



**Suruhanjaya Sekuriti**  
Securities Commission  
Malaysia



**PRINCIPLES-BASED  
SUSTAINABLE AND RESPONSIBLE  
INVESTMENT TAXONOMY  
FOR THE MALAYSIAN CAPITAL MARKET**

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**DISCLAIMER**

The *Principles-Based Sustainable and Responsible Investment Taxonomy* aims to provide a general understanding of the subject and is not an exhaustive write-up. It is not intended to be a substitute for legal advice nor does it diminish any duty (statutory or otherwise) that may be applicable to any person under existing laws.

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# Chapter 1

## INTRODUCTION

### 1.1 Growth of sustainable investments globally

Globally, the value of sustainability-themed investment products in global financial markets increased by more than 60% from 2020, amounting to US\$5.2 trillion in 2021. These include sustainable funds (US\$2.7 trillion), green bonds (over US\$1.5 trillion outstanding), social bonds (US\$418 billion), mixed-sustainability bonds (US\$408 billion) and sustainability-linked bonds (US\$105 billion)<sup>1</sup>. International commitments towards sustainable development and climate goals continued to spur demand for sustainable investment even as the global economy began to recover from the impact of the pandemic.

In addition, the latest Intergovernmental Panel on Climate Change (IPCC) reports in 2022 called for urgent and immediate action to address climate change. The world is currently at a crossroads and decisions made today can secure a liveable future. Meanwhile, the International Energy Agency (IEA) estimates that the global energy investments required to reach the climate goals amount to approximately US\$2 trillion per annum or 2.5% of global gross domestic product (GDP) as of 2020. It is further estimated that this will have to increase to US\$5 trillion per annum, or 4.5% of GDP by 2030, with the same investments maintained until at least 2050, to reach net-zero carbon emissions by 2050<sup>2</sup>.

### 1.2 Financing Malaysia's sustainable development needs

In realising Malaysia's commitments towards achieving the Sustainable Development Goals (SDGs) and climate goals, including a net-zero greenhouse gas emissions target earliest by 2050, efforts will need to be intensified to address financing challenges for sustainable development and climate goals.

The sustainability agenda, which has been identified as an imperative for ensuring economic growth and prosperity, is integrated into national strategies, including the *Shared Prosperity Vision 2030 and the Twelfth Malaysia Plan 2021-2025*. These national policies also outline the commitment to achieving social well-being for Malaysians. In addition, several other strategic documents have also been issued by various ministries and government agencies to provide greater policy guidance and direction toward creating a more sustainable Malaysia, such as the *Environmental Sustainability Strategic Plan 2020-2030*, *National Low Carbon Cities Masterplan*, *Green Technology Masterplan Malaysia 2017-2030*, and *National Energy Policy 2022-2040*.

However, the implementation of these strategies, requires billions of dollars in investments. For instance, based on the *Green Infrastructure Investment Opportunities Malaysia 2020 Report* by Climate Bonds Initiative (CBI), Malaysia requires a cumulative infrastructure investment of approximately US\$460 billion from 2016 to 2040, and a majority

<sup>1</sup> United Nations (UN) Conference on Trade and Development, 2021, *World Investment Report 2022*.

<sup>2</sup> International Energy Agency, 2021, *Net Zero by 2050*.

of these investments would need to be directed at green infrastructure to meet Malaysia's Paris Agreement targets. Similarly, the World Wide Fund for Nature Malaysia (WWF-Malaysia) - Boston Consulting Group (BCG) Net Zero study estimates that a total of RM350 – 400 billion of investments will be required between 2021 and 2050 for Malaysia to embark on a net zero pathway. A separate report on SDGs investment also highlighted that Malaysia needs US\$3.9 billion of investments in providing greater access to clean water and sanitation, US\$14.7 billion in maintaining digital access and US\$73.7 billion to achieve significant improvements in transport infrastructure, by 2030<sup>3</sup>. Given the huge financing needs, reliance on public financing alone may not be sufficient. In this regard, the capital market is well-positioned to facilitate financing for sustainable developments and climate goals through the issuance of various market-based financing instruments.

### 1.3 Scaling up sustainable and responsible investments in the Malaysian capital market

Since the introduction of the 5i-Strategy<sup>4</sup> in 2014, the Securities Commission Malaysia (SC) has introduced several initiatives to develop a facilitative sustainable and responsible investment (SRI) ecosystem in Malaysia, including the SRI Sukuk Framework in 2014, Guidelines on SRI Funds in 2017, and Waqf-Featured Fund Framework in 2020 which emphasised the close alignment between SRI and Islamic finance.

In scaling up SRI, the SC is also guided by the *Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market* (SRI Roadmap)<sup>5</sup>, which underlines 20 recommendations under the 5i-strategy aimed at strengthening the positioning of Malaysia as a regional SRI centre. Leveraging the achievements from the earlier SRI initiatives as well as the strategic foundations and policy direction for the development of the SRI segment, continuous efforts to accelerate the development of a facilitative and vibrant SRI ecosystem and expand the SRI market segments remain a priority.

The *Capital Market Masterplan 3*<sup>6</sup> (CMP3) identifies SRI as one of the key development thrusts for the capital market over the next five years. It highlights the importance of SRI towards shaping a more sustainable and socially inclusive stakeholder economy in Malaysia that facilitates long-term value creation beyond short-term profits that would cater to broader stakeholder needs. Several key trends, including the new wave of global climate action, are also expected to give rise to greater efforts surrounding SRI which are geared towards supporting Malaysia's transition to a net-zero economy, including greater integration of environmental, social and governance (ESG) considerations into investment risks, facilitating transition finance and encouraging greater transparency on sustainability-related data and reporting standards.

### 1.4 The need for sustainable finance taxonomy for the Malaysian capital market

The growth of sustainable investments globally has led to the need for more clarity and guidance for market participants in identifying activities that would qualify for sustainable investments. This has become more important especially as countries globally are focusing on economic activities that not only bring economic growth but also protect the planet and improve social well-being.

Concerns on the appropriate identification and classification of different types of economic activities, the definition

<sup>3</sup> *Opportunity 2030 The Standard Chartered SDG Investment Map*, Standard Chartered, 2020.

<sup>4</sup> 5i-Strategy encompasses (i) Widening the range of SRI Instruments; (ii) Increasing SRI Investor base; (iii) Building a strong Issuer base; (iv) Instilling strong Internal Governance Culture; and (v) Designing Information Architecture in the SRI ecosystem.

<sup>5</sup> Released in 2019.

<sup>6</sup> CMP3, released by the SC in 2021, serves as the strategic framework for the growth of Malaysia's capital market over the next five years.

of sustainable investments, as well as the need to mitigate and address the risks of greenwashing have given rise to the development of sustainable finance taxonomies globally. Various jurisdictions, such as the European Union (EU), ASEAN<sup>7</sup>, Brazil, China, India, Indonesia, Japan, Singapore, South Africa, Thailand, the United Kingdom (UK) and Vietnam have issued or are developing sustainable finance-related taxonomies to further guide the development of sustainable finance in these jurisdictions. While most of these sustainable finance taxonomies are focusing on the environmental aspects, efforts to develop a social taxonomy have also begun in the EU. The Platform on Sustainable Finance, an EU advisory body, has published the *Final Report on Social Taxonomy* in early 2022.

The SC recognised that an SRI Taxonomy for the Malaysian capital market will further accelerate the development of the SRI ecosystem towards achieving national environmental and sustainability objectives. In line with the recommendation of the SC's SRI Roadmap, a *Principles-based Sustainable and Responsible Investment Taxonomy* (SRI Taxonomy) has been developed to enable the Malaysian capital market and its constituents in identifying economic activities that are aligned with environmental, social and sustainability objectives.

Given Malaysia's global leadership position in Islamic finance<sup>8</sup> and the alignment of Islamic finance with sustainability, particularly from the social and ethical investing perspectives, the development of the SRI Taxonomy in Malaysia also includes a social component, in addition to the environmental component. The SRI Taxonomy will serve to enhance the standardisation and comparability of sustainable investment assets, and act as a critical building block to facilitate greater product diversity. This will in turn accelerate the development of SRI as an asset class, in line with the aspiration and recommendations of the SRI Roadmap.

## 1.5 Development of the SRI Taxonomy

A principles-based approach was adopted in developing the SRI Taxonomy, taking into account the state of readiness of the wider Malaysian capital market, as the capital market constituents are at different stages of their sustainability journey. Therefore, a principles-based SRI Taxonomy will provide common guiding principles on the classification of economic activities to support sustainable investments.

Given the importance of the SRI Taxonomy to the capital market industry as well as the relevant sectors of the economy, its development was undertaken jointly by the regulator and the industry, through an Industry Working Group (IWG) comprising the World Bank Group Inclusive Growth and Sustainable Finance Hub in Malaysia as the Lead Technical Expert, and representatives from the local stock exchange, asset and fund management companies, investment bank, asset owner and other sustainable finance specialists.

The IWG had jointly developed the foundations for the SRI Taxonomy comprising the environmental, social and sustainability components. This will pave the way for the introduction of more granular and technical guidance in the SRI Taxonomy planned for a later phase.

In developing the environmental component, relevant taxonomies were reviewed including the Bank Negara Malaysia (BNM)'s Climate Change and Principle-Based Taxonomy (CCPT)<sup>9</sup> and the Foundation Framework of the *ASEAN Taxonomy Board (ATB)'s ASEAN Taxonomy for Sustainable Finance Version 1* (ASEAN Taxonomy)<sup>10</sup>. To ensure greater harmonisation and alignment, the proposed environmental objectives of the SRI Taxonomy are consistent with the environmental objectives in BNM's CCPT and the ASEAN Taxonomy, as illustrated in **Appendix I**.

<sup>7</sup> Association of Southeast Asian Nations (ASEAN).

<sup>8</sup> Malaysia has the largest global sukuk market share as at June 2022 (*EIKON Refinitiv Sukuk Now, 2022*) and the highest number of Islamic funds as at 2021 (*General Council for Islamic Banks and Financial Institutions [CIBAFI], 2022*).

<sup>9</sup> Released on 30 April 2021.

<sup>10</sup> Released on 10 November 2021.

Meanwhile, the proposed social component of the SRI Taxonomy provides broad-based guiding principles for the Malaysian capital market constituents in managing social risks as well as unlocking opportunities to enhance social standards. In developing the social component of the SRI Taxonomy, the IWG took into consideration Malaysia's blueprints and national aspirations for social progress<sup>11</sup>. It also kept abreast of international work in the area of social taxonomies such as by the EU's Platform on Sustainable Finance. Cognisant that the development of a social taxonomy is less mature than the environmental taxonomy on the global stage, the IWG's view was that the proposed social component should be customised to focus on the Malaysian capital market's capacity and capability to promote greater transparency on social investments and impact in supporting social objectives.

The SRI Taxonomy aims to provide clarity and voluntary guidance to capital market constituents, including capital market intermediaries, issuers, corporates, asset owners, and investors, as well as a wider range of users such as analysts, rating agencies, and the public sector, in identifying and classifying economic activities in alignment with the environmental, social and sustainability considerations. The SRI Taxonomy is also intended to enhance the standardisation and comparability of sustainable investment assets, which in turn will further strengthen and accelerate the development of this asset class. As it is principles-based, the SRI Taxonomy may be applied at the project, asset, entity, or portfolio level. It can also be applied alongside various SRI product frameworks that have been issued by the SC.

The SRI Taxonomy also aims to contribute towards the existing national climate and sustainability agenda, thereby reinforcing the Malaysian capital market's role in supporting a just and orderly transition to low carbon economy. This would also promote greater awareness and adoption of sustainability practices within corporate Malaysia. In this regard, the SRI Taxonomy is intended to complement and support existing national laws and policies.

The development of the SRI Taxonomy is underpinned by these six guiding principles:

<b>Principle 1</b>	The SRI Taxonomy should provide guidance on classification of environmental, social and sustainability-related economic activities, including transition to low-carbon activities
<b>Principle 2</b>	The SRI Taxonomy should provide a credible framework and definitions
<b>Principle 3</b>	The SRI Taxonomy should meet the needs of the Malaysian capital market and all its constituents
<b>Principle 4</b>	The SRI Taxonomy will take into consideration widely used taxonomies and other taxonomies of relevance, as appropriate
<b>Principle 5</b>	The SRI Taxonomy shall be principles-based and its adoption shall be voluntary
<b>Principle 6</b>	Development of the SRI Taxonomy should be driven and guided by the SC, and in collaboration with industry, through the IWG, in order to capture a diverse and comprehensive range of perspectives while taking into account developmental priorities

<sup>11</sup> These include the *Shared Prosperity Vision 2030*, *12th Malaysia Plan*, *Occupational Safety and Health Master Plan 2021-25*, *National Strategic Plan for Mental Health 2020-25*, *National Action Plan on Forced Labour* and others.



The SC undertook a public consultation in developing the SRI Taxonomy and issued the *Public Consultation Paper No.1/2021 on the Principles-Based Sustainable and Responsible Investment Taxonomy for the Malaysian Capital Market* (Consultation Paper) in December 2021. The Consultation Paper was open for public consultation from 17 December 2021 to 31 March 2022 and written feedback were received from a wide range of respondents. In addition, the SC also undertook a series of one-to-one engagements with selected stakeholders to discuss feedback on the proposed SRI Taxonomy. These stakeholders comprised but were not limited to relevant government ministries and agencies, investment and asset management companies, asset owners and institutional investors, non-governmental organisations, as well as expert individuals, to capture diverse perspectives in the development of the SRI Taxonomy. Several components of the SRI Taxonomy have been subsequently refined in response to the feedback received.

As sustainable finance is fast evolving globally, the SRI Taxonomy is intended to be a living document. Thus, the SC may revisit and revise the SRI Taxonomy in the coming years to ensure continued relevance as the need arises, taking into account regional and global developments in sustainability.

As the SRI segment in the Malaysian capital market continues to develop, there will also be greater calls for more clarity and guidance for consistency of definition and comparability of what constitutes as SRI. In the next phase of development of the SRI Taxonomy, the SC plans to provide more granular and detailed guidance in terms of thresholds, metrics, indicators, targets, etc. for key economic sectors which are consistent with national policies and targets, taking into account the alignment with the ASEAN Taxonomy's Plus Standard, where relevant.

# Chapter 2

## ENVIRONMENTAL COMPONENT

### 2.1 Environmental Objectives

#### 2.1.1 The SRI Taxonomy outlines four environmental objectives



Climate change mitigation



Climate change adaptation



Protection of healthy ecosystems and biodiversity



Promotion of resource resilience and transition to circular economy

- 2.1.2 Upon ensuring compliance with the minimum safeguard, an economic activity can be considered to support the objectives of the environmental component if-
- it substantially contributes to at least one of the environmental objectives; and
  - does not cause significant harm to any of the other environmental objectives.

#### Environmental Objective 1: Climate Change Mitigation

- 2.1.3 Climate change mitigation refers to economic activities that reduce or prevent greenhouse gas (GHG) emissions into the atmosphere.
- 2.1.4 An economic activity can be considered to meet the environmental objective of climate change mitigation if it substantially contributes in one or more of the following:
- Avoid GHG emissions;
  - Reduce GHG emissions; or
  - Enable others to avoid or reduce GHG emissions.
- 2.1.5 Examples of economic activities that substantially contribute towards climate change mitigation include, but are not limited to renewable energy generation, rehabilitation, retrofitting and/or replacement of energy-inefficient technology and/or production of energy-efficient technologies as well as maintenance and strengthening of land-based carbon stock and sinks, above and below ground.
- 2.1.6 An economic activity that is not already low or zero-emissions should demonstrate the capability of avoiding or reducing GHG emissions in line with relevant best practices compared to the baseline scenario without the mitigating action.

## Environmental Objective 2: Climate Change Adaptation

2.1.7 Climate change adaptation is the process or actions taken to lower the negative effects caused by climate change and increase resilience to withstand the adverse physical impact of current and future climate changes.

2.1.8 An economic activity can be considered to meet the environmental objective of climate change adaptation if it fulfils either one or more of the following:

- (a) Implement measures to increase own resilience to climate change; and/or
- (b) Enable other stakeholders to increase resilience to climate change.

The economic activity must not adversely affect adaptation efforts by others or increase the physical climate risks experienced by other stakeholders.

2.1.9 In order to demonstrate that an economic activity contributes to increasing resilience to the negative physical effects of climate change, it is necessary to use the best available climate information and evidence to:

- (a) Identify expected negative physical effects of climate change by leveraging evidence and appropriate climate information; and
- (b) Demonstrate how the activity or measures taken can build resilience, prevent an increase in, or shift the identified negative impact of climate change.

2.1.10 The economic 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 the impact on health from higher temperatures. Impact assessments under a broad range of climate scenarios shall be conducted to provide a better understanding and insights into the effectiveness and benefits of the adaptation activity.

2.1.11 An activity that enables adaptation of other economic activities should reduce the impact of material physical risk from other economic activities and/or reduce barriers to adaptation through the use of technology, services or products.

## Environmental Objective 3: Protection of Healthy Ecosystems and Biodiversity

2.1.12 Malaysia is one of the most biologically diverse countries in the world<sup>12</sup>, with rainforests that are among the oldest forests in existence and among the highest coral diversity in the world.

2.1.13 Having a healthy biodiversity and resilient ecosystem are important to prevent threats to society and the nation's economic system. As such, economic activities should not be carried out at the expense of a healthy ecosystem and biodiversity.

2.1.14 This environmental objective aims to minimise or eliminate the negative effects of business operations on natural ecosystems and biodiversity.

<sup>12</sup> Convention on Biological Diversity 2021.

- 2.1.15 An economic activity can be considered to meet the environmental objective of protection of healthy ecosystems and biodiversity by fulfilling some or all of the following criteria, where applicable:
- (a) Enable ecosystem restoration and/or facilitate the protection of ecosystems;
  - (b) Implement necessary measures to protect ecosystems and biodiversity;
  - (c) Prevent soil erosion and run-off into watercourses;
  - (d) Enforce and empower existing policies related to the protection of natural areas;
  - (e) Adopt sustainable logging practices and ensure timber products are sourced from sustainably managed forests;
  - (f) Meet the goals set by Convention on Biological Diversity 1992:
    - (i) Terrestrial and marine biodiversity conservation;
    - (ii) The sustainable use of its components;
    - (iii) The fair and equitable sharing of the benefits arising from utilisation of genetic resources;
  - (g) Take into consideration the equitable use of biodiversity and ecosystem services when making business decisions;
  - (h) Avoid or minimise adverse impacts on the environment by implementing pollution control mechanisms;
    - (i) Avoid or minimise emissions of short and long-lived climate pollutants;
    - (j) Avoid or minimise generation of hazardous and non-hazardous waste; and
  - (k) Minimise and manage the risks and impacts associated with pesticide use.

#### Environmental Objective 4: Promotion of Resource Resilience and Transition to Circular Economy

- 2.1.16 A circular economy is defined as an economic model in which resources are used more efficiently through the three guiding principles of 'reduce, reuse and recycle' where possible, while redesigning materials to return to nature if they escape the loop<sup>13</sup>. To achieve this, 'products and production systems need to be designed for circularity, materials need to be efficiently processed, and waste needs to be sorted and recycled'<sup>14</sup>.
- 2.1.17 The transition to a circular economy is underpinned by three important principles of circularity:
- (a) Minimising resource use;
  - (b) Optimising resource yield; and
  - (c) Closing resource loops through effective waste management.
- 2.1.18 An economic activity can be considered to meet the environmental objective of promotion of resource resilience and transition to circular economy if it fulfils one or both of the following criteria:
- (a) Adjust business operations to conserve raw materials, energy, water, and other natural resources; and
  - (b) Implement circular economy principles via adapted products, production, technologies and processes.

<sup>13</sup> Malaysia Plastics Sustainability Roadmap 2021-2030, Ministry of Environment and Water Malaysia (KASA), 2021.

<sup>14</sup> Economic Research Institute for ASEAN and East Asia (ERIA), 2018.

## 2.2 Minimum Safeguards

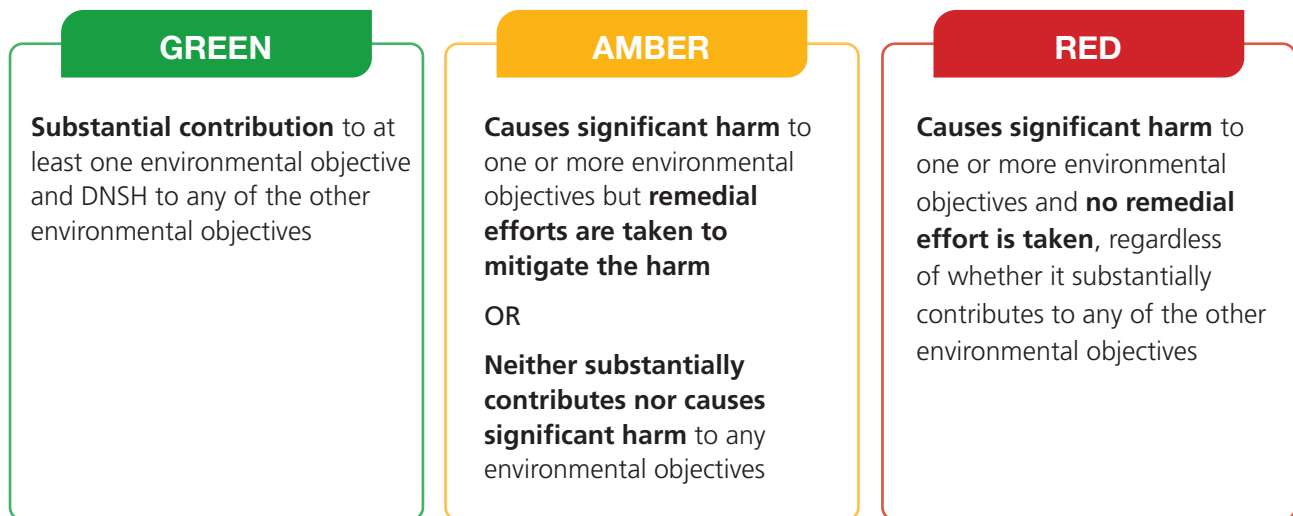
- 2.2.1 As a minimum safeguard, economic activities seeking alignment with the environmental component of the SRI Taxonomy should ensure compliance with all the national laws and legislative requirements relating to environmental and social considerations applicable in Malaysia, such as in the areas of environmental protection, climate change, land use, human rights, anti-corruption, labour welfare and others.
- 2.2.2 Entities carrying out economic activities are also encouraged to align business strategies and practices with globally accepted social principles and standards such as the *United Nations (UN) Global Compact*, *UN Guiding Principles on Business and Human Rights*, the *International Labour Organization (ILO)'s Declaration on Fundamental Principles and Rights at Work*, and *Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises*. Where applicable, entities should comply with relevant international laws and regulations.

## 2.3 Do No Significant Harm

- 2.3.1 An economic activity is generally location and context-specific, and interacts directly or indirectly with the surrounding environment. While the economic activity may contribute towards environmental objectives, the economic activity may cause unintended harm to the broader environment.
- 2.3.2 The principle of 'do no significant harm' (DNSH) means that an economic activity that contributes substantially to an environmental objective shall also not significantly harm any of the other environmental objectives.
- 2.3.3 An assessment must be undertaken to ascertain whether the economic activity is causing significant harm to the broader environment while fulfilling one or more of the environmental objectives.

## 2.4 Classification of Economic Activities

- 2.4.1 As a principles-based taxonomy, the SRI Taxonomy provides qualitative assessment criteria in the classification of economic activities that contribute to the environmental objectives.
- 2.4.2 Upon ensuring compliance with the minimum safeguards, economic activities can be classified into three broad categories under the environmental component of the SRI Taxonomy, which are green, amber, and red, based on their contribution to the environmental objectives of the SRI Taxonomy, as illustrated below:



2.4.3 Further explanation on the colour coding is provided below:

#### (a) GREEN

An economic activity could be classified as green if it substantially contributes to at least one of the environmental objectives and does not cause significant harm to any of the other environmental objectives.

#### (b) AMBER

An economic activity could be classified as amber in these scenarios:

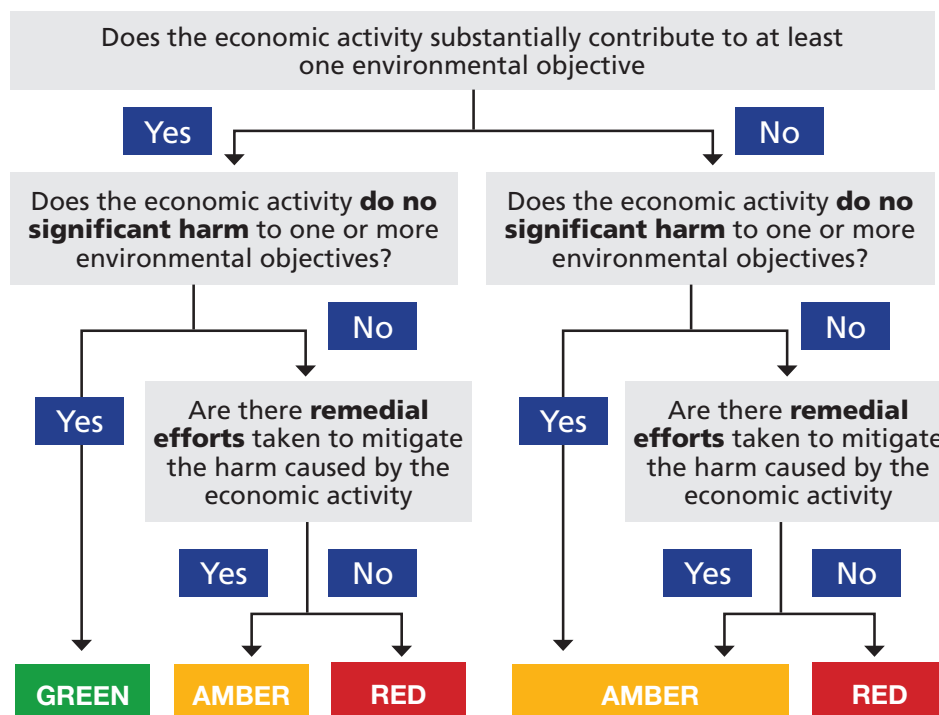
- (i) The economic activity causes significant harm to one or more environmental objectives. However, remedial efforts are taken to mitigate the harm; or
- (ii) The economic activity does not substantially contribute nor does it cause significant harm to any environmental objectives.

While the economic activities classified under 2.4.3(b)(ii) are not the focus areas of the SRI Taxonomy, companies are encouraged to identify opportunities within the economic activities to contribute to any of the environmental objectives.

#### (c) RED

An economic activity could be classified as red if it causes significant harm to one or more environmental objectives and no remedial effort is undertaken to mitigate the harm caused, regardless of whether it substantially contributes to any of the other environmental objectives.

- 2.4.4 To provide an illustration of how economic activities can be classified according to the three broad categories, a sector-agnostic decision tree is provided as guidance:



- 2.4.5 As the SRI Taxonomy is principles-based, the decision tree allows sufficient clarity for economic activities to be generally classified accordingly without the use of thresholds, and at the same time, allows the users to apply their own internal framework and assessment methodology in complementing the assessment made under the SRI Taxonomy.
- 2.4.6 To provide further guidance and illustration on how users of the SRI Taxonomy may assess the substantial contribution and DNSH to the environmental objectives, guiding questions are provided in Appendix II (A) and (B).

## 2.5 Remedial Efforts to Mitigate Harm

- 2.5.1 Remedial efforts to mitigate harm must address the significant harm caused by the economic activity to any environmental objectives.
- 2.5.2 The recognition of remedial efforts to mitigate harm aims to facilitate an orderly transition by avoiding any outright exclusion of economic activities that are currently causing significant harm to the environmental objectives, as long as remedial efforts are taken to mitigate the harm.

- 2.5.3 Proposed actions to mitigate harm towards the environmental objectives should be assessed against the following considerations:
- (a) Actions should anticipate and avoid risks and impacts at the outset; and
  - (b) If avoidance is not possible, minimise or reduce risks and impacts to acceptable levels.
- 2.5.4 Remedial measures taken to reduce risks and impacts need to be taken at the business entity or activity level as close as possible to the place and time at which the significant harm to environmental objectives occurs.
- 2.5.5 Users of the SRI Taxonomy are to conduct adequate assessments to ascertain the effects and significance of remedial efforts to mitigate harm, where the depth and breadth of assessment should be proportionate to the scale of business operations.
- 2.5.6 To provide further guidance and illustration on how users of the SRI Taxonomy may assess remedial efforts to mitigate harm, guiding questions are provided in **Appendix II (C)**.



# Chapter 3

## SOCIAL COMPONENT

### 3.1 Social Objectives

#### 3.1.1 The SRI Taxonomy outlines three social objectives which are sector agnostic



Enhanced conduct  
towards workers



Enhanced conduct towards  
consumers and end-users



Enhanced conduct towards affected  
communities and wider society

- 3.1.2 Upon ensuring compliance with the minimum safeguard, an economic activity can be considered to support the objectives of the social component if it-
- (a) substantially contributes to at least one of the social objectives; and
  - (b) does not cause significant harm to any of the other social objectives.
- 3.1.3 As this is a principles-based SRI Taxonomy, the assessment on compliance with the social component of the SRI Taxonomy can also be conducted at the level of the entity which is carrying out the economic activity.

#### Social Objective 1: Enhanced Conduct Towards Workers

- 3.1.4 This social objective focuses on the social impact of an activity on workers involved in that activity, be it employees or contract workers. As it relates to ensuring a just transition, this objective may also reflect, for example, employment generation, upskilling, or reskilling for workers affected by a transition to low-carbon activities.
- 3.1.5 An economic activity can be considered to meet the social objective of enhanced conduct towards workers if it substantially contributes to one or more of the following, but not limited to:
- (a) Implementing policies and procedures that eliminate discrimination in respect of employment and occupation;
  - (b) Establishing and improving a safe and healthy working environment, including suitable living standards for workers where applicable;
  - (c) Eliminating all forms of forced or compulsory labour;
  - (d) Abolishing child labour;
  - (e) Ensuring freedom of association and the effective recognition of the right to collective bargaining;
  - (f) Implementing effective policies to prevent corruption and bribery;
  - (g) Ensuring and improving protection of employee mental health;
  - (h) Providing and improving life-long learning, upskilling, and/or reskilling such as in the case of job obsolescence during transitions;

- (i) Providing and improving professional development opportunities for workers such as female employees and employees with special needs or disabilities; and
- (j) Engaging stakeholders regularly, taking into account workers' comments and feedback in decisions pertaining to the economic activity.

3.1.6 Users of the SRI Taxonomy may also consider this objective when assessing conduct towards workers across an activity's entire value chain. For example, this objective would not be met if a manufacturing activity utilises a raw material whose supplier has been found to treat workers in an unlawful manner. This enables the extension of the social objective from being limited to just the company's employees, to potentially include the workers across the activity's entire value chain.

### **Social Objective 2: Enhanced Conduct Towards Consumers and End-Users**

3.1.7 This social objective focuses on the social impact of an activity on consumers and end-users of that activity, if applicable.

3.1.8 An economic activity can be considered to meet the social objective of enhanced conduct towards consumers and end-users if it substantially contributes to one or more of the following, but not limited to:

- (a) Putting in place policies and procedures that protect consumers' data privacy and prevent fraud;
- (b) Implementing policies that ensure consumers receive transparent and fair treatment or services and do not discriminate in the provision of products or services;
- (c) Improving access to good quality products and services;
- (d) Engaging in responsible marketing practices;
- (e) Ensuring safe products and services; and
- (f) Engaging stakeholders regularly, taking into account consumers' and end-users' comments and feedback in decisions pertaining to the economic activity.

### **Social Objective 3: Enhanced Conduct Towards Affected Communities and Wider Society**

3.1.9 This social objective focuses on the social impact of an activity on communities directly affected by an activity and the wider society surrounding that activity, if applicable.

3.1.10 An economic activity can be considered to meet the social objective of enhanced conduct towards affected communities and wider society if it substantially contributes to one or more of the following, but not limited to:

- (a) Implementing policies and procedures to build a sustainable and responsible supply chain, including social audits as part of the procurement practice;
- (b) Integrating screening for social and governance factors when making investment decisions, if applicable such as in the case of an investment activity;
- (c) Providing or improving access to products and services that meet basic human needs such as water, affordable housing, education, healthcare;
- (d) Providing or improving access to basic economic infrastructure such as transport, affordable energy, digital infrastructure, and financial services;
- (e) Regularly engaging stakeholders and taking into account stakeholders' comments and feedback in decisions pertaining to the economic activity.

## 3.2 Minimum Safeguards

- 3.2.1 As a minimum safeguard, economic activities seeking alignment with the social component of the SRI Taxonomy should ensure compliance with all national laws and legislative requirements relating to environmental and social considerations applicable in Malaysia, such as in the areas of environmental protection, climate change, land use, human rights, anti-corruption, labour welfare and others.
- 3.2.2 Entities carrying out economic activities are also encouraged to align business strategies and practices with globally accepted social principles and standards such as the *UN Global Compact*, *UN Guiding Principles on Business and Human Rights*, *ILO's Declaration on Fundamental Principles and Rights at Work*, and the *Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises*. Where applicable, entities should comply with relevant international laws and regulations.

## 3.3 Substantial Contribution

- 3.3.1 An economic activity substantially contributes to a social objective if it-
- (a) avoids and addresses the negative impacts of the economic activity on affected stakeholder groups;
  - (b) enhances the inherent positive impacts of an economic activity; or
  - (c) is an enabling activity that enables other substantial contributions to be made for any of the three objectives.

### Enhancing inherent positive impact – An example of a healthcare provision activity

The SRI Taxonomy acknowledges that there are activities which by their nature would already provide inherent social benefits. For example, the activity of healthcare provision inherently contributes to the well-being of its end-users. However, this alone does not constitute a fulfilment of the social objectives. Instead, when accompanied by initiatives to increase the accessibility of the healthcare service to socioeconomically disadvantaged end-users or the wider community, it can be said to substantially contribute to Social Objective 2: Enhanced Conduct Towards Consumers and End-Users, or Social Objective 3: Enhanced Conduct Towards Affected Communities and Wider Society. While providing the healthcare service, the activity may also take into consideration the well-being of the healthcare workers performing the service – Social Objective 1: Enhanced Conduct Towards Workers.

### Enabling activities – An example for Social Objective 1 and 2

Enabling activities are economic activities that enable improved social performance in other activities. For example, ensuring decent working conditions falls under Social Objective 1: Enhanced Conduct Towards Workers. In this regard, examples of enabling activities could be services conducting social audits, facilitation of stakeholder dialogues with communities, mediation services, or carrying out a complaint mechanism acceptable to all parties. For Social Objective 2, an enabling activity could be services involved in carrying out tests to discover harmful substances in consumer products. These kinds of activities enable other activities to reduce negative impacts.

### 3.4 Do No Significant Harm

- 3.4.1 The DNSH criteria ensures that when an activity makes a substantial contribution to one social objective, it does not harm any of the other social objectives. For example, an activity that makes a substantial contribution to the social objective of enhanced conduct towards workers also should not harm end-users and the wider community.

### 3.5 Assessment of Economic Activities

- 3.5.1 Qualitative screening guidance may be employed by users of the SRI Taxonomy in assessing an economic activity's compliance with the social component of the SRI Taxonomy. For each economic activity, the following main steps should be applied:
- (a) Does the economic activity comply with the minimum safeguards?
  - (b) Does the economic activity substantially contribute to at least one of the social objectives? In order to determine whether the economic activity is compliant with each social objective, an assessment for each social objective is undertaken:
    - Does it avoid and address the negative impacts of the economic activity on affected stakeholder groups?
    - Does it enhance the inherent positive impacts?
    - Is it an enabling activity that enables other substantial contributions to be made for any of the three social objectives?
  - (c) Does the economic activity do no significant harm to any of the social objectives?
  - (d) The economic activity is considered to support the social objectives if the answers to (a), (b) and (c) are all 'yes'.
- 3.5.2 While the SRI Taxonomy is sector-agnostic, examples of economic activities under several sectors are provided as guidance on assessing how the activities could be considered to comply with minimum safeguards, DNSH criteria, and substantially contribute towards each of the social objectives. These can be found in **Appendix III**.

## Chapter 4

### SUSTAINABILITY COMPONENT

Chapters 2 and 3 of the SRI Taxonomy provide broad-based guiding principles for a user to assess an economic activity's alignment with the environmental and social objectives, respectively. These chapters may be applicable to users of the SRI Taxonomy, depending on the primary objective of their economic activities.

The sustainability component of the SRI Taxonomy is aimed at encouraging greater incorporation of ESG factors in business practices and investment processes and meeting the needs of the wider economy in a more holistic and comprehensive manner. This is an important consideration to promote the linkages between the environmental and social objectives of the economic activities.

For an economic activity to be deemed sustainable, the economic activity has to be aligned with the objectives of both the environmental and social components of the SRI Taxonomy. Furthermore, the entity carrying out the economic activity should also be in compliance with the relevant national governance guidelines and frameworks.<sup>15</sup>

**SRI Taxonomy provides broad-based guiding principles for a user to assess an economic activity's alignment with the environmental and social objectives.**

<sup>15</sup> These include, but are not limited to, the *Malaysian Code on Corporate Governance (MCCG)*, *Principles on Good Governance for Government-Linked Investment Companies (PGG)*, *Guidelines on Corporate Governance for Capital Market Intermediaries*, and BNM's Corporate Governance policy documents.

## Chapter 5

### CONCLUSION AND WAY FORWARD

The SRI Taxonomy encapsulates all the key components of a sustainable finance taxonomy, aiming to provide guidance to capital market constituents while remaining credible. As it is principles-based, the SRI Taxonomy allows capital market intermediaries, issuers and institutional investors to apply it as a reference base in undertaking capital market activities and investments that can be classified as green, social and sustainable.

In the next stage of the taxonomy development, the SC is considering a Plus Standards for SRI Taxonomy to provide additional guidance in the form of quantitative thresholds and/or metrics for capital market constituents to further identify and benchmark eligible green, social and sustainable activities and investments.

## APPENDIX I

## ILLUSTRATION ON THE ALIGNMENT OF THE ENVIRONMENTAL COMPONENT OF THE SRI TAXONOMY WITH BNM'S CCPT AND ASEAN TAXONOMY VERSION 1 (FOUNDATION FRAMEWORK)

Environmental Objectives of SRI Taxonomy	BNM's CCPT	ASEAN Taxonomy V1 (FF)
<b>Environmental Objective 1: Climate change mitigation</b>	✓	✓
<b>Environmental Objective 2: Climate change adaptation</b>	✓	✓
<b>Environmental Objective 3: Protection of healthy ecosystems and biodiversity</b>	Embedded in GP3 (No Significant Harm to the Environment)	✓
<b>Environmental Objective 4: Promotion of resource resilience and transition to circular economy</b>	Embedded in GP4 (Remedial Measures to Transition)	✓

# APPENDIX II (A)

## GUIDING QUESTIONS TO ASSESS SUBSTANTIAL CONTRIBUTION TO THE ENVIRONMENTAL OBJECTIVES

### Substantial Contribution to Environmental Objective 1 (Climate Change Mitigation)

- (a) Does the economic activity support climate change mitigation or enable other activities to support climate change mitigation? How does it do this?
- (b) Does the economic activity demonstrate the capability of avoiding or reducing GHG emissions in line with relevant best practices?

### Substantial Contribution to Environmental Objective 2 (Climate Change Adaptation)

- (a) Does the economic activity support climate change adaptation?
- (b) Has a climate risk assessment that utilises the best available climate information and evidence been conducted to establish the risk exposure towards physical climate risks?
- (c) How does the economic activity demonstrate how it can build resilience, prevent an increase in, or shift the identified negative impact of climate change in a measurable and observable manner?
- (d) How does the economic activity enable other economic activities to reduce the impact of material physical risk and/or reduce barriers to adaptation?

### Substantial Environmental Objective 3 (Protection of Healthy Ecosystems and Biodiversity)

- (a) Does the economic activity contribute to the protection of healthy ecosystems and biodiversity? Which of the criteria in paragraph 2.1.15 of the SRI Taxonomy does the economic activity fulfil and how does it do this?
- (b) Are there internal operations, strategies, policies, and control mechanisms in place to support the alignment of the economic activity to Environmental Objective 3?

### Substantial Contribution to Environmental Objective 4 (Promotion of Resource Resilience and Transition to Circular Economy)

- (a) Which specific principles under Environmental Objective 4 do the economic activity meet, i.e., contribute to the minimisation of resource use, optimise its resource yield, and/or close resource loops through effective waste management?
- (b) Are there internal operations, strategies, policies, and control mechanisms in place to support the alignment of the economic activity to the specified principles in Environmental Objective 4?



# APPENDIX II (B)

## GUIDING QUESTIONS TO ASSESS DO NO SIGNIFICANT HARM

### General Questions

- (a) Does the economic activity cause potential significant harm to any of the environmental objectives at the time of assessment?
- (b) Has an impact assessment been conducted and approved for the economic activity?
- (c) What are the results of the assessment and the impacts of the economic activity, including the place and time in which they occur?

*Other relevant environmental objective-specific questions (examples below)*

### DNSh to Environmental Objective 1 (Climate Change Mitigation)

- (a) Does the economic activity lead to significant GHG emissions?
- (b) Does the economic activity deplete land-based carbon stock and sinks, such as through deforestation?
- (c) Does the economic activity impede stakeholders in its value chain from mitigating, reducing, or otherwise avoiding GHG emissions?

### DNSh to Environmental Objective 2 (Climate Change Adaptation)

- (a) Does the economic activity increase the material physical risk from climate change experienced by its stakeholders?
- (b) Does the economic activity increase barriers to or impede stakeholders from increasing their resilience to the adverse impacts of climate change?

### DNSh to Environmental Objective 3 (Protection of Healthy Ecosystems and Biodiversity)

- (a) Is the economic activity harmful to the healthy condition of ecosystems and biodiversity, including threatening the protection and conservation of natural areas, habitats, and species?
- (b) Does the economic activity lead to an increase in soil erosion and run-off, relative to the situation prior to the commencement of the economic activity?
- (c) Does the economic activity involve unsustainable logging or timber products?
- (d) Does the economic activity lead to a significant increase in pollutant and/or hazardous emissions, relative to the situation prior to the commencement of the economic activity?

### DNSh to Environmental Objective 4 (Promotion of Resource Resilience and Transition to Circular Economy)

- (a) Does the economic activity lead to significant inefficiencies in the use of raw materials, energy, water, or other natural resources?
- (b) Does the economic activity utilise materials and resources in a manner that does not optimise resource yield?
- (c) Are there existing methods to improve material use efficiency in the economic activity which are not being adopted?
- (d) Does the economic activity involve a significant increase in generation and/or ineffective disposal and management of waste?

# APPENDIX II (C)

## GUIDING QUESTIONS TO ASSESS REMEDIAL EFFORTS TO MITIGATE HARM

### General Questions

- (a) Have remedial efforts to mitigate harm been implemented? What are the proposed actions and their contributions to harm mitigation (e.g. avoidance, minimisation or reduction of risks and impacts)? Who are the stakeholders involved and what are their contributions to the remedial efforts?
- (b) Is the depth and breadth of the remedial efforts appropriate and proportionate to the size, complexity and financial capacity of the activity or entity conducting the activity?
- (c) Are the remedial efforts measurable and observable? What are the relevant metrics or performance indicators established to monitor the remedial efforts?? How is the progress of the remedial plan measured and tracked?
- (d) How effective is the implementation of the activity's remedial efforts to mitigate harm? Does the remedial efforts identified constitute a significant improvement / departure from business as usual?
- (e) How credible are the activity's remedial efforts? Does the remedial efforts fall within a defined timeframe? Are there internal (governance) frameworks set up to incorporate the remedial efforts into operations and validate its progress periodically? Is there a time-bound commitment with specific milestones to implement the remedial efforts? Who is responsible to ensure the remedial efforts are implemented and monitored?
- (f) Does the activity voluntarily leverage on any certification or verification from independent third parties to substantiate the remedial efforts?

Other relevant environmental objective-specific questions (examples below)

### Remedial Efforts to Mitigate Harm to environmental objective 1 (Climate Change Mitigation)

- (a) Does the business have a plan to close the activity's GHG emissions gap relative to the industry average or other acceptable benchmark(s)?
- (b) Is there a decarbonisation pathway established within the industry that the business operates in? If so, does the business have a plan with specific milestones to embark on the decarbonisation pathway? If not, does the business plan on making all available/possible short-term emissions reductions and/or pursuing interim solutions while low carbon/zero emissions alternatives are being developed?

### Remedial Efforts to Mitigate Harm to environmental objective 2 (Climate Change Adaptation)

- (a) Does the business have a plan to mitigate the increase in physical climate risks experienced by the business and/or other stakeholders due to the activity?
- (b) Does the business have a plan to mitigate the activity's impact on adaptation efforts by others?
- (c) Is the proposed reduction and/or prevention of an increase in climate physical risk science-based?

### Remedial Efforts to Mitigate Harm to environmental objective 3 (Protection of Healthy Ecosystems and Biodiversity)

- (a) How does the business propose to minimise or eliminate the effects of its activity on the ecosystem and biodiversity? Does the business have any pollution control mechanism in place?

### Remedial Efforts to Mitigate Harm to environmental objective 4 (Promotion of Resource Resilience and Transition to Circular Economy)


- (a) Does the business have plans to adjust its operations to conserve resource use and implement circular economy principles?



# APPENDIX III


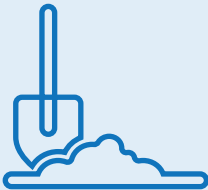
## SOCIAL COMPONENT ASSESSMENT TABLE

While the SRI Taxonomy is sector-agnostic, examples of economic activities under several sectors are provided as guidance on assessing how the activities could be considered to comply with minimum safeguards, DNSH criteria, and substantially contribute towards each of the social objectives.

Examples of sectors (non-exhaustive)	Examples of economic activities complying with minimum safeguards, DNSH, and substantial contribution (non-exhaustive)
 <p><b>Consumer goods, manufacturing</b></p>	<ul style="list-style-type: none"> <li>• Minimum safeguard: At a minimum, the activity of manufacturing durable consumer goods meets all relevant national laws and legislative requirements whether pertaining to product safety, labour, environmental laws, or any other applicable laws and regulations.</li> <li>• DNSH: The manufacturing activity does not cause significant harm to affected stakeholder groups across any of the social objectives.</li> <li>• Social Objective 1: During the manufacturing activity, workers are provided with suitable living, health and safety conditions.</li> <li>• Social Objective 2: The durable consumer goods manufactured meets the needs of consumers or end-users and does not discriminate against users, such as those with disabilities.</li> <li>• Social Objective 3: Policies and procedures to build a sustainable and responsible supply chain, including social audits are implemented as part of the procurement practice.</li> </ul>
 <p><b>Construction and real estate</b></p>	<ul style="list-style-type: none"> <li>• Minimum safeguard: At a minimum, the activity of constructing a residential building meets all relevant national laws and legislative requirements whether pertaining to residential housing, labour, environmental laws, or any other applicable laws and regulations.</li> <li>• DNSH: The construction activity does not cause significant harm to affected stakeholder groups across any of the social objectives.</li> <li>• Social Objective 1: During the construction activity, workers are provided with suitable living, health, and safety conditions.</li> <li>• Social Objective 2: The construction activity involves an affordable housing segment for low-income end-users, incorporates energy efficiency, urban farming, and additionally involves components that promote healthy living for end-users.</li> <li>• Social Objective 3: Consultation and social due diligence is done with stakeholders in the wider community, and steps taken to avoid and address negative impacts of the activity on the wider community and society.</li> </ul>

Examples of sectors (non-exhaustive)	Examples of economic activities complying with minimum safeguards, DNSH, and substantial contribution (non-exhaustive)
 <p><b>Utilities and Infrastructure</b></p>	<ul style="list-style-type: none"> <li>• Minimum safeguard: At a minimum, the activity of electricity transmission and power generation meets all national laws and legislative requirements whether pertaining to safety, labour, environmental laws, or any other applicable laws and regulations.</li> <li>• DNSH: The electricity transmission and power generation activity does not cause significant harm to affected stakeholder groups across any of the social objectives.</li> <li>• Social Objective 1: During the activity, workers are provided with suitable working conditions, in addition to upskilling particularly if affected by the energy transition.</li> <li>• Social Objective 2: Upgrades of provision of utilities infrastructure such as employing smart-grid technology, more efficient transmission systems, and reducing repair downtime are part of the activity.</li> <li>• Social Objective 3: Building infrastructure to provide the underserved or unserved communities with physical access to basic services are part of the activity.</li> </ul>
 <p><b>Financial services</b></p>	<ul style="list-style-type: none"> <li>• Minimum safeguard: At a minimum, the activity of providing financial services meets all relevant national laws and legislative requirements whether pertaining to data privacy, anti-money laundering, consumer protection, or any other applicable laws and regulations.</li> <li>• DNSH: The financial service activity does not cause significant harm to affected stakeholder groups across any of the social objectives.</li> <li>• Social Objective 1: Workers providing financial services, especially women or other target groups are provided with increased opportunities for professional development.</li> <li>• Social Objective 2: Initiatives to increase inclusivity of financial products such as micro-loans or SME financing to women-owned businesses and/or low-income entrepreneurs are incorporated in the financial services activity.</li> <li>• Social Objective 3: Screening for social and governance factors are undertaken when making investment decisions, besides issuance of sustainability-linked products to raise funds for social or environmental projects.</li> </ul>

Examples of sectors (non-exhaustive)	Examples of economic activities complying with minimum safeguards, DNSH, and substantial contribution (non-exhaustive)
 <p data-bbox="204 792 488 860"><b>Technology and Telecommunications</b></p>	<ul data-bbox="555 495 1378 1155" style="list-style-type: none"> <li>• Minimum safeguard: At a minimum, the activity of providing telecommunications services meets all relevant national laws and legislative requirements whether pertaining to data privacy, competition law, or any other applicable laws and regulations.</li> <li>• DNSH: The telecommunications activity does not cause significant harm to affected stakeholder groups across any of the social objectives.</li> <li>• Social Objective 1: Workers involved in the telecommunications activity experience non-discrimination and fair treatment.</li> <li>• Social Objective 2: Investment in technology or software reduces data breaches of financial or customer information or data surveillance is incorporated in the activity. Product accessibility is increased with new products for low-income customers, such as free or low-cost access to customers in community healthcare settings e.g. telemedicine for underserved locations.</li> <li>• Social Objective 3: Consultation and social due diligence is done with stakeholders in the wider community, and steps taken to avoid and address negative impacts of the activity on the wider community and society.</li> </ul>
 <p data-bbox="277 1503 405 1536"><b>Education</b></p>	<ul data-bbox="555 1245 1378 1794" style="list-style-type: none"> <li>• Minimum safeguard: At a minimum, the activity of providing education services meets all relevant national laws and legislative requirements whether pertaining to safety of minors, health and certification, or any other applicable laws and regulations.</li> <li>• DNSH: The education activity does not cause significant harm to affected stakeholder groups across any of the social objectives.</li> <li>• Social Objective 1: Workers, including educators and administrators of the education activity receive protection of employee mental health, upskilling, and professional development opportunities.</li> <li>• Social Objective 2: End-users of the education activity such as students with special needs and disabilities receive equal access to the service.</li> <li>• Social Objective 3: Building and upgrading educational facilities and providing access to essential resources to education such as books, computers, etc. in underserved or unserved locations is part of the activity.</li> </ul>

Examples of sectors (non-exhaustive)	Examples of economic activities complying with minimum safeguards, DNSH, and substantial contribution (non-exhaustive)
 <p data-bbox="272 792 421 824"><b>Healthcare</b></p>	<ul data-bbox="555 499 1378 1122" style="list-style-type: none"> <li>• Minimum safeguard: At a minimum, the activity of providing healthcare services meets all relevant national laws and legislative requirements whether pertaining to health and safety, or any other applicable laws and regulations.</li> <li>• DNSH: The healthcare activity does not cause significant harm to affected stakeholder groups across any of the social objectives.</li> <li>• Social Objective 1: Workers are provided with safe working conditions, clear avenues for recourse in cases of discrimination or mistreatment, and proactive support for mental health well-being given the high-stress circumstances of workers in healthcare provision.</li> <li>• Social Objective 2: Universal access to quality essential healthcare is ensured, including putting in place initiatives to allow socioeconomically disadvantaged consumers, such as those of low-income to access the healthcare service.</li> <li>• Social Objective 3: The healthcare activity includes efforts that would be beneficial to the wider community via research and development of essential medicines.</li> </ul>
 <p data-bbox="237 1525 456 1594"><b>Plantations and Agriculture</b></p>	<ul data-bbox="555 1209 1378 1910" style="list-style-type: none"> <li>• Minimum safeguard: At a minimum, the oil palm plantation activity meets all relevant national laws and legislative requirements whether pertaining to labour, responsible and sustainable agriculture, or any other applicable laws and regulations.</li> <li>• DNSH: The oil palm plantation activity does not cause significant harm to affected stakeholder groups across any of the social objectives.</li> <li>• Social Objective 1: Workers are given suitable living conditions, and fair treatment including in wages and recruitment. Given that there may be a high concentration of migrant labour, policies implemented voluntarily subscribe to tenets outlined by the <i>Malaysian National Action Plan on Forced Labour</i>.</li> <li>• Social Objective 2: Active research and development to ensure agricultural products are of the best possible quality for end-users and employing responsible and transparent marketing practices is part of the activity.</li> <li>• Social Objective 3: Ensuring the well-being and liveability of plantation estate workers and communities affected by the oil palm plantation, including conducting regular social audits to ascertain and avoid negative impact on affected stakeholders is part of the activity.</li> </ul>

# APPENDIX IV

## FACILITATING TRANSITION FINANCE

Although the SRI Taxonomy does not mandate the adoption of transition finance frameworks or strategies, users who are seeking access to transition finance, particularly in relation to low carbon transition, may find it necessary to establish a transition pathway based on the principles of the SRI Taxonomy. In this regard, there are several guidance that could be helpful in establishing a credible transition strategy:

- (a) **Adopting a science-based transition strategy**, which refers to a strategy that is aligned or refers to science-based sectoral decarbonisation pathways, where relevant (such pathways exist) and practicable. For example, targets are considered 'science-based' if they are in line with what the latest climate science deemed necessary to meet the goals of the *Paris Agreement*.
- (b) **Appointing an external review provider** with relevant expertise and experience to review or verify the credibility of the company's transition strategy on a regular basis. The external review provider's relevant credentials and expertise as well as the scope of the review conducted could be disclosed in the external review report and made publicly available.
- (c) **Regularly monitoring and recalibrating targets** to reflect the changing market and business conditions as well as the introduction of new technologies that will accelerate the company's transition strategy.
- (d) **Reporting on performance** where the company could track and report on its performance against its targets at least on an annual basis. Where the company has utilised financing instruments such as green, social, or sustainability or sustainability-linked bonds to finance its transition strategy, the company could report the use of proceeds, or the purpose of financing, where applicable, as provided in the relevant green, social, sustainability or sustainability-linked bond issuance frameworks.

# APPENDIX V

## APPLICATION AND USE CASES

To illustrate how SRI Taxonomy may be applied in capital market activities, please refer to the following examples.

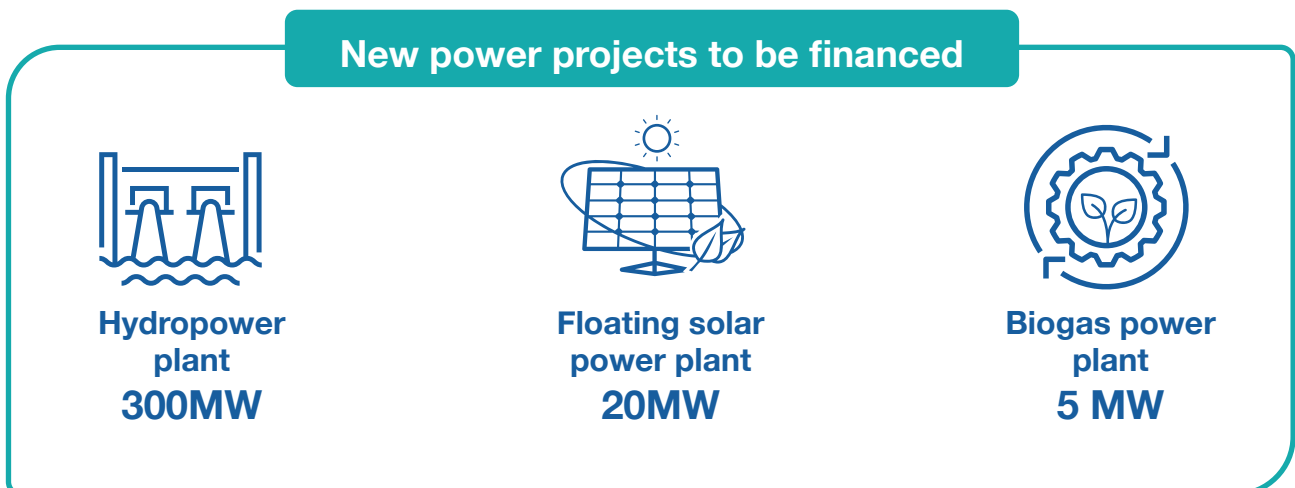
### Use Case 1: Issuance of SRI Sukuk with use of proceeds that are aligned with SRI Taxonomy – Contributed by RAM Sustainability

#### Background:

An electricity utility company that is involved in power generation and the transmission and distribution of electricity to its customers is issuing SRI sukuk for its renewable energy generation projects.

The company has committed to achieving net zero by 2050. As part of its net-zero commitment, it targets to have at least 50% of its power generation from renewable energy sources as well as to phase out its coal power plants by 2050. In line with these targets, the company will not invest in any new coal power plants and instead, the company will invest in carbon sequestration technology or efforts, where possible.

The company intends to issue an SRI sukuk to increase its renewable energy generation as shown below, which substantially contributes towards climate change mitigation:



Given that these three new power projects use renewable energy sources and thus, have significantly lower life-cycle GHG emissions compared to a coal power plant, these projects support the company's transition towards net-zero emissions.



## Assessment on the alignment with SRI Taxonomy:

Further analysis on the renewable energy projects on the contribution towards supporting the environmental objectives of the SRI Taxonomy, was carried out:

### (a) Hydropower plant project

The economic activity meets one of the environmental objectives in the SRI Taxonomy on climate change mitigation by reducing GHG emissions (Environmental Objective 1). However, the construction of hydropower plant of this size causes significant harm to Environmental Objective 1 and Environmental Objective 3.

#### Guiding Question on Remedial Efforts to Mitigate Harm:

- *Does the business have a plan to close the activity's GHG emissions gap relative to the industry average or other acceptable benchmark(s)? Is there a decarbonisation pathway established within the industry that the business operates in? If so, does the business have a plan with specific milestones to embark on the decarbonisation pathway? If not, does the business plan on making all available/possible short-term emissions reductions and/or pursuing interim solutions while low-carbon / zero emissions alternatives are being developed? (Environmental Objective 1)*

The company will mitigate GHG emission from the inundation of a large land area by applying global best practices in hydropower plant development by meeting a power density of more than 10W/m<sup>2</sup> and a GHG emissions intensity of <50g CO<sub>2</sub>e/kWh.

- *Is the economic activity harmful to the healthy condition of ecosystems and biodiversity, including threatening the protection and conservation of natural areas, habitats, and species? (Environmental Objective 3)*

The construction of hydropower plant of this size requires inundation of a large land area which may cause significant harm to Environmental Objective 3 if poorly managed due to the impact on biodiversity, as well as causing methane emission, which is a GHG emission with high global warming potential.

- *How does the business propose to minimise or eliminate the effects of its activity on the ecosystem and biodiversity? Does the business have any pollution control mechanism in place? (Environmental Objective 3)*

These harms will be mitigated through global best practices in hydropower plant development by (i) conducting Hydropower Sustainability Assessment Protocol (HSAP) and the Hydropower Sustainability ESG Gap Analysis Tool (HESG) that are developed through a collaborative forum comprising the International Hydropower Association (IHA), The Nature Conservancy, The World Bank Group and The World Wide Fund for Nature (WWF); and (ii) addressing the gaps identified through an Environmental and Social Action Plan (ESAP).

The economic activity is classified as Amber.

### (b) Floating solar power plant

The economic activity meets one of the environmental objectives in the SRI Taxonomy on climate change mitigation by avoiding GHG emissions (Environmental Objective 1). It does not cause significant harm to other environmental objectives as best practices are applied including conduct of site environmental impact assessment prior to project construction and implementation of health, safety and environmental policies during the operations and maintenance stage.

The economic activity is classified as Green.

### (c) Biogas power plant

The economic activity meets two of the environmental objectives in the SRI Taxonomy on climate change mitigation by reducing GHG emissions (Environmental Objective 1) and transitioning to circular economy (Environmental Objective 4).

It captures methane produced from palm oil mill effluent (POME), and is expected to remove 80% of GHG emissions that will be emitted from POME if left untreated. POME is a by-product of the palm milling process.

It does not cause significant harm to other environmental objectives as best practices are applied including the conduct of site environmental impact assessment prior to project construction and implementation of health, safety and environmental policies during the operations and maintenance stage.

The economic activity is classified as Green.

For issuances of sukuk under the SC SRI Sukuk Framework, the issuer needs to comply with the regulatory requirements as provided in the respective SC guidelines. While the SRI Sukuk Framework provides lists of eligible green and social project categories, the issuer may apply the principles under the respective components of the SRI Taxonomy to assess if such issuance is aligned with the SRI Taxonomy. In addition, the considerations for the environmental objectives under Chapter 2 of the SRI Taxonomy could provide additional guidance in determining eligible green projects.

In this example, although the hydropower plant project is classified as Amber under the environmental component of the SRI Taxonomy, the project could still be financed through the issuance of the SRI sukuk because it promotes the use of renewable energy and is aligned with the categories of the eligible green projects in the SRI Sukuk Framework. In addition, the company has adopted best practices to mitigate the harm caused to the environment.

The floating solar power plant and biogas power plant projects identified for the SRI sukuk issuance support the environmental objective of climate change mitigation (Environmental Objective 1), and the biogas power plant project also supports the objective of transitioning to circular economy (Environmental Objective 4). In addition, the solar power plant and biogas power plant projects do not cause significant harm to the other environmental objectives as provided in Chapter 2 of the SRI Taxonomy, hence, the issuance could be considered to be aligned with the SRI Taxonomy.

## Use Case 2: Developing an SRI Taxonomy-aligned portfolio

– Contributed by EPF

### Background:

An asset owner is committed to have a fully SRI compliant portfolio by 2030 that is aligned with the SRI Taxonomy. In evaluating its investments, the asset owner has developed its own proprietary sustainable investment methodology and assessment that are consistent with the SRI Taxonomy.

### Assessment on the alignment with SRI Taxonomy:

- The first layer of assessment is to exclude companies that are involved in controversies that cause significant harm to any environmental and social objectives by adopting a norms-based screening. For this purpose, all companies in the portfolio are screened by using the screening service provided by third-party rating agencies to screen out companies that violated minimum standards of business practices based on international frameworks such as the *UN Global Compact's* principles on the environment, human rights, labour rights and corruption.
- The second layer of assessment is to assess the portfolio's alignment with the environmental and social components of the SRI Taxonomy. To achieve this, the asset owner derived a set of prescriptive requirements for investee companies to comply with in order to be classified as ESG compliant, based on the SRI Taxonomy. These expectations are communicated with investee companies. Compliance with these expectations will be monitored on a yearly basis to ensure full compliance by 2030.
- In terms of assessing the portfolio's alignment with the social component, the asset owner may adopt positive screening (best-in-class) or thematic investing approaches to prioritize companies that contribute to the SDGs for greater societal outcomes. For example, this can be done by screening for companies that provide affordable housing for low-income communities or companies that operate in renewable energy in Malaysia.
- These are some examples of requirements in the form of sector-agnostic and sector-specific requirements considered by the asset owner in developing an SRI Taxonomy-aligned portfolio, in carrying out the first and second layers of assessments:

Sub-Issue	Requirements (non-exhaustive)
GHG emission	Derive not more than 30% of revenue from thermal coal (DNSH)
GHG emission	Disclosure of GHG emission Scope 1 and Scope 2 data, reduction target and initiatives to reduce (Environmental Objective 1)

<b>Energy Management</b>	Disclosure of energy consumption data, reduction target and initiatives to reduce (Environmental Objective 1)
<b>Physical Climate Risk</b>	Disclosure of assessment on the potential impact of physical climate risk scenarios to the company's operations, demand for goods and supply chain (e.g. physical office displacement from rising sea levels) (Environmental Objective 2)
<b>Biodiversity*</b>	Disclosure of commitment to no net loss in biodiversity across whole company's operations by 2030 (Environmental Objective 3)
<b>Circular economy*</b>	Adopt circular economy business model (Environmental Objective 4)
<b>Diversity and Inclusion</b>	Disclosure of workforce diversity data, improvement target and initiatives for improvement (Social Objective 1)
<b>Health and safety</b>	Disclosure of health and safety policy and initiatives to improve health and safety performance (Social Objective 1)
<b>Data Privacy*</b>	Disclosure of policy on data privacy and security, as well as initiatives to protect consumers' data (Social Objective 2)
<b>Governance</b>	There is a whistleblowing programme in place to prevent corruption and bribery (Social Objective 1)

\*If relevant, depending on the results of company's materiality assessment.

- Investee companies in the portfolio that are not compliant with the above requirements shall be subject to active engagement and close monitoring by the asset owner to ensure compliance within a certain time period and ultimately before 2030.
- Companies that do not show material progress in complying with the requirements after a series of engagements shall be divested partially or completely.

The asset owner's portfolio can be considered to be aligned with the SRI Taxonomy as the investee companies within the portfolio are screened and assessed based on their contribution to support the environmental and social objectives of the SRI Taxonomy.

## Use Case 3: Investment in a property development company

– Contributed by BNP Paribas Asset Management

### Background:

An asset management company is assessing to invest in a property development company listed on the local stock exchange and to determine if its economic activities substantially contribute to the environmental objectives of the SRI Taxonomy.

The property development company has developed residential, commercial and retail properties worldwide, while managing total net lettable area (NLA) of approximately 5.0 million square feet, which generates stable recurring income for the group.

### Assessment on the alignment with SRI Taxonomy:

Having committed to achieving carbon neutrality by 2050, the property development company has put in place various initiatives to support the development of low-carbon sustainable cities. Concerted efforts to support the environmental objectives as outlined in the SRI Taxonomy include:

#### **(a) Climate change mitigation (Environmental Objective 1)**

- Aims to develop all new buildings completed in 2025 onwards to be green-certified (for example based on Malaysia Green Building Index) and all its buildings certified green by 2050 – where green implies improved resource efficiency, and reduced negative impact across the building's life cycle.
- Embarked on a long-term project to reduce energy consumption from fossil fuels and switch to renewable solar energy wherever possible. Examples of energy efficiency improvements include using Building Energy Management Systems for monitoring and controlling energy use, and air conditioning chiller optimisation. The group is on track to reduce energy use intensity by 4% annually. Moving forward, the group plans to source at least 30% of electricity from renewable energy sources by 2030, which will improve the carbon footprint of the developer's managed building activities.
- Rehabilitated existing property areas by restoring nature-based solutions, for example mangrove forests. The property developer estimates that the 81,000 trees that it has placed into its property areas can help to sequester about 1,700 tonnes of CO<sub>2</sub> per year.

#### **(b) Promotion of resource resilience and transition to circular economy (Environmental Objective 4)**

- Installed a rainwater harvesting system, which has enabled the company to collect sufficient rainwater for landscape maintenance and cleaning of outdoor areas, which allowed the company to save approximately 40,000 m<sup>3</sup> of water.
- Applied virtual design and building systems to improve operational efficiency and reduce construction waste during the building phase of projects.

Based on these facts, the property development company could be considered to substantially contribute to at least one environmental objective, such as climate change mitigation (Environmental Objective 1). It also appears to not cause significant harm towards other environmental objectives. Therefore, it is possible to consider that the activities of the property development company are aligned with the environmental component of the SRI Taxonomy and the asset management company may invest in this property development company according to its internal investment criteria and methodology.

In addition, against the asset management company's own internal ESG scoring, this company performs quite well relative to its peers. This supports the identification of this property developer as contributing substantially to at least one environmental objective while respecting the principle of do no significant harm to other environmental objectives, in addition to minimum safeguards.

## Use Case 4: Investment in an oil palm plantation company

– Contributed by EPF

### Background:

An asset management company is considering to increase its portfolio exposure to the local oil palm sector in view of the strong crude palm oil (CPO) prices outlook. On top of traditional financial analysis, the asset management company factors in ESG considerations as part of the decision-making process to help make better-informed decisions.

Based on fundamental and technical assessments, the asset management company has identified a mid-capitalisation oil palm company to be considered for additional investment, due to its strong growth potential and attractive valuations. The identified company is then assessed using both environmental and social components of the SRI Taxonomy.

### Assessment on the alignment with SRI Taxonomy:

#### (a) Environmental component

- The company has put in place targets to reduce its GHG emission by 2025 and achieve carbon neutrality by 2050, as well as initiatives to achieve these targets which include but not limited to investment in biogas plants.
- The efforts of its energy management programme have led to a continuous decline in its GHG intensity for two consecutive years.

Based on these facts, the asset management company is of the view that the company's efforts support the environmental objectives of the SRI Taxonomy, given that the company's economic activities substantially contribute to at least one of the environmental objectives, i.e. climate change mitigation (Environmental Objective 1) and does not cause significant harm to any of the other three environmental objectives.

**(b) Social component**

- The company recognises the importance of smallholders within its supply chain as they contribute 40% to its total oil palm production area. However, only limited numbers of smallholders are Roundtable on Sustainable Palm Oil (RSPO) certified, mainly due to the lack of capabilities to achieve certification.
- To address this social issue, the company has embarked on several initiatives to support the smallholders such as organising capability-building programs to provide technical support and assistance in obtaining the RSPO certification, which has subsequently helped the smallholders to generate higher income.
- Such initiatives are in line with SDG 1 (No Poverty), SDG 2 (Zero Hunger), and SDG 8 (Decent Work and Economic Growth).

Based on these facts, the asset management company is of the view that the company's efforts support the social objectives of the SRI Taxonomy, in particular Social Objective 3 and does not cause significant harm to other social objectives.

The following outlines two separate scenarios in which the asset management company makes subsequent assessments in respect of the company's contribution towards the social objectives of the SRI Taxonomy.

**Scenario 1: Assessment and Decision (Clean record)**

The company identified Human Rights as one of its material ESG topics based on its materiality assessment. To signal its commitment to this topic, the company announced its adherence to international standards such as the *UN Guiding Principles on Business and Human Rights* and *ILO's Declaration on Fundamental Principles and Rights at Work*. On top of having in place a group-wide Human Rights policy that extends to its suppliers, the company has conducted regular assessments, interviews and spot checks to identify gaps and potential risks within its operations to avoid any exploitation of its workers. In addition, it has in place independent third-party grievance mechanisms and whistleblowing channels which are easily accessible through various platforms such as a toll-free number, SMS and Facebook as avenues for its workers to report on their working conditions, recruitment, safety, and other issues.

There were no ESG controversies found during the assessment.

Based on these facts, the asset management company was of the view that the company substantially contributes to the social objective by avoiding and addressing the negative impact of its economic activities on affected stakeholder groups. It also does not cause significant harm to the other social objectives. The asset management company proceeds to invest in the oil palm plantation company based on its internal decision-making process.

**Scenario 2: Assessment and Decision (Allegation on forced labour)**

The asset management company conducts subsequent assessments and found that the company has recently been involved in ESG-related controversies, whereby forced labour allegations made by a whistle-blower have emerged. Such allegations, if proven true, would cause significant harm to Social Objective 1.

In this regard, the asset management company initiated stewardship actions by engaging with the company to better understand the company's remediation measures, including its response to regulatory authorities. Until conclusive measures have been put in place to avoid and address the negative impact on its stakeholders, including the safety of its employees, the asset manager will not invest in the company based on its internal decision-making process. However, the asset management company will continue to closely monitor and engage with the company to improve its social standards. New investments will only be made if the company demonstrates satisfactory progress.

### Scenario 3: Assessment and Decision (Involvement in Deforestation)

The company has recently been involved in environmental-related controversy, whereby one of its estates in Indonesia was reported carrying out deforestation which had negatively impacted the surrounding biodiversity and community. This is in violation of the company's commitment to No Deforestation, No Peat and No Exploitation (NDPE) and the SRI Taxonomy's Environmental Objective 3. In this regard, the asset management company started to closely engage with the company to better understand the situation and mitigation plans. Following multiple engagements conducted, there was no material progress taken by the company to address the issue. As such, the company is classified as 'Red' under the environmental component and not sustainable under the SRI Taxonomy. As such, the asset management company may not make any new investments in the company or potentially divest its holdings according to its internal decision-making process, until satisfactory progress has been made.

## Use Case 5: Investment in Assisted Living Facility

– Contributed by EPF

### Background:

By 2030, about 15% of the Malaysian population is projected to be above 60 years old. The nation will rapidly transition towards an ageing society amid rising life expectancy. With the rising aging population, it will lead to an increase in demand for aged care facilities such as senior housing, assisted living facilities, retirement villages, affordable healthcare and medical support in the near future.

An asset owner based in Malaysia is assessing an opportunity to lease one of its office buildings in the Klang Valley to an assisted living provider, who will repurpose and renovate the office building into an integrated facility catering to independent senior housing and assisted living. The lease will provide consistent rental income for the asset management organisation.

### Assessment on the alignment with SRI Taxonomy:

The facility aims to foster community living and improve the liveability of senior citizens by offering a variety of amenities such as healthcare and medical support, library, gym, swimming pool, theatre, hair salon, restaurants and common rooms for social activity programmes.

The aim is to provide a safe and secure living space for senior citizens that will generate opportunities for social activity and promote community engagement among the residents and promote active and independent ageing.



The facility also indirectly supports the sustainability agenda in Malaysia. For example, by renovating and repurposing the office building, it will contribute towards the country's carbon reduction targets, as demolition of the building is avoided and the use of construction materials can be reduced significantly. From the social agenda's perspective, the senior citizens will have a safe and secure living space that will indirectly promote mental health.

The investment in the assisted living facility can be considered to support the social objectives of the SRI Taxonomy as the facility's activities support Social Objective 3, by providing care facilities for the elderly. This is also in line with SDG3 (Good Health and Well-Being), SDG10 (Reduced Inequalities), and SDG11 (Sustainable Cities and Communities). It also does not cause significant harm to the other social objectives.

# APPENDIX VI

## FREQUENTLY ASKED QUESTIONS

**Q: How does an entity carrying out multiple economic activities assess its alignment to the SRI Taxonomy?**

**A:** For the purpose of reporting entity-level alignment to the SRI Taxonomy, users may assess and disclose the proportion of an entity's economic activities that are aligned with the SRI Taxonomy based on appropriate financial metrics (e.g. turnover / revenue; capital expenditure; operating expenditure).

The following illustration provides an example of Company A's reporting of its entity-level alignment to the environmental component of the SRI Taxonomy by revenue.

COMPANY A				
	Economic Activity 1	Economic Activity 2	Economic Activity 3	Economic Activity 4
% Contribution to Total Company Revenue	18%	15%	30%	37%
Classification of economic activity based on SRI Taxonomy Environmental Component	Green	Amber	Red	Amber



Company A reports its alignment to the environment component of the SRI Taxonomy (by revenue) as:



The choice of financial metric to be used should be dependent on the purpose of assessment (e.g., revenue for general company-wide reporting, CAPEX for project fundraising). The choice of financial metric should also be made consistent when used for the same purpose across different time periods.

Assessments for the environmental and social components for the same economic activity are currently intended to be conducted separately. The decision tree and colour coding are meant for the environmental component, while assessments under the social component may be undertaken according to subsection 3.5 and the examples in Appendix III. The case for a social component decision tree, colour code and/or combined decision tree may be revisited in later phases of the taxonomy.

**Q: What sectoral or economic activity classification should users of the SRI Taxonomy use when reporting or disclosing data on their economic activities?**

A: While the SRI Taxonomy is principles-based and sector agnostic, users of the SRI Taxonomy may wish to refer to either the *International Standard Industrial Classification (ISIC)*<sup>16</sup> or the *Malaysia Standard Industrial Classification (MSIC)*<sup>17</sup> systems when grouping economic activities for classification purposes.

The next development phase of the SRI Taxonomy may consider further guidance on the specific industrial classification system to be used.

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<sup>16</sup> ISIC Revision 4.

<sup>17</sup> MSIC 2008.

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## ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
ATB	ASEAN Taxonomy Board
BNM	Bank Negara Malaysia
CCPT	Climate Change and Principle-Based Taxonomy
CMP3	<i>Capital Market Masterplan 3</i>
CPO	crude palm oil
CO <sub>2</sub> e	carbon dioxide equivalent
DNSH	do no significant harm
EAIR	Environmental Aspect and Impact Register
EIA	Environmental Impact Assessments
ERIA	Economic Research Institute for ASEAN and East Asia
ESG	environmental, social and governance
GDP	gross domestic product
GHG	greenhouse gas
ILO	International Labour Organization
IPCC	Intergovernmental Panel on Climate Change
IWG	Industry Working Group
MW	megawatt
RSPO	Roundtable on Sustainable Palm Oil
SDG	Sustainable Development Goal
SRI	sustainable and responsible investment
UN	United Nations

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