

## LABUAN INTERNATIONAL BUSINESS AND FINANCIAL CENTRE SUSTAINABILITY TAXONOMY (LiST)

### 1.0 Overview

- 1.1 Labuan FSA developed LiST to kickstart and promote sustainability initiatives and Environmental, Social and Governance (ESG) related activities within Labuan International Business and Financial Centre (Labuan IBFC). LiST serves as a broad foundation for increasing awareness, injecting sustainable practices into business decision making and cultivating a culture of sustainability amongst the Labuan Financial Institutions (LFIs).
- 1.2 LiST has been modelled against similar established sustainability frameworks incorporating the approaches adopted by Malaysia’s regulatory authorities namely:
- (i) Bank Negara Malaysia’s *Climate Change and Principle-based Taxonomy*; and
  - (ii) Securities Commission Malaysia’s *Principles-Based Sustainable and Responsible Investment Taxonomy for the Malaysian Capital Market*.
- This is to ensure that Labuan IBFC’s sustainability development is closely aligned with the national policy stance and regulatory expectations.
- 1.3 As LFIs operate on a global cross-border scale, the Authority recognises the need for LiST to be interoperable and compatible with the principles underpinning prevailing regional and international taxonomies for practical applications. In this regard, LiST incorporated the overarching fundamentals of:
- (i) the Taxonomy for Sustainable Finance developed by the Association of Southeast Asian Nations (ASEAN); and
  - (ii) the Taxonomy Regulation issued by the European Union.

## 2.0 Introduction

- 2.1 Global sustainability is a paramount objective for humanity, requiring immediate global action. Prioritising the balance between progress and environmental sustainability is essential for effectively addressing this urgent matter. The sense of urgency has also profoundly transformed the landscape of financial institutions globally. This transformation is marked by a swift and substantial development of international taxonomies across various jurisdictions. Malaysia has also demonstrated a strong commitment to embracing sustainability practices. The growth of sustainability has highlighted the necessity for the development of clear guidance to assist market participants in understanding and qualifying for sustainability practices.
- 2.2 LiST is designed as a guidance for LFI to align their activities with sustainability goals and ethical principles in their business. In essence, LiST provides a structured framework for classifying and qualifying economic activities that are environmentally sustainable. This includes encouraging responsible investments, fostering transparency and driving businesses to undertake positive change towards a more sustainable future.

## 3.0 Applicability

3.1 LiST serves as a guide to the following LFIs:

- (i) Labuan banks and investment banks licensed under Part VI of the Labuan Financial Services and Securities Act 2010 (LFSSA);
- (ii) Labuan Islamic banks and Islamic investment banks licensed under Part VI of the Labuan Islamic Financial Services and Securities Act 2010 (LIFSSA);
- (iii) Labuan insurers and reinsurers licensed under Part VII of the LFSSA, including Labuan captive insurance business;
- (iv) Labuan takaful and retakaful operators licensed under Part VII of the LIFSSA, including Labuan captive takaful business;
- (v) Labuan insurance-related companies and Labuan takaful-related companies licensed under Part VII of the LFSSA and Part VII of the LIFSSA, respectively;
- (vi) Labuan trust companies licensed under Part V of the LFSSA including Labuan managed trust companies;
- (vii) Labuan money-broking business and Islamic money-broking business licensed under Part VI of the LFSSA and Part VI of the LIFSSA, respectively;
- (viii) Labuan fund managers licensed under Part III of the LFSSA and Part IV of the LIFSSA;
- (ix) Labuan securities licensees and Islamic securities licensees licensed under Part IV of the LFSSA and Part V of the LIFSSA, respectively;
- (x) Labuan credit token business and Islamic credit token business licensed under Part VI of the LFSSA and Part VI of the LIFSSA, respectively;
- (xi) Labuan exchanges established under Part IX of the LFSSA;

- (xii) Labuan payment system established under Part XI of the LFSSA and Part XII of the LIFSSA;
- (xiii) Labuan company management established under Part VIII of the LFSSA;
- (xiv) Labuan leasing business established under Part VI of the LFSSA and Part VI of the LIFSSA;
- (xv) Labuan international commodity trading company established under Part VI of the LFSSA; and
- (xvi) Any other person or licensed entity that Labuan FSA may specify from time to time.

#### 4.0 Definitions

Terms	Definitions
<b>Circular Economy</b>	An approach to promote the responsible and cyclical use of resources which reduces waste, recovers resources at the end of a product's life, and channels them back into production.
<b>Commencement</b>	<p>Refers to:</p> <ul style="list-style-type: none"> <li>i. <u>Where Activity requires significant infrastructure</u>: the start of the on-site construction, upgrade or expansion of the facilities required to conduct the Activity; or</li> <li>ii. <u>Where Activity does not require significant infrastructure</u>: the start of operations and the provision of the utility intended by that Activity.</li> </ul> <p>For the purposes of assessment, Commencement may also be defined as an expansion or significant upgrade of an existing Activity.</p>

Terms	Definitions
<b>Contribution</b>	Contribution made by an Activity towards achieving Sustainability Thrust.
<b>Do No Significant Harm (DNSH)</b>	The principle by which Activities may not be classified as Green or Yellow if they have resulted in or will result in unremedied significant harm which has been caused or will be caused to one or more of the Sustainability Thrusts by an Activity, or any actions required to implement the Activity.
<b>Economic Activity</b>	<p>Refers to an Activity which may be assessed for classification under LiST. An Activity takes place when resources such as capital, goods, labour, manufacturing techniques or intermediary products are combined to produce specific goods or services. It is characterised by an input of resources, a production process and an output of products (goods or services).</p> <p>For the purposes of assessment, an Activity may be defined as an expansion or significant upgrade of an existing Activity. LFIs may refer to any relevant standards on the classification of economic activities which include either the International Standard Industrial Classification (ISIC) or the Malaysia Standard Industrial Classification (MSIC) systems when grouping economic activities for classification purposes.</p>
<b>Focus Area (FA)</b>	Minimum criteria which must be fulfilled when implementing an Activity. The FAs are Do No Significant Harm, Remedial Measures to Transition and Social Aspects.
<b>Greenhouse Gases (GHG)</b>	Gases that absorb and emit radiant energy within the thermal infrared range, causing the greenhouse effect.

Terms	Definitions
<b>Remedial Measures to Transition (RMT)</b>	Measures taken to remediate or mitigate the impact of any significant harm resulting from an Activity, or any actions required to implement the Activity.
<b>Social Aspects (SA)</b>	FA of LiST which relates to an obligation for Activities to avoid causing social harm.
<b>Sustainability Thrust (ST)</b>	Sustainability Thrust which LiST is intended to facilitate.

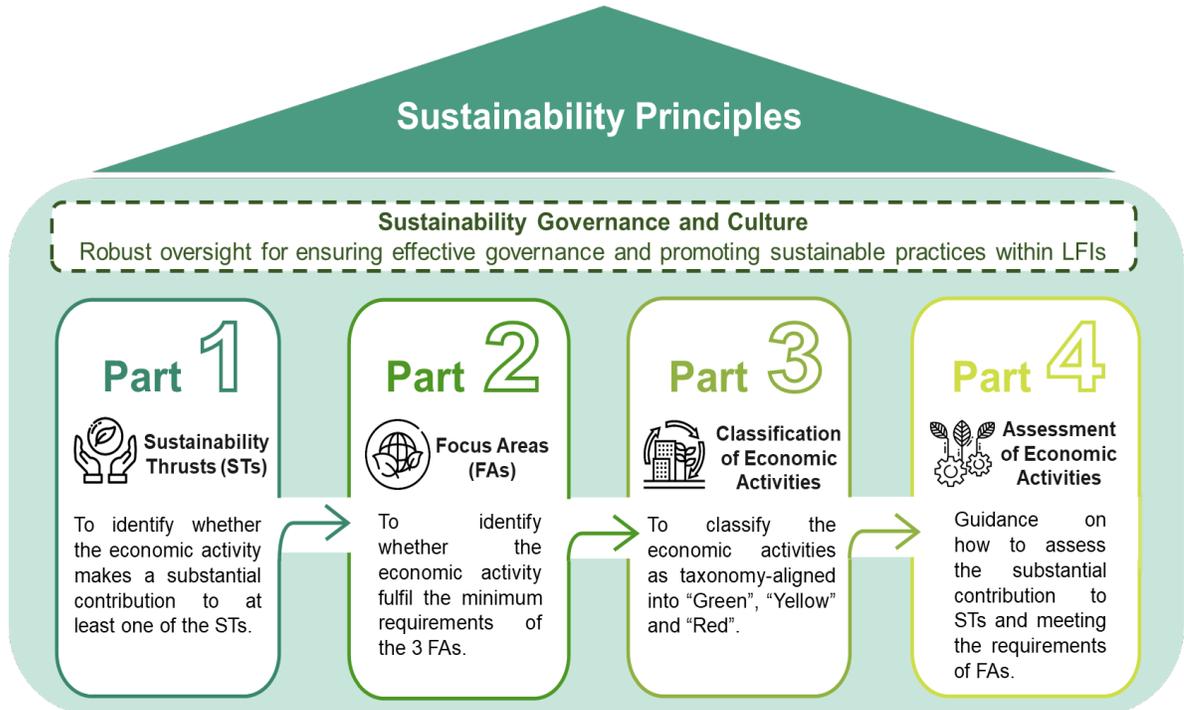
To note that certain definitions have been adapted from other jurisdictions<sup>1</sup>

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<sup>1</sup> As listed in the resource references

## 5.0 Regulatory Expectations

5.1 LiST outlines the following regulatory expectations to serve as a broad guidance to the LFI:



5.2 Although the regulatory expectations are not made mandatory, LFIs are encouraged to proactively adopt and integrate the guiding principles into their business strategies. This would then promote greater alignment between LFIs' businesses with the global sustainability objectives.

5.3 LFIs are encouraged to adopt the sustainability policies and practices of their Group to ensure greater traction with the practices of their operations within Labuan IBFC. Where the requirements of the Group are less rigorous than those provided under LiST, LFIs should undertake the necessary measures on best effort basis to enhance their practices with the principles of LiST.

## 6.0 Sustainability Governance and Culture

- 6.1 Governance principles are integral to LiST by ensuring that economic activities are aligned with sustainable business practices. This includes the structures, policies and processes that guide decision-making, accountability and transparency within the organisation. Effective governance frameworks ensure that environmental and social factors are embedded into the core operations, strategy and culture of the organisation.
- 6.2 Sustainability governance goes beyond the reporting line as it requires prioritising processes and governance structures that account for the complexity and dynamic nature within the organisation and its operation. An effective governance ensures compliance, transparency and accountability in driving sustainable practices.
- 6.3 The board of directors (Board) is responsible for setting the strategic direction and ensuring that sustainability goals are integrated into the overall business strategy. The Board would oversee the implementation of sustainability initiatives, monitor progress and hold the senior management accountable for executing and achieving sustainability targets.
- 6.4 Labuan FSA recognises that strong governance mechanisms are essential for identifying and managing risks, including those related to environmental and social impacts. The establishment of robust oversight and control mechanisms would enhance LFI's sustainability drives by:
- (i) promoting sustainable business practices across all functions within the organisation;
  - (ii) mitigating potential harm to the environment, communities, and stakeholders by monitoring compliance, ethical conduct and adherence to the prevailing regulations;
  - (iii) maintaining long-term financial performance through improved operational efficiency, risk mitigation and stakeholder trust, ultimately leading to enhanced shareholder value;

- (iv) facilitating investors decision-making process as governance practices allow them to identify companies that prioritise integrity, accountability and responsible practices as part of their investment strategies;
- (v) guiding organisations in establishing robust and transparent sustainability performance reporting; and
- (vi) fostering meaningful engagement with stakeholders, including employees, customers, investors and communities. By involving stakeholders in decision-making processes, organisations gain valuable insights, build trust and address diverse perspectives leading to more sustainable and inclusive outcomes.

6.5 Labuan FSA also recognises the Sustainability Thrusts (ST) of LiST as the primary impetus for LFIs to incorporate sustainability culture into their business ethos. In addition, the Focus Areas (FA) function as a pivotal metric for LFIs. It allows LFIs to profile its business activities to ensure responsible and sustainable practices while fostering transparency and accountability within the sector. These would allow LFIs to align with global sustainability objectives, thereby fostering a more resilient and equitable global economy while advancing sustainable development.

## PART 1: SUSTAINABILITY THRUSTS

### 7.0 Sustainability Thrusts for the Assessment of Economic Activities

7.1 LiST gives emphasis on the following Sustainability Thrusts:



**ST1: Climate Change Mitigation**



**ST2: Climate Change Adaptation**



**ST3: Protection of Healthy Ecosystems and Biodiversity**



**ST4: Promotion of Resource Resilience and Transition to Circular Economy**

7.2 For any economic activity to be classified under LiST, it must show its contribution to at least one of these STs. Moreover, the economic activity should not have adverse effects on the ST it intends to contribute, either directly or indirectly.

7.3 LiST provides qualitative assessment criteria in the classification of economic activities that contribute to the STs. The classification may be applied at the project, asset, portfolio or entity level.



**ST1: Climate Change Mitigation**

7.4 Climate change mitigation aims to reduce or prevent the release of GHG into the atmosphere. The economic activities must be consistent with decarbonisation trajectories aiming to limit global warming to 1.5°C outlined in the Paris Agreement.

- 7.5 An economic activity is deemed to meet ST1 if it substantially<sup>2</sup> contributes to at least one of the following:
- (i) Avoid GHG emissions;
  - (ii) Reduce GHG emissions; or
  - (iii) Enable others to avoid or reduce GHG emissions.
- 7.6 Economic activity with high emissions may need to exhibit the capability to prevent or eliminate GHG emissions consistent with appropriate best practices, as opposed to the base scenario in the absence of mitigation measures.
- 7.7 Common types of climate change mitigation measures include, but are not limited to the following:
- (i) Generation and usage of renewable energy;
  - (ii) Energy conservation which includes producing, installing, retrofitting and/or replacement with energy-efficient technologies; and
  - (iii) Rehabilitation, preservation and strengthening of land-based (above and below ground) and water-based carbon stock and sinks.



## **ST2: Climate Change Adaptation**

- 7.8 Climate change adaptation aims to minimise the adverse effects of climate change and increase resilience against negative physical impact of current and future climate change.
- 7.9 An economic activity is deemed to fulfil ST2 through the following actions undertaken by LFIs:

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<sup>2</sup> Positive impact from the activities should not be negligible and must be material enough to avoid potential greenwashing.

- (i) Implementation of measures to increase own resilience to climate change; and/or
  - (ii) Enablement of others to increase resilience to climate change.
- 7.10 In order to demonstrate that an economic activity contributes to increasing resilience against adverse physical impacts of climate change, it is necessary for LFI to:
- (i) Identify anticipated negative physical effects of climate change through the use of evidence and appropriate climate information; and
  - (ii) Illustrate how the activity or measures undertaken can build resilience, prevent an increase in, or alter the identified negative effects of climate change.
- 7.11 An economic activity should contribute towards reducing material physical climate risk and/or should reasonably mitigate material physical risk stemming from present and future climate change. This may encompass evident physical risks, such as drought, wildfires, storms and floods, as well as less immediately apparent impacts such as health consequences from higher temperatures.
- 7.12 Climate impact assessments may be carried out to provide a more comprehensive understanding of the economic activity's efficacy and advantages.
- 7.13 An economic activity that aids in the adaptation of other activities should reduce the impact of material physical risks from those activities and/or lower barriers to adaptation through technology, services, or products. It should not negatively affect the adaptation efforts of other stakeholders or escalate their physical risks.



### **ST3: Protection of Healthy Ecosystems and Biodiversity**

- 7.14 Protection of healthy ecosystems and biodiversity aims to minimise or eradicate the harmful effects of business operations on natural ecosystems and biodiversity by integrating relevant conservation, restoration and protective measures.

7.15 An economic activity is deemed to meet ST3 by adhering to some or all of the following principles:

- (i) Enable and/or aid restoration and safeguard of ecosystems;
- (ii) Take requisite actions to preserve biodiversity and ecosystems;
- (iii) Prevent soil erosion and run-off into the watercourse;
- (iv) Enforce and empower current policies pertaining to the protection of natural areas;
- (v) Adopt sustainable logging practices and ensure timber products originate from sustainably managed forests;
- (vi) Meet the goals set forth by the Convention on Biological Diversity 1992;
- (vii) Consider an equitable utilisation of biodiversity and ecosystem services when making business decisions;
- (viii) Employ pollution control mechanisms to prevent or minimise negative environmental impacts;
- (ix) Avoid or reduce emissions of short and long-lived climate pollutants as well as generation of hazardous and non-hazardous waste; and
- (x) Minimise and manage risks and impacts of pesticide usage.



#### **ST4: Promotion of Resource Resilience and Transition to Circular Economy**

7.16 Promotion of resource resilience and transition to a circular economy aims to ensure more efficient resource utilisation, guided by the principles of “reduce, reuse and recycle” whenever feasible. This approach emphasises the materiality of economic activities and their impact on business operations.

7.17 To achieve a circular economy, the following principles of circularity need to be embraced:

- (i) Minimising resource use;
- (ii) Optimising resource yield; and
- (iii) Closing resource loops through effective waste management.

7.18 An economic activity is regarded as fulfilling ST4 if it meets at least one of the following criteria:

- (i) Integrate the preservation of raw materials, energy, water and other natural resources into the business operations; or
- (ii) Align products, production techniques, technologies and processes with the principles of a circular economy.

7.19 An economic activity aimed at promoting ST4 should adhere to the principles shown below:

**Strategy and Operations, Adjusting Business Models:**

- (i) Utilise sustainable energy, bio-based resources or recovered materials to decrease resource extraction rate.
- (ii) Incorporate sustainable factors into the design and production processes to facilitate circular economy by:
  - (a) Ensuring durability, resource efficiency, modularity, robustness, functionality, expandability, ease of disassembly and maintenance; and
  - (b) Utilising recyclable or biodegradable materials.
- (iii) Minimise or eliminate waste production such as from mineral extraction and construction/demolition activities.
- (iv) Maximise the utilisation of resources and/or prolong product lifespan through various means, which include the following:
  - (a) Substituting either fully or partially to secondary raw materials;
  - (b) Repair, reuse, donation, resale, upcycling or on-site composting activities; and
  - (c) Repurposing, refurbishing, remanufacturing, disassembling, upgrading, repairing and product sharing.

- (v) Provide products as a service through leasing, pay-per-use, subscription or deposit return methods to decrease demand for new products and their raw materials.
- (vi) Reduce incineration and prevent waste disposal including landfilling.

### **Enablers: Facilitating the Transition**

- (i) Establish or enhance waste management/resource optimisation infrastructure for reuse and recycling and ensure high-quality recycling of recovered materials.
- (ii) Invest in knowledge-sharing and research and development (R&D) platforms to grow expertise in circular economy and implement related pilot initiatives.

## **PART 2: FOCUS AREAS**

### **8.0 Focus Areas**

8.1 Any economic activity to be classified under LiST must also meet the minimum requirements of the three Focus Areas as below:



**FA1: Do No Significant Harm**



**FA2: Remedial Measures To Transition**



**FA3: Social Aspects**



### **FA1: Do No Significant Harm**

- 8.2 An economic activity interacts directly or indirectly with the surrounding environment. While the economic activity may positively contribute to STs, it may also inadvertently cause significant harm to the broader environment.
- 8.3 The principle of Do No Significant Harm (DNSH) refers to an economic activity contributing to one ST should also not result in significant harm to any other STs.
- 8.4 An assessment must be conducted to determine whether the economic activity is causing significant harm to the broader environment while contributing to its intended ST(s).
- 8.5 An economic activity may also be disqualified from "Green" or "Yellow" classification if it generates any direct or indirect consequences that impact the positive contribution to the main ST under consideration.



### **FA2: Remedial Measures To Transition**

- 8.6 Remedial Measures to Transition (RMT) are steps taken to eliminate or reduce any existing or potential significant harm.
- 8.7 RMT should be established if economic activity is assessed to potentially cause significant harm to ST as specified under paragraph 8.4. The implementation of RMT requires careful planning to effectively eliminate all significant harm within 5 years from the assessment date.
- 8.8 As part of the assessment, thorough and feasible RMT plans must be included. In this case, the economic activity will remain classified as "Yellow".
- 8.9 Failure to plan for RMT completion within the designated timeframe (i.e., within 5 years) automatically results in the economic activity being classified as "Red".



### FA3: Social Aspects

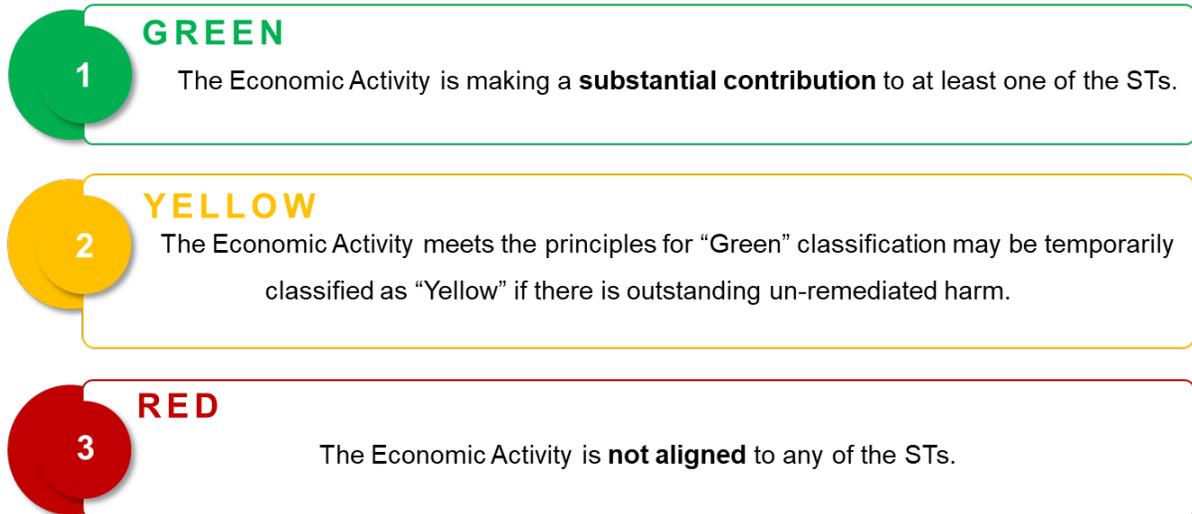
- 8.10 Social Aspects (SA) pertain to societal conditions which may be adversely affected by an economic activity.
- 8.11 In achieving STs, an economic activity should not lead to any adverse impacts on its employees or the surrounding communities. In this regard, LiST not only considers environmental factors but also social aspects which include the following:
- (i) Promotion and Protection of Human Rights;
  - (ii) Prevention of Forced Labour and Protection of Children’s Rights; and
  - (iii) Impact on People Living Close to Investments.
- 8.12 The assessment of SA is conducted at the company level rather than at an economic activity level, as social policies are usually formulated and implemented at the company level.

## PART 3: CLASSIFICATION OF ECONOMIC ACTIVITIES

### 9.0 Classification of the Economic Activity

9.1 LiST uses colour-coded classification systems that represent different levels of contribution to STs by economic activities. The classifications are divided into “Green”, “Yellow” and “Red” as illustrated below:

#### I. Sustainability Thrust:



## II. Do No Significant Harm & Remedial Measures to Transition:

1

### GREEN

The Economic Activity **Do No Significant Harm** to any of the other STs.

2

### YELLOW

The Economic Activity is **causing or may cause significant harm**;

AND

There are comprehensive and realistic plans showing how the harm will be effectively **remediated within 5 years**.

3

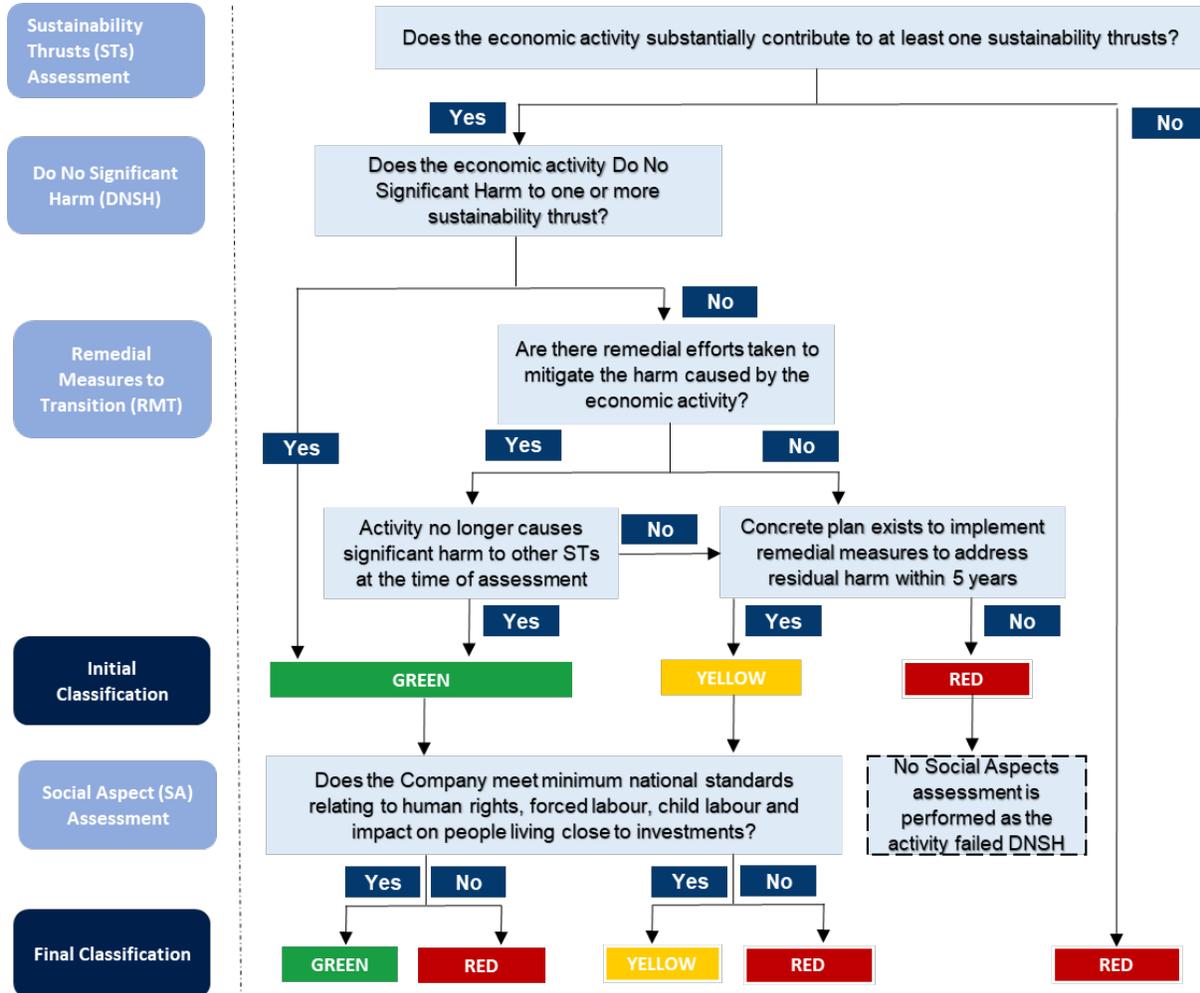
### RED

The Economic Activity **is causing significant harm** to any of the STs and **no remedial plans are available**;

OR

The Economic Activity is **causing significant harm** to any of the STs and the significant harm **has not been effectively remediated within 5 years of assessment**.

9.2 The illustration of how economic activities can be classified according to the three broad categories is provided as guidance below:



## PART 4: ASSESSMENT OF ECONOMIC ACTIVITIES

### 10.0 Assessment of Economic Activities

10.1 LFI or users of LiST may refer to the following Appendices on how to assess the substantial contribution and DNSH to the STs, RMT and SA.

<b>Appendix</b>	<b>Details</b>
Appendix I	Examples of Economic Activities that Generally Meet the Sustainability Thrusts
Appendix II	Guiding Questions to Assess Substantial Contribution to the Sustainability Thrusts
Appendix III	Guiding Questions to Assess Do No Significant Harm
Appendix IV	Guiding Questions to Assess Remedial Measures to Transition
Appendix V	Guiding Questions to Assess Social Aspects
Appendix VI	Use Cases for Industry References
Appendix VII	Examples of Third-Party Certification and Verification

## APPENDIX I EXAMPLE OF ECONOMIC ACTIVITIES THAT GENERALLY MEET THE SUSTAINABILITY THRUSTS

The list is not meant to be exhaustive and provided as a guiding reference for LFIs to apply to their own unique business operations and setup:

STs	Example of Economic Activities
<b>ST1 (Climate Change Mitigation)</b>	<ul style="list-style-type: none"> <li>(a) Transition from fossil fuels to renewable energy sources such as solar, wind, hydro, and geothermal power.</li> <li>(b) Implement energy-efficient technologies and practices in industries, buildings, and transportation.</li> <li>(c) Construct buildings with energy-efficient designs, materials, and systems.</li> <li>(d) Invest in public transportation systems, including buses, trains, and bike lanes.</li> <li>(e) Develop technologies and infrastructure for capturing carbon dioxide emissions from industrial processes and power plants.</li> <li>(f) Sustainable Agriculture such as organic farming, agroforestry, and no-till farming.</li> <li>(g) Develop smart grid systems and energy storage technologies.</li> </ul>
<b>ST2 (Climate Change Adaptation)</b>	<ul style="list-style-type: none"> <li>(a) Invest in infrastructure that can withstand climate-related hazards such as floods, storms, and sea-level rise, including flood barriers, seawalls, and green infrastructure like permeable pavements and rain gardens.</li> <li>(b) Develop water conservation and management strategies such as building reservoirs, rainwater harvesting systems, and wastewater recycling plants.</li> <li>(c) Preserve and restore natural ecosystems such as wetlands, mangroves, and forests that provide natural flood protection, erosion control, and habitat for biodiversity.</li> <li>(d) Implement climate-smart agricultural practices like crop diversification, agroforestry, and improved irrigation systems to enhance resilience to changing weather patterns.</li> </ul>
<b>ST3 (Protection of Healthy Ecosystems)</b>	<ul style="list-style-type: none"> <li>(a) Implement sustainable logging practices such as selective cutting, reforestation, and avoiding deforestation.</li> <li>(b) Establish and manage national parks, nature reserves and marine sanctuaries.</li> </ul>

STs	Example of Economic Activities
<b>and Biodiversity)</b>	<ul style="list-style-type: none"> <li>(c) Implement sustainable fishing practices, marine protected areas, and regulations to prevent overfishing and protect marine biodiversity.</li> <li>(d) Initiatives to restore degraded ecosystems, such as wetland restoration, reforestation, and habitat rehabilitation.</li> <li>(e) Investing in green infrastructure like green roofs, permeable pavement, and urban green spaces.</li> </ul>
<b>ST4 (Promotion of Resource Resilience and Transition to Circular Economy)</b>	<ul style="list-style-type: none"> <li>(a) Develop efficient waste management systems, promote recycling and composting, and reduce single-use plastics.</li> <li>(b) Design products for durability, reparability and recyclability, as well as adopting circular manufacturing processes that minimise waste generation and resource use.</li> <li>(c) Implement technologies to recover resources from landfills, such as methane capture for energy or extracting metals from electronic waste.</li> <li>(d) Implement regenerative agriculture practices that promote soil health, biodiversity, and closed-loop nutrient cycles, such as composting and crop rotation.</li> </ul>

**APPENDIX II GUIDING QUESTIONS TO ASSESS SUBSTANTIAL CONTRIBUTION TO THE SUSTAINABILITY THRUSTS<sup>3</sup>**

STs	Guiding Questions
<p><b>ST1 (Climate Change Mitigation)</b></p>	<p><b>1. Does the Activity avoid / reduce GHG emissions?</b></p> <ul style="list-style-type: none"> <li>(a) How does the Activity avoid or help reduce emissions? (e.g., generation of electricity through renewable and carbon capture storage)</li> <li>(b) Do the Company’s policies and business strategy generally avoid contradicting or impeding alignment with the specified ST1 principles?</li> <li>(c) Where applicable and relevant, is a third-party certification or verification<sup>4</sup> of alignment of Activity with ST1 available?</li> <li>(d) Does the Activity fulfil relevant environmental law(s) applicable to ST1?</li> <li>(e) Are the effects of climate change mitigation efforts measurable and observable?(e.g., data on the amount of carbon emissions avoided)</li> </ul> <p><b>2. Does the Activity enable other stakeholders and/or other Activities to mitigate climate change?</b></p> <ul style="list-style-type: none"> <li>(a) Does the Activity help other stakeholders (including the community) to mitigate climate change? (e.g., construction of a building that facilitates urban planting)</li> <li>(b) Does the Activity promote intersectoral collaborations for climate change mitigation without negatively affecting other sectors?</li> <li>(c) How does the Activity enable other Activities to mitigate climate change? (e.g., operation of power transmission and distribution equipment that enables the incorporation of solar power)</li> <li>(d) Are the effects of climate change mitigation efforts by the enabled Activity measurable and observable? (e.g., data on amount of carbon emissions avoided)</li> </ul>

<sup>3</sup> Adopted from ASEAN Taxonomy for Sustainable Finance Version 2

<sup>4</sup> Examples of third-party certification and verification are provided in Appendix VII.

STs	Guiding Questions
<p><b>ST2 (Climate Change Adaptation)</b></p>	<p><b>1. Does the Activity implement measures to increase the Company's resilience to climate change?</b></p> <ul style="list-style-type: none"> <li>(a) How does the Activity contribute to Company's resilience against adverse physical impacts of current and future climate change? (e.g., refurbishing infrastructure for greater resilience to impacts of sea level rise, building flood protection infrastructure to protect facilities, operation of road and rail adapted to current and future heat waves through the use of more heat-resistant materials during its construction)</li> <li>(b) Has a climate risk assessment been conducted to establish the Activity's risk exposure towards physical climate risks?</li> <li>(c) Does the Activity avoid leading to an increased adverse impact of the current climate and the expected future climate, on the Activity itself or on people, nature or assets?</li> <li>(d) Does the Activity avoid impeding the adjustment to actual and expected climate change and its impacts?</li> <li>(e) Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified ST2 principles?</li> <li>(f) Where applicable and relevant, is a third-party certification or verification<sup>4</sup> of alignment of Activity with ST2 available?</li> <li>(g) Does the Activity fulfil relevant environmental law(s) applicable to ST2?</li> <li>(h) Is the reduction and/or prevention of increase in climate physical risks measurable and observable? (e.g., data on monthly transport accidents caused by natural disasters against maintenance activities delivered, data on houses repaired due to floods against budget increase for building safeguards)</li> </ul> <p><b>2. Does the Activity enable other stakeholders and/or other Activities to increase resilience to climate change?</b></p> <ul style="list-style-type: none"> <li>(a) Does the Activity help other stakeholders (including the community) to reduce/manage physical risks? (e.g., provision of infrastructure to facilitate climate change adaptation of stakeholders)</li> </ul>

STs	Guiding Questions
	<ul style="list-style-type: none"> <li>(b) Does it promote intersectoral collaborations for climate change adaptation without negatively affecting other sectors?</li> <li>(c) How does the Activity enable other Activities to reduce material physical risks? (e.g., removal of technological barriers to adaptation, activity which primarily provides installation of irrigation systems and improved land drainage measures that lead to reduced exposure to physical climate risks)</li> <li>(d) Has a climate risk assessment been conducted on the enabled Activity's risk exposure towards physical climate risks?</li> </ul>
<p><b>ST3 (Protection of Healthy Ecosystems and Biodiversity)</b></p>	<p><b>1. Does the Activity contribute to protecting, conserving, or restoring ecosystems and biodiversity?</b></p> <ul style="list-style-type: none"> <li>(a) Which specific principles under ST3 does the Activity meet or contribute to? <ul style="list-style-type: none"> <li>(i) How does the Activity contribute to these principles?</li> </ul> </li> <li>(b) Does the Activity minimise or eliminate negative effects of operations on the natural ecosystem and biodiversity? <ul style="list-style-type: none"> <li>(i) Is the Activity significantly detrimental to the good condition and resilience of ecosystems?</li> <li>(ii) Does the Activity avoid leading to a significant increase in pollutant emissions into the air, land and/or natural bodies of water?</li> <li>(iii) Does the Activity avoid involving the over-exploitation of natural resources?</li> <li>(iv) Does the Activity avoid involving prohibited land use?</li> <li>(v) Is the Activity detrimental to the natural ecosystem's physical, chemical and biological quality, thus impeding self-reproduction and self-restoration capability of the occupying species?</li> <li>(vi) Does the Activity avoid impairing natural species composition, ecosystem structure and ecological functions?</li> <li>(vii) Is the Activity detrimental to the conservation status of habitats and species within the natural ecosystem? (e.g., inhibitions to the dynamic complex of plant, animal and microorganism communities and their non-living environment interacting as a functional unit)</li> </ul> </li> </ul>

STs	Guiding Questions
	<p>(c) Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified ST3 principles? (e.g., employment of services from subcontractors, suppliers and/or third-parties with practices detrimental to the natural ecosystem and biodiversity)</p> <p>(d) Is a third-party certification or verification<sup>4</sup> of alignment of Activity with ST3 available?</p> <p>(e) Does the Activity fulfil relevant environmental law(s) applicable to the specified ST3 principles?</p> <p>(f) Is the protection of ecosystems and biodiversity measurable and observable? (e.g., number of trees reforested, land area of habitats protected)</p> <p><b>2. Does the Activity enable other stakeholders and/or other Activities to protect ecosystems and biodiversity?</b></p> <p>(a) Does the Activity help other stakeholders (including the community) to protect ecosystems and biodiversity?</p> <p>(b) Does the Activity avoid impeding upstream and/or downstream stakeholders from protecting ecosystems and biodiversity?</p> <p>(c) Does the Activity promote intersectoral collaborations for protecting biodiversity and ecosystems without negatively affecting other sectors?</p> <p>(d) How does the Activity enable other Activities to protect ecosystems and biodiversity?</p> <p>(e) Is the protection of ecosystems and biodiversity by enabled Activity measurable and observable? (e.g., number of trees reforested, land area of habitats protected)</p>
<p><b>ST4 (Promotion of Resource Resilience and Transition to Circular Economy)</b></p>	<p><b>1. Does the Activity minimise resource use? (e.g., operation of a manufacturing plant that uses alternative fuels from waste material)</b></p> <p>(a) Does the Activity use renewable energy, bio-based or other recovered materials to reduce the rate of resource extraction?</p> <p>(b) Is the building of resource resilience and transition to circular economy measurable and observable?</p>

STs	Guiding Questions
	<p><b>2. Does the Activity optimise resource yield? (e.g., operation of a plantation that employs fertilizer application techniques to optimise crop yield)</b></p> <ul style="list-style-type: none"> <li>(a) Does the Activity extend the use of products through reuse, repurposing, refurbishing, remanufacturing, disassembly, upgrades and repair, and/or sharing of products?</li> <li>(b) Does the Activity increase resource efficiency by ensuring recovered materials are recycled as high-quality secondary raw material?</li> <li>(c) Is the Activity made available as product-as-a service to reduce the demand for new products and their embedded raw materials? (e.g., inter alia, leasing, pay-per-use, subscription or deposit return schemes)</li> <li>(d) Does the Activity involve the use of products, assets or process technologies designed and produced based on circular economy principles? (e.g., designing for longevity, resource efficiency, durability, functionality, modularity, upgradability, easy disassembly and repair, using recyclable or biodegradable materials)</li> <li>(e) Does the Activity avoid leading to significant inefficiencies in the use of materials or in the direct or indirect use of natural resources at one or more stages of the product lifecycle?</li> <li>(f) Is the building of resource resilience and transition to circular economy measurable and observable?</li> </ul> <p><b>3. Does the Activity employ effective waste management processes? (e.g., operation of a manufacturing plant with systems that minimise the leaching out of nutrients from the production system into the environment, refurbishment and recycling features)</b></p> <ul style="list-style-type: none"> <li>(a) Does the Activity reduce waste generation, including through: <ul style="list-style-type: none"> <li>(i) replacement of virgin materials with secondary raw materials or by-products, either fully or partially?</li> <li>(ii) repair, reuse, donation, resale, upcycling activities or on-site composting?</li> </ul> </li> <li>(b) Is the building of resource resilience and transition to circular economy measurable and observable?</li> </ul>

STs	Guiding Questions
	<p>(c) Does the Activity apply the waste hierarchy of priority orders in the prevention and management of waste material?</p> <ul style="list-style-type: none"> <li>(i) Prevention</li> <li>(ii) Preparing for re-use</li> <li>(iii) Recycling</li> <li>(iv) Other forms of recovery, e.g., energy recovery</li> <li>(v) Disposal</li> </ul> <p>(d) Does the Activity avoid leading to a significant increase in the generation, incineration or disposal of waste?</p> <p>(e) Does the long-term disposal of waste resulting from the Activity avoid causing significant and long-term harm to the environment?</p> <p><b>General Questions applicable to 1-3 above:</b></p> <ul style="list-style-type: none"> <li>(a) Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified ST4 principle?</li> <li>(b) Is a third-party certification or verification<sup>4</sup> of alignment of Activity with ST4 available?</li> <li>(c) Does the Activity fulfil relevant environmental law(s) applicable to the specified ST4 principle?</li> <li>(d) Does the Activity avoid inhibiting the maintenance of value, the efficient use in production and consumption, the reduction of environmental impact and the minimising of waste of products, materials and other resources in the economy?</li> <li>(e) Does the Activity avoid involving the release of hazardous substances at all stages of their lifecycle?</li> </ul> <p><b>4. Does the Activity enable other stakeholders and/or Activities to achieve resource resilience and transition to a circular economy?</b></p> <ul style="list-style-type: none"> <li>(a) Does the Activity help other stakeholders (including the community) to build resource resilience and transition to a circular economy?</li> </ul>

STs	Guiding Questions
	<ul style="list-style-type: none"> <li>(i) Does the Activity avoid impeding upstream and/or downstream stakeholders from building resource resilience and transitioning to a circular economy?</li> <li>(b) Does it promote intersectoral collaborations for resource resilience and circular economy transitions without negatively affecting other sectors?</li> <li>(c) How does the Activity enable other Activities to build resource resilience and transition to a circular economy?</li> <li>(d) Is the building of resource resilience and transition to circular economy of the enabled Activity measurable and observable? (e.g., recovery, reuse and recycle rates)</li> </ul>

**1. General Guiding Questions to Assess DNSH**

- (a) Has an Environmental Impact Assessment (EIA) been conducted and approved on the Activity?
- (b) What are the results of the EIA and where does the impact of the activity lie?
- (c) Have the remedial measures recommended within the EIA been implemented?
- (d) Regardless of whether an EIA has been conducted or not, is there any evidence or consideration that suggests the activity could cause potential significant harm to other STs?

*Other relevant sustainability thrust-specific questions*

**2. DNSH to ST 1 (Climate Change Mitigation)**

- (a) Does the Activity avoid significant GHG emissions, including CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, SF<sub>6</sub>, NF<sub>3</sub> and/or HFCs?
- (b) Does the Activity avoid leading to or causing extensive deforestation practices?
- (c) Does the Activity avoid impeding upstream and/or downstream stakeholders from reducing their GHG emissions?

**3. DNSH to ST 2 (Climate Change Adaptation)**

- (a) Does the Activity avoid leading to an increase in the vulnerability of human or natural systems due to the effects of climate change and climate variability-related risks?
- (b) Does the Activity avoid impeding upstream and/or downstream stakeholders from increasing their resilience to climate change?

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<sup>5</sup> Adopted from ASEAN Taxonomy for Sustainable Finance Version 2

- (c) Does the Activity avoid an increased adverse impact of the current climate and the expected future climate, on the activity itself or on people, nature or assets?
- (d) Does the Activity avoid impeding the adjustment to actual and expected climate change and its impacts?
- (e) Does the Activity consider the expected future climate in its current and planned practices?

**4. *DNSH to ST 3 (Protection of Healthy Ecosystems and Biodiversity)***

- (a) Is the Activity significantly detrimental to the good condition and resilience of ecosystems?
- (b) Does the Activity avoid leading to a significant increase in pollutant emissions into the air, land and/or natural bodies of water, relative to the situation before the commencement of said economic activity?
- (c) Does the Activity avoid involving the over-exploitation of natural resources?
- (d) Does the Activity avoid involving prohibited land use?
- (e) Is the Activity detrimental to the natural ecosystem's physical, chemical and biological quality, thus impeding self-reproduction and self-restoration capability of the occupying species?
- (f) Does the Activity avoid impairing natural species composition, ecosystem structure and ecological functions?
- (g) Is the Activity detrimental to the conservation status of habitats and species within the natural ecosystem? (i.e., inhibitions to the dynamic complex of plant, animal and microorganism communities and their non-living environment interacting as a functional unit)
- (h) Does the Activity avoid impeding upstream and/or downstream stakeholders from protecting ecosystems and biodiversity?

**5. DNSH to ST 4 (Promotion of Resource Resilience and Transition to Circular Economy)**

- (a) Does the Activity avoid inhibiting the maintenance of value, the efficient use in production and consumption, the reduction of environmental impact and the minimising of waste of products, materials and other resources in the economy?
- (b) Does the Activity avoid releasing hazardous substances at all stages of its lifecycle?
- (c) Does the Activity apply the waste hierarchy of priority orders in the prevention and management of waste material?
  - (i) Prevention
  - (ii) Preparing for re-use
  - (iii) Recycling
  - (iv) Other forms of recovery, e.g., energy recovery
  - (v) Disposal
- (d) Does the Activity avoid significant inefficiencies in the use of materials or the direct or indirect use of natural resources at one or more stages of the product lifecycle?
- (e) Does the Activity avoid leading to a significant increase in the generation, incineration or disposal of waste?
- (f) Does the long-term disposal of waste resulting from the Activity avoid causing significant and long-term harm to the environment?
- (g) Does the Activity avoid impeding upstream and/or downstream stakeholders from building resource resilience and transition to a circular economy?

## APPENDIX IV GUIDING QUESTIONS TO ASSESS REMEDIAL MEASURES TO TRANSITION<sup>6</sup>

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

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<sup>6</sup> Adopted from ASEAN Taxonomy for Sustainable Finance Version 2

- (d) Who are the direct stakeholders involved in the Activity's supply chain?  
What are these proposed actions and their contributions to remediation (e.g., avoidance, minimisation, reduction)?

## APPENDIX V GUIDING QUESTIONS TO ASSESS SOCIAL ASPECTS<sup>7</sup>

Does the Company meet minimum national standards relating to human rights, forced labour, child labour and impact on people living close to investments? In the absence of minimum standards established through national regulations or legislations, the following guiding questions will be used:

### 1. Promotion and protection of human rights

- (a) Does the Company have policies or guidelines that uphold an individual's right to enjoy just, decent and favourable working conditions?
- (b) Does the Company have a clear and transparent policy that sets out measures to create a positive environment in overcoming discrimination?
- (c) Does the Company have a policy that provides decent wages to all workers, taking into account adequate standards of living?

### 2. Prevention of forced labour and protection of children's rights

- (a) Does the Company employ occupational health and safety practices?
- (b) Does the Company have a clear and transparent policy that sets out measures taken to prevent and eliminate all forms of exploitation, trafficking, violence and abuse in its entire supply chain?
- (c) Do all workers have the right to enter into, and leave, employment voluntarily and freely?
- (d) If the Company employs migrant workers, are the migrant workers treated fairly?
- (e) Does the Company ensure all its workers free access to their documentation?
- (f) If the Company employs private employment agencies, do they conduct measures to ensure that such agencies are not involved in any form of exploitation, trafficking, violence and abuse?

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<sup>7</sup> Adopted from ASEAN Taxonomy for Sustainable Finance Version 2

**3. Impact on people living close to investments**

- (a) Does the Company conduct risk and vulnerability assessments to ensure targeted response measures that would contribute to the progressive implementation, effective monitoring and evaluation, as well as optimum impact of social protection?
- (b) Does the Company engage and strengthen the capacity of the community for better responsiveness, coordination and effectiveness of risk reduction and management policies?
- (c) Does the Company promote public awareness of their exposure and vulnerability and establish platforms to empower people to meet their basic needs?

## APPENDIX VI USE CASES FOR INDUSTRY REFERENCE

The use cases provided under this section are intended to guide LFI in understanding and implementing the requirements under LiST. They have been specifically tailored to be aligned with Labuan IBFC's business circumstances. As such it is imperative to note that they are hypothetical and may not comprehensively reflect real-case scenarios.

### Use Case 1: Financing for a Petrochemical Company<sup>8</sup>

<b>Company introduction</b>	<b>The Company is an offshore entity involved in both upstream and downstream activities within the oil and gas sector.</b>	
<b>Case context</b>	The Company aims to expand the trading of petrochemical products in the international market. Petrochemical products are used to produce pharmaceutical products for social health and well-being, such as medical resins and medical plastics. Consequently, the Company is seeking credit facilities from Labuan Banks. Labuan Banks then assessed the company using LiST to classify the Company's economic activities.	
<b>Sustainability efforts</b>	<ul style="list-style-type: none"> <li>(i) Commitment to reduce GHG emissions by 20 million tonnes by 2025;</li> <li>(ii) Commitments to achieve net zero carbon emissions by 2050;</li> <li>(iii) Compliance with EQA 1974 (Environmental Quality Act); and</li> <li>(iv) Alignment of operations to internationally recognised standards i.e., ISO 14001:2003 (Environmental Management Systems certification)</li> </ul>	
<b>User entry point</b>	Which ST is the nature of the Activity most relevant to?	Assessment of the Company's sustainability strategy and guidelines showed that the Company's environmental principles include reducing carbon emission on liquefied

<sup>8</sup> Adapted from case studies developed in the Climate Change and Principle-based Taxonomy, CCPT

		natural gas while transitioning towards renewable energy solutions, employing carbon capture utilisation, and sequestration technologies and approaches in upstream activities. The Activity is most relevant to ST1 Climate Change Mitigation.
	Which ST(s) is most aligned to the company's strategic focus?	Considering the company's Net Zero carbon emission 2050 target, the activity is most relevant to ST1 for assessment.
	<b>ST1 (Climate Change Mitigation) is the primary ST</b>	
<b>ST1 Assessment</b>	<b>1A. Does the Activity avoid / reduce GHG emissions?</b>	
	How does the Activity avoid or help reduce emissions?	The activity conventionally involved with the raw material extraction and panel production and transportation yields GHG emissions. The Company has implemented energy-efficient technologies and practices in manufacturing facilities and transportation fleets. This can help minimize energy consumption and consequently, reduce emissions.
	Does the Activity avoid locking in high-carbon activity?	Yes, the Company's actions to implement energy-efficient technologies and practices are aimed at reducing carbon emissions associated with its operations. By doing so, the Company is likely working to avoid perpetuating or furthering high-carbon activities.

		The company is also committed to achieving net zero carbon emissions by 2050 to reduce GHG emissions across operations, supply chains, and products.
	Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified ST1 principles?	Yes, the Company developed a climate change strategy that includes a commitment to reduce GHG emissions by 20 million tonnes by 2025. This commitment focuses on liquefied natural gas while transitioning toward renewable energy solutions and employing carbon capture, utilisation, and sequestration technologies and approaches in upstream activities. Thus, it contributes to ST1.
	<b>Yes, the Activity avoids/reduces GHG emissions.</b>	
<b>DNSH / RMT Assessment</b>	<b>2A. Does the Activity avoid causing potential significant harm to other STs?</b>	
	Has an EIA been conducted and approved on the Activity?	Yes
	What are the results of the EIA and where does the impact of the Activity lie?	The results of the EIA indicate that the petrochemical products will adversely affect ST3 the ecosystem and biodiversity surrounding it.
	(ST3) Is the Activity detrimental to the conservation status of habitats and species	Yes. Petrochemical products do not biodegrade, resulting in the accumulation and pollution of water supplies and impacting ecosystems and soil quality.

	within the natural ecosystem?	
	<b>No. The Activity causes potential significant harm to ST3.</b>	
	<b>2B. Has the implementation of remedial measures already commenced at the time of assessment?</b>	<p>Yes. To mitigate this harm, the Company is adopting sustainable practices and has developed concrete long-term action plans to transition its business in supporting the shift towards a low-carbon and climate-resilient economy.</p> <p>In addition, it has also established specific measures to ensure that it only trades petrochemical products derived through sustainable practices and sourced from facilities with ISO 14001:2003 Environmental Management Systems certification.</p>
	<b>3A. Does the Activity no longer cause significant harm to other STs at the time of assessment?</b>	No. The remedial measures that have been implemented are insufficient as the activities still cause significant harm to ST3.
	<b>3B. Are there concrete plans to implement remedial measures to address residual harm within 5 years?</b>	Yes. The company has implemented policies and guidelines to restore affected ecosystems and implement a comprehensive cleanup and remediation plan to remove pollutants from water supplies, ecosystems, and soil.
<b>Initial Classification</b>	<b>Yellow</b>	

<b>Social aspect Assessment</b>	<b>4A. Does the Company meet minimum standards relating to human rights, forced labour, child labour and impact on people living close to investments?</b>	Yes, the Company meet minimum standards on: (i) Promotion and Protection of Human Rights; (ii) Prevention of Forced Labour and Protection of Children's Rights; and (iii) Impact on People Living Close to Investments.
<b>Final Classification</b>	<b>Yellow</b>	

## Use Case 2: Investment in the oil and gas sector

<b>Company introduction</b>	<b>The Company is an oil and gas exploration and production company with operations spanning both upstream and downstream activities within the oil and gas sector.</b>	
<b>Case context</b>	The Labuan leasing company is considering providing its services to an oil and gas company and the identified Company is then assessed using LiST.	
<b>Sustainability efforts</b>	<ul style="list-style-type: none"> <li>• Continued focus on low cost of supply and low GHG intensity resources that meet transition pathway energy demand.</li> <li>• Developed a new net-zero scenario modelling the collective global government and societal actions that would be required to align with limiting warming to 1.5 degrees.</li> <li>• Assets with less than 10 kg CO<sub>2</sub>e per Barrel of Oil Equivalent (BOE) are projected to represent a larger portion of the company portfolio by 2030.</li> </ul>	
<b>User entry point</b>	Which ST is the nature of the Activity most relevant to?	An assessment of the Company's sustainability strategy and guidelines showed that the main company's environmental principles are to align with limiting warming to 1.5 degrees. This includes GHG emissions intensity reduction, methane emissions intensity reduction and target zero routine flaring. The Activity is most relevant to ST1 Climate Change Mitigation.
	Which ST(s) is most aligned to the company's strategic focus?	Considering the Company's Plans for Net Zero Energy Transition, the activity is most relevant to ST1 for assessment.
	<b>ST1 (Climate Change Mitigation) is the primary ST</b>	

<b>ST1 Assessment</b>	<b>1A. Does the Activity avoid / reduce GHG emissions?</b>	
	How does the Activity avoid or help reduce emissions?	<p>The activity conventionally involves offshore drilling, exploration and extraction below the seabed. Its operation releases toxic pollution into the air and water. The Company has spent approximately \$150 million on Scope 1 and 2 emissions reductions and low-carbon opportunities.</p> <p>The Company has explored new technology solutions and facility improvements to meet methane and flaring reduction targets. This year the routine flaring decreased nearly 90%.</p>
	Does the Activity avoid locking in high-carbon activity?	The activity may indeed contribute to high carbon emissions. However, the Company is committed to achieving carbon neutrality to align with limiting warming to 1.5 degrees.
	Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified ST1 principles?	Yes, the Company has developed a net-zero scenario modelling focusing on strategies to limit warming to 1.5 degrees. Thus, it does contribute to ST1.
	<b>Yes, the Activity avoids/reduces GHG emissions.</b>	
<b>DNSH / RMT</b>	<b>2A. Does the Activity avoid causing potential significant harm to other STs?</b>	

<b>Assessment</b>	Has an EIA been conducted and approved on the Activity?	Yes
	What are the results of the EIA and where does the impact of the Activity lie?	The results of the EIA indicate that the Company's activity will adversely affect ST3, the ecosystem and the biodiversity surrounding it.
	(ST3) Is the Activity detrimental to the conservation status of habitats and species within the natural ecosystem?	Yes. Offshore drilling activities release toxic pollution into the water. When the produced water is discharged from offshore oil and gas production, it will spread with oceanic currents, forming a continuously diluting plume that exposes downstream ecosystems. In addition, oil spills cause contamination across all forms of marine life.
	<b>No. The Activity causes potential significant harm to ST3.</b>	
	<b>2B. Has the implementation of remedial measures already commenced at the time of assessment?</b>	Yes. To mitigate this harm, the Company integrated a management system approach based on its Sustainable Development Risk Management Standard. It is designed to manage risks and mitigate impacts to biodiversity company-wide, from strategic planning through to field operations.
<b>3A. Does the Activity no longer cause significant harm to</b>	No. The remedial measures that have been implemented are insufficient as the activities still cause significant harm to ST3.	

	<b>other STs at the time of assessment?</b>	
	<b>3B. Are there concrete plans to implement remedial measures to address residual harm within 5 years?</b>	No. The Company has not implemented any policies or guidelines to remedy the residual harm within 5 years.
<b>Final Classification</b>	<b>RED</b>	

### Use Case 3: Developing a Sustainability Taxonomy-aligned Portfolio

<b>Company introduction</b>	<b>A Labuan Insurance company is taking action to reduce the environmental impact of its operations and supply chain to ensure consistency with LiST.</b>	
<b>Case context</b>	<p>The Labuan Insurance Company aspires to become the foremost insurance provider and the preferred customer brand for all insurance, wealth, and retirement solutions. Moreover, the Company is committed to prioritising climate action, fostering resilient communities and conducting its operations as a sustainable business.</p> <p>To accurately gauge the Company's position on ESG practices, it will undertake a comprehensive assessment using LiST.</p>	
<b>Sustainability efforts</b>	<ul style="list-style-type: none"> <li>(i) Seeking to reduce the carbon emissions in its operations, across the supply chain, and through investments and insurance;</li> <li>(ii) Collaborating closely with suppliers including those suppliers supporting claims management from underwriting activities, to actively promote the reduction of carbon emissions; and</li> <li>(iii) Seeking to protect and enhance biodiversity through nature-based solutions.</li> </ul>	
<b>User entry point</b>	Which ST is the nature of the Activity most relevant to?	Given that the Company's commitment is to decarbonise its operation and supply chain, which enables carbon emissions reduction. The activity is most relevant to ST1 Climate Change Mitigation.
	Which ST(s) is most aligned to the company's strategic focus?	The Company is committed to playing its role in supporting the low-carbon transition of economic sectors. The Company recognise that it has control over the decarbonisation of the company

		<p>operations. It is for this reason that the Company have committed to do everything within their power to create the right conditions to become a Net Zero carbon emissions company by 2040. Therefore, the activity is most relevant to ST1.</p>
	<p><b>ST1 (Climate Change Mitigation) is the primary ST</b></p>	
<p><b>ST1 Assessment</b></p>	<p><b>1A. Does the Activity avoid / reduce GHG emissions?</b></p>	
	<p>How does the Activity avoid or help reduce emissions?</p>	<p>The activity offers a wide range of insurance for car, home and health insurance and saving products such as pensions, investments and asset management. Hence, the Company is taking action to reduce the environmental impact on its operations and supply chain. This includes suppliers to its operations and suppliers that fulfil customers' claims e.g. in making good damage to homes or cars.</p> <p>Environmental impact on <b>operation</b>:</p> <p>(i) The Company confirmed that 100% of the electricity used by the company operations was from certified renewable sources. Therefore, the Company has achieved RE100 (global corporate renewable energy initiative for companies committed to 100%</p>

		<p>renewable) to reduce their scope 2 electricity emissions.</p> <p>(ii) The Company moved to a new office which has the latest efficiency standards. The office has an Energy Performance Certificate (EPC) which is rated by BREEAM Excellent, the world's leading sustainability assessment.</p> <p>(iii) The Company install solar panels to support the usage of renewable energy.</p> <p>(iv) The Company implements a hybrid operating model by incorporating homeworking to reduce operational emissions.</p> <p>Environmental impact on <b>supply chain</b>: The Company has engaged with suppliers that are supporting claim management arising from underwriting activities, regarding their emissions. The Company recognises the high potential for emissions reduction within the claims management process, particularly for certain property and casualty (P&amp;C) lines of business.</p>
	<p>Does the Activity avoid locking in high-carbon activity?</p>	<p>Yes, because the Company's energy consumption is from certified renewable sources. Additionally, the Company is increasing the capacity of solar energy,</p>

		allowing for more low-carbon power generation.
	Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified ST1 principles?	Yes, the Company has formulated a comprehensive climate strategy aimed at achieving Net Zero emissions by 2040. Thus, it does contribute to ST1.
	<b>Yes, the Activity does not contribute to GHG emissions.</b>	
<b>DNSH / RMT Assessment</b>	<b>2A. Does the Activity avoid causing potential significant harm to other STs?</b>	
	Has an EIA been conducted and approved on the Activity?	Yes
	What are the results of the EIA and where does the impact of the Activity lie?	The results of the EIA indicate that the Company's activity will not adversely affect any other STs. The Company has committed to improve biodiversity through the Terra Carta Pledge and Finance for Biodiversity Pledge.
	<b>Yes. The Activity does not cause potential significant harm to other ST.</b>	
<b>Initial Classification</b>	<b>Green</b>	
<b>Social aspect Assessment</b>	<b>4A. Does the Company meet minimum standards relating to human rights, forced labour,</b>	Yes, the Company meet minimum standards on: (i) Promotion and Protection of Human Rights;

	<p><b>child labour and impact on people living close to investments?</b></p>	<p>(ii) Prevention of Forced Labour and Protection of Children’s Right; and          (iii) Impact on People Living Close to Investments.</p> <p>The Company also focuses on assisting its customers and communities in building resilience to climate, financial, and health shocks.</p> <p>Meanwhile, within its operations, all employees enjoy the benefit of paid volunteer leave.</p>
<p><b>Final Classification</b></p>	<p><b>Green</b></p>	

**APPENDIX VII EXAMPLES OF THIRD-PARTY CERTIFICATION AND VERIFICATION**

Sector	Third-party Certification and/or Verification
General	<ul style="list-style-type: none"> <li>a. MS ISO 14001: 2015 – Environmental Management Systems*</li> <li>b. MS 1722: 2011 and OHSAS 18001 – Occupational Safety and Health Management Systems*</li> <li>c. ISO 50001 Energy Management Certification</li> <li>d. EU Ecolabel</li> <li>e. Cradle to Cradle</li> <li>f. GHG Protocol</li> </ul>
Climate	<ul style="list-style-type: none"> <li>a. ISO 14064: 2006 – Greenhouse gases</li> <li>b. Science Based Targets Initiative</li> <li>c. The Carbon Trust Standard</li> <li>d. ISO 14067:2019 Greenhouse Gasses – Carbon Footprint of Products</li> <li>e. PAS 2050:2011 – Specification for the assessment of the life cycle greenhouse gas emissions of good and services</li> <li>f. PAS 2060 Standard for Carbon Neutrality</li> <li>g. PAS 2080 Carbon Management in Infrastructure</li> <li>h. GHG Protocol Corporate Accounting and Reporting Standard</li> <li>i. Verified Carbon Standard</li> <li>j. International Sustainability and Carbon Certification</li> </ul>
Water	<ul style="list-style-type: none"> <li>a. AWS International Water Stewardship Standard Corporate context-based water targets</li> </ul>
Agriculture	<ul style="list-style-type: none"> <li>a. Malaysian Standards Palm Oil*</li> <li>b. Roundtable on Sustainable Palm Oil (RSPO)</li> <li>c. Bonsucro Certification</li> <li>d. Better Cotton Initiative (BCI)</li> </ul>

Sector	Third-party Certification and/or Verification
	<ul style="list-style-type: none"> <li>e. Global Organic Textile Standard</li> <li>f. Common Code for the Coffee Community</li> <li>g. Tropical Commodities Coalition for Sustainable Tea Coffee and Cocoa</li> <li>h. Ethical Tea Partnership</li> <li>i. World Cocoa Foundation</li> <li>j. Rainforest Alliance</li> <li>k. Roundtable on Sustainable Biomaterials</li> <li>l. Sustainable Rice Platform (SRP)</li> <li>m. UTZ Certified</li> <li>n. International Sustainability &amp; Carbon Certification (ISCC)</li> <li>o. Fairtrade Certified</li> <li>p. Roundtable for Responsible Soy (RTRS)</li> <li>q. Forest Stewardship Council (FSC) Certified Natural Rubber</li> </ul>
Fisheries	<ul style="list-style-type: none"> <li>a. Marine Stewardship Council (MSC) Certification</li> <li>b. Aquaculture Stewardship Council (ASC) Certification</li> <li>c. Natural Capital Protocol (2016)</li> <li>d. ISO 14008: Monetary valuation of environmental impacts and related environmental aspects (2019)</li> <li>e. Value Balancing Alliance</li> <li>f. Fairtrade Fisheries Standard</li> </ul>
Forestry	<ul style="list-style-type: none"> <li>a. Malaysian Timber Certification Scheme - Programme for The Endorsement of Forest Certification*</li> <li>b. Forest Stewardship Council (FSC)</li> <li>c. Programme for the Endorsement of Forest Certification (PEFC)</li> </ul>
Mining and Metals	<ul style="list-style-type: none"> <li>a. World Gold Council Conflict-free Gold Standard</li> <li>b. Kimberley Process Certification Scheme</li> <li>c. Aluminium Stewardship Initiative</li> </ul>

Sector	Third-party Certification and/or Verification
	<ul style="list-style-type: none"> <li>d. Initiative for Responsible Mining Assurance</li> <li>e. RJC Chain of Custody Certification</li> </ul>
Infrastructure	<ul style="list-style-type: none"> <li>a. Sustainable INFRASTAR*</li> <li>b. The Standard for Sustainable and Resilient Infrastructure</li> <li>c. Global Real Estate Sustainability Benchmark (GRESB)</li> <li>d. Building Research Establishment Environmental Assessment Method (BREEAM)</li> <li>e. Leadership in Energy and Environmental Design (LEED)</li> <li>f. Civil Engineering Environmental Quality Assessment and Awards Scheme (CEEQUAL)</li> <li>g. Greenroads Certification</li> <li>h. Hydropower Sustainability Assessment Protocol</li> <li>i. Excellence in Design for Greater Efficiencies</li> <li>j. Green Building Index*</li> </ul>
Tourism	<ul style="list-style-type: none"> <li>a. Green Key</li> <li>b. Green Globe</li> <li>c. Travelife</li> </ul>
Energy	<ul style="list-style-type: none"> <li>a. International Hydropower Association (IHA)</li> <li>b. Hydropower Sustainability Assessment Protocol (HSAP)</li> <li>c. International Atomic Energy Agency (IAEA)</li> <li>d. Safety Standards and Nuclear Security Series</li> <li>e. Science Based Targets Initiative (SBTI) Power Sector Guidance and Tool</li> </ul>
Industrial	<ul style="list-style-type: none"> <li>a. Fairtrade Certified Resource</li> <li>b. Bluesign Certification</li> <li>c. Responsible Care</li> </ul>

\* denotes Malaysia's certification

## Examples of certification/standards for investment instruments

Instrument	Certification/Standard
Sukuk	<ul style="list-style-type: none"> <li>a. Sustainable and Responsible Investment Sukuk Framework</li> <li>b. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)</li> <li>c. International Islamic Financial Market (IIFM) Standards</li> <li>d. International Islamic Financial Services Board (IIFSB) Guidelines</li> </ul>
Bond	<ul style="list-style-type: none"> <li>a. ASEAN Green Bond Standards</li> <li>b. ASEAN Sustainability Bond Standards</li> <li>c. Green Bond Principles (International Capital Markets Association)</li> <li>d. Sustainability Bond Guidelines (International Capital Markets Association)</li> <li>e. Climate Bonds Standards</li> </ul>
Equities	<ul style="list-style-type: none"> <li>a. FTSE4Good Bursa Malaysia Index</li> <li>b. MSCI Emerging Markets ESG Leaders Index</li> <li>c. Dow Jones Sustainability Indices (DJSI)</li> </ul>

## ACKNOWLEDGEMENT & RESOURCE REFERENCES

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### RESOURCE REFERENCES

1. ASEAN Taxonomy Board's ASEAN Taxonomy for Sustainable Finance: Version 2 (June 2023)
2. European Union's Taxonomy Regulation (June 2020)
3. Bank Negara Malaysia's Climate Change and Principle-based Taxonomy (April 2021)
4. Securities Commission Malaysia's Principles-Based Sustainable and Responsible Investment Taxonomy for the Malaysian Capital Market (December 2022)