

MUFG TRANSIT

Accelerating Sustainable Finance in APAC

Mar 2024
ESG Finance Department

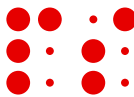
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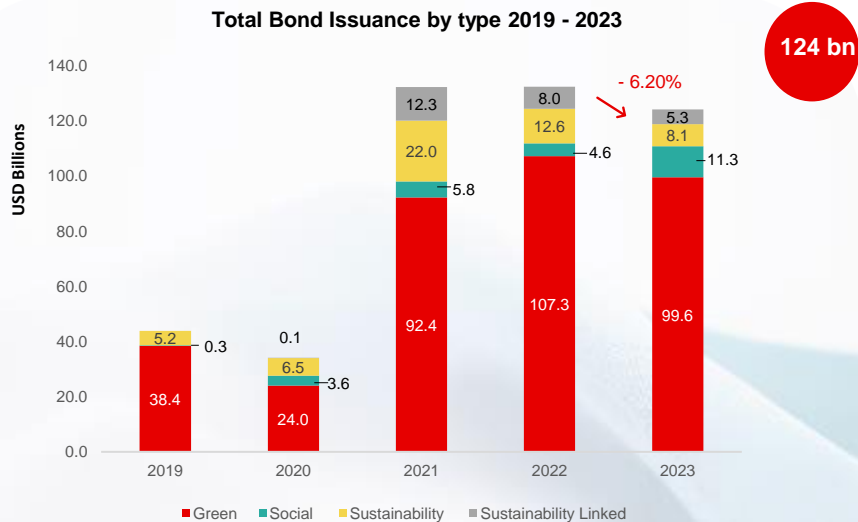
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Section I: APAC Sustainable Finance Overview



APAC (ex-Japan) ESG Bond and Loan Issuances | Remained resilient and steady

Despite interest rate fluctuations and an interim slowdown globally, sustainable financing in APAC (ex-Japan) remained active



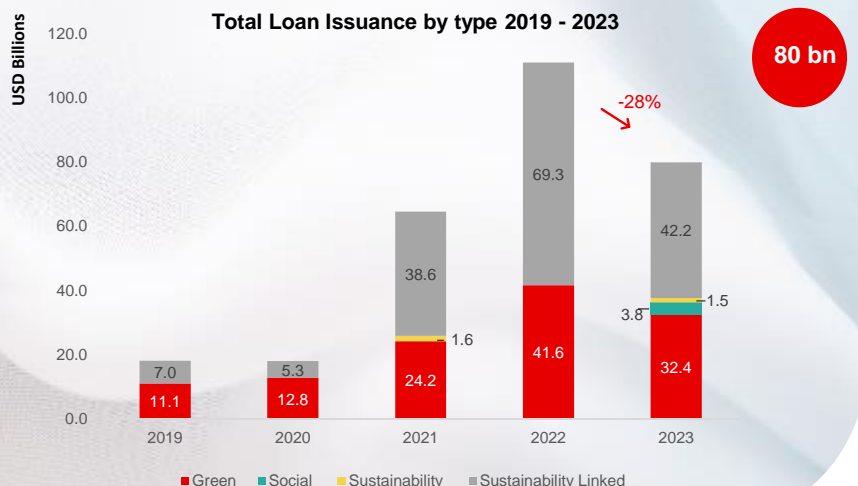
124 bn

2.8x

Growth over the past 5 years



- APAC's Sustainable Debt Market remained strong with continued expansion in decarbonisation activities such as renewable energy, green buildings, clean transportation & energy storage facilities



80 bn

4.4x

Growth over the past 5 years



- Social loans emerge again in 2023 with financial institutions in India & South Korea being the top issuers

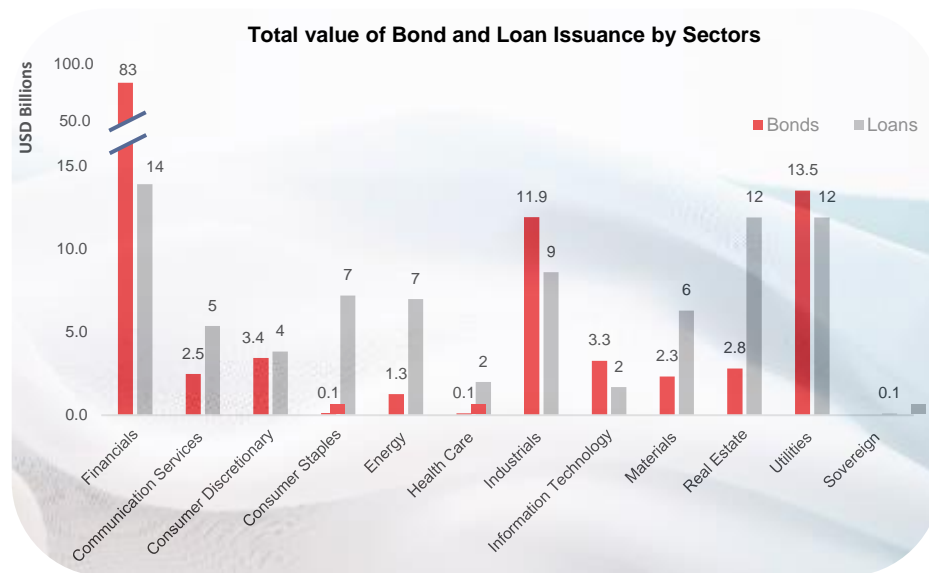


- Sustainability-linked loans (SLLs) remained popular, targeting a wider range of borrowers with both environmental & social KPIs to tackle ESG issues more broadly



APAC (ex-Japan) ESG Bond and Loan Issuances in 2023 | Sectorial insights

Fls maintain lead as the region's most active issuers with momentum picked up among utilities and industrial players



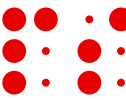
- Financial Institutions continue to dominate bond & loan issuances driven by a growth in sustainable financing opportunities and their own net-zero target commitments. Chinese banks were the most active in bond issuances with the People's Bank of China (PBOC) stepping up its green finance evaluation assessment of banks



- Leading Asian utility players continue to invest in climate change mitigation activities amidst a relatively young asset-age profile in the power sector



- Industrials sector saw a relatively strong issuance buoyed by activities from engineering & construction, logistics & transportation players in the region to build cleaner supply chains



Accelerating Climate Actions | Increasing Commercial Demand

“A taxonomy provides a very important basic framework and underlying definition, but you need other incentives for asset owners to meaningfully allocate more capital into this space.”

- Climate Bonds Initiative (2023)

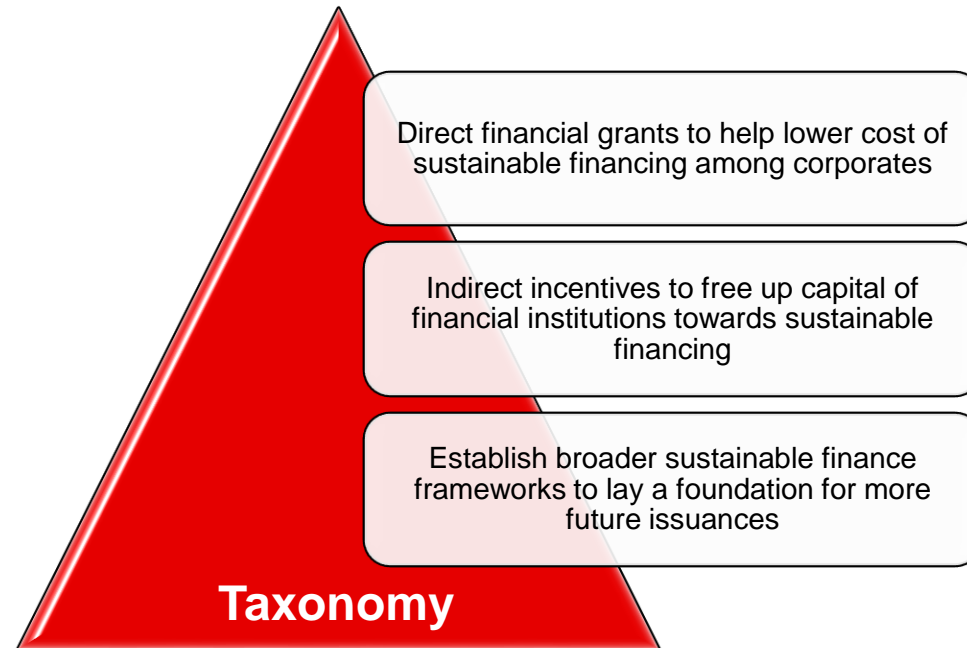
Partnering taxonomy with incentives creates a greater commercial demand to accelerate scaling up of climate actions

USD 5tn



Market size of addressable sustainability business opportunities in APAC by 2030

Source: McKinsey (2022)





Sustainable Finance Taxonomies | All about priority

Regulators are directing funds to reduce emissions from sectors critical for achieving their NDCs

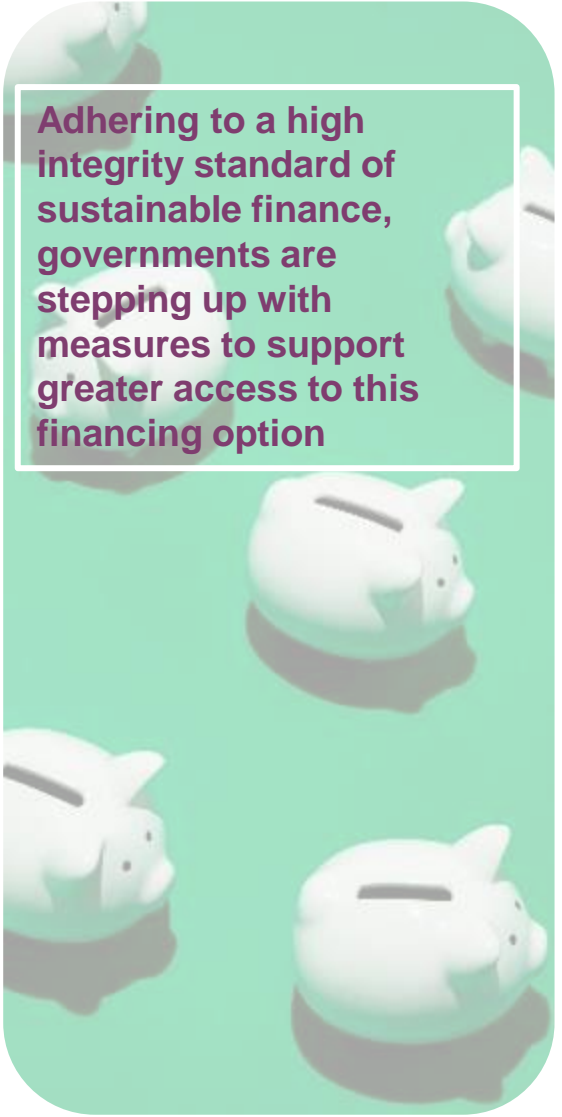
Key Focus Sectors under Taxonomies in APAC (ex-Japan)

Market	Status	Energy/ Power	Construction/ Real estate	Manufact uring	Agriculture/ Forestry	Waste/Water	Transport	Industry	Others
Australia		•	•	•	•		•	•	Metals, minerals & mining
China		•						•	
Hong Kong		•	•			•	•		
India		NA							
Indonesia		•			•	•			Mining & extraction, Processing
Malaysia		•	•	•	•	•	•		
New Zealand		NA							
Philippines		•			•	•	•	•	
Singapore		•	•		•	•	•	•	Information technology, CCS
South Korea		•					•	•	
Taiwan		NA							
Thailand		•			•	•	•	•	Processing & remediation
Vietnam		NA							

Legend: In adoption Under development Under consideration



Improving Access to Sustainable Finance | Incentives





Adhering to a high integrity standard of sustainable finance, governments are stepping up with measures to support greater access to this financing option




Direct financial grants to help lower cost of sustainable financing among corporates

- Central bank-led fiscal-type incentives include helping to defray corporates' expenses incurred for external review such as Second-Party Opinions (SPOs) for sustainable finance issuances
- Part of financial regulators' vision to establish respective regional financing hubs

 **Singapore: A first-mover in APAC** – Loan & bond grant scheme in place since 2017 was rapidly expanded to include transition products from 2023

 **Hong Kong:** Similar to Singapore's scheme, HK Green & Sustainable Finance Grant Scheme was released in 2021

 **Malaysia:** Since 2021, a grant scheme to facilitate the transition of companies to low-carbon & better sustainability practices through sustainable sukuk issuances



Indirect incentives to free up capital of financial institutions towards sustainable financing

- Acts as a monetary policy tool to increase FIs' appetite for sustainable financing
- This includes priority lending towards low-carbon sectors & lowered reserved requirement rate for sustainable finance products


China


India


Indonesia


Philippines


South Korea



Improving Access to Sustainable Finance – Building up foundation



Other broader sustainable finance frameworks to lay a foundation for more future issuances

- **Sovereign green bond frameworks** help to generate benchmark pricing & liquidity in the sustainable finance market, paving the way for local issuers to enter
- This also enhances the attractiveness of the domestic sustainable finance market for international investors, deepening the capital pool

Establishing national frameworks together with close collaborations between public and private sectors brings transparency & comparability to the market

- To enhance best practices for sustainable financing, some markets introduce central bank-led action plans & workstreams as a first step for capacity building together with the development of an ecosystem



Australia: As part of its Sustainable Finance Strategy introduced in Nov 2023, the government is looking to launch a sovereign green bonds program in mid-2024 to bolster investment into its renewable energy projects



New Zealand: Sovereign Green Bond Programme launched in Nov 2022 to stimulate the sustainable finance market while raising investments towards government's eligible climate & environmental expenditures



Taiwan: Green Finance Action Plan 3.0 refreshed in Sep 2022 with 5 implementation areas including deployment, funding, data, empowerment & ecosystem



Thailand: SEC & Thai Bond Market Association launched a Green, Social, and Sustainability Information Platform as knowledge centre to promote ESG Debt issuances. A Working Group on Sustainable Finance (WG-SF) was also launched to foster a culture of sustainable finance & capacity building

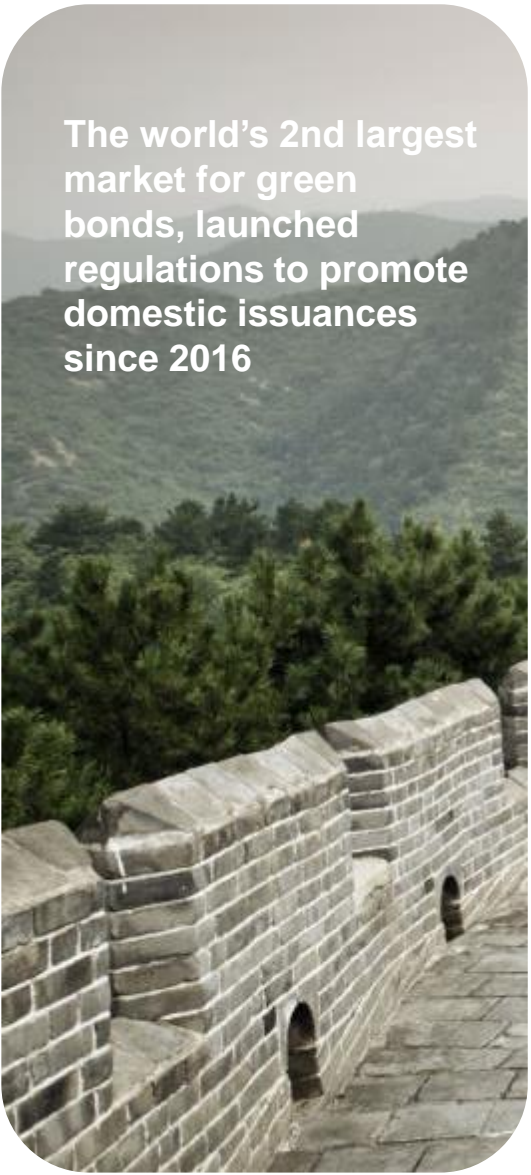


Vietnam: State Bank of Vietnam (SBV) has set out a general action plan for green credit growth & strategy towards developing green banks

Section II: Selected APAC Sustainable Finance Policies



China | Top-down direction set in sustainable finance policies to catalyse rapid green finance growth



The world's 2nd largest market for green bonds, launched regulations to promote domestic issuances since 2016

Focus areas under China's taxonomy - Green Bond Endorsed Project Catalogue

- Energy-saving & Environmental Protection, Clean Production, Clean Energy, Ecology & Environment-related, Sustainable Upgrade of Infrastructure, Green Services

Green Low-Carbon Transition Industry Guidelines – in progress

- Inclusion of more transition activities such as carbon capture, improving energy efficiency of industrial activities & clean use of coal

Enabling market environment for FIs

Carbon Emission Reduction Facility (CERF)



- ➔ Scheme launched by People's Bank of China (PBOC) in 2021 for commercial lenders to borrow 60% of qualifying green loans at rate of 1.75% vs a normal PBOC loan prime rate at closer to 4%

Green Finance Pilot Zones



- ➔ Central policy framework with localization & innovative practices in Zhejiang, Jiangxi, Guangdong, Guizhou, & Xinjiang since 2017 to build robust green financial system
- ➔ Enhance role of FIs in promoting green credit/insurance/bonds & developing green finance risk control mechanisms

International collaborations



- China-Singapore Green Finance Taskforce (GFTF)
 - Bilateral cooperation under International Platform on Sustainable Finance to achieve interoperability between taxonomies
 - Establish workstream to strengthen sustainability bond market connectivity, including mutual access to green & transition bond products



- China-EU Common Ground Taxonomy

- China's enthusiasm for international collaborations reflected in push to harmonize quality of its green taxonomy with leading taxonomies such as the EU

Source: MUFG compiled from China briefing, IEA, Reuters and various public sources



Hong Kong | Aspiration to be a global financial centre for green technology and innovation

Focus areas under Hong Kong's proposed taxonomy:

- Electricity, Gas, Steam and Air Conditioning Supply
- Water supply; sewerage, waste management & remediation activities
- Transportation and Storage
- Construction

The Government has provided subsidies to eligible bond issuers & loan borrowers for the issuance of **>340 green & sustainable debt instruments** through the Green and Sustainable Finance Grant Scheme which totalled US\$100 billion

Green and Sustainable Finance Grant Scheme



➔ To provide subsidy for eligible bond issuers & loan borrowers to cover their expenses on bond issuance & external review services

Eligibility

- Green/Sustainable Bond must be issued in Hong Kong (half of arrangers/lenders being HK-based)
- Must be listed in HK or lodged with Central Money markets Unit (CMU)
- Pre-Issuance external review must have been obtained from a HKMA recognized external reviewer

Track 1: For first time green and sustainable bond issuers only

- Eligible - Professional fees paid to arrangers, legal advisors, auditors, rating agencies, listing fees, CMU fees
- Support Cap - 50% of the eligible Expenses. Up to HK\$ 2.5 m per instrument

Track 2: For any green and sustainable bond issuer or loan borrower

- Eligible - Pre-issuance framework development, SPO, Certification, Post-issuance certification etc.
- Support Cap - Up to HK\$ 800,000 per instrument

Leveraging its global financial hub infrastructure to tap into sustainable finance opportunities emerging from mainland China



India | Growing sustainable finance policy landscape in the spotlight during G20 presidency



Aligning priorities with the country's NDCs and establishing a foundation for financing domestic decarbonisation activities



Spotlight on India's G20 Presidency in 2023

- Further developed a set of 22 high-level principles for transition finance, assuming a leading role in developing a transition finance framework
 - In alignment with Security and Exchange Board of India's (SEBI) circular on green debt which mentions transition bond issuances should be aligned with India's NDCs, calling upon clear guidelines for transition finance instruments
- G20 Sustainable Finance Working Group (SFWG)
 - Finalised SFWG Report & executed work for enabling finance for Sustainable Development Goals along with mobilisation of timely & adequate resources for climate finance as agenda priorities



Enabling market environment for FIs

International Financial Services Centres Authority (IFSCA)

- Dec 2023: GIFT city regulator formed an expert committee on transition finance to formulate a framework
- Apr 2022: Launched guidance framework on sustainable lending by FIs, mandating banking units to have a board-approved policy on green & sustainable lending

Reserve Bank of India (RBI)

- **Priority Sector Lending** – Since 2015, small renewable energy projects included, prompting Indian banks to devise internal policies to reduce lending to carbon intensive sectors
- Introduced guidelines for banks & non-bank financial companies (NBFCs) to accept "green deposits"

SEBI

- Enhanced existing framework for green bonds by introducing concept of 'blue'(ocean) & 'yellow'(solar) bonds as new modes of sustainable finance
- Launched green debt securities greenwashing list to promote listing on onshore green bond issuances by providing greater clarity in definition



Indonesia | Power sector energy transition sits at the mainstay of its sustainable finance directives



Freeing up capital to finance the much-needed energy transition, while also pursuing greater domestic adoption of sustainable finance

Focus areas under Taxonomy for Indonesian Sustainable Finance (TKBI)

- Energy, Agriculture & Forestry, Waste, Industrial Processes and Product Use (IPPU)
- TKBI, published in Feb 2024, is a revised update to Green Taxonomy Edition 1.0 with a focus on developing the energy sector, drawing on support of critical minerals & provisions for financing aimed at accelerating closure of coal-fired power plants (CFPPs).

OJK Sustainable Finance Roadmap Phase II (2021-2025)



- Increasing resilience & competitiveness of FIs
- Boosting FIs' contribution to climate change-mitigation efforts
- Enhancing FIs' capacity
- Improving sustainable finance literacy

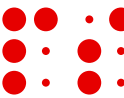


- Increasing demand for sustainable products
- Supporting industries for sustainable products
 - Market development
- Green certifications

Enabling market environment for FIs

- Reduction of banking Risk-Weighted Asset (RWA) - 50% relaxation of risk weight for financing distribution companies
- Bank Indonesia green financing regulations
 - Macprudential Inclusive Financing Ratio: Banks allowed to fulfil their inclusive financing ratio requirements by purchasing green bonds
 - Macprudential Liquidity Policy: Extra incentives, up to IDR 50 trillion provided to promote green finance

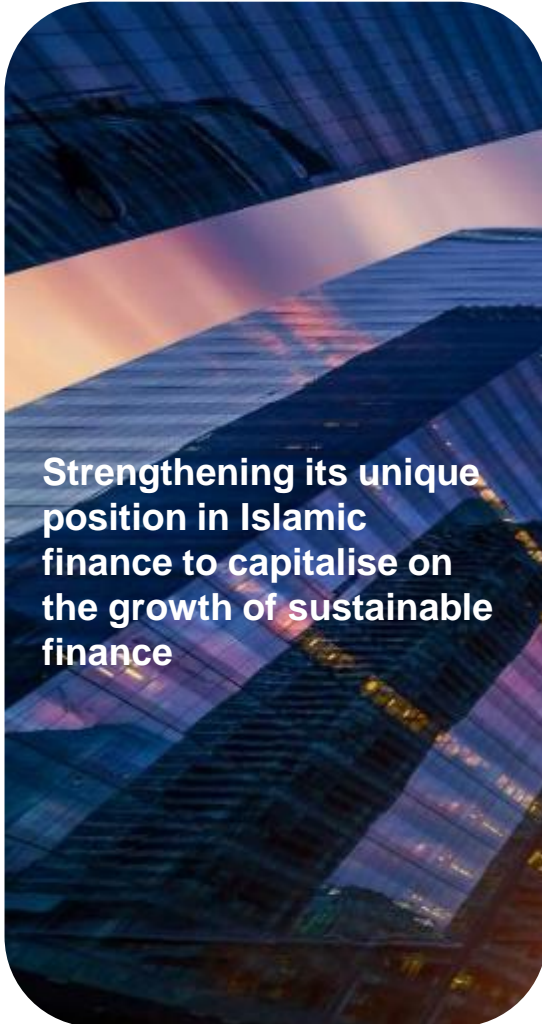




Malaysia | Aspires to be a major hub for international Islamic finance

Focus areas under Malaysia's Taxonomy :

- Building
- Energy Efficiency
- Forestry
- Manufacturing
- Renewable Energy
- Transport
- Waste



Strengthening its unique position in Islamic finance to capitalise on the growth of sustainable finance

● Securities Commission Malaysia SRI Sukuk and Bond Grant Scheme (Exp 31 Dec 2025)



- Incentivize & encourage eligible issuers by defraying external review costs of sukuk issuance
- Eligible issuances - Green, Social, sustainability issuances made under SC's SRI Sukuk Framework
- Qualifying cost - Amount incurred by issuers on independent expert reviews of sustainable sukuk issuances & tax incentives
- Support Cap - 90% of costs up to maximum RM300,000

● Low Carbon Transition Facility (LCTF)



- To provide funding and support to SMEs for their transition to low carbon operation
- Eligibility - SMEs in all sectors
- Qualifying expenditures – Improving energy efficiency, increasing use of sustainable material for production and obtaining sustainability certification.
- Fund Size - RM2 bn. Financing Size per SME - Maximum RM10 mn. @ 5% p.a. for 10 years

● Tax Deduction (Sukuk) for Sustainable Islamic Finance

- To encourage and incentivize sustainable Islamic finance and investments
- Eligibility - Issuers, Originators, SPVs, investors, fund management companies
- Covers - Tax deductions and stamp duty exemptions on Islamic capital market sectors of products & services (No cap on amount of deduction)



Philippines I Mobilising capital flows towards sustainable finance



Paving the way to attract fund flows addressing just-transition and climate-adaptation concerns

Focus areas under Philippines taxonomy

- Energy, Agriculture & Forestry & Other Land Use(AFOLU), Industry, Transport, Waste

Above 5 sectors shortlisted to steer alignment with Philippines' NDCs while the taxonomy serves to increase transparency in activity classification to attract foreign investment in climate mitigation/adaptation projects to meet the scale of financing required



Philippines Sustainable Finance Roadmap (2022)

Pillar A (Policy): Creating a conducive environment

Pillar B (Financing): Mainstreaming sustainable finance

Pillar C (Investment): Developing a sustainable pipeline

Enabling market environment for FIs

- 11-point Sustainable Central Banking (SCB) Strategy by Bangko Sentral ng Pilipinas (BSP)
 - Recognition of sustainable finance as mode of compliance with mandatory agriculture, fisheries & rural developments
 - Approved **gradual reduction in reserve requirement** rate from 3 to 0% across a two-year period for green, social, sustainability bonds issued by banks
 - Additional 15% single borrower lending limit on loans, credit accommodation, & guarantees to finance sustainable projects
- Securities & Exchange Commission issued Guidelines on the Issuance of Green, Social, and Sustainability Bonds under the ASEAN Bonds Standards in 2018





Singapore | Ambition to be a premier regional hub for green and sustainable financing

Pioneering solutions to establish a cross-border sustainable finance hub, while nurturing the regional transition finance ecosystem

Focus areas under Singapore-Asia Taxonomy

- Energy, Transport, Real Estate/Construction, Industry, Carbon Capture and Storage, Information and Communications Technology, Waste, Water, Agriculture

Marks the launch of the world's first multi-sector transition taxonomy, with extensive coverage on sectors comprising ~90% of the region's GHG emissions

- **Green Finance Industry Taskforce (GFIT)** launched in Nov 2019
- Singapore-Asia Taxonomy sets out detailed thresholds & criteria for **defining green & transition activities** that contribute to **climate change mitigation**
- Offers guidance for issuers, FIs, asset owners & other stakeholders in the region looking to source & channel capital into green/transition investments & projects
- Industry-led, science-based approach covers hard-to-abate sectors & early phase-out of coal-fired power plants

MAS Sustainable Bond & Loan Grant Scheme



- Expansion of scheme to include transition products in alignment with Singapore-Asia Taxonomy's transition focus
- Enables corporates to defray expenses incurred in obtaining external review assessments such as SPOs
- Suite of eligible products: Green, social, sustainability, sustainability-linked & transition loans and bonds

- ✓ Grant amount: **100% funding** on all Eligible Expenses capped at **S\$125,000** if issuer has complied with internationally-recognised disclosure standards & **S\$100,000** otherwise
- ✓ Eligible size: >\$20m for loans, >\$200m for bonds
- ✓ Eligible tenure: >3 years for loans, >1 year for bonds
- ✓ Validity: until 2028



South Korea | Driving policy-led systematic improvements in climate finance



Aiming at reducing domestic emissions, emphasises fostering local competitiveness and industrial strength

Focus areas under K-Taxonomy

- “Green sector”: 64 green economic activities including industry, power generation & energy and transportation
- “Transition sector”: GHG reduction activities at SMEs, Energy production based on LNG & mixed gas, Blue hydrogen production, Eco-friendly shipbuilding, Eco-friendly ship transportation

Enabling market environment for FIs

Policy Financing Scheme for Carbon Reduction (2024)



- 420 trillion won policy introduced by Financial Services Commission(FSC) in Mar 2024

State-run lending

- State-run lenders including the Korea Development Bank & Export-Import Bank, and funds, to jointly secure an annual average of 60 trillion won towards decarbonization, a 67% increase from past 5 years

“Future Energy Fund”

- 9 trillion won to be established by KDB & Korea’s 5 major commercial banks — KB Kookmin, Shinhan, Woori, Hana & NongHyup to finance construction of new green energy facilities

Capital pooling

- Attract venture capital investment of 54 trillion won while government & private banks are pooling an extra 9 trillion won to boost green climate technology advancement

Future plans

- Establish new regulatory guidelines applying the K-taxonomy specifically to loans while providing strengthened support for related financial risk management

MUFG's ESG Financing Credentials in APAC

MUFG CREDENTIALS AS ESG ADVISOR / COORDINATOR IN APAC (EX-JAPAN)

 State Bank of India USD 250 Million Green Note Green Note Advisor December 2023 (India)	 Adani Green Energy USD 939 Million Green Loan MLA, Green Loan Coordinator December 2023 (India)	 Apical (RGE Group) USD 1 Billion eq. SLL MLAB, Sustainability Coordinator December 2023 (Indonesia)	 Thai Union Group THB 11.5 Billion SLL MLAB, Sustainability Coordinator November 2023 (Thailand)	 QIC / Global Infrastructure Fund II USD 300 Million SLL MLA, ESG Coordinator November 2023 (Australia)	 HaiLong Offshore Wind Power NTD 118 Billion Green Loan MLA, Green Loan Coordinator September 2023 (Taiwan)
 Dexus AUD 450 Million Social Loan ESG Coordinator, MLA August 2023 (Australia)	 Vector Metering AUD 1,600 Million Green Loan ESG Coordinator, MLA July 2023 (New Zealand)	 PAG HK Undisclosed amount Sustainability-Linked Subscription Line Credit Facility ESG Coordinator, Arranger July 2023 (Hong Kong)	 Kingboard Laminates Limited HKD 7 Billion SLL MLAB, Sustainability Coordinator June 2023 (Hong Kong)	 Wisdom Leasing RMB 600 Million Green Loan MLAB, Green Loan Coordinator June 2023 (China)	 Genius Auto Finance RMB 2,200 Million SLL MLAB, Sustainability Coordinator April 2023 (Hong Kong)
 REC Limited USD 750 Million Green Bond Joint Bookrunner, Joint Green Structuring Advisor April 2023 (India)	 Formosa Ha Tinh Steel USD 500 Million SLL MLAB, Sustainability Coordinator March 2023 (Taiwan)	 State Bank of India USD 1 Billion Social Loan MLAUB, Lead Social Loan Coordinator February 2023 (India)	 Far East Horizon HKD 2 Billion Green Loan MLAB, Green Loan Advisor December 2022 (Hong Kong)	 Housing Development Finance Corporation USD 1.1 Billion Social Loan MLABU, Lead Social Loan Coordinator October 2022 (India)	 Kingdom of Thailand THB 35 Billion Sustainability Bond ESG Structuring Advisor, Active Bookrunner, Joint Lead Manager September 2022 (Thailand)





Best Social Impact Advisor

The Asset Triple A Sustainable Finance Awards 2024

Best Sustainable Finance Adviser

The Asset Triple A Sustainable Capital Markets Awards 2022

Best Sustainable Bank
(International Category)

Hong Kong, India, Indonesia, Singapore, Taiwan, Thailand

Appendix











APAC Sustainable Finance Taxonomies | Shaping harmonization for growth and transparency

While international principles are widely adopted, coverage and requirements of national taxonomies are driven by local economic characteristics

A taxonomy is a classification system meant to help investors and companies understand what is considered consensually green or transition in a particular market

Taxonomies already in adoption

			
ASEAN Taxonomy •	China Green Bond Catalogue	Taxonomy for Indonesian Sustainable Finance (TKBI) •	Malaysia Climate Change & Principle-based Taxonomy
			
Philippines Sustainable Finance Taxonomy •	Singapore-Asia Taxonomy •	South Korea K-Taxonomy •	Thailand Taxonomy Phase I •

- Mar 2024: ASEAN Taxonomy V3 was released, expanding to 2 additional focus sectors - Transportation & Storage and Construction & Real Estate
- Feb 2024: Indonesia's TKBI revised to include a category for transition activities to ensure interoperability with taxonomies such as ASEAN

Taxonomies under development


Australian Sustainable Finance Taxonomy (2024) •

Hong Kong Taxonomy (2025) •

Taiwan Taxonomy

Taxonomies under consideration


India Taxonomy

New Zealand Taxonomy

Vietnam Green Taxonomy



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