taxonomy, a progressive development approach was deployed and scheduled periodic review will be undertaken for the ASEAN Taxonomy to keep abreast of technological advancements and economic circumstances for continued relevance and effectiveness. This is consistent with the ATB's mandate to develop, promote and maintain the ASEAN Taxonomy. This significant landmark means that there is greater interoperability between the ASEAN Taxonomy and widely used international taxonomies such as the EU Taxonomy, the Singapore-Asia Taxonomy, the Thailand Taxonomy and the Indonesia Sustainable Finance Taxonomy. The alignment between the ASEAN Taxonomy and AMS' national taxonomies has been reinforced by bringing national taxonomy developers to the ATB as well as demonstrating a concerted effort to coalesce

[1] Focus sectors are Electricity, Gas, Steam and Air Conditioning Supply; Transport and Storage; Construction and Real Estate; Agriculture, Forestry and Fishing; Manufacturing; Water Supply, Sewerage, Waste Management and Remediation Activities.
[2] Enabling sectors are Carbon Capture Utilisation and Storage (CCUS); Information and Communication; Professional Scientific and Technical Activities.
[3] Paragraph 28(d) of the First Global Stocktake of the Conference of Parties serving as the meeting of the Parties to the Paris Agreement

towards similar taxonomy architecture and syndicate comparable coverage of environmental objectives, essential criteria and economic activities.

This common understanding has also meant that the ASEAN Taxonomy has been used as a main reference for the Indonesia Taxonomy for Sustainable Finance (ITSF) (OJK, 2025) and the Philippine Sustainable Finance Taxonomy Guidelines (SFTG) (BSP, 2024) in addition to the other AMS' national taxonomies. In August 2025, the Joint Committee on Climate Change (JC3), co-chaired by Bank Negara Malaysia (BNM) and the Securities Commission Malaysia (SCM), announced that the co-developed Technical Screening Criteria (TSC)-based Malaysian Taxonomy which will be aligned with the ASEAN Taxonomy to ensure regional consistency and coherence. In addition, taxonomies of other jurisdictions such as the Uzbekistan Green Taxonomy (World Bank, 2023), India's Climate Finance Taxonomy (Government of India, 2025), Pakistan Green Taxonomy (MOCC, 2025) and the Common Framework of Sustainable Finance Taxonomies for Latin America and the Caribbean (UNDP, 2023) have made reference to the ASEAN Taxonomy in their development. It is also notable that financial institutions in the ASEAN region as well as Japan, the latter via the Asia Transition Finance Study Group, have also referred to the ASEAN Taxonomy in their respective transition finance frameworks, expanding the use of the ASEAN Taxonomy's Technical Screening Criteria (TSC) as credible targets in transition plans over time.

These references made to the ASEAN Taxonomy have reinforced its role as the common language for sustainable finance in the region and the importance of an inclusive, overarching guide for the region that facilitates equivalence for AMS' national taxonomies. At the same time, the transition imperative outlined in the ASEAN Taxonomy is no longer novel, having been introduced four years ago but now mainstreamed. Its continued relevance reinforces the validity of the multi-tiered and inclusive assessment approach. Such efforts collectively support an orderly and just transition in our ASEAN region. Since 2022, the ATB has conducted regular stakeholder consultations and other engagements to gain input on the basis and methodology of the Plus Standard TSC, effectiveness of the transition tiers, and implementation challenges, among various items, in order to enhance and improve the ASEAN Taxonomy.

The ATB is highly encouraged by the international and regional recognition for the ASEAN Taxonomy, including how it can provide an adaptable model for addressing constituents with varying starting points and circumstances. The ATB also notes that the ASEAN Taxonomy has been used in various Second Party Opinion assessments from June 2024 to June 2025 by companies that have raised sustainable financing in Thailand, the Philippines and Malaysia. The ATB's mission remains focused on regional and international advancements as it strengthens capacity-building to raise awareness and encourage use of the ASEAN Taxonomy.

The ATB is grateful to the members of ASEAN Capital Markets Forum (ACMF), the ASEAN Insurance Regulators Meeting (AIRM), the ASEAN Senior Level Committee on Financial Integration (SLC), and the ASEAN Working Committee on Capital Market Development (WC-CMD), the Asian Development Bank (ADB), other stakeholders and all who have contributed towards the publication of ASEAN Taxonomy Version 4. The ATB looks forward to continued engagement with stakeholders during the stakeholder consultation process of the ASEAN Taxonomy Version 4 to ensure that the needs of financial institutions, the real economy and other participants continue to be considered. Furthermore, the ATB will strengthen its focus on capacity-building initiatives to promote the adoption of the ASEAN Taxonomy. It will also provide implementation guidance to scale up global capital flows and direct investments toward sustainable activities, in support of ASEAN's sustainability ambitions. The ATB is committed to ensuring that its promotion and maintenance mandate of the ASEAN Taxonomy will be consistent with the key principles of interoperability and alignment with widely used international taxonomies as well as AMS' national taxonomies.

Mardini Eddie
Chair
ATB

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ACKNOWLEDGEMENTS

The ASEAN Taxonomy Board wishes to acknowledge the following contributions across all its versions of the ASEAN Taxonomy for Sustainable Finance:

1. The ASEAN Capital Markets Forum, the ASEAN Insurance Regulators Meeting, the ASEAN Senior Level Committee on Financial Integration, and the ASEAN Working Committee on Capital Market Development

2. The Asian Development Bank (ADB) through Technical Assistance (TA) 6983 Accelerating Climate Transitions through Green Finance in Southeast Asia and TA 9924 Promoting an Interconnected, Inclusive, and Resilient ASEAN Capital Market and funding contributions from the Green Climate Fund (GCF), the Government of the United Kingdom and the Republic of Korea e-Asia and Knowledge Partnership Fund (EAKPF) through their support for the ASEAN Catalytic Green Finance Facility (ACGF), as well as the Government of Luxembourg through their financing support for the Financial Sector Development Partnership Special Fund (FSDPSF).

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CONTENTS

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ABBREVIATIONS AND DEFINITIONS

Term	Abbreviation	Definition
Activity	-	An Activity which may be assessed for classification under the ASEAN Taxonomy. An Activity takes place when resources such as capital, goods, labour, manufacturing techniques or intermediate products are combined to produce specific goods or services. It is characterised by an input of resources, a production process and an output of products (goods or services). For purposes of assessment, an Activity may be defined as an expansion or significant upgrade of an existing Activity.
Activity Code	AC	A code used by the ASEAN Taxonomy to define individual Activities within an ISIC Group.
ASEAN Capital Markets Forum	ACMF	A high-level grouping of capital market regulators from all 10 ASEAN jurisdictions.
ASEAN Finance and Central Bank Deputies' Meeting	AFCDM	Meeting of ASEAN Finance and Central Bank Deputies.
ASEAN Finance Ministers' and Central Bank Governors' Meeting	AFMGM	Meeting of ASEAN Finance Ministers and Central Bank Governors.
ASEAN Insurance Regulators' Meeting	AIRM	Platform to strengthen the insurance cooperation in the development of insurance regulatory and supervisory frameworks and research and capacity building.
ASEAN Member State	AMS	In reference to one or more of the 10 members of the Association of Southeast Asian Nations.
ASEAN Taxonomy Board	ATB	A body set up under the auspices of the AFMGM to develop, maintain and promote a multi-tiered ASEAN Taxonomy.
Assessor	-	Person or organisation which assesses an Activity and assigns a classification on this basis.
Assessment	-	Process by which the applicability of a classification to an Activity is ascertained.
Association of Southeast Asian Nations	ASEAN	Association of ten member states in Southeast Asia, which promotes intergovernmental cooperation and facilitates economic, political, security, military, educational, and sociocultural integration between its members and countries in the Asia-Pacific.
Building Research Establishment Environmental Assessment Method	BREEAM	A sustainability assessment methodology recognised and used worldwide, for masterplan projects, infrastructure, and buildings. It aims to set standards for the environmental performance of buildings through the design, specification, construction, and

		operation phases; and can be applied for both new developments as well as refurbishments.
Carbon Capture, Utilisation and Storage	CCUS	The capture of CO_2 from large point sources, such as power generation or industrial facilities. If not being used on-site, the CO_2 is compressed and transported to be used in a range of applications or injected into deep geological formations.
Carbon lock-in		Carbon lock-in occurs when transitioning to cleaner and more sustainable energy sources is more difficult due to the existing infrastructure and economic systems being built around the use of carbon-based fuels.
Carbon Risk Real Estate Monitor	CRREM	Tool that helps the real estate industry reduce climate risks by aligning with decarbonisation goals.
Classification		Colour-coded system used in the ASEAN Taxonomy for identifying the degree to which an Activity is sustainable through its contribution to an Environmental Objective (EO). Classification levels are Green, Amber and Red. To be classified as Green or Amber, an Activity must: 1. Result in a positive benefit to one or more EOs; or 2. Create some form of utility whilst displacing another provider of that utility which detracts from an EO or EOs. A Red classification means that an Activity is not aligned with the ASEAN Taxonomy.
Climate Bonds Standard	CBS	Labelling scheme with criteria allowing certification of bonds and loans as consistent with a 2°C warming limit.
Coal phase-out	CPO	An Activity whereby processes involving combustion of coal, such as coal powered generation of electricity, are shut down over time in line with aims to reduce GHG emissions. Coal phase-out is considered an Activity which may receive classification under the ASEAN Taxonomy.
Coal-fired Power Plant	CFPP	A power station which generates electricity from the combustion of coal.
Commencement		Unless otherwise stated, 'Commencement' of an Activity refers to: 1. <u>Where Activity requires significant infrastructure</u>: the start of the on-site construction, upgrade or expansion of the facilities required to conduct the Activity. For a large construction project, Commencement shall normally mean the same as NTP; or

		2. <u>Where Activity does not require significant infrastructure</u>: the start of operations and the provision of the utility intended by that Activity. For purposes of assessment, Commencement may also be defined as an expansion or significant upgrade of an existing Activity.
Contribution		Contribution made by an Activity towards achieving an EO.
Company		In the context of ASEAN Taxonomy, the term 'Company' means the organisation seeking classification of an Activity.
Do No Significant Harm	DNSH	The principle by which Activities may not be classified as Green or Amber by the ASEAN Taxonomy if they have resulted in or will result in unremedied significant harm which has been caused or will be caused to one or more of the EOs by an Activity, or any actions required to implement the Activity.
Economic Research Institute for ASEAN and East Asia	ERIA	International organisation established to conduct research activities and make policy recommendations for further economic integration in the East Asia.
Electric Vehicle	EV	A vehicle that uses electric motors for propulsion.
Environmental Impact Assessment / Environmental and Social Impact Assessment	EIA / ESIA	A comprehensive document of a project's potential environmental (and social risks) and impacts.
Environmental Objectives	EO	Environmental Objectives which the ASEAN Taxonomy is intended to facilitate.
Environmental, Social and Governance	ESG	Factors that are considered in decision making that incorporate sustainability considerations.
Essential Criteria	EC	Minimum criteria which must be fulfilled when implementing an Activity. The EC are DNSH, RMT and SA.
Energy Use Intensity	EUI	A metric used to measure a building's annual energy use, often used to benchmark a building by expressing its energy use as a function of its size or other characteristics.
European Commission	EC	Executive branch of the EU.
European Union	EU	Supranational political and economic union of 27 member states.
Financial Close	FC	Refers to the completion of the financial arrangements and agreements necessary for a project's funding and commencement of construction or operation.
Foundation Framework	FF	Frame for assessing the contribution of Activities which is based on Guiding Principles.

Free and Prior Informed Consent	FPIC	Specific right that pertains to indigenous peoples which allows them to give or withhold consent to a project that may affect them or their territories.
Grandfathering		The basis of the classification of a financial instrument after the relevant TSC has changed or the Activity Tier to which it applies has been sunset.
Greenhouse Gases	GHG	Gases that absorb and emit radiant energy within the thermal infrared range, causing the greenhouse effect.
Indonesia Taxonomy for Sustainable Finance	ITSF	Indonesia’s taxonomy that classifies economic activities to guide financing towards Indonesia's sustainability goals and net zero target.
Information and Communication		Activities related to unified communications and the integration of telecommunications and computers, and necessary enterprise software, middleware, storage and audio-visual, that enable users to access, store, transmit, understand and manipulate information.
International Capital Market Association	ICMA	Self-regulatory organisation and trade association for participants in international capital markets.
International Standard Industrial Classification	ISIC	Standard United Nations Statistics Division (UNSD) classification of economic activities.
Island System		A collection of grid-connected power generation, electrical distribution, storage, control assets and loads, which have the ability to operate together independently of a wider electrical network. Note that an Island System in this context does not need to be a literal island surrounded by water.
Leadership in Energy and Environmental Design	LEED	A green building certification program used worldwide that is environmentally oriented with aims to improve building and construction performance across seven key areas of environmental and human health.
Lifecycle Emissions		The total amount of emissions associated with a product, service, or Activity over its entire lifecycle, from the extraction of raw materials to the disposal of waste. This could be associated with the construction, operation, and decommissioning of a specific development. More information can be referenced in in ISO 14067:2018.
Multi-Jurisdiction Common Ground Taxonomy	M-CGT	A list of green and sustainable economic activities recognised bilaterally by China and the European Union (EU); the CGT shows how the two taxonomies map with each other.
Nationally Determined Contribution	NDC	National climate action plan to cut emissions and adapt to climate impacts.
Network of Central Banks and	NGFS	Network of 148 central banks and financial supervisors and 23 observers that aims to accelerate

Supervisors for Greening the Financial System		the scaling up of green finance and develop recommendations for central banks' role for climate change.
Nomenclature generale des Activities economiques dans les Communautes europeennes	NACE	Statistical classification of economic activities in the European Community.
Notice to Proceed	NTP	The point in time signalling the start of construction process for an infrastructure project.
Paris Agreement		Paris Agreement under the United Nations Framework Convention on Climate Change.
Photovoltaic	PV	Conversion of light into electricity using semiconducting materials.
Plus Standard	PS	Frame for assessing the contribution of Activities which is based on objective pre-defined TSC.
Red		In the context of classification of Activities, this term means any Activity which is explicitly classified as Red through one of the assessment frames or which is listed in Appendix A of the Main Report.
Remedial Measures to Transition	RMT	Measures taken to remediate or mitigate the impact of any significant harm resulting from an Activity, or any actions required to implement the Activity.
Renewable		Referring to a resource or energy source that can be naturally replenished or regenerated over time.
Senior Level Committee on Financial Integration	SLC	ASEAN Senior Level Committee on Financial Integration comprising ASEAN central bank deputies/senior officials and Chairs/Co-Chairs of the different ASEAN working committees on financial integration.
Social Aspects	SA	EC of the ASEAN Taxonomy which relates to an obligation for Activities to avoid causing social harm.
Steering Committee on Capacity-building	SCCB	ASEAN Steering Committee on Capacity-building.
Substantial Contribution	SC	Contribution required for an Activity to be assessed as Green. A substantial contribution means that an Activity makes a meaningful positive impact on one or more of the EOs. It must show clear, demonstrable benefits. It identifies Activities that genuinely support ASEAN's sustainability and transition goals
Sunsetting		The process by which a Tier may be retired for any given Activity; as a result, classification of that Activity at that Tier will no longer be possible.
Sustainable Development Goals	SDG	17 UN objectives intended to serve as a "shared blueprint for peace and prosperity for people and the planet now and into the future".

Sustainable Development Scenario	SDS	International Energy Agency scenario outlining a global pathway to net-zero emissions, aligning with goals from the Paris Agreement and UN SDG.
Technical Expert Group on Sustainable Finance	TEG	Group established by the European Commission to develop recommendations on topics related to the EU Taxonomy, including technical screening criteria.
Technical Screening Criteria	TSC	Quantitative and/or qualitative criteria against which the classification of the Activity is assessed.
Threshold		Defined numerical value for a quantitative TSC.
Tier		A gradation of TSC setting for EOs. Tier 1 sets TSC which represent a higher level of contribution to an EO than Tiers 2 and 3. Tier 1 is aligned with a Green classification, whilst Tiers 2 and 3 represent transitional TSC and are aligned with the Amber classification.
TSC Review Body	TRB	Body responsible for reviewing and proposing enhancements to TSC.
TSC Period		Period during which a TSC is extant for the purposes of classification of an Activity.
TSC Review		Process at the end of TSC Period by which a TSC may be adjusted.
United Nations	UN	Intergovernmental organisation intended to maintain international peace and security.
United Nations Economic and Social Commission for Asia and the Pacific	UNESCAP	One of the five regional commissions under the jurisdiction of the UN Economic and Social Council.
United Nations Environment Programme	UNEP	Institution responsible for coordinating responses to environmental issues within the UN system.
Working Committee on Capital Market Development	WC-CMD	Coordinating committee which monitors initiatives and progress of ASEAN members towards building the capacity and laying the infrastructure for development of ASEAN capital markets.
Zero Direct Emissions		Pertaining to processes or systems that produce no emissions of GHG or harmful pollutants directly during operation.

EXECUTIVE SUMMARY

Rapid industrialisation in Southeast Asia, a region with a population of almost 677 million (ASEAN, 2024) people, has led to significant social and environmental challenges, including climate change impacts, poor air quality, and waste management. It is estimated that 230 million (ASEAN, 2025) people in the region are living in vulnerable coastal areas and the ASEAN Member States (AMS) are committed to meet the daunting challenges of transitioning to low-carbon economies while building strong, inclusive growth that reduces poverty against the backdrop of recent global challenges and climate ambition shifts. ATB was established in March 2021 to develop, maintain, and promote an ASEAN Taxonomy that is credible and yet inclusive as a means of classifying sustainable economic activities to help drive ASEAN's sustainability agenda.

Since then, the sustainable finance ecosystem in the region has developed rapidly and new guidance comprising official AMS taxonomies and transition finance frameworks have been introduced as tools to help spur the demand and supply of sustainable finance. Despite the progress made, there is still a clear and vast gap between the financing needed and delivered. While investments in Southeast Asia have been growing since 2016, the required investments to fund Southeast Asia's transition until 2030 has been estimated at USD 1.5 trillion (Bain & Company; GenZero; Standard Chartered; Temasek, 2024) and it is estimated that a USD 50 billion annual investment gap exists (Bain & Company; GenZero; Standard Chartered; Temasek, 2025). The United Nations had also estimated that investment for five ASEAN markets, namely Indonesia, Malaysia, the Philippines, Thailand and Viet Nam, would have a shortfall of USD 537 billion in supply of sustainable finance investment by 2030 (Jakarta Post, 2020). The Asian Development Bank estimates that Southeast Asia needs USD210 billion per year in climate resilient infrastructure (ADB, 2022), which represents 5.7% of the region's GDP. Funding for climate change adaptation is particularly challenging, an area of increasing importance in recent years.

The ATB has come a long way since the introduction of Version 1 of the ASEAN Taxonomy in November 2021. It finalised Version 3 of the ASEAN Taxonomy in December 2024 after incorporating inputs gathered during stakeholder consultation, which include the principles-based Foundation Framework and criteria for three focus sectors and one enabling sector[4] of the Technical Screening Criteria (TSC) based Plus Standard. Since 2021, the ATB has conducted annual targeted consultations with stakeholders comprising financial institutions, government ministries and agencies, industry associations, real economy participants and civil society organisations to obtain input on the basis and methodology of the ASEAN Taxonomy design, structure and criteria, implementation and adoption concerns, transition efforts and interoperability. These exercises are critical to ensure the ambition articulated in the ASEAN Taxonomy has been considered alongside practicality. International investors look for ASEAN's regional taxonomy criteria to align with international benchmarks for interoperability but also acknowledge the unique circumstances in the region and the need to contextualise to jurisdictional concerns. Stakeholders' primary expectation from the ASEAN Taxonomy is a reasonable one - for the basis, methodology and references for the TSC to be science-based or evidence-based, consistently applied and relevant. They also recognised that this process is complex and needed to be accomplished through ASEAN's consensus-based consultation and agreement. A key consideration is also alignment of the ASEAN Taxonomy with official taxonomies of AMS – Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam – and vice versa. The ASEAN Taxonomy was envisaged as a taxonomy of equivalence where

[4] Focus sectors: Electricity, gas, steam and air conditioning supply; Transport and storage; Construction and real estate. Enabling sector: Carbon capture, utilisation and storage

classifications under any AMS national taxonomy will have an equivalent classification under the ASEAN Taxonomy. Significant effort and resources have been expended by the ATB to align elements such as design architecture, activity coverage and criteria development approach, while also recognising that member states have their own national priorities to consider that may lead to varying scopes and approaches .

Figure 1: This figure illustrates the key milestones in the development, publication and consultation process of the ASEAN Taxonomy

At its introduction, the transition approach of the ASEAN Taxonomy was considered novel, in that a multi-tiered assessment model using the traffic light system was made available to users incorporating a principles-based Foundation Framework (FF) and a TSC-based assessment frame Plus Standard (PS), to enable a just transition towards sustainable finance adoption by facilitating different circumstances and starting points. The AMS' national taxonomies also adopt a similar approach to incorporate transition in its assessment approaches in classifying sustainable economic activities. Six focus sectors and three enabling sectors were identified as a priority in the ASEAN sustainability journey and are covered under the PS according to contribution to GHG emissions and economic importance.

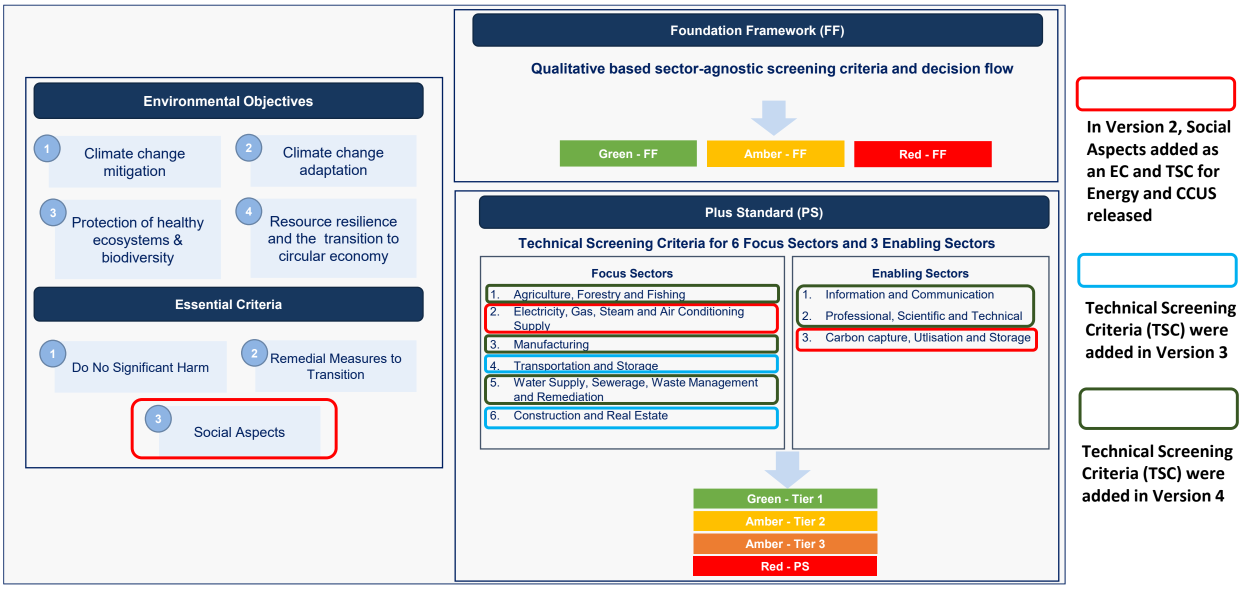

Figure 2: This figure illustrates the complete coverage of the ASEAN Taxonomy, covering Environmental Objectives and Essential Criteria that underpins the Foundation Framework and Plus Standard

The ASEAN Taxonomy is based on four Environmental Objectives (EOs): Climate Change Mitigation, Climate Change Adaptation, Protection of Healthy Ecosystems and Biodiversity, and Resource Resilience and the Transition to a Circular Economy. To be classified under the ASEAN Taxonomy, any Activity must demonstrate that it appropriately contributes to at least one of these EOs and does not have any adverse effects to other EOs. EO1 focuses on decarbonisation pathways for Activities, requiring them to align with decarbonisation trajectories in line with the Paris Agreement. EO2 addresses reducing the negative effects of climate change and increasing resilience through implementing processes or actions. EO3 looks to protecting the natural ecosystem and biodiversity, promoting sustainable use of natural resources, and minimising adverse impacts on the environment. EO4 promotes resource resilience and the transition to a circular economy through principles such as minimising resource use, optimising resource yield, and closing resource loops through effective waste management. This can be achieved by adjusting business operations and implementing circular economy principles via adapted products, production, technologies, and processes.

The ASEAN Taxonomy requires an Activity to fulfil three Essential Criteria (EC) for classification: Do No Significant Harm (DNSH), Remedial Measures to Transition (RMT), and Social Aspects (SA). DNSH ensures that an Activity that contributes to one EO does not cause significant harm to another EO. RMT ensures that any significant harm is either removed or rendered insignificant within a specific time period. SA intends to ensure that entities performing an Activity comply with the standards governing human rights, labour rights (which now covers informal labour), and impact on people living close to investments.

In the ASEAN Taxonomy, TSC is used to classify Activities based on their contributions to EOs using quantitative, qualitative (e.g., process-based), or nature of Activity-based criteria. ‘Classification’ refers to an Activity's contribution to an EO, while ‘Tier’ refers to the different levels of TSC. PS has Tiers 1-3 aligned with ‘Green Tier 1’, ‘Amber Tier 2’, and ‘Amber Tier 3’ classifications, while the FF does not use the Tier system and only has ‘Green’ and ‘Amber’ and ‘Red’ classifications. In all cases, a ‘Red’ classification means that an Activity is not aligned with the ASEAN Taxonomy. Version 4 of the ASEAN Taxonomy also incorporates grandfathering rules and entity/portfolio assessment that provides additional guidance to taxonomy users. This is an important consideration because taxonomies provide economic Activity level assessments, whereas users may want to understand how changes in TSC impact the labelling of financial instruments for market stability and alignment of entire entities, portfolios, or financial instruments with these classifications respectively.

Other than developing and promoting the ASEAN Taxonomy, the mandate of the ATB is to also maintain the ASEAN Taxonomy, including engaging and consulting with representatives from AMS and real economy participants on implementation or adoption matters and approving any changes to the ASEAN Taxonomy arising from a regular and systematic review process as governed by the terms of reference of the ATB. It also considers and develops TSC for each primary EO of each Tier for each defined Activity, where relevant, in a manner that will allow flexibility for individual AMS while representing a decarbonisation framework for ASEAN that balances ambition for sustainability with economic and technical realities. AMS will set their policies on how the ASEAN Taxonomy will be used in their jurisdictions.

The assessment methodology for Activities seeks to determine if the Activity meets the requirements of at least one of the EOs, avoids significant harm to other EOs, remediates any harm caused, meets all social aspects criteria, and the appropriate assessment approach is selected based on AMS policy and country-level preference. The process for assessing an Activity using the FF involves using principles-based guiding questions and a decision tree which determine the fulfilment of EO and EC. To assess an Activity using the PS, fulfilment of specific criteria of the EO and EC, as laid out in the Annexes must be demonstrated.

The PS, in this version of the ASEAN Taxonomy, has been completed and provides comprehensive coverage to all six focus and three enabling sectors[5] first identified in Version 1, incorporating quantitative and/or qualitative criteria. The ASEAN Taxonomy has diverse potential users including AMS, regulators, financial institutions, users of capital, and rating agencies. Users may also assess entities and portfolios as set out in this version of the ASEAN Taxonomy. The ATB will continue to engage with stakeholders on a regular basis in fulfilling its third mandate of promoting the ASEAN Taxonomy and to ensure effort is expanded to encourage the adoption and implementation of the Taxonomy

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[5] The additional TSC in Version 4 of the ASEAN Taxonomy are for the focus areas sectors: Agriculture, Forestry and Fishing, Manufacturing, Water Supply, Sewerage, Waste Management and Remediation and Enabling sectors: Information and Communication, Professional, Scientific and Technical Activities.

1. INTRODUCTION

In November 2021, Version 1 of the ASEAN Taxonomy was published, focusing on climate change mitigation and adaptation, serving as a foundational map to guide capital towards activities that promote the transition of the real economy to a more sustainable footing. Version 1 provided an initial framework for stakeholder discussions and was designed to be credible, science-based, inclusive, and adaptable to the varying development stages of ASEAN Member States (AMS). Version 2 (released March 2023, effective February 2024 after consultations) expanded the Foundation Framework (FF) with qualitative guiding questions, decision trees, and use cases; introduced Technical Screening Criteria (TSC) for the energy sector and carbon capture, utilisation, and storage; and incorporated Do No Significant Harm (DNSH) and Social Aspects (SA) criteria. Version 3 (released March 2024, effective December 2024) added TSC for transportation and storage, and construction and real estate sectors, refined annexes for clarity (e.g., life cycle assessments and climate risk vulnerability) (ATB, 2024). This version of the ASEAN Taxonomy includes three new focus sectors (agriculture, forestry and fishing, manufacturing, and water supply, sewerage, waste management and remediation) and two enabling sectors (information and communication, and professional, scientific and technical activities).

ASEAN is an intergovernmental organisation comprising ten member states in Southeast Asia: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam, with Timor-Leste following in-principle approval in 2022 (ASEAN, 2022) with formal membership in October 2025 (ASEAN, 2025). ASEAN's population reached approximately 677 million in 2025, covering about 4.5 million square kilometres across diverse landmasses, including over 20,000 islands. The region exhibits profound diversity in populations, histories, languages, religions, and cultures, both across AMS and within individual states. Economic variations are significant, with GDP per capita ranging from Myanmar (around USD 1,359), Lao PDR (around USD 2,100) and Cambodia (around USD 2,700) to economies such as Brunei Darussalam (around USD 35,000) and Singapore (over USD 90,000) (ASEANStats, n.d.) and ASEAN Member States (AMS) are at different starting points in their sustainability journey. This diversity demands an inclusive approach to development, regional progress, and cooperation. The ASEAN Taxonomy's usability accounts for varying financial sector maturity levels, incorporating principles-based assessments for less ready markets and stricter TSC for more developed ones to facilitate equitable transitions.

The GDP of ASEAN, valued at approximately USD 4 trillion, is greater than all but the four largest economies in the world (ASEANStats, n.d.). The expansion of services (e.g., tourism, processing, transport) and industrial sectors (e.g., oil and gas, mining, electronics) has driven growth, convergence, and economic development across AMS, aligning with regional objectives for resilience and integration (von Kameke, 2022).

ASEAN's rapid industrialisation has intensified social and environmental challenges. Issues include poor air quality, water pollution, inadequate waste management, over-extraction of resources, and sanitation deficiencies, varying in severity across AMS. The region is both a contributor to and increasingly vulnerable to global climate change, with projections indicating disproportionate impacts on welfare, livelihoods, and economic activities through rising sea levels, extreme weather, and biodiversity loss (ASEAN, 2021). By 2025, ASEAN's vulnerability is exacerbated by events like intensified heatwaves and floods, underscoring the need for adaptive measures (ASEAN, 2025).

Beyond greenhouse gas emissions, environmental concerns encompass urban air quality, waste management, and resource conservation. In 2024, seven of the ten AMS ranked among the world's top 50 most PM2.5-polluted countries, with air pollution remaining endemic due to industrial emissions, traffic, and biomass burning (IQAir, 2024). With urbanisation and population growth, ASEAN waste volumes reached over 300 million tonnes in 2023, projected to exceed 400 million tonnes by 2030, doubling from 2016 levels (ASEAN, 2020). While traditions and informal sectors handle organic and recyclable waste effectively in some areas, open dumping and burning persist, contributing to health risks and emissions. These challenges, compounded by climate vulnerabilities, position financing as pivotal to advancing ASEAN's sustainability agenda.

The ASEAN Finance Ministers and Central Bank Governors' Meeting (AFMGM) recognised sustainable finance's role in 2019, emphasising a shared understanding of sustainability to attract capital to sustainable investments and deter non-sustainable activities. This led to the need for a credible, regionally interoperable sustainable finance taxonomy aligned with international standards that can also support equivalence among AMS taxonomies. The ASEAN Taxonomy Board (ATB) was established in March 2021 to develop, maintain, and promote the ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy), under the auspices of the AFMGM and the four ASEAN financial sector workstreams, the ASEAN Capital Markets Forum (ACMF), ASEAN Insurance Regulators' Meeting (AIRM), ASEAN Senior Level Committee on Financial Integration (SLC), and ASEAN Working Committee on Capital Market Development (WC-CMD), came together to drive this effort.

The ASEAN Taxonomy Version 4 represents a comprehensive milestone in guiding capital towards sustainable activities across ASEAN's diverse economies. Nevertheless, it remains a living document designed to evolve with advancements in technology, science, regional priorities and global circumstances. The ASEAN Taxonomy allows for future inclusion of additional sectors as their environmental contributions become clearer. The ATB will continue to explore expanding the range of focus or enabling sectors (e.g., sustainable tourism for biodiversity or health infrastructure for climate resilience) to address emerging needs and align with national and international taxonomies.

A summary of the history of the development of the ASEAN Taxonomy can be found in Annex 6.

2. PRINCIPLES FOR THE ASEAN TAXONOMY

2.1. Scope and application

The ASEAN Taxonomy is an overarching guide that acts as a common language enabling an orderly and just transition, fostering sustainable finance adoption by AMS. It is designed to cater to the different ASEAN economies, financial systems, and transition paths. It provides alignment on underlying principles and serves to inform AMS policymakers alongside financial sector and real economy stakeholders. The ASEAN Taxonomy will help to harmonise the classification of sustainable Activities and assets across ASEAN.

The ASEAN Taxonomy was conceived based on five Principles (Table 1), and it has been designed to be, as much as possible, interoperable with taxonomies used in other relevant jurisdictions.

Table 1: Five Principles of the ASEAN Taxonomy

PRINCIPLE 1
The ASEAN Taxonomy will be the overarching guide for all AMS, providing a common language and complementing their respective national sustainability initiatives.
PRINCIPLE 2
The ASEAN Taxonomy will take into consideration widely used taxonomies and other relevant taxonomies, as appropriate, and shall be contextualised to facilitate an orderly transition towards a sustainable ASEAN.
PRINCIPLE 3
The ASEAN Taxonomy shall be inclusive and beneficial to all AMS.
PRINCIPLE 4
The ASEAN Taxonomy shall provide a credible framework, including definitions, and where appropriate, be science-based.
PRINCIPLE 5
The ASEAN Taxonomy will be aligned with the sustainability initiatives taken by the capital market, banking, and insurance sectors, or at least not in conflict.

2.2. Rationale for ASEAN Taxonomy design

The ASEAN Taxonomy offers two assessment frames, which are the Foundation Framework (FF) and the Plus Standard (PS). These frames are illustrated in Figure 3.

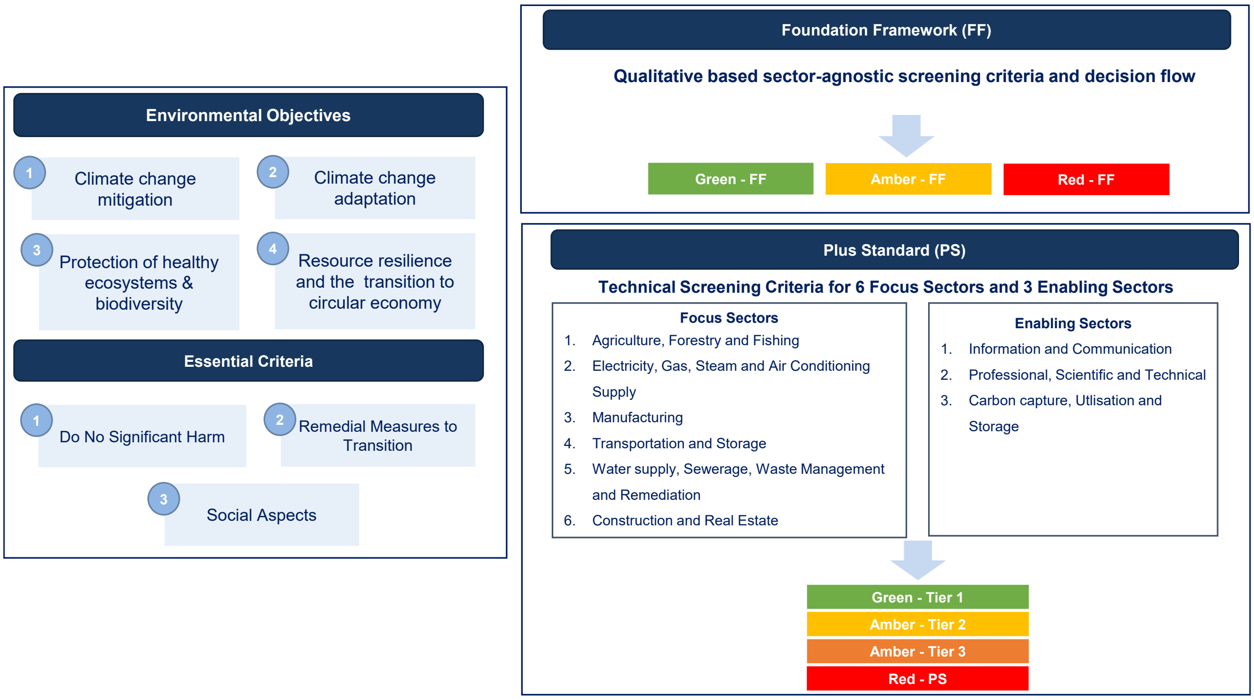


Figure 3: Structure of the ASEAN Taxonomy

This design recognises a diverse range of potential users (i.e., companies, investors, and governments) across the ten AMS. A 'one-size-fits-all' taxonomy will not provide an inclusive solution for ASEAN. The FF and PS were developed to ensure the inclusivity of users from diverse economic backgrounds.

The FF was developed as part of this inclusivity and is intended as a 'starter' assessment approach for AMS. The principles-based assessment approach of the FF allows Activities to be assessed and classified using qualitative guiding questions.

The PS was developed as an advanced form of assessment with defined TSC. The Tier concept (elaborated in Section 3.6) is developed to accommodate different levels of development and varied economic activities, which results in different starting points for AMS.

The ASEAN Taxonomy offers guidance on assessing Activities, entities, portfolios and financial instruments, accommodating the diverse economic contexts and development stages across ASEAN Member States. Details on assessment of Activities is shown in Chapter 4, while guidance for grandfathering of financial instruments is shown in Chapter 0. Instructions on how to report entities, portfolios, and financial instruments using the ASEAN Taxonomy is shown in Chapter 0.

3. ASEAN TAXONOMY CONCEPTS AND ELEMENTS

3.1. Environmental Objectives

The ASEAN Taxonomy was created to facilitate four EOs:

- EO1: Climate Change Mitigation.
- EO2: Climate Change Adaptation.
- EO3: Protection of Healthy Ecosystems and Biodiversity.
- EO4: Resource Resilience and the Transition to a Circular Economy.

Any Activity seeking classification under the ASEAN Taxonomy must demonstrate a contribution to at least one of these EOs. The Activity may also not detract from the EO to which it is intended to contribute due to direct or indirect effects caused by the Activity to that EO. The EOs are explained in more detail in the following sections.

3.1.1. EO1: Climate Change Mitigation

Climate Change Mitigation focuses on decarbonisation pathways for Activities.

Activities shall be assessed in alignment with the ASEAN Taxonomy, taking into account AMS-specific decarbonisation pathways. Where possible, Activities shall be aligned to the decarbonisation trajectories that aim to meet the 1.5°C target under the Paris Agreement which was ratified by all AMS in 2017.

Decarbonisation pathways vary across AMS due to different economic structures and dependencies. These are reflected under their respective NDCs and Long-Term Low Emission Development Strategies. Activities implemented may vary due to industrial, political, or cost barriers (e.g., availability and affordability of feasible low carbon technologies).

An Activity shall be considered as fulfilling the objective of Climate Change Mitigation if it contributes to one or more of the following:

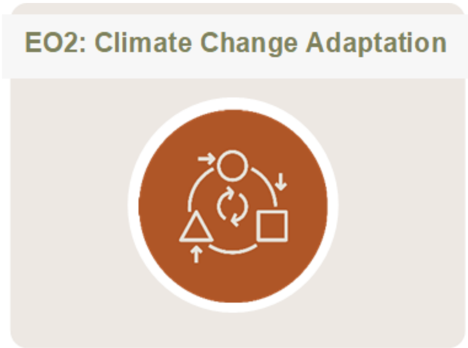
1. Avoids GHG emissions;
2. Reduces GHG emissions; or
3. Enables others to avoid or reduce GHG emissions.

Common Climate Change Mitigation Activities include, but are not limited to: renewable energy generation, rehabilitation, retrofitting and/or replacement of energy-inefficient technology, production of energy-efficient technologies, as well as maintenance and strengthening of land-based carbon stock and sinks, above and below ground.

Table 2: Guiding Principles EO1 Criteria

Guiding Principles for EO1
1. Activity is in line with limiting global temperature rise to no more than 1.5°C in alignment with the Paris Agreement; or 2. Activity which is not already low- or zero-emissions, may be required to demonstrate the capability of avoiding or reducing GHG emissions in line with relevant best practices compared to the baseline scenario without the mitigating action.

3.1.2. EO2: Climate Change Adaptation



Climate Change Adaptation focuses on managing expected negative effects of climate change, through identifying evidence and relevant information with regards to the impacts of climate change.

The objective of this EO is to lower the negative effects caused by climate change and increase resilience to withstand adverse physical impacts of current and future climate change, through implementation of processes or actions.

Activities must demonstrate resilience to identified negative impacts, ensure they do not cause maladaptation or undermine the adaptation efforts of others, and actively avoid increasing the physical climate risk for other stakeholders, consistent with regional adaptation finance guidance (UNEP FI, 2025). Under the context of Climate Change Adaptation, implementation of an Activity can positively promote resilience in the face of changing climates. Resilience is defined as the ability of the Activity to provide utility over time in the face of potential climate disruptions.

Table 3: Guiding Principles EO2 Criteria

Guiding Principles for EO2
1. Activity shall positively contribute to a reduction in material physical climate risk and/or shall reasonably reduce material physical risk from current and future climate change. This can include obvious physical risks, such as flooding, but also less immediately visible effects, such as impacts on health from higher temperatures. 2. Impact assessments under a broad range of climate scenarios shall be conducted to provide better understanding and insights on the effectiveness and benefits of the Activity. 3. Activity that enables adaptation of other Activities should reduce the impacts of material physical risk from other Activities and/or reduce barriers to adaptation through technology, services or products. 4. Activity must not adversely affect the adaptation efforts, or increase the physical risk, of other stakeholders. 5. Adaptation solutions should be location-specific and context-specific and shall be assessed and ranked in order of priority using the best available climate projections in order to prevent and/or reduce the adverse impacts on people, nature or assets.

3.1.3. EO3: Protection of Healthy Ecosystems and Biodiversity

Protection of Healthy Ecosystems and Biodiversity focuses on the incorporation of conservation, restoration, and protection mechanisms of the natural ecosystems and biodiversity. This is location and context specific, and typically relevant for Activities related to agriculture, forestry and fishing, real estate, and industry.

The objective of this EO is to promote positive effects and to minimise or eliminate negative effects on the natural ecosystems and biodiversity.

Activities must promote or enable restoration, conservation, and facilitate protection mechanisms of the ecosystems and biodiversity, and promote the sustainable use and protection of water and marine resources (see Annex 2).

Table 4: Guiding Principles EO3 Criteria

Guiding Principles for EO3
An Activity intended to promote EO3 shall conform with the following principles while simultaneously minimising or eliminating any *direct or indirect* adverse effects on the natural ecosystems and biodiversity: 1. Enable ecosystem restoration and/or facilitate the protection of ecosystems. 2. Implement necessary measures to protect ecosystems and biodiversity, including but not limited to actions such as the adoption of sustainable logging practices and ensuring timber products are sourced from sustainably managed forests. 3. Enforce and empower existing policies related to the protection of natural areas. 4. Take into consideration the sustainable and equitable use of biodiversity and ecosystem services. 5. Substantially contribute to environmental protection from pollution by improving levels of air, water, and/or land quality, including the cleaning up of litter and other pollution. 6. Substantially contribute to achieving good environmental status of bodies of water, through protection, preservation, or restoration mechanisms; including improving water management and efficiency activities, as well as promoting the sustainable use of water through the long-term protection of available water resources.

3.1.4. EO4: Resource Resilience and the Transition to a Circular Economy

Resource Resilience and the Transition to a Circular Economy focuses on the materiality[6] of Activities, and their impacts to business operations, through adoption of the following principles of circularity:

1. Minimising resource use;
2. Optimising resource yield; and
3. Closing resource loops through effective waste management.

An Activity may be considered as meeting this EO through one or both of the following:

1. Adjusting business operations to conserve raw materials, energy, water, and other natural resources; or
2. Implementing circular economy principles via adapted products, production, technologies, and processes.

Table 5: Guiding Principles EO4 Criteria

<table>
<tr><th>Guiding Principles for EO4</th></tr>
<tr><td>An Activity intended to promote EO4 shall fulfil, where applicable, the principles:

Strategy and Operations, Adjusting Business Models:

Uses renewable energy, bio-based resources, or other recovered materials to reduce rate of resource extraction.
Uses future-proof, sustainable considerations and specifications to design and produce products, assets or process technologies that enable circular economy strategies through:
<ol type="a">
Designing for longevity, resource efficiency, durability, functionality, modularity, upgradability, easy disassembly, and repair.
Using recyclable or biodegradable materials.
Substituting substances in materials and products throughout their lifecycle by replacing such substances, where relevant, with safer alternatives and promoting traceability.

Optimises waste management, including the management and reduction of waste from (i) the extraction of minerals, and (ii) the construction and demolition of buildings.
Optimises resource use and/or extends product use, including through:
<ol type="a">
Replacement of virgin materials with secondary raw materials or by-products, either fully or partially;
Repair, reuse, donation, resale, upcycling activities or on-site composting;
Repurposing, refurbishing, remanufacturing, disassembling, upgrading and repairing, and sharing of products.

</td></tr>
</table>

[6] In this context, materiality refers to how significantly an Activity's use of materials affects its operations and sustainability performance. It focuses on the importance of resource use, efficiency, and waste management in driving circular economy outcomes.

5. Offers product-as-a-service based on, inter alia, leasing, pay-per-use, subscription, or deposit return schemes to reduce the demand for new products and their embedded raw materials.
6. Provides for cleaner and more efficient options for waste disposal, including minimising waste incineration and disposal to landfills.

Enablers: Facilitating the Transition

1. Develops and/or improves resource optimisation / waste management infrastructure needed for re-use and recycling to increase resource efficiency and ensure recovered materials are recycled as high-quality secondary raw material.
2. Invests in the creation of a research and development (R&D) and knowledge sharing platform to increase expertise in circular economy and/or execute circular economy-related pilot projects.

Recycling and the informal sector are among the largest contributors to EO4 in ASEAN. Activities within these sectors can be classified under EO4 if they meet the principles of the ASEAN Taxonomy.

ASEAN has published a Framework for Circular Economy for the ASEAN Economic Community (ASEAN, 2021). This document incorporates three strategic goals, six strategic principles and five priorities which are shown in Table 6. Activities intended to be classified under EO4 should be aligned with these priorities, goals and principles.

Table 6: Strategic goals, principles and priorities for ASEAN

Strategic goals	Guiding principles	Strategic priorities
1. Resilient Economy 2. Resource Efficiency 3. Sustainable and Inclusive Growth	1. Promote ASEAN integration and the development of regional value chains. 2. Take into consideration the broader impact on the economy, sectors, and society. 3. Recognise the unique circumstances of each AMS whilst supporting long-term growth prospects of the region. 4. Encourage ASEAN-wide coordination on knowledge, technology transfer, and capacity-building.. 5. Evaluate financial and institutional feasibility and sustainability, including practical applications, prior to implementation. 6. Function within the reality of international production networks and linkages.	1. Standard Harmonisation and Mutual Recognition of Circular Products and Services. 2. Trade Openness and Trade Facilitation in Circular Goods and Services. 3. Enhanced Role of Innovation, Digitalisation, and Emerging/Green Technologies. 4. Competitive Sustainable Finance and Innovative ESG Investments. 5. Efficient Use of Energy and Other Resources.

3.2. Essential Criteria

Any Activity which is to be classified under the ASEAN Taxonomy must also fulfil the minimum requirements of three EC, as follows:

- EC1: Do No Significant Harm (DNSH)
- EC2: Remedial Measures to Transition (RMT)
- EC3: Social Aspects (SA)

3.2.1. EC1: Do No Significant Harm

An Activity will directly or indirectly interact with the surrounding environment. While the Activity may contribute towards an EO, it may cause unintended significant harm to the broader environment.

DNSH refers to the principle that an Activity which contributes to one EO shall also not significantly cause any harm to another EO. Assessment of DNSH to other EOs forms part of the classification assessment of an Activity and is undertaken after ascertaining the contribution of an Activity against EO-specific objectives.

For Activities to be assessed under the PS, criteria for significant harm are described in Annex 2. Guiding questions have been provided to address the DNSH aspect in the FF. However, Annex 2 can also be a useful reference for FF assessments of DNSH.

3.2.2. EC2: Remedial Measures to Transition

RMT are measures which ensure that any actual or potential significant harm is removed or rendered not significant.

If it has been assessed that an Activity may cause significant harm to an EO, RMT must be put in place. Implementation of RMT needs to be planned which will effectively remove all significant harm within 5 years from the assessment date. Comprehensive and realistic plans for RMT must be presented as part of the assessment. If significant harm is occurring or will occur, and RMT is not planned to be completed within the specified timeframe (i.e., within 5 years), the Activity is automatically classified as Red.

In both the FF and the PS, if an assessment shows that an Activity is causing or may cause significant harm, the classification will be downgraded to Amber (FF) or Amber Tier 3 (PS) respectively pending effective remediation, as described in Section 3.6.3.

3.2.3. EC3: Social Aspects

SA relates to social conditions which could potentially be harmed by an Activity.

An Activity may contribute to EOs, but during its lifecycle, may result in negative impacts on its employees or the surrounding communities. Therefore, it is important that taxonomy-alignment also involves the adherence of the Activity to the ASEAN Taxonomy Social Aspects. Under the ASEAN Taxonomy, there are three key Social Aspects (Table 7). Assessment of Social Aspects is undertaken at the Company level, as opposed to at an Activity level, as social policies are usually crafted at the Company level.

Table 7: Key Social Aspects

Social Aspects	Definition
Promotion and Protection of Human Rights	Promotion of human rights and fundamental freedoms, in line with the ASEAN Human Rights Declaration (AHRD) and the Phnom Penh Statement on the Adoption of the AHRD (ASEAN, 2012).
Labour Rights and Worker Protection	The promotion of labour rights and the prohibition of forced labour, including child labour, exploitation, trafficking in persons, violence, and abuse, align with the ASEAN Declaration on the Protection of the Rights of Migrant Workers and the ASEAN Consensus on the Protection and Promotion of Rights of Migrant Workers (ASEAN, 2012). Additionally, recognising and including informal workers in labour and social protection systems, supporting transitions to formal employment, and promoting decent work opportunities in the informal economy are consistent with the ASEAN Declaration on Promoting Competitiveness, Resilience and Agility of Workers for the Future of Work (ASEAN, 2023).
Impact on People living Close to Investments	Management of investment-related impacts on people (including children) living in at-risk areas by encouraging inclusive and targeted measures to reduce the impacts of investments on vulnerable populations and strengthen institutional capacity to address the needs of people affected, in line with the ASEAN Declaration on Strengthening Social Protection (ASEAN, 2013).

Other Social Aspects, including but not limited to poverty reduction, job creation, and human capital development, will be considered in future versions of the ASEAN Taxonomy.

An Activity intended to achieve an EO shall not inflict harm on Social Aspects. Activities should be assessed for appropriate avoidance and mitigation of potentially exploitative practices. As a minimum, Companies carrying out the Activities and any subsidiaries or branches required for the conduct of those Activities, must meet the legal social requirements of the AMS in which they are located, with due consideration of any locally specific nuances (see Annex 4).

For example, in terms of respecting labour rights; in Viet Nam, there is a legal provision that specifically recognises the right of senior employees who are in their final year prior to retirement to reduce the number of working hours in a day or to request casual or part-time employment (Socialist Republic of Viet Nam, 1994). There are also specific legislation and regulations that cater to the employment of industrial homeworkers in Thailand (Government of Thailand, 2010) and the Philippines (DOLE, 1974).

In terms of prevention of forced and child labour, Companies must set out measures against confiscation of identity documents (e.g., passports) of their migrant workers. These measures are implied in the legislations and regulations of Cambodia, Myanmar and the Philippines while explicitly stated in other AMS (ASEAN, 2020).

The principle of free, prior, and informed consent (FPIC), grounded in international human rights standards, applies globally and should be considered where relevant. Companies operating in any country where indigenous peoples or local communities may be affected are expected to respect their right to FPIC. For example, in the Philippines, companies carrying out Activities within ancestral domains or lands are required to undergo an FPIC process with Indigenous Cultural Communities/Indigenous Peoples as part of the meaningful stakeholder consultation requirements (FAO, 2006).

It is the assessor's responsibility to account for these nuances to uphold a complete assessment of Social Aspects across AMS. Guidance on the assessment of Social Aspects is further explored in Section 4.5.

3.3. Assessment frames

The frames for assessment under the ASEAN Taxonomy are the principles-based FF that allows for a qualitative assessment of Activities, and the PS which uses TSC to classify Activities as either Green or Amber.

3.3.1. Foundation Framework

The FF uses a principles-based assessment of Activities, assisted by guiding questions. An illustrative example of assessments under the ASEAN Taxonomy is provided in Section 5.3. The principles-based nature of the FF allows for assessment and classification of Activities to be performed despite challenges in availability and accessibility of data.

3.3.2. Plus Standard

The PS frame was designed to be more robust, using both threshold-based (quantitative) and process- or practice-based (qualitative) TSC. The TSC, as relevant, allow for the classification of Activities into three Tiers, which represent the respective green and amber policies of different AMS and consider the current state of technology and development across ASEAN. Illustrative examples of assessments using the PS frame is provided in Annex 7.

3.4. Activities

The ASEAN Taxonomy does not provide specific instructions on the classification of entities, portfolios, or financial instruments, as this document is intended to focus on the classification of Activities. Reporting methods for entities and portfolios and financial instruments are covered in Chapter 0.

An Activity is defined in the ASEAN Taxonomy as an action and not as the assets used to perform that action. For an Activity to be classified Green, Amber T2 or Amber T3 under the ASEAN Taxonomy, it must be demonstrated that the assets are used only for an Activity which meets the TSC of the intended classification. If the assets are also used for another purpose which does not meet the relevant TSC, the Activity may not receive that classification. For instance, for power generation, the Activity is the generation of electricity and not the equipment/assets installed to generate the electricity. Similarly, classification depends on achievement of TSC based on the output of the power generation facility.

A list of all Activities for which Tiers and TSC have been defined for assessment under the PS is shown in Annex 1. Any Activity can be assessed under the FF, even if it is not listed in Annex 1.

3.5. Technical Screening Criteria

The ASEAN Taxonomy has defined TSC for a range of Activities. These TSC are used in the PS to assess and classify Activities as Green, Amber T2 or Amber T3 based on their contributions to EOs. Activities are classified as Red if they fail to meet either Green or Amber TSC.

The Activities and their associated TSC are set out in Annex 1. Annex 1 is not exhaustive and will be expanded with new Activities over time as the ATB continues to develop TSC for Activities in other focus sectors. There are three main methods by which TSC are defined (Table 8).

Table 8: Details on the different methods of defining TSC for Activities

Method	Description / Definition
Quantitative	• Impact based: minimum requirements for the impact (effect) on the environment of carrying out the Activity (e.g., GHG emissions savings). • Performance in relation to the environmental target: minimum threshold for the environmental performance of the Activity (e.g., a level of GHG emissions per unit of Activity aligned with a climate neutral economy). • Best in class performance: minimum threshold (best in class) for the environmental performance of the Activity (e.g., a level of GHG emissions per unit of activity that only the best 10% market players achieve). • Relative improvement: minimum improvement threshold for the environmental performance of the Activity (e.g., reduction of GHG emissions per unit of Activity). • Note that, in the ASEAN Taxonomy, 'threshold' relates to quantitative TSC only.
Qualitative	• Practice based: a set of practices (best practice) for the Activity (e.g., compliance with a set of qualitative criteria, code of conduct etc.). • Process based: a set of process-based steps (e.g., a set of actions or points of focus that need to be addressed).
Nature of the Activity	• An Activity that is automatically considered to be aligned with the respective classification due to the proven contribution of that Activity (e.g., Activity that would always meet TSC, such as solar and wind energy).

The method for TSC setting may vary across Activities and EOs and certain Activities may be more naturally suited to certain types of TSC. TSC are subject to periodic review and adjustment through a process which is described in Annex 6.

3.6. Classification system

The terms 'classification' and 'Tier' have different meanings under the ASEAN Taxonomy:

- 'Classification' relates to an Activity; where the classification of an Activity is an indication of its contribution to an EO under both the FF and the PS;
- 'Tiers' relates to the different levels of TSC defined by the PS (Tiers are not used in the FF).

Under the PS:

- An Activity which meets Tier 1 TSC may be classified Green under the PS; and
- An Activity which meets Tier 2 or Tier 3 TSC may be classified Amber under the PS (referred to as either 'Amber T2' or 'Amber T3', respectively).

3.6.1. Classification for the FF and PS

The FF and the PS both use colour-coded classification systems that represent different levels of contribution to an EO by an Activity. Classifications are divided into Green, Amber, and Red.

A Green classification means that the Activity is making a substantial contribution to the EO.

The Amber classification is present in both frames. In the PS, it is used to denote 'transitional' Activities. Amber Activities, while not meeting Green classification criteria, represent a progressive movement on the path to a more sustainable ASEAN with due consideration to the practicalities of implementing sustainable Activities. AMS may opt to begin with lower Tiers (2 or 3) for a limited period before progressing to Tier 1. Therefore, 'transitional' tiers i.e., Tiers 2 and 3 encourage continued progression towards a sustainable future.

In both the PS and the FF, an Amber classification may also be used to temporarily classify an Activity for which some remediation of harm is outstanding (see Section 3.6.3).

A Red classification means that the Activity is not aligned to any of the EOs or causes significant harm to any of the EOs. There is no Tier aligned with Red classification under the PS.

A summary of classification options is shown in Table 9.

Table 9: Summary of Classification

For the FF
• There are no defined Tiers or TSC. • An Activity may be assessed as Green in line with principles-based guiding questions. • An Activity which does not meet the principles for Green must be classified as Red. • An Activity which meets the principles for Green classification may be temporarily classified as Amber if there is outstanding unremediated harm.
For the PS
• TSC for Tier 1 are aligned with the Green classification. • TSC for Tier 2 and Tier 3 are aligned with the Amber classification; this effectively results in two levels of Amber classification: Amber Tier 2 and Amber Tier 3. • An Activity which does not meet TSC for Green, Amber Tier 2 or Amber Tier 3, must be assessed as Red. • An Activity which meets the TSC for Green or Amber classification may be temporarily classified as Amber Tier 3 if there is outstanding unremediated harm.

3.6.2. Tiers for the PS

Note that the ASEAN Taxonomy does not necessarily set TSC for all three Tiers for every Activity. If TSC are not defined for an Activity Tier, that Activity cannot be classified using that Tier under the PS. For example, if TSC has been defined for Tier 1 of an Activity, but not for Tier 2 and Tier 3, that Activity can be classified as Green, but not as Amber.

Tiers 2 and 3 will be gradually sunset over time for all Activities; the aim of the ASEAN Taxonomy is to migrate all Activities to Tier 1. Guidelines related to the sunsetting of Activity Tiers are described in Annex 6.

General guidelines for Tier setting and detailed TSC for each Activity within each Tier can be found in Annex 1.

3.6.3. Impact of DNSH and RMT on classification status

Classification of Activities can also be affected by the DNSH and RMT status of the proposed Activities. This applies to both the FF and the PS.

An Activity will be classified as Amber (or Amber Tier 3 in the PS) if the Activity is causing or may cause significant harm. Comprehensive and realistic plans showing how the harm will be effectively remediated within 5 years must be presented. If no such plans are available, the Activity will be classified as Red. With RMT, the Activity will remain classified as Amber (or Amber Tier 3 in the PS) until the significant harm has been effectively remediated, or five years have passed from the assessment date. If the significant harm has not been effectively remediated within five years of assessment, the Activity will be re-classified as Red.

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4. GUIDANCE FOR THE ASSESSMENT OF ACTIVITIES

4.1. Assessment frame

4.1.1. Generic assessment of an activity

Both the FF and the PS assessment frames seek to address the following questions:

- Does the Activity meet the principles of at least one of the EOs?
- Does the Activity avoid actual or potential significant harm to any of the other EOs?
- Where the Activity causes or may cause significant harm, was the harm remediated?
- If the harm has not yet been remediated, will it be remediated within the defined period?
- Will the Activity meet all the criteria under Social Aspects?

4.1.2. Selecting assessment frames

The ATB does not provide direction as to which frame should be used for assessment. However, if an Activity does not have TSC defined under the PS, that Activity can by default only be assessed under the FF.

For Activities where there are TSC defined in the PS, the Company needs to decide on the appropriate assessment approach with due consideration of country-level preference.

Each AMS has the prerogative to decide on the application of the ASEAN Taxonomy and may state or establish as policy its preference for the PS to be used as the primary assessment frame. Where an Activity takes place in more than one AMS, the more restrictive AMS policy will apply, e.g., where one AMS has stated it prefers to use the PS, but another AMS has not, the PS will normally be used.

If TSC have not been set for an Activity, it may only be assessed under the FF. if an AMS has not established the PS as the primary assessment approach, the Company may still choose to undergo an assessment under the PS. However, if an AMS policy has established the use of the PS, but the Company wishes to use the FF, the Company must provide justification for using the FF. A recommended process is illustrated in Figure 4.

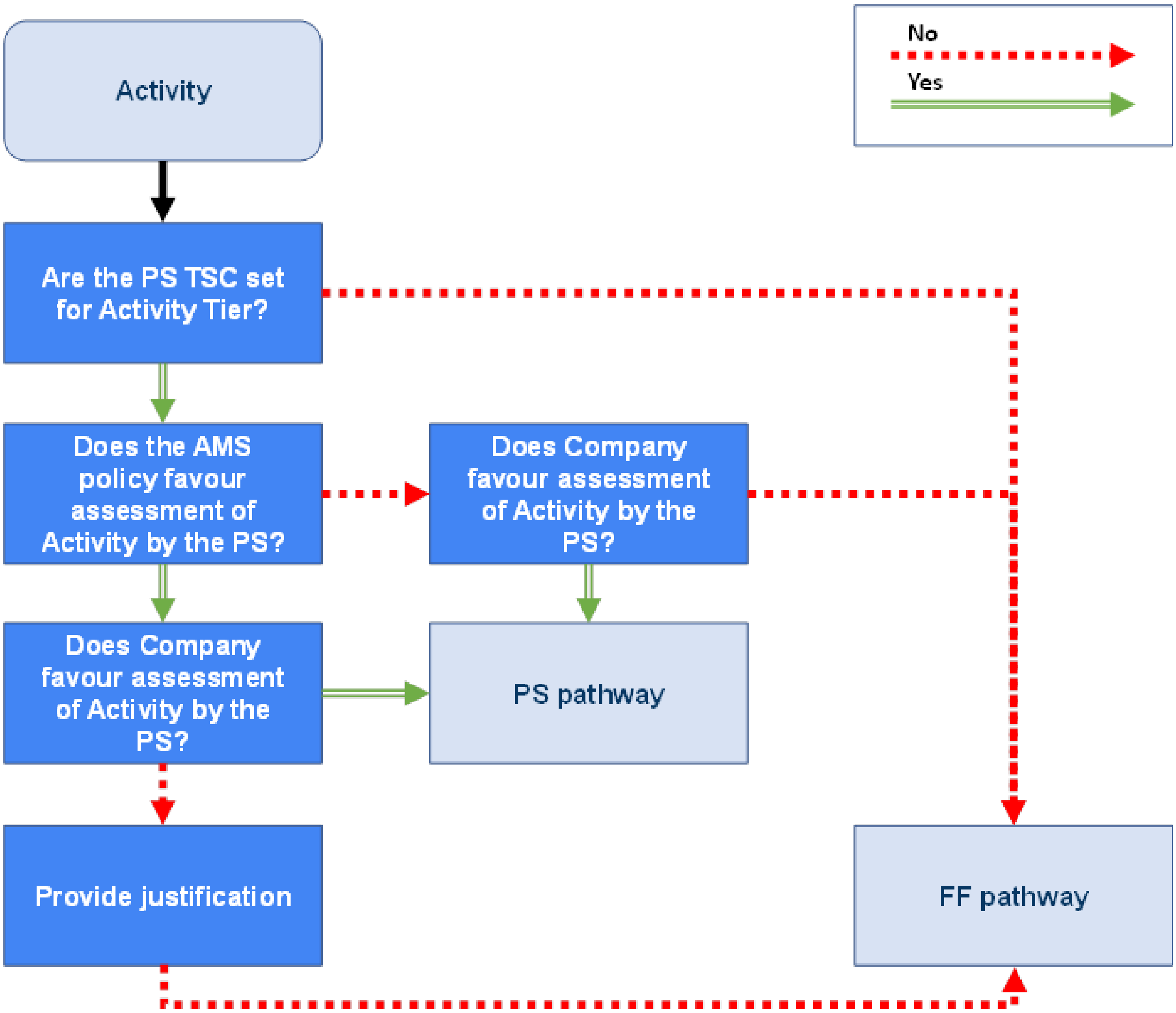


Figure 4: Recommended process for Choice of the FF or the PS

If the AMS policy has established the PS as the primary assessment frame, assessment of Activities may only be conducted using the FF in exceptional circumstances and where an assessment using the PS would be effectively impossible. In this case, the Company must present justification for using the FF to assess the Activity, which must include one of the following:

- The data required to perform an assessment under the PS cannot be obtained in the respective AMS after all reasonable attempts are made to secure such data.
- The data to perform an assessment under the PS cannot be verified or certified in accordance with regional and/or international standards.

In these circumstances, the assessor will take a position as to whether the justifications provided by the Company for using the FF are legitimate and proceed accordingly.

4.1.3. Primacy of AMS in setting of policy

The ATB recognises the primacy of AMS in the setting of policy which affects their own jurisdiction. Notwithstanding all of the above, it is incumbent on the Company to ensure that any proposed Activity to be conducted in ASEAN is aligned with the strategic interests of the AMS in which the Activity takes place, as well as considering any technical, permitting and other requirements. Each AMS is responsible for setting out and enforcing any specific requirements for users of the ASEAN Taxonomy within its jurisdiction.

4.2. User entry point

Some Activities may in principle be aligned with more than one EO. In such cases, the assessment may cite all applicable EOs. However, one EO must be stated as the primary EO against which the Activity is assessed. The Company should state which EO is to be regarded as primary at the time of assessment with due consideration to the recommendation of the assessor.

In determining the primary EO, Companies may consider various viewpoints such as alignment of the Activity with the Company as well as with national priorities. Companies should also consider the strategic priorities of other entities with an interest in the outcome of the assessment.

Table 10 outlines three common viewpoints accompanied by their relevant guiding questions to support the identification of the most relevant EO. Companies may use one or more of the viewpoints and consider one or more EO according to their strategic priority.

Table 10: Assessment User Viewpoints

<table>
<tr><th>1. Activity Relevance and Strategic Alignment</th><th>2. Investors / Financial Institutions' Priority</th><th>3. Government and Industry Guidance</th></tr>
<tr><td>• Which EO is most relevant to the nature of the Activity?
• What is the strategic focus of the Company?
• Which EO(s) is most aligned to the Company's strategic focus?</td><td>• What is the capital providers' priority and financing strategy?
• Which EO(s) is most aligned to the capital providers' priority and strategy?</td><td>• Has the government issued any guidance (including policies, roadmaps and guidelines) which indicates that this Activity contributes to a specific EO under their NDC or national plan?
• Is there guidance (including policies, roadmaps and guidelines) from the sectoral bodies which indicates that this Activity contributes to a specific EO under their sectoral plan?</td></tr>
<tr><td colspan="3">• Companies should use their judgement, given the responses to the questions, to determine which EO is the most relevant to the Activity being assessed.
• Companies can refer to the guiding questions and narrative for each EO to better understand its relevance.</td></tr>
</table>

Illustrative examples of applying the guiding questions for user entry point can be referenced under Annex 7.

4.3. Assessment using the FF

4.3.1. Illustrative end-to-end process assessment of an Activity using the FF

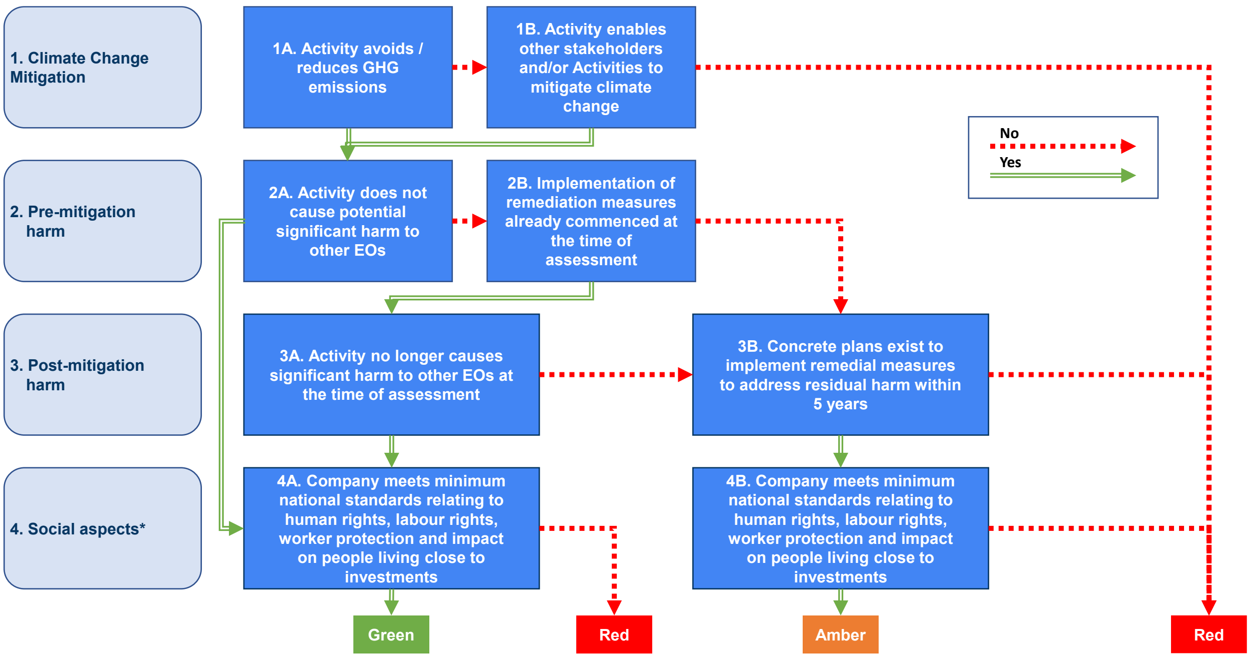
Based on the primary EO identified at the user entry point (see Section 4.2), the Company can identify the corresponding decision tree (of the primary EO) to proceed with assessment of Activities.

In total, there are four decision trees, and each decision tree is developed based on specific criteria of the EO elaborated in Sections 3.1.1 to 3.1.4.

The Company assesses the Activity beginning with Question 1A and with reference to respective guiding questions, which serve to guide the Company. Implementation of guiding questions for the EOs and ECs need to suit the local environment and circumstances.

Details of the individual decision trees along with guiding questions are in Sections 4.3.2 to 4.3.5. Refer to Annex 7 for examples of assessment of Activities using the FF.

4.3.2. EO1 assessment under the FF



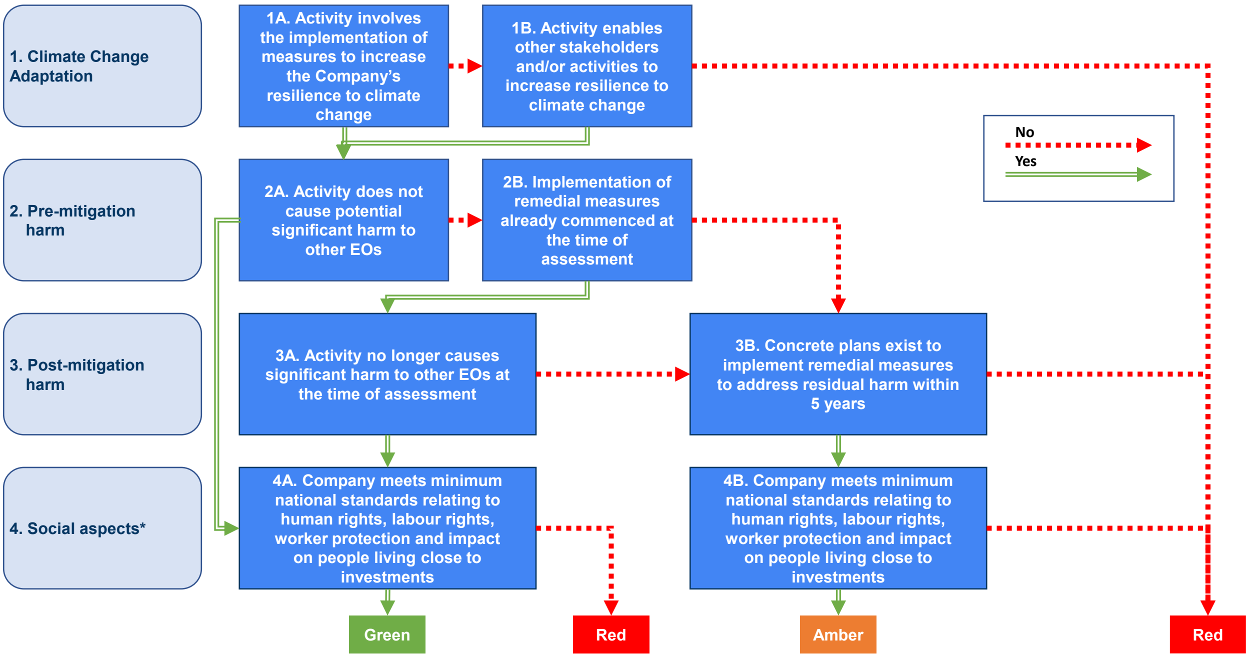
* Social Aspects (4) assessment is done at Company-level, while all other assessments (1 – 3) are conducted at Activity level.

Figure 5: The EO1 Decision Tree

Table 11: Guiding Questions for EO1

S/N	Guiding questions – EO1 (Climate Change Mitigation)
1A	Does the Activity avoid / reduce GHG emissions? 1. How does the Activity avoid or help reduce emissions? (e.g., generation of electricity through renewables). ○ Does the Activity avoid locking in high-carbon activity? (i.e., delaying or preventing the transition towards low carbon alternatives). ○ Does the Activity avoid leading to significant GHG emissions, including CO2, CH4, N2O, SF6, NF3 and/or HFCs? ○ Does the Activity avoid leading to or causing extensive deforestation practices? 2. Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified EO1 principles? 3. Where applicable and relevant, is a 3rd party certification or verification of alignment of Activity with EO1 available? 4. Does the Activity fulfil relevant environmental law(s) applicable to EO1? 5. Are the effects of Climate Change Mitigation efforts measurable and observable? (e.g., data on amount of carbon emissions avoided).
1B	Does the Activity enable other stakeholders and/or other Activities to mitigate climate change? 1. Does the Activity help other stakeholders (including the community) to mitigate climate change? (e.g., construction of a building that facilitates urban planting). ○ Does the Activity avoid impeding upstream and/or downstream stakeholders from reducing their GHG emissions? 2. Does the Activity promote intersectoral collaborations for Climate Change Mitigation without negatively affecting other sectors? 3. How does the Activity enable other Activities to mitigate climate change? (e.g., operation of power transmission and distribution equipment that enables the incorporation of solar power). 4. Are the effects of Climate Change Mitigation efforts by the enabled Activity measurable and observable? (e.g., data on amount of carbon emissions avoided).
• Once evaluation is complete, proceed to Section 4.3.6 to evaluate the Activity under DNSH and RMT.	

4.3.3. EO2 assessment under the FF



* Social Aspects (4) assessment is done at Company-level, while all other assessments (1 – 3) are conducted at Activity level.

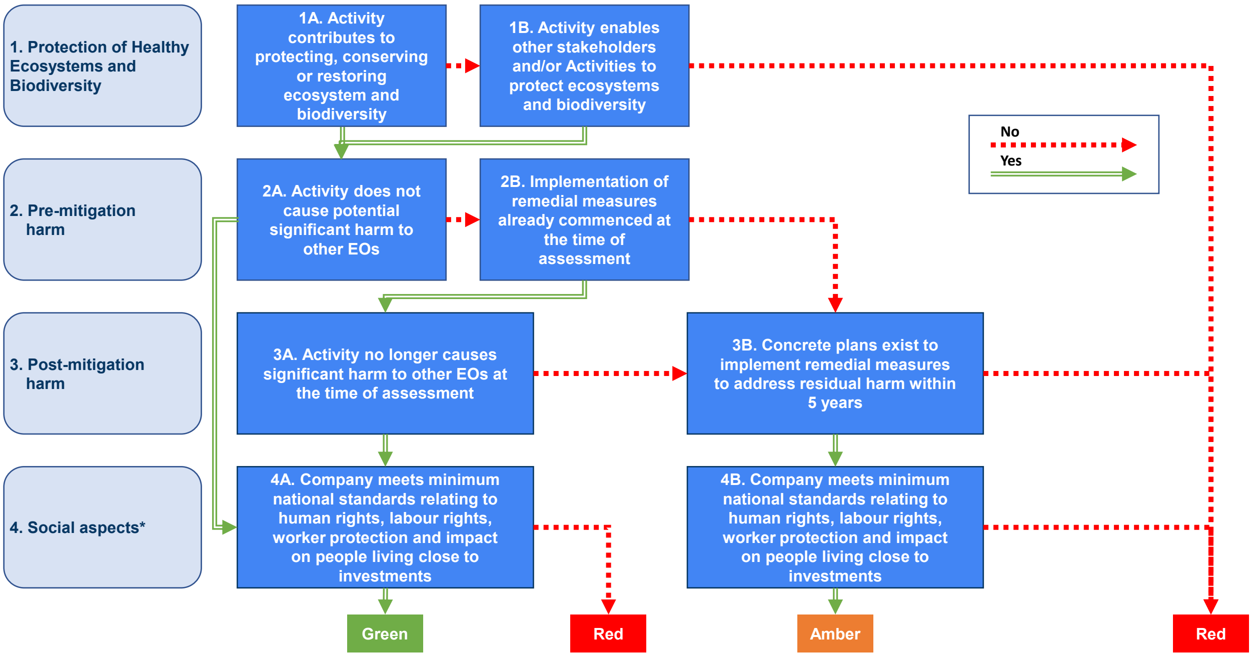
Figure 6: The EO2 Decision Tree

Table 12: Guiding Questions for EO2

S/N	Guiding questions - EO2 (Climate Change Adaptation)
1A	Does the Activity implement measures to increase the Company's resilience to climate change? 1. How does the Activity contribute to Company's resilience against adverse physical impacts of current and future climate change? (e.g., refurbishing infrastructure for greater resilience to impacts of sea level rise, building flood protection infrastructure to protect facilities, operation of road and rail adapted to current and future heatwaves through the use of more heat-resistant materials during its construction). ○ Has a climate risk assessment been conducted to establish the Activity's risk exposure towards physical climate risks? ○ Has robust and recent climate data, projections and scenarios been used for the assessment? ○ Do the results of the climate risk assessment showcase the impacts of climate change on the Activity? Is it a positive or negative impact? ○ Does the Activity align with entity or national level climate adaptation plans? ○ Does the Activity consider the expected future climate in its current and planned practices? ○ Does the Activity avoid leading to an increase in the vulnerability of human or natural systems due to the effects of climate change and climate variability–related risks? 2. Does the Activity avoid leading to an increased adverse impact of the current climate and the expected future climate, on the Activity itself or on people, nature or assets? 3. Does the Activity avoid impeding the adjustment to actual and expected climate

	change and its impacts? 4. Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified EO2 principles? 5. Where applicable and relevant, is a 3rd party certification or verification of alignment of Activity with EO2 available? 6. Does the Activity fulfil relevant environmental law(s) applicable to EO2? 7. Is the reduction and/or prevention of increase in climate physical risks measurable and observable? (e.g., data on monthly transport accidents caused by natural disasters against maintenance activities delivered, data on houses repaired due to floods against budget increase for building safeguards).
1B	Does the Activity enable other stakeholders and/or Activities to increase resilience to climate change? 1. Does the Activity help other stakeholders (including the community) to reduce/manage physical risks? (e.g., provision of infrastructure to facilitate Climate Change Adaptation of stakeholders). ○ Does the Activity avoid impeding upstream and/or downstream stakeholders from increasing their resilience to climate change? 2. Does it promote intersectoral collaborations for Climate Change Adaptation without negatively affecting other sectors? 3. How does the Activity enable other Activities to reduce material physical risks? (e.g., removal of technological barriers to adaptation, Activity which primarily provides installation of irrigation systems and improved land drainage measures that lead to reduced exposure to physical climate risks). 4. Has a climate risk assessment been conducted on the enabled Activity's risk exposure towards physical climate risks? ○ Has robust and recent climate data, projections and scenarios been used for the assessment? ○ Do the results of the climate risk assessment showcase the impacts of climate change on the enabled Activity? Is it a positive or negative impact?
• Once evaluation is complete, proceed to the Section 4.3.6 to evaluate the Activity under DNSH and RMT.	

4.3.4. EO3 assessment under the FF



* Social Aspects (4) assessment is done at Company-level, while all other assessments (1 – 3) are conducted at Activity level.

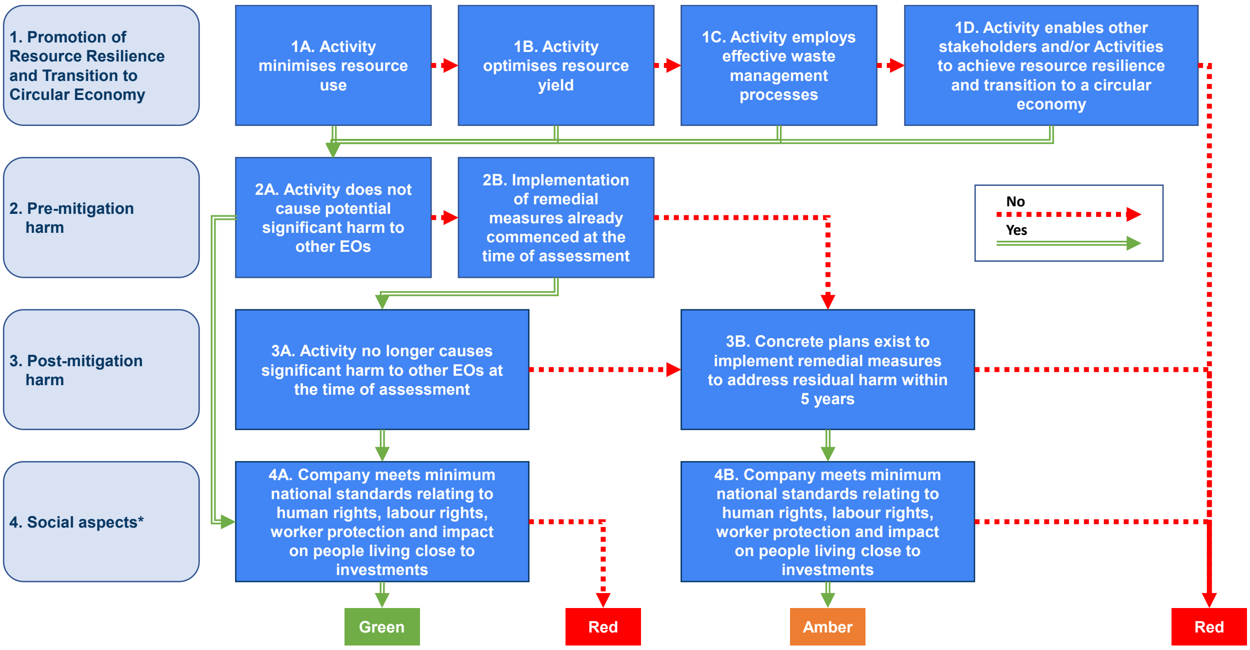
Figure 7: The EO3 Decision Tree

Table 13: Guiding Questions for EO3

S/N	Guiding questions - EO3 (Protection of Healthy Ecosystems and Biodiversity)
1A	Does the Activity contribute to protecting, conserving, or restoring ecosystems and biodiversity? 1. Which specific principles under EO3 does the Activity meet or contribute to? ○ How does the Activity contribute to these principles? 2. Does the Activity minimise or eliminate negative effects of operations on the natural ecosystem and biodiversity? ○ Is the Activity significantly detrimental to the good condition and resilience of ecosystems? ○ Does the Activity avoid leading to a significant increase in pollutant emissions into the air, land and/or natural bodies of water? ○ Does the Activity avoid involving the over-exploitation of natural resources? ○ Does the Activity avoid involving prohibited land use? ○ Is the Activity detrimental to the natural ecosystem's physical, chemical and biological quality, thus impeding self-reproduction and self-restoration capability of the occupying species? ○ Does the Activity avoid impairing natural species composition, ecosystem structure and ecological functions? ○ Is the Activity detrimental to the conservation status of habitats and species within the natural ecosystem? (e.g., inhibition to the dynamic complex of plant, animal and microorganism communities and their non-living environment interacting as a functional unit). 3. Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified EO3 principles? (e.g., employment of services from subcontractors, suppliers and/or third parties with practices

	detrimental to the natural ecosystem and biodiversity). 4. Is a 3rd party certification or verification of alignment of Activity with EO3 available? 5. Does the Activity fulfil relevant environmental law(s) applicable to the specified EO3 principles? 6. Is the protection of ecosystems and biodiversity measurable and observable? (e.g., number of trees reforested, land area of habitats protected).
1B	Does the Activity enable other stakeholders and/or other Activities to protect ecosystems and biodiversity? 1. Does the Activity help other stakeholders (including the community) to protect ecosystems and biodiversity? ○ Does the Activity avoid impeding upstream and/or downstream stakeholders from protecting ecosystems and biodiversity? 2. Does the Activity promote intersectoral collaborations for protecting biodiversity and ecosystems without negatively affecting other sectors? 3. How does the Activity enable other Activities to protect ecosystems and biodiversity? 4. Is the protection of ecosystems and biodiversity by the enabled Activity measurable and observable? (e.g., number of trees reforested, land area of habitats protected).
• Once evaluation is complete, proceed to the Section 4.3.6 to evaluate the Activity under DNSH and RMT.	

4.3.5. EO4 assessment under the FF



* Social Aspects (4) assessment is done at Company-level, while all other assessments (1 – 3) are conducted at Activity level.

Figure 8: The EO4 Decision Tree

Table 14: Guiding Questions for EO4

<table>
<tr><th>S/N</th><th colspan="2">Guiding questions - EO4 (Promotion of Resource Resilience and Transition to Circular Economy)</th></tr>
<tr><td>1A</td><td>Does the Activity minimise resource use? (e.g., operation of a manufacturing plant that uses alternative fuels from waste material).
1. Does the Activity use renewable energy, bio-based resources or other recovered materials to reduce the rate of resource extraction?
2. Is the building of resource resilience and transition to circular economy measurable and observable?</td><td rowspan="3">Questions applicable to 1A, 1B and 1C:
1. Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified EO4 principle?
2. Is a 3rd party certification or verification of alignment of Activity with EO4 available?
3. Does the Activity fulfil relevant environmental law(s) applicable to the specified EO4 principle?
4. Does the Activity avoid inhibiting the maintenance of value, the efficient use in production and consumption, the reduction of environmental impact and the minimising of waste of products, materials and other resources in the economy?
5. Does the Activity avoid involving the release of hazardous substances at all stages of their lifecycle?</td></tr>
<tr><td>1B</td><td>Does the Activity optimise resource yield? (e.g., operation of a plantation that employs fertiliser application techniques to optimise crop yield).
1. Does the Activity extend the use of products through reuse, repurposing, refurbishing, remanufacturing, disassembly, upgrades and repair, and/or sharing of products?
2. Does the Activity increase resource efficiency by ensuring recovered materials are recycled as high-quality secondary raw material?
3. Is the Activity made available as product-as-a-service to reduce the demand for new products and their embedded raw materials? (e.g., inter alia, leasing, pay-per-use, subscription or deposit return schemes).
4. Does the Activity involve the use of products, assets or process technologies designed and produced based on circular economy principles? (e.g., designing for longevity, resource efficiency, durability, functionality, modularity, upgradability, easy disassembly and repair, using recyclable or biodegradable materials).
5. Does the Activity avoid leading to significant inefficiencies in the use of materials or in the direct or indirect use of natural resources at one or more stages of the product lifecycle?
6. Is the building of resource resilience and transition to circular economy measurable and observable?</td></tr>
<tr><td>1C</td><td>Does the Activity employ effective waste management processes? (e.g., operation of a manufacturing plant with systems that minimise the leaching out of nutrients from the production system into the environment, refurbishment and recycling features).
1. Does the Activity reduce waste generation, including through:</td></tr>
</table>

	○ replacement of virgin materials with secondary raw materials or by-products, either fully or partially? ○ repair, reuse, donation, resale, upcycling activities or on-site composting? 2. Is the building of resource resilience and transition to circular economy measurable and observable? 3. Does the Activity apply the waste hierarchy of priority order in the prevention and management of waste materials? ○ Prevention ○ Preparing for re-use ○ Recycling ○ Other forms of recovery, e.g., energy recovery ○ Disposal 4. Does the Activity avoid leading to a significant increase in the generation, incineration or disposal of waste? 5. Does the long-term disposal of waste resulting from the Activity avoid causing significant and long-term harm to the environment?	
1D	Does the Activity enable other stakeholders and/or Activities to achieve resource resilience and transition to a circular economy? 6. Does the Activity help other stakeholders (including the community) to build resource resilience and transition to a circular economy? ○ Does the Activity avoid impeding upstream and/or downstream stakeholders from building resource resilience and transition to a circular economy? 7. Does it promote intersectoral collaborations for resource resilience and circular economy transitions without negatively affecting other sectors? 8. How does the Activity enable other Activities to build resource resilience and transition to a circular economy? 9. Is the building of resource resilience and transition to circular economy of the enabled Activity measurable and observable? (e.g., recovery, reuse and recycle rates).	
• Once evaluation is complete, proceed to Section 4.3.6 to evaluate the Activity under DNSH and RMT.		

4.3.6. Assessment of Essential Criteria

Following the EO assessment (Sections 4.3.2 to 4.3.5), the assessor proceeds to the next layer of the decision tree and assesses the Activity against EC1 – as shown in decision boxes 2A and 3A, EC2 – as shown in decision boxes 2B and 3B, and EC3 – as shown in decision boxes 4A and 4B; with reference to the respective guiding questions (Table 15).

Similar to assessment of the EO, where readily available, 3rd party certification or verification can be used to justify eligibility in meeting the EC.

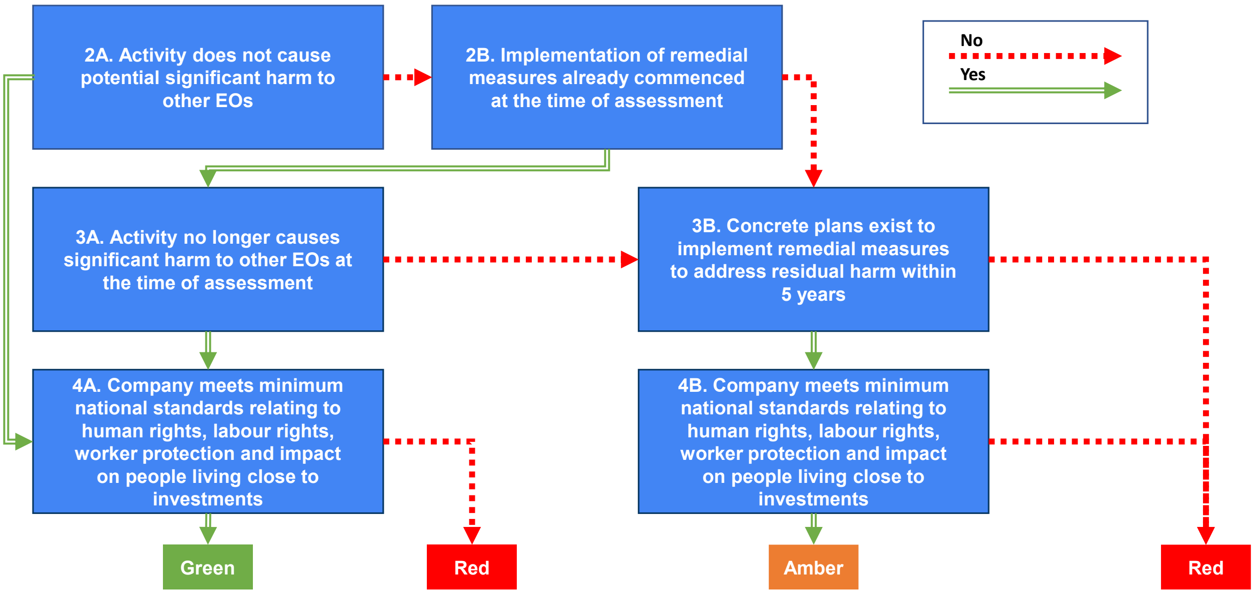


Figure 9: The logic flow and decision-tree diagram for assessing essential criteria

Table 15: Guiding details to the decision box in the flow diagram

Decision Box	Details to Guide Decision
2A. Activity does not cause potential significant harm to other EOs.	The Activity potentially causes harm to EOs other than the one it is being assessed against. It is important to understand the significance of the harm caused by the Activity based on the materiality of the harm to each EO. The assessor should consider whether the degree (i.e., severity) of the harm and scale of the harm when the Activity commences (i.e., the date of the notice to proceed) would reasonably indicate that the harm is material.
2B. Implementation of remedial measures already commenced at the time of assessment.	The Company implementing the Activity has recognised the potential for, or the occurrence of significant harm, and has already started to implement remedial measures to reduce harm at the time of assessment.
3A. Activity no longer causes significant harm to other EOs at the time of assessment.	The implementation of remedial measures adequately mitigates/addresses the harm caused and the Activity no longer causes significant harm to other EOs.
3B. Concrete plan exists to implement remedial measures to address residual harm within 5 years.	The implementation of remedial measures does not adequately mitigate or address the harm caused and as such, the Company has established concrete plans for additional remedial measures to address remaining harm within 5 years.
4A/4B. The Company meets minimum national standards relating to	The Company has recognised the impacts of its Activity on its employees and surrounding communities, and has met national standards relating to human rights, forced labour,

human rights, labour rights, worker protection and impact on people living close to investments.	child labour, informal labour and impact on people living close to investments.

Each decision box within the decision tree (Figure 9) contains a binary question that the assessor will need to answer. The assessor answers ‘Yes’ or ‘No’ to the binary question based on information pertaining to the Activity being assessed. Table 16 shows generic guiding questions which may relate to any EO.

Table 16: General guiding questions for EC1 (DNSH)

S/N	Guiding questions - Essential Criteria 1 (Do No Significant Harm)
2A	Does the Activity avoid causing potential significant harm to other EOs? 1. Has an Environmental Impact Assessment (EIA) been conducted and approved for the Activity? 2. What are the results of the EIA and where do the impacts of the Activity lie? 3. Have the remedial measures recommended within the EIA been implemented? 4. Regardless of whether an EIA has been conducted or not, is there any evidence or consideration that suggests the Activity could cause potential significant harm to other EOs?

The assessor must determine which of the three remaining EOs (other than the one to which it contributes) will experience significant harm because of the Activity. The assessor must then refer to the guiding questions in Table 17 to assess whether significant harm has been caused. associated with the specific EO(s).

Table 17: EO Specific guiding questions for EC1 (DNSH)

EO	Guiding questions - Essential Criteria 1 (Do No Significant Harm)
2A EO1	1. Does the Activity avoid significant GHG emissions, including CO_2, CH_4, N_2O, SF6, NF_3 and/or HFCs? 2. Does the Activity avoid leading to or causing extensive deforestation practices? 3. Does the Activity avoid impeding upstream and/or downstream stakeholders from reducing their GHG emissions?
2A EO2	1. Does the Activity avoid leading to an increase in the vulnerability of human or natural systems due to the effects of climate change and climate variability-related risks? 2. Does the Activity avoid impeding upstream and/or downstream stakeholders from increasing their resilience to climate change? 3. Does the Activity avoid an increased adverse impact of the current climate and the expected future climate, on the Activity itself or on people, nature or assets? 4. Does the Activity avoid impeding the adjustment to actual and expected climate change and its impacts? 5. Does the Activity consider the expected future climate in its current and planned practices?
2A EO3	1. Is the Activity significantly detrimental to the good condition and resilience of ecosystems? 2. Does the Activity avoid leading to a significant increase in pollutant emissions into the air, land and/or natural bodies of water, relative to the situation before the commencement of said economic Activity? 3. Does the Activity avoid involving the over-exploitation of natural resources? 4. Does the Activity avoid involving prohibited land use? 5. Is the Activity detrimental to the natural ecosystem's physical, chemical and biological quality, thus impeding self-reproduction and self-restoration capability of the occupying species? 6. Does the Activity avoid impairing natural species composition, ecosystem structure and ecological functions? 7. Is the Activity detrimental to the conservation status of habitats and species within the natural ecosystem? (i.e., inhibitions to the dynamic complex of plant, animal and

	microorganism communities and their non-living environment interacting as a functional unit). 8. Does the Activity avoid impeding upstream and/or downstream stakeholders from protecting ecosystems and biodiversity?
2A EO4	1. Does the Activity avoid inhibiting the maintenance of value, the efficient use in production and consumption, the reduction of environmental impact and the minimisation of waste of products, materials and other resources in the economy? 2. Does the Activity avoid releasing hazardous substances at all stages of its lifecycle? 3. Does the Activity apply the waste hierarchy of priority order in the prevention and management of waste materials? ○ Prevention ○ Preparing for re-use ○ Recycling ○ Other forms of recovery, e.g., energy recovery ○ Disposal 4. Does the Activity avoid significant inefficiencies in the use of materials or the direct or indirect use of natural resources at one or more stages of the product lifecycle? 5. Does the Activity avoid leading to a significant increase in the generation, incineration or disposal of waste? 6. Does the long-term disposal of waste resulting from the Activity avoid causing significant and long-term harm to the environment? 7. Does the Activity avoid impeding upstream and/or downstream stakeholders from building resource resilience and transition to a circular economy?

Table 18: Guiding questions for EC2 (RMT)

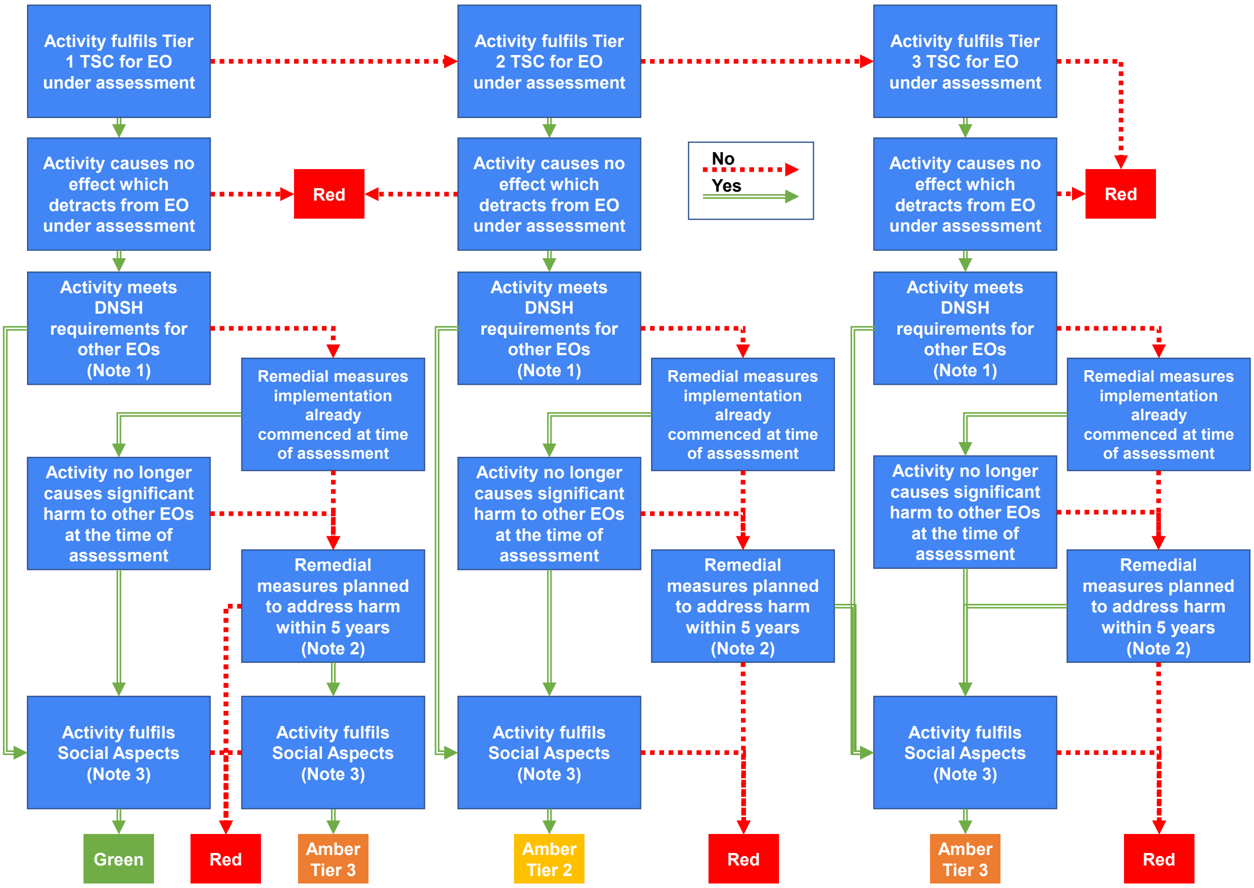
S/N	Guiding questions - Essential Criteria 2 (Remedial Measures to Transition)
2B	Have remedial measures already started to be implemented at the time of assessment? 1. Does the Activity remediate risks and impacts through, for example compliance with relevant (national) environmental law(s), internal policies and processes, implementation of additional measures that reduce harm? 2. What are these proposed actions and their contributions to remediation (e.g., avoidance, minimisation and reduction)? 3. Is there available technology for this Activity in place for compliant risk management measures against the adverse effects of climate change? 4. If the Activity is new and has yet to commence, consider whether there are planned remedial measures already in place to address the potential harm.
3A	Does the Activity no longer cause significant harm to other EOs at the time of assessment? 1. 'Residual harm' refers to any harm that remains even after compliance with the relevant environmental laws and Company's processes and policies, as well as implementation of any other measures on top of compliance.
3B	Are there concrete plans established for remedial measures to address the residual harm within a defined timeframe (i.e., within 5 years)? 1. Do the planned remedial measures fall within the defined timeframe? 2. What is the expected output for tracking and monitoring results (e.g., annual reports, sustainability reports, other publications)? 3. Are the remedial measures and assessments done appropriate/proportionate to the business' scale of operations and industry benchmarks? 4. Who are the direct stakeholders involved in the Activity's supply chain? What are these proposed actions and their contributions to remediation (e.g., avoidance, minimisation and reduction)?

The assessor is required to answer all relevant guiding questions with 'yes' to pass the EC1 and EC2 assessment.

The assessor can first determine which of the three remaining EOs (other than the one to which it contributes) will experience significant harm because of the Activity. The assessor can then refer to the guiding questions associated with the specific EO(s) to assess whether significant harm has been caused. Details on the assessment of Social Aspects, which is applicable for both the PS and the FF, are in Section 4.5.

4.4. Assessment using the PS

If an Activity is to be assessed by the PS, the Company is required to provide evidence of the fulfilment of the terms of the EO (or EOs), DNSH (if material), RMT (if applicable) and Social Aspects under the terms of the ASEAN Taxonomy (see Figure 10).



Notes

1. DNSH Requirements are the same for all Tiers
2. Activity must be re-assessed to ensure harm has been remediated within 5 years
3. Social Aspects are the same for all Tiers

Figure 10: PS Assessment Tree

4.4.1. Applicability of TSC

Activities are typically assessed against the TSC which are in effect at the time of the assessment. However, if the Activity has not yet commenced:

- If TSC which will apply at the time of commencement are known at the time of assessment, the Activity should be classified according to the TSC which will apply at commencement.
- If the TSC which will apply at the time of commencement are not known at the time of classification, the Activity should be assessed according to the TSC currently in force; if TSC change after assessment and before commencement, an updated assessment should be conducted and the Activity reclassified accordingly.

TSC in force at the time of assessment will be subject to the rules set out in Chapter 5. An example of this application is shown in Annex 8.

4.4.2. Assessment of the contribution of the Activity to the EO

The contribution of the Activity to the EO is determined by its contribution to the respective Tier 1 (Green), Tier 2 (Amber T2), or Tier 3 (Amber T3) TSC. These TSC are listed and described in Annex 1. Note that an Activity which directly or indirectly causes an effect which detracts from the EO for which the Activity is seeking classification will be classified as Red.

4.4.3. Assessment of DNSH

Specific criteria and frames for identifying and assessing the harm caused by Activities are set out in Annex 2. Companies and assessors should refer to the categories of potential significant harm which may be caused by Activities and evaluate the harm caused by the Activity based on the guidance provided in Annex 2.

4.4.4. Remedial Measures to Transition

Where it has been assessed that significant harm is occurring, or will occur, the Company must demonstrate that a realistic and comprehensive plan is in place to mitigate the harm to a level where it is no longer significant. In this case, a remediation plan must be submitted. This plan must demonstrate that there will be no significant harm occurring within 5 years after assessment of the Activity. Activities for which RMT is outstanding shall be provisionally classified as Amber Tier 3 until the RMT is complete and significant harm has effectively been remediated.

The Activity shall be subject to a new assessment, which shall be conducted at the expense of the Company, either upon remediation of the harm or within five years of the original classification, whichever occurs first:

- If the new assessment shows that harm has been remediated, the Activity shall be classified appropriately according to the achievement of the TSC;
- If it cannot be shown that harm can be remediated within five years, or if within the five year period it is determined that the harm cannot be remediated, Activity shall be classified as Red.

Refer also to Section 3.6.3.

4.5. Assessment of Social Aspects

Social Aspects assessments are applicable for both the FF and the PS.

The key requirement of Social Aspects assessment is to meet relevant social regulations and legislation in the relevant AMS.

There are three Social Aspects that need to be considered under the EC3 assessment:

- Promotion and protection of human rights.
- Labour rights and worker protection.
- Impact on people living close to investments.

Unlike EC1 and EC2, EC3 assessment is performed at a Company-level as opposed to at an Activity-level. This is because social policies are usually developed at the Company level.

Table 19: Guiding questions through the decision tree for the EC3 Assessment

<table>
<tr><th>S/N</th><th>Guiding questions - Essential Criteria 3 (Social Aspects)</th></tr>
<tr><td>4A</td><td rowspan="2">Does the Company meet minimum national standards relating to human rights, labour rights and worker protection and impact on people living close to investments? In the absence of minimum standards established through national regulations or legislations, the following guiding questions will be used:
1. Promotion and protection of human rights
a. Does the Company have policies or guidelines that uphold an individual’s right to enjoy just, decent and favourable working conditions?
b. Does the Company have a clear and transparent policy that sets out measures to create a positive environment in overcoming discrimination?
c. Does the Company have a policy that provides decent wages to all workers, taking into account adequate standards of living?
2. Labour rights and worker protection
a. Does the Company employ occupational health and safety practices?
b. Does the Company have a clear and transparent policy that sets out measures taken to prevent and eliminate all forms of exploitation, trafficking, violence and abuse in its entire supply chain?
c. Does the Company have a clear and transparent policy that prohibits child labour and ensures compliance with minimum age requirements for employment in its operations and supply chain, in line with international standards?
d. Do all workers have the right to enter into, and leave, employment voluntarily and freely?
e. If the Company employs migrant workers, are the migrant workers treated fairly?
f. Does the Company ensure all its workers free access to their documentation?
g. If the Company employs private employment agencies, do they conduct measures to ensure that such agencies are not involved in any form of exploitation, trafficking, violence and abuse?
h. Does the Company conduct assessments to understand the risks and vulnerabilities faced by informal workers and their communities, and implement measures to address them?
i. Are there efforts to involve local communities or informal worker groups in creating solutions for better working conditions or social protections?
j. Does the Company raise awareness among informal workers about their rights, available resources, or risks, and provide platforms (e.g., collectives or associations) to empower them to meet their basic needs?
3. Impact on people living close to investments
a. Does the Company conduct risk and vulnerability assessments to ensure targeted response measures that would contribute to the progressive implementation, effective monitoring and evaluation, as well as optimum impact of social protection?
b. Does the Company engage and strengthen the capacity of the community for better responsiveness, coordination and effectiveness of risk reduction and management policies?</td></tr>
<tr><td>4B</td></tr>
</table>

S/N	Guiding questions - Essential Criteria 3 (Social Aspects)
	c. Does the Company promote public awareness of their exposure and vulnerability and establish platforms to empower people to meet their basic needs?

The boundary of Social Aspects coverage is as follows:

1. The Social Aspects assessment will cover the immediate Company carrying out the Activity as well as branches/subsidiaries (if any) that are directly involved in carrying out the Activity, without which the Activity cannot be carried out.
2. The adherence of suppliers and subcontractors directly involved in carrying out the Activity, without which the Activity cannot be carried out, to the Social Aspects must also be exhibited; e.g., through signing a Code of Conduct.
3. The Company should refer to national legislations and regulations of the respective country in which the organisation (e.g., corporate or branch/subsidiary) is based.

For example, if the immediate Company carrying out the Activity is based in Singapore, but its subsidiary is based in Indonesia, then the assessment will be done with reference to Singapore legislations and regulations for the Company, while Indonesia legislations and regulations will be referenced for the subsidiary.

Passing the Social Aspects assessment requires adherence to the relevant AMS legislations and regulations for each Social Aspect. Not meeting national legislations and thus failing the Social Aspects assessment leads to Red classification. Please refer to use case in Annex 7.

In AMS where legislations and regulations pertinent to any of the Social Aspects are absent, the assessor shall utilise the guiding questions instead. The Activity will pass the Social Aspects assessment if all the guiding questions are at least satisfactorily met.

If a Company is found or known to have an unsatisfactory track record (due to violations or breaches) in at least one of the Social Aspects, the said Company will still be allowed to undergo the Social Aspects assessment; but as an additional requirement, it has to prove that its relevant processes (where violations or breaches have occurred) have improved and remediation processes were implemented to prevent a repeat of violation or breach.

Data on a Company's violations and breaches of the Social Aspects may be collected through publicly available sources, but it is ultimately up to the Company's discretion to voluntarily disclose such violations or breaches.

4.6. Assessment procedures other than use of proceeds

For the avoidance of doubt, the ASEAN Taxonomy does not propose any changes to ASEAN Green Bond Standards (GBS), ASEAN Social Bond Standards (SBS), and ASEAN Sustainability Bond Standards (SUS).

Assessments of entities, portfolios and financial instruments should make use of similar procedures as described in the ASEAN GBS, ASEAN SBS and ASEAN SUS (ACMF, 2018) in as much as it applies to aspects other than Use of Proceeds, i.e.:

- Process for Project Evaluation and Selection.
- Management of Proceeds.
- Reporting.

5. GRANDFATHERING

The ASEAN Taxonomy sets TSC for the classification of Activities, in accordance with rules which are described in Section 4.4.1. Financial instruments where the use of proceeds is intended to finance these Activities may also be classified accordingly.

As TSC may be subject to change over time, this may result in changes to the classification of the underlying Activities and assets. Whilst the classification of Activities cannot be grandfathered, the ASEAN Taxonomy allows grandfathering of associated financial instruments.

The rules contained within this chapter relate to the grandfathering of all forms of financial instruments. A grandfathering period starts from the date a change is applied to a TSC related to Activities and how these impact related assets. During the grandfathering period, the classification of instruments created with the purpose of financing Activities according to their alignment with TSC shall retain the status quo extant before the change in TSC.

Section 5.2 relates specifically to grandfathering as it pertains to bonds. Section 5.3 relates to all other financial instruments. The rules have been developed to ensure consistency in the classification of Activities that are funded by multiple financial instruments. The goal is to preserve market stability or minimise market disruptions when TSCs are reviewed. This is intended to encourage a more effective flow of capital to support the sustainability agenda of ASEAN and ease the monitoring of classification of financial instruments throughout the duration of the instruments.

This may include Green or Amber financial instruments, where funds are allocated to investments where underlying Activities are aligned with the ASEAN Taxonomy Tier 1 (Green), Tier 2 (Amber T2) or Tier 3 (Amber T3).

5.1. Transparency in the event of changes to classification

Users should be aware that the ASEAN Taxonomy may undergo periodic revisions to the TSC (see Annex 6) and contains sunset dates for specific Tiers associated with Activities where relevant. When sunset dates come into force, or when TSC are revised, entities issuing financial instruments classified under the ASEAN Taxonomy have a responsibility to ensure transparency to lenders and other relevant stakeholders.

In all cases, entities issuing financial instruments are responsible for informing lenders and other relevant stakeholders of any anticipated changes to the classification, including sunset dates, as soon as they become aware of them and when those changes occur.

5.2. Grandfathering of bonds

This subsection pertains to grandfathering rules for bonds for which the use of proceeds is to be allocated to Activities which align with Tier 1 (Green), Tier 2 (Amber T2) or Tier 3 (Amber T3) TSC of the ASEAN Taxonomy. The rules described in this section have been set taking into consideration compatibility with grandfathering rules applied by the EU Green Bond Standard (EU-GBS) (OJEU, 2023).

The rules apply to bonds, the proceeds of which are allocated, in part or in their entirety, to one or more of the following:

- Fixed assets that are not financial assets;
- Capital expenditure;[7]
- Operating expenditure that was incurred no more than 3 years before the issuance of the bond;[8]
- Financial assets, the proceeds of which are allocated to one of the uses listed above and which were created no more than 5 years after the issuance of the bond.

Proceeds of the bond must be allocated in alignment with TSC applicable at the time of issuance of the green or amber bond. The bond issuer must maintain an annual allocation report to demonstrate that funds are allocated in a manner which is consistent with the relevant TSC. Due consideration shall be given to the transparency requirements stated in Section 5.1.

5.2.1. Where bond proceeds have been allocated to specific Activities

Proceeds that have been allocated to specific Activities prior to any changes to the TSC will not be affected, and the classification of the related financial instruments will remain status quo, in line with the originally applied TSC. In this instance, the use of proceeds will be classified in alignment with the original TSC until the end of the originally stated term of the bond.

For the avoidance of doubt, allocation of proceeds applies to all cases where a bond issuance programme with identified utilisation for specific Activities has been approved, and for which the issuer has made a commitment to disburse funds, regardless of whether disbursement is made via a single issuance (tranche) or multi-issuances (tranches).

5.2.2. Where bond proceeds have not been allocated

If TSC are updated after a bond is issued but before its proceeds are allocated to specific Activities, proceeds allocated after the TSC change can be classified as compliant with the TSC extant before the TSC change for up to seven years from the date of the TSC change.

When issuers' use of proceeds follow a portfolio approach, the 7-year grandfathering period also applies. Any updated TSC must be applied to the assets in the portfolio. The allocation report indicating this alignment must also be published by the end of the 7-year grandfathering period.

5.3. Grandfathering of other financial instruments

This subsection relates to the ASEAN Taxonomy Tier 1 (Green), Tier 2 (Amber T2) or Tier 3 (Amber T3) TSC which are applied to financial instruments other than those described in Section 5.2. These other financial instruments are principally, but not necessarily exclusively, loans.

These financial instruments are classified based on the classification of the underlying Activities at the time the instrument is issued, in accordance with the rules set out in Section 4.4.1. If the funds raised are released at a later date, the classification remains based on the original issue date, provided the stated use of proceeds has not changed.

[7] Related to assets or processes that are associated with the ASEAN Taxonomy-aligned Activities; part of a plan to expand ASEAN Taxonomy-aligned Activities or to allow Activities to become ASEAN Taxonomy-aligned; or related to the purchase of output from ASEAN Taxonomy-aligned Activities and individual measures enabling the target Activities to become low-carbon or to lead to GHG reductions.

[8] Ibid.

For Activities aligned with Tier 1 (Green), Tier 2 (Amber T2) or Tier 3 (Amber T3) TSC, the length of the grandfathering period shall be 7 years after the TSC amendment. Due consideration shall be given to the transparency requirements stated in Section 5.1.

In addition to ensuring consistent treatment, as explained in 5.2, this grandfathering period was set with due consideration to developments in financial markets where new financial structures could be introduced (e.g., blended finance instruments and fixed income securities with equity features).

5.4. Use cases related to grandfathering

Use cases which explain the practical usage of grandfathering rules as described in this chapter are provided in Annex 7.

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6. APPLICATION OF THE ASEAN TAXONOMY TO ENTITIES AND PORTFOLIOS AND FINANCIAL INSTRUMENTS

6.1. Introduction

The ASEAN Taxonomy classifies individual Activities into: Tier 1 Green, Amber T2, Amber T3 or Red. However, it does not currently provide a framework for assessing the alignment of entire entities, portfolios, or financial instruments with these classifications, except in cases where such financial assets are wholly dedicated to Activities that fall entirely within a single Tier.

This chapter introduces a methodology for reporting on entities, portfolios, and financial instruments based on their exposure to underlying Activities across the ASEAN Taxonomy's classification tiers.

In this chapter, the terms Green, Amber T2, and Amber T3 have the meanings defined in PS, as shown in Annex 1.

The following Activities are classified as Red:

- Activities listed in Annex 1 that do not meet the TSC for classification as Green, Amber T2 or Amber T3.
- Activities listed in Appendix 1 of this Main Report.

Any Activity not listed in Annex 1 or Appendix 1 is described as ineligible.

Notwithstanding the above, users may choose to report ineligible Activities or associated investments separately, using the classifications described by FF.

It also outlines how the ASEAN Taxonomy interacts with the ASEAN Transition Finance Guidance (ATFG) (ACMF, 2024), offering a basis for evaluating the progress of these entities in their transition toward greater sustainability.

6.2. Reporting for companies and other operating entities

Companies and other operating entities refer to organisational units, whether private or public (e.g. corporations, state-owned enterprises, government agencies, utilities), that function as going concerns and generate goods or services through their operations, as distinct from entities whose primary purpose is to hold, manage, or trade financial portfolios or instruments. Companies or other entities set up primarily for the management of investments should be considered in section 6.3.

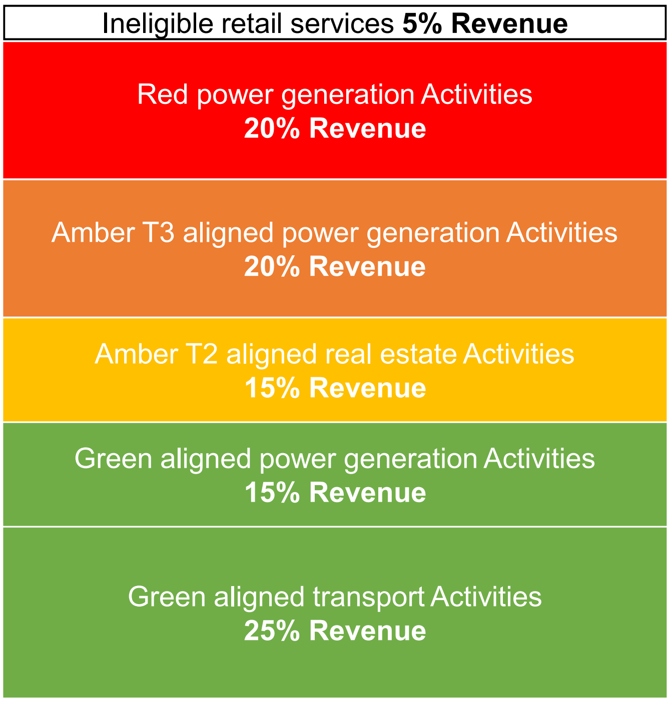
Companies and other operating entities can report their alignment with the ASEAN Taxonomy by using financial metrics, such as revenue, capital expenditure (CapEx), or operating expenditure (OpEx), to express the proportion of their Activities that meet Tier 1 (Green), Tier 2 (Amber T2) or Tier 3 (Amber T3), Red or ineligible, as defined in Section 6.1. The use of these metrics provides a consistent and comparable means for stakeholders, such as investors and financial institutions, to assess environmental performance and support investment or lending decisions.

The choice of metric - Revenue, CapEx or OpEx - depends on an entity's operational context and sustainability transition stage, ensuring alignment with strategic objectives and transparency through the disclosed justification.

- **Revenue**: Reflects net turnover from products or services aligned with Green or Amber Tiers under at least one of the four EOs or Red or ineligible Activities. Suitable for entities with mature, stable operations generating consistent income from sustainable products or services.
- **CapEx**: Represents the proportion of capital expenditure tied to ASEAN Taxonomy-aligned Activities or credible alignment plans. Ideal for capital-intensive industries or entities in early transition stages.
- **OpEx**: Covers the proportion of operating expenditure, including non-capitalised costs like research, renovation, leases, or maintenance, linked to ASEAN Taxonomy-aligned Activities or supporting CapEx plans. Relevant for service-oriented or asset-light sectors with significant ongoing expenses.

Entities should select the most representative metric based on their activities and disclose their choice and rationale for transparency.

Any plans supporting CapEx and OpEx reporting should be disclosed at the Activity's aggregated level. This approach ensures flexibility while maintaining comparability across diverse entities. An example of reporting for a diverse entity is illustrated in Figure 11.



Entity would be reported in the following way (by Revenue):

- **5% Ineligible**
- **20% Red**
- **20% Amber T3**
- **15% Amber T2**
- **40% Green**

Figure 11: Example of Reporting Method for Companies and other Operating Entities

Figure 11 demonstrates a use case for a diversified company reporting revenue. Revenue is: 5% Ineligible (e.g., Activities not covered by the taxonomy, such as retail services); 20% Red (e.g., unsustainable coal-fired power plants); 20% Amber T3 (e.g., fossil gas power generation with higher emissions); 15% Amber T2 (e.g., road freight transport with vehicles meeting transitional emissions standards); and 40% Green (e.g., fully aligned Activities such as new buildings with advanced Green Building Certification (GBC) or zero-emission freight vehicles).

6.3. Reporting of portfolios and financial instruments

Portfolios and financial instruments mean investment vehicles, including funds, trusts, securitisations, or companies and other entities established primarily to hold, manage, or trade financial assets, where the activity consists of allocating capital among financial instruments, rather than conducting operational activities that generate goods or services.

To report in a manner aligned with the ASEAN Taxonomy, such entities can assess their entire investment portfolio across all asset classes, including both debt and equity, to determine the extent to which investments fall within Activities which may be classified by the ASEAN Taxonomy. This involves:

- Calculating the weight of each investment in the portfolio by value.
- Multiplying that weight by the proportion of the investment that is classified under the ASEAN Taxonomy categories, as defined in Section 6.1:
  - Tier 1 (Green)
  - Tier 2 (Amber T2)
  - Tier 3 (Amber T3)
  - Red
  - Ineligible

Both equity (e.g., listed shares, private equity) and debt (e.g., loans, bonds) may be included as potential investment classes.

The distribution of classifications for each individual investment or financing can be estimated in terms of revenue, except for investments or financing which are partly or fully related to special-purpose debt raised for Activities which may be classified under the ASEAN Taxonomy. In this latter case, the distribution of classifications should be calculated based on value.

In all cases, where equity is held in or debt is used to finance specific projects within the scope of the ASEAN Taxonomy, and those projects are expected to meet the relevant TSC, 100% of that investment may be reported under the appropriate classification.

After calculating individual exposures, portfolio owners and managers should aggregate the data to determine the overall distribution of their portfolio across the ASEAN Taxonomy categories. An example is shown in Figure 12.

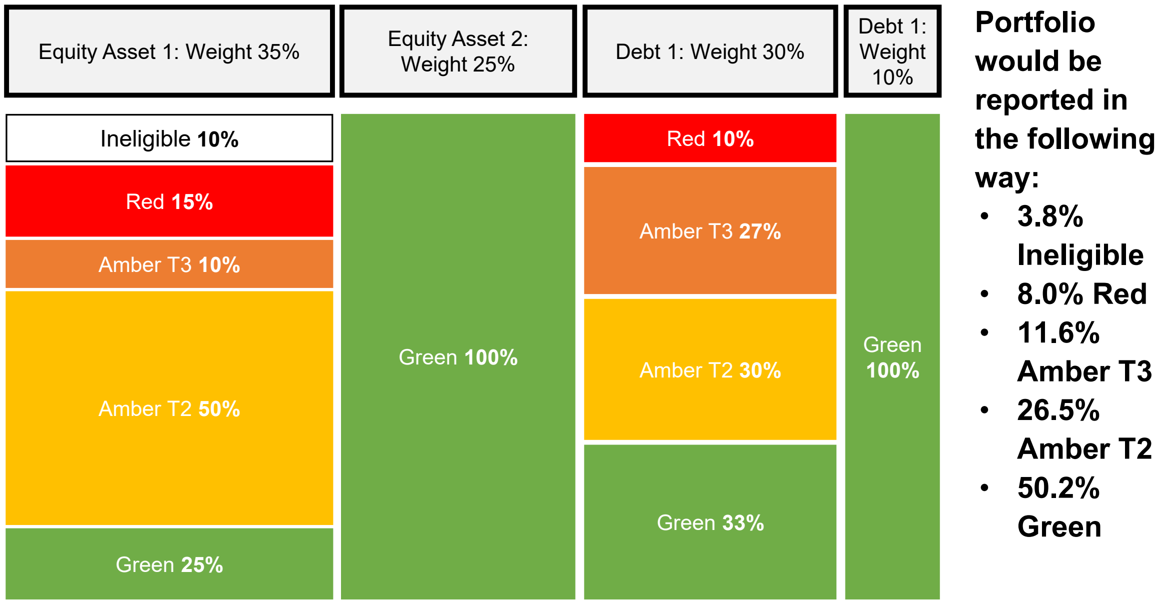


Figure 12: Example of Reporting Method for Portfolios and Financial Instruments

Figure 12 demonstrates a use case for a financial institution reporting its investment portfolio. The portfolio, comprising weighted averages of equity and debt assets, is assessed by value and aligned with ASEAN Taxonomy categories. For example, with weights of 35% (Equity Asset 1), 25% (Equity Asset 2), 30% (Debt 1), and 10% (Debt 2), the aggregated exposure would be: 3.5% Out of Scope (e.g., assets in sectors not covered by the taxonomy, such as retail trade); 8.3% Red (e.g., investments in conventional oil extraction); 11.6% Amber T3 (e.g., steel manufacturing with higher emissions); 26.5% Amber T2 (e.g., cement production with transitional emissions levels); and 50.2% Green (e.g., fully aligned Activities such as certified eco-friendly agriculture or zero-emission public transport)

6.4. Integrating the ASEAN Taxonomy with the ASEAN Transition Finance Guidance

6.4.1. Complementary frameworks

The ASEAN Taxonomy provides a static assessment of Activities' environmental performance, defining Green and Amber Tiers. In contrast, the ATFG addresses dynamic transition plans, enabling financing for companies at various stages of their sustainability journey, provided they demonstrate credible pathways, including to ASEAN Taxonomy alignment. This integration ensures that transition finance supports ASEAN's diverse economies while adhering to 1.5°C or well-below 2°C climate pathways.

6.4.2. ASEAN Taxonomy as the foundation

The ASEAN Taxonomy can serve as a benchmark for ATFG assessments. Entities seeking transition finance may show how their operations will align with or progress through the ASEAN Taxonomy's Green or Amber tiers, using the Plus Standard's TSC to ensure alignment with science-based pathways. The ASEAN Taxonomy's periodic reviews, which tighten criteria over time, must be reflected in these plans, ensuring adaptability to evolving requirements.

6.4.3. ATFG Tiers and taxonomy linkages

The ATFG introduces three tiers to evaluate transition plans, each of which may be related to the ASEAN Taxonomy. Activities which may be classified under ASEAN Taxonomy Tier 1

(Green) will correspond with the ATFG aligned and aligning tiers (1.5°C and well-below 2°C) Amber Activities may also be included within an entity classified under the ATFG aligning tier, provided it can be demonstrated that these Activities form part of an entity-wide pathway consistent with a well-below 2°C transition.

The progressing tier of ATFG supports companies showing material progress towards the Paris Agreement but not yet meeting all criteria, with a commitment to address gaps within two years. Activities which may be classified under ASEAN Taxonomy Tiers 2 and 3 (Amber T2 and Amber T3) may be used as evidence of this progress.

6.4.4. Practical implementation

Stakeholders should first assess a company's current operations, where appropriate, by using the tiers of the ASEAN Taxonomy Tiers to establish the starting point. Companies then develop transition plans that reflect how their operations and technologies can progress through the tiers of the ASEAN Taxonomy and, as a result, which ATFG tier they would be categorised under. Investors evaluate these plans using ASEAN Taxonomy TSC to ensure credibility. Both parties must account for the ASEAN Taxonomy's periodic reviews, anticipating stricter requirements.

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APPENDIX A: ACTIVITIES CLASSIFIED RED

The ASEAN Taxonomy aims to promote environmentally sustainable Activities. The automatic Red classification of certain Activities reflects a commitment to mitigating climate change and transitioning towards cleaner, more sustainable energy sources. In this way, the ASEAN Taxonomy signals a focus on investments that align with the region's environmental goals, fostering a shift towards low-carbon and climate-resilient economies within the AMS. The following Activities may not be classified as Green or Amber by either the FF or the PS, and are therefore automatically classified as Red.

Energy:

- Coal or oil power generation without CCUS;
- Heat recovery from coal or oil fuelled power generation without CCUS;
- Coal mining or oil extraction, refining, processing or production and associated supply chain infrastructure.

Transport:

- New roads, road bridges, road upgrades, parking facilities, fossil fuel filling stations, etc;
- Oil tankers or other ships solely transporting coal or oil.

Waste:

- Collection of waste that is going to landfill;
- Landfill without gas capture.

It should be noted that while abated coal is currently not included in this list, abated fossil fuels are currently technologically limited and may not yet be a viable solution in transitioning or achieving a 1.5ºC outcome. Its application to subsequent versions of the ASEAN Taxonomy and inclusion in this Appendix will be further reviewed depending on technological developments.

Any Activity dedicated to the enablement of an Activity listed in this Appendix is also automatically classified as Red.

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2. DNSH Criteria
3. Assessment of Climate Risk
4. Regulations pertaining to Social Aspects listed by AMS
5. Regulations pertaining to the Environment listed by AMS
6. Development and Maintenance of the ASEAN Taxonomy
7. Use Cases

ASEAN TAXONOMY BOARD

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Sustainable Finance Institute Asia
https://www.sfinstitute.asia/asean-taxonomy/

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