In today's rapidly changing world, the topic of sustainability has become a global agenda. As a result, there has been substantial development of sustainability taxonomies across regional and international markets focusing on environmental preservation, social equity and ethical practices. Malaysia has also exhibited a strong commitment to embrace sustainability practices through the development of its taxonomy for promoting responsible investment, enhancing transparency, and driving positive change towards a more sustainable ecosystem.

As part of the efforts to promote sustainability within the Labuan International Business and Financial Centre (IBFC), Labuan FSA has developed the exposure draft on *Guiding Principles on Sustainability Taxonomy (ED).* The exposure draft is intended as a guidance to assist Labuan Financial Institutions in aligning their financial activities with sustainability goals and ethical principles.

Labuan FSA welcomes and values feedback on the requirements of the exposure draft. The comments or inputs may encompass suggestions, recommendations and alternatives, which should be supported with clear rationale, practicality and relevance for Labuan FSA's consideration.

Feedback shall be submitted electronically to Labuan FSA by 13 February 2024 to the following officers:

i) Niki Nur Fatini (fatini@labuanfsa.gov.my) (03-8873-2102)
ii) Jennifer Voon Mei Ying (jennifer@labuanfsa.gov.my) (03-8873-2034)

GUIDING PRINCIPLES ON SUSTAINABILITY TAXONOMY

1.0 Introduction

1.1 Global sustainability stands as a paramount objective for humanity, demanding urgent attention and concerted efforts on a worldwide scale. In a world intricately linked by technology, commerce, and societal interdependence, there is an urgency to balance progress with environmental sustainability. 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.

1.2 The Guiding Principles on Sustainability Taxonomy (Sustainability Taxonomy) is designed as a guidance for Labuan Financial Institutions (LFIs) in aligning their activities with sustainability goals and ethical principles in the Labuan International Business and Financial Centre (Labuan IBFC). Fundamentally, the Sustainability Taxonomy provides a structured framework for classifying and qualifying economic activities that are environmentally sustainable. This includes encouraging responsible investment, fostering transparency and driving positive change towards a more sustainable future.

2.0 Applicability

2.1 The Sustainability Taxonomy serve 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 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 Paty 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 LIFSSA; and

(xv) Labuan international commodity trading company established under Part VI of the LFSSA.

Question 1:

Does the proposed Sustainability Taxonomy sufficiently cover the type of licensees in Labuan IBFC?

3.0 Regulatory Expectation

3.1 The Sustainability Taxonomy outlines the following regulatory expectation to serve as a broad guidance to the LFIs:

(i) Environmental Objectives;
(ii) Essential Criteria;
(iii) Classification of Economic Activities;
(iv) Assessment of Economic Activities.

3.2 Although the regulatory expectations are not made mandatory, LFIs are encouraged to proactively adopt and integrate the guiding principles into their business and investment strategies to be aligned with the global commitments at achieving net zero emissions.

4.0 Environmental Objectives for the Assessment of Economic Activities

4.1 The Sustainability Taxonomy facilitate the following Environmental Objectives (EOs):

(i) EO1: Climate Change Mitigation

(ii) EO2: Climate Change Adaptation

(iii) EO3: Protection of Healthy Ecosystems and Biodiversity

(iv) EO4: Promotion of Resource Resilience and Transition to a Circular Economy

4.2 Any economic activity seeking classification under the Sustainability Taxonomy must demonstrate its contribution to at least one of these EOs. Additionally, the economic activity should not have adverse effects on the EO it intends to contribute, either directly or indirectly.

4.3 Climate change mitigation focuses on decarbonisation pathways for economic activities.

4.4 The objective of climate change mitigation is to reduce or prevent greenhouse gas (GHG) emissions into the atmosphere.

4.5 An economic activity can be considered to meet the environmental objective of climate change mitigation if it substantially[1] contributes in one of more of the following:

(i) Avoids GHG emissions;

(ii) Reduces GHG emissions; or

(iii) Enables others to avoid or reduce GHG emissions.

4.6 Common climate change mitigation activities include, but are not limited to; renewable energy generation, rehabilitation, retrofitting and/or replacement of energy-inefficient technology and/or production of energy-efficient technologies as well as maintenance and strengthening of land-based carbon stock and sinks, above and below ground.

Guiding Principles for EO1 Criteria

1. Economic activity which is not already low- or zero-emissions may be required to demonstrate the capability of avoiding or reducing GHG emissions in line with relevant best practices compared to the baseline scenario without the mitigating action.

Environmental Objectives

EO2: CLIMATE CHANGE ADAPTATION

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

[1] Positive impact from the activities should not be negligible and must be material enough to avoid potential greenwashing.

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

4.9 An economic activity can be deemed to fulfil the climate change adaptation objective through the following:

(i) Implement measures to increase own resilience to climate change; and/or

(ii) Enable other stakeholders to increase resilience to climate change.

4.10 In order to demonstrate that an economic activity contributes to increasing resilience to the negative physical effects of climate change, it is necessary to:

(i) Identify expected negative physical effects of climate change by leveraging evidence and appropriate climate information; and

(ii) Demonstrate how the activity or measures taken can build resilience, prevent an increase in, or shift the identified negative impact of climate change.

Guiding Principles for EO2 Criteria

1. Economic activity should positively contribute to a reduction in material physical climate risk and/or should reasonably reduce material physical risk from current and future climate change. This can include obvious physical risks, such as flooding, but also less immediately visible effects, such as impact on health from higher temperatures.
2. Impact assessments under a broad range of climate scenarios may be conducted to provide better understanding and insights on the effectiveness and benefits of the economic activity.

3. Economic activity that enables adaptation of other Activities should reduce the impact of material physical risk from other Activities and/or reduce barriers to adaptation through technology, services or products.
4. Economic activity must not adversely affect the adaptation efforts, or increase the physical risk, of other stakeholders.

Environmental Objectives

EO3: PROTECTION OF HEALTHY ECOSYSTEMS AND BIODIVERSITY

4.11 Protection of Healthy Ecosystems and Biodiversity focuses on the incorporation of conservation, restoration, and protection mechanisms of the natural ecosystem and biodiversity.

4.12 The objective of protection of healthy ecosystems and biodiversity is to minimise or eliminate the negative effects of business operations on natural ecosystems and biodiversity.

Guiding Principles for EO3 Criteria

1. An economic activity aimed at promoting the environmental objective of protection of healthy ecosystems and biodiversity should adhere to several or all the principles shown below:
   (i) Enable ecosystem restoration and/or facilitate protection of ecosystems;
   (ii) Implement necessary measures to protect ecosystems and biodiversity;
   (iii) Prevent soil erosion and run-off into watercourse;
   (iv) Enforce and empower existing policies related to the protection of natural areas;
   (v) Adopt sustainable logging practices and ensure timber products are sourced from sustainably managed forests;
   (vi) Meet the goals set by the Convention on Biological Diversity 1992;

(vii) Take into consideration the equitable use of biodiversity and ecosystem services when making business decisions;

(viii) Avoid or minimise adverse impacts on the environment by implementing pollution control mechanisms;

(ix) Avoid or minimise emissions of short and long-lived climate pollutants;

(x) Avoid or minimise generation of hazardous and non-hazardous waste; and

(xi) Minimise and manage the risks and impacts associated with pesticide use.

EO4: PROMOTION OF RESOURCE RESILIENCE AND TRANSITION TO CIRCULAR ECONOMY

4.13 Promotion of resource resilience and transition to a circular economy focuses on the materiality of economic activities, and their impacts to business operations, through adoption of the following principles of circularity:

(i) Minimising resource use;

(ii) Optimising resource yield; and

(iii) Closing resource loops through effective waste management.

4.14 An economic activity may be regarded as fulfilling the environmental objective of promotion of resource resilience and transition to a circular economy through one or both of the following criteria:

(i) Adjusting business operations to conserve raw materials, energy, water, and other natural resources; or

(ii) Implementing circular economy principles via adapted products, production, technologies, and processes.

Guiding Principles for EO4 Criteria

1. An economic activity aimed at promoting the environmental objective of promotion of resource resilience and transition to a circular economy should adhere to several or all the principles shown below:

   Strategy & Operations, Adjusting Business Models:

   (i) Uses renewable energy, bio-based resources, or other recovered materials to reduce rate of resource extraction;

   (ii) Uses future-proof, sustainable considerations and specifications to design and produce products, assets or process technologies that enable circular economy strategies through:

      a. Designing for longevity, resource efficiency, durability, functionality, modularity, upgradability, easy disassembly, and repair; and

      b. Using recyclable or biodegradable materials;

   (iii) Prevents or reduces waste generation, including the generation of waste from the extraction of minerals and waste from the construction and demolition of buildings;

   (iv) Optimises resource use and/or extends product use, including through:

      a. Replacement of virgin materials with secondary raw materials or by-products, either fully or partially;

      b. Repair, reuse, donation, resale, upcycling activities or on-site composting; and

      c. Repurposing, refurbishing, remanufacturing, disassembling, upgrading and repairing, and sharing of products.

(v) Offers product as a service based on, inter alia, leasing, pay-per-use, subscription, or deposit return schemes to reduce the demand for new products and their embedded raw materials; and

(vi) Minimises the incineration of waste and avoids the disposal of waste, including landfilling, in accordance with the principles of the waste hierarchy.

Enablers: Facilitating the Transition

(i) Develops and/or improves resource optimisation / waste management infrastructure needed for re-use and recycling to increase resource efficiency and ensure recovered materials are recycled as high-quality secondary raw material; and

(ii) Invests in the creation of a research and development (R&D) and knowledge sharing platform to increase expertise in circular economy and/or execute circular economy-related pilot projects.

5.0 Essential Criteria

5.1 Any economic activity which to be classified under the Sustainability Taxonomy must also fulfil the minimum requirements of the three Essential Criteria (EC) as follows:

(i) EC1: Do No Significant Harm (DNSH)

(ii) EC2: Remedial Measures to Transition (RMT)

(iii) EC3: Social Aspects (SA)

5.2 An economic activity interacts directly or indirectly with the surrounding environment. While the Activity may contribute towards EOs, it may cause unintended significant harm to the broader environment.

5.3 The principle of Do No Significant Harm (DNSH) means that an economic activity which contributes to one EO, should also not significantly harm any other EOs.

5.4 An assessment must be undertaken to ascertain whether the economic activity is causing significant harm to the broader environment while fulfilling one or more of the EOs.

5.5 It is important to note that although DNSH relates to significant harm to EOs other than that for which the economic activity is intended to make a contribution, an economic activity may also be rejected for “Green” or “Amber” classification if it

causes some direct or indirect effect which detracts from the contribution to the intended EO itself.

Essential Criteria

EC2: REMEDIAL MEASURES TO TRANSITION (RMT)

5.6 Remedial Measures to Transition (RMT) are measures which ensure that any actual or potential significant harm is removed or rendered not significant.

5.7 If it has been assessed that an economic activity could potentially result in significant harm to an EO as specified under paragraph 6.4, RMT must be put in place. The implementation of RMT needs to be planned which will effectively remove all significant harm within 5 years from the assessment date. As part of the assessment, comprehensive and realistic plans for RMT must be presented. In this case, the economic activity will remain classified as “Amber”.

5.8 In the case where significant harm is occurring or will occur, and RMT is not planned to be completed within the specified timeframe (i.e., within 5 years), the economic activity is automatically classified as “Red”.

Essential Criteria

EC3: SOCIAL ASPECTS (SA)

5.9 Social Aspects (SA) relates to social conditions which could potentially be harmed by an economic activity.

5.10 An economic activity may contribute to EOs, but during its lifecycle, may result in negative impacts towards its employees or the surrounding communities. In this regard, the Sustainability taxonomy not only considering environmental factors but also the social aspects which includes the following:

(i) Promotion and Protection of Human Rights;

(ii) Prevention of Forced Labour and Protection of Children's Right; and

(iii) Impact on People Living Close to Investments.

5.11 The assessment of SA is undertaken at the Company level, as opposed to at an economic activity level, as social policies are usually developed and implemented at the Company level.

6.0 Classification of the Economic Activity

6.1 The Sustainability Taxonomy uses colour-coded classification systems that represent different levels of contribution to EOs by economic activities. The classifications are divided into "Green", "Amber" and "Red" as illustrated below:

I. Environmental Objective:

GREEN

The Economic Activity is making a **substantial contribution** to at least one of the EOs.

AMBER

The Economic Activity meets the principles for "Green" classification may be temporarily classified as "Amber" if there is **outstanding un-remediated harm**.

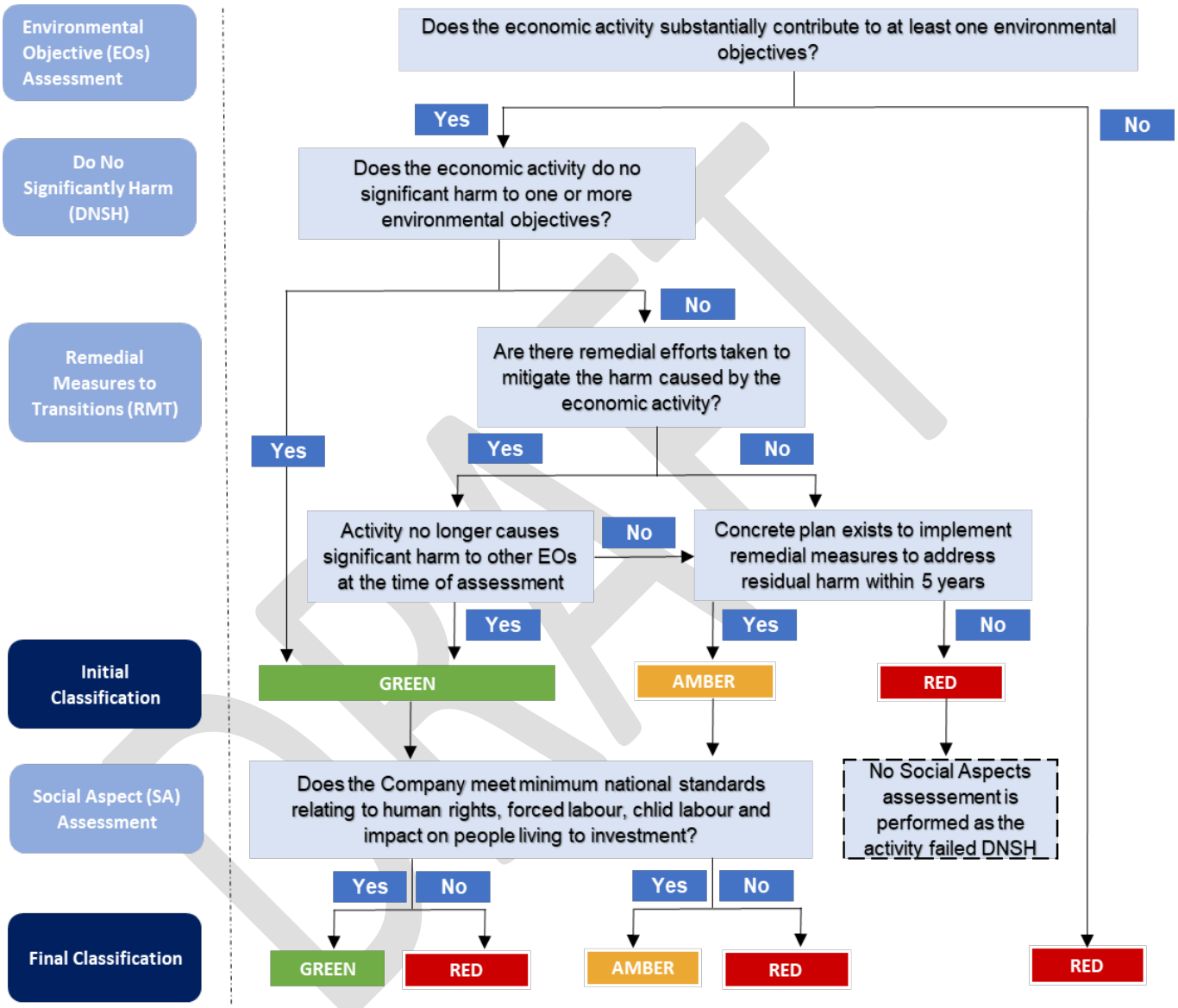
RED

The Economic Activity is **not aligned** to any of the EOs.

II. Do No Significant Harm (DNSH) & Remedial Measures to Transition (RMT):

GREEN	AMBER	RED
The Economic Activity **Do No Significant Harm** to any of the other EOs.	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.**	The Economic Activity is **causing significant harm** to any of the EOs and **no remedial plans** are available; OR The Economic Activity is **causing significant harm** to any of the EOs and the significant harm has **not been effectively remediated within 5** years of assessment.

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



7.0 Assessment of Economic Activities

7.1 LFI or users of the Sustainability Taxonomy may refer to the following Appendices on how to assess the substantial contribution and DNSH to the EOs, RMT and SA.

Appendix	Details
Appendix I	Guiding Questions to Assess Substantial Contribution to the Environmental Objectives (EOs)
Appendix II	Guiding Questions to Assess Do No Significant Harm (DNSH)
Appendix III	Guiding Questions to Assess Remedial Measures to Transition (RMT)
Appendix IV	Guiding Questions to Assess Social Aspects (SA)
Appendix V	Use Cases Adopted from ASEAN Taxonomy

Question 2:

Any recommendation on market practices that you would like us to include under the case study for the Sustainability Taxonomy?

Question 3:

Are there any areas that require in-depth guidance in reflecting the recent sustainability developments? If yes, please provide details.

Question 4:

Are there any proposed areas that could be challenging for LFIs to implement? If yes, please provide details.

Labuan Financial Services Authority
DD/MM/2023

APPENDIX I GUIDING QUESTIONS TO ASSESS SUBSTANTIAL CONTRIBUTION TO THE ENVIRONMENTAL OBJECTIVES (EOS)

Appendix I(A): EO1 (Climate Change Mitigation)

Guiding questions - EO1 (Climate Change Mitigation)

1. Does the Activity avoid / reduce GHG emissions?

(a) How does the Activity avoid or help reduce emissions? (e.g., generation of electricity through renewables)

(i) Does the Activity avoid locking in high-carbon activity? (i.e., delaying or preventing the transition towards low carbon alternatives)

(ii) Does the Activity avoid leading to significant GHG emissions, incl. CO_2, CH_4,N_2O, SF_6, NF_3 and/or HFCs?

(iii) Does the Activity avoid leading to or causing extensive deforestation practice?

(b) Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified EO1 principles?

(c) Where applicable and relevant, is a third-party certification or verification of alignment of Activity with EO1 available?

(d) Does the Activity fulfil relevant environmental law(s) applicable to EO1?

(e) Are the effects of climate change mitigation efforts measurable and observable?(e.g., data on amount of carbon emissions avoided)

2. Does the Activity enable other stakeholders and/or other Activities to mitigate climate change?

(a) Does the Activity help other stakeholders (including the community) to mitigate climate change? (e.g., construction of a building that facilitates urban planting)

Guiding questions - EO1 (Climate Change Mitigation)
(i) Does the Activity avoid impeding upstream and/or downstream stakeholders from reducing their GHG emissions? (b) Does the Activity promote inter sectoral collaborations for climate change mitigation without negatively affecting other sectors? (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) (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)

Appendix I(B): EO2 (Climate Change Adaptation)

Guiding questions – EO2 (Climate Change Adaptation)
1. Does the Activity implement measures to increase the Company's resilience to climate change? (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) (i) Has a climate risk assessment been conducted to establish the Activity's risk exposure towards physical climate risks? (ii) Has robust and recent climate data, projections and scenarios been used for the assessment?

Guiding questions – EO2 (Climate Change Adaptation)

(iii) Do the results of the climate risk assessment showcase the impacts of climate change on the Activity? Is it a positive or negative impact?

(iv) Does the Activity consider the expected future climate in its current and planned practices?

(v) 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 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?

(c) Does the Activity avoid impeding the adjustment to actual and expected climate change and its impacts?

(d) Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified EO2 principles?

(e) Where applicable and relevant, is a third-party certification or verification of alignment of Activity with EO2 available?

(f) Does the Activity fulfil relevant environmental law(s) applicable to EO2?

(g) 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)

Guiding questions – EO2 (Climate Change Adaptation)

2. Does the Activity enable other stakeholders and/or other Activities to increase resilience to climate change?

(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)

(ii) Does the Activity avoid impeding upstream and/or downstream stakeholders from increasing their resilience to climate change?

(b) Does it promote intersectoral collaborations for climate change adaptation without negatively affecting other sectors?

(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)

(d) Has a climate risk assessment been conducted on the enabled Activity's risk exposure towards physical climate risks?

(i) Has robust and recent climate data, projections and scenarios been used for the assessment?

(ii) Do the results of the climate risk assessment showcase the impacts of climate change on the enabled Activity? Is it a positive or negative impact?

Appendix I(C): EO3 (Protection of Healthy Ecosystems and Biodiversity)

Guiding questions – EO3 (Protection of Healthy Ecosystems and Biodiversity)

1. **Does the Activity contribute to protecting, conserving, or restoring ecosystems and biodiversity?**

   (a) Which specific principles under EO3 does the Activity meet or contribute to?

      (i) How does the Activity contribute to these principles?

   (b) Does the Activity minimise or eliminate negative effects of operations on the natural ecosystem and biodiversity?

      (i) Is the Activity significantly detrimental to the good condition and resilience of ecosystems?

      (ii) Does the Activity avoid leading to a significant increase in pollutant emissions into the air, land and/or natural bodies of water?

      (iii) Does the Activity avoid involving the over-exploitation of natural resources?

      (iv) Does the Activity avoid involving prohibited land use?

      (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?

      (vi) Does the Activity avoid impairing natural species composition, ecosystem structure and ecological functions?

      (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)

   (c) Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified EO3 principles? (e.g., employment of services from subcontractors, suppliers and/or third-

Guiding questions – EO3 (Protection of Healthy Ecosystems and Biodiversity)

parties with practices detrimental to the natural ecosystem and biodiversity)

(d) Is a third-party certification or verification of alignment of Activity with EO3 available?

(e) Does the Activity fulfil relevant environmental law(s) applicable to the specified EO3 principles?

(f) Is the protection of ecosystems and biodiversity measurable and observable? (e.g., number of trees reforested, land area of habitats protected)

2. Does the Activity enable other stakeholders and/or other Activities to protect ecosystems and biodiversity?

(a) Does the Activity help other stakeholders (including the community) to protect ecosystems and biodiversity?

(i) Does the Activity avoid impeding upstream and/or downstream stakeholders from protecting ecosystems and biodiversity?

(b) Does the Activity promote intersectoral collaborations for protecting biodiversity and ecosystems without negatively affecting other sectors?

(c) How does the Activity enable other Activities to protect ecosystems and biodiversity?

(d) Is the protection of ecosystems and biodiversity by enabled Activity measurable and observable? (e.g., number of trees reforested, land area of habitats protected)

Appendix I(D): EO4 (Promotion of Resource Resilience and Transition to Circular Economy)

Guiding questions – EO4 (Promotion of Resource Resilience and Transition to Circular Economy)
1. Does the Activity minimise resource use? (e.g., operation of a manufacturing plant that uses alternative fuels from waste material) (a) Does the Activity use renewable energy, bio-based or other recovered materials to reduce the rate of resource extraction? (b) Is the building of resource resilience and transition to circular economy measurable and observable? **2. Does the Activity optimise resource yield? (e.g., operation of a plantation that employs fertilizer application techniques to optimise crop yield)** (a) Does the Activity extend the use of products through reuse, repurposing, refurbishing, remanufacturing, disassembly, upgrades and repair, and/or sharing of products? (b) Does the Activity increase resource efficiency by ensuring recovered materials are recycled as high-quality secondary raw material? (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) (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) (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?

Guiding questions – EO4 (Promotion of Resource Resilience and Transition to Circular Economy)

(f) Is the building of resource resilience and transition to circular economy measurable and observable?

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)

(a) Does the Activity reduce waste generation, including through:

(i) replacement of virgin materials with secondary raw materials or by-products, either fully or partially?

(ii) repair, reuse, donation, resale, upcycling activities or on-site composting?

(b) Is the building of resource resilience and transition to circular economy measurable and observable?

(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 leading to a significant increase in the generation, incineration or disposal of waste?

(e) Does the long-term disposal of waste resulting from the Activity avoid causing significant and long-term harm to the environment?

General Questions applicable to 1-3 above:

(a) Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified EO4 principle?

Guiding questions – EO4 (Promotion of Resource Resilience and Transition to Circular Economy)

(b) Is a third-party certification or verification of alignment of Activity with EO4 available?

(c) Does the Activity fulfil relevant environmental law(s) applicable to the specified EO4 principle?

(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?

(e) Does the Activity avoid involving the release of hazardous substances at all stages of their lifecycle?

4. Does the Activity enable other stakeholders and/or Activities to achieve resource resilience and transition to a circular economy?

(a) Does the Activity help other stakeholders (including the community) to build resource resilience and transition to a circular economy?

(i) Does the Activity avoid impeding upstream and/or downstream stakeholders from building resource resilience and transition to a circular economy?

(b) Does it promote intersectoral collaborations for resource resilience and circular economy transitions without negatively affecting other sectors?

(c) How does the Activity enable other Activities to build resource resilience and transition to a circular economy?

(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)

APPENDIX II GUIDING QUESTIONS TO ASSESS DO NO SIGNIFICANT HARM (DNSH)

Appendix II(A): General Guiding Questions for EC1 (Do No Significant Harm)

General Guiding questions – EC1 (Do No Significant Harm)
1. Does the Activity avoid causing potential significant harm to other EOs? (a) Has an Environmental Impact Assessment (EIA) been conducted and approved on the Activity? (b) What are the results of the EIA and where do 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 EOs?

Appendix II(B): Specific Guiding Questions for EC1 (Do No Significant Harm)

Specific Guiding questions – EC1 (Do No Significant Harm)	
EO1	1. Does the Activity avoid significant GHG emissions, incl. CO_2, CH_4, N_2O, SF_6, NF_3 and/or HFCs? 2. Does the Activity avoid leading to or causing extensive deforestation practices? 3. Does the Activity avoid impeding upstream and/or downstream stakeholders from reducing their GHG emissions?
EO2	1. Does the Activity avoid leading to an increase in the vulnerability of human or natural systems due to the effects of climate change and climate variability-related risks? 2. Does the Activity avoid impeding upstream and/or downstream stakeholders from increasing their resilience to climate change?

Specific Guiding questions – EC1 (Do No Significant Harm)	
	3. Does the Activity avoid an increased adverse impact of the current climate and the expected future climate, on the activity itself or on people, nature or assets? 4. Does the Activity avoid impeding the adjustment to actual and expected climate change and its impacts? 5. Does the Activity consider the expected future climate in its current and planned practices?
EO3	1. Is the Activity significantly detrimental to the good condition and resilience of ecosystems? 2. Does the Activity avoid leading to a significant increase in pollutant emissions into the air, land and/or natural bodies of water, relative to the situation before the commencement of said economic activity? 3. Does the Activity avoid involving the over-exploitation of natural resources? 4. Does the Activity avoid involving prohibited land use? 5. Is the Activity detrimental to the natural ecosystem's physical, chemical and biological quality, thus impeding self-reproduction and self-restoration capability of the occupying species? 6. Does the Activity avoid impairing natural species composition, ecosystem structure and ecological functions? 7. Is the Activity detrimental to the conservation status of habitats and species within the natural ecosystem? (i.e., inhibitions to the dynamic complex of plant, animal and 8. Does the Activity avoid impeding upstream and/or downstream stakeholders from protecting ecosystems and biodiversity?

Specific Guiding questions – EC1 (Do No Significant Harm)	
EO4	1. Does the Activity avoid inhibiting the maintenance of value, the efficient use in production and consumption, the reduction of environmental impact and the minimising of waste of products, materials and other resources in the economy? 2. Does the Activity avoid releasing hazardous substances at all stages of its lifecycle? 3. Does the Activity apply the waste hierarchy of priority 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 4. Does the Activity avoid significant inefficiencies in the use of materials or the direct or indirect use of natural resources at one or more stages of the product lifecycle? 5. Does the Activity avoid leading to a significant increase in the generation, incineration or disposal of waste? 6. Does the long-term disposal of waste resulting from the Activity avoid causing significant and long-term harm to the environment? 7. Does the Activity avoid impeding upstream and/or downstream stakeholders from building resource resilience and transition to a circular economy?

APPENDIX III GUIDING QUESTIONS TO ASSESS REMEDIAL MEASURES TO TRANSITION (RMT)

Guiding questions – EC2 (Remedial Measures to Transition)
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, 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 EOs 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)?

Guiding questions – EC2 (Remedial Measures to Transition)
(c) Are the remedial measures and assessments done appropriate/proportionate to the business' scale of operations and industry benchmarks? (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., avoidances minimisation, reduction)?

APPENDIX IV GUIDING QUESTIONS TO ASSESS SOCIAL ASPECTS (SA)

Guiding questions – EC3 (Social Aspects)

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?

Guiding questions – EC3 (Social Aspects)
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 the 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 V USE CASES ADOPTED FROM ASEAN TAXONOMY

Use Case 1: Renewable Energy

Company introduction	**The Company is a major solar farm operator, with a global presence and multiple farms mainly located within Malaysia.**	
Case context	The Company is looking to expand their operations and advance the field of renewable energy. As such, they are seeking new project financing for the construction of a new solar farm in Malaysia. The solar panels utilised in the solar farm are sourced from its subsidiary based in Singapore.	
Sustainability efforts	• Achieving net-zero before 2050 • Avoiding and enhancing critical habitats (e.g., forests, wetlands) • Ensuring that human and labour rights are protected • Alignment of operations to internationally-recognised standards i.e., ISO 45001:2018 (Occupational Safety and Health Management) & ISO 14001:2015 (Environmental and Social Management Systems)	
User entry point	Which EO is the nature of the Activity most relevant to?	Given that the Activity involves the expansion of solar farm operations, which enables carbon emissions reduction and hence climate change mitigation, the Activity is most relevant to EO1
	Which EO(s) is most aligned to the company's strategic focus?	Considering the company's Net Zero 2050 target and focus on expanding its solar farm operations, the activity is most relevant to EO1.

	EO1 (Climate Change Mitigation) is the primary EO	
EO1 Assessment	**1A. Does the Activity avoid / reduce GHG emissions?**	
	How does the Activity avoid or help reduce emissions?	While the raw material extraction and panel production and transportation yields GHG emissions, the embodied and lifecycle emissions of solar energy generation are still lower than that of conventional energy generation.
	Does the Activity avoid locking in high-carbon activity?	Yes, because increasing the capacity for solar energy enables increased renewable energy generation, allowing for more low-carbon power generation. It does not delay or prevent the transition to low carbon alternatives but supports it at the core. The entity also envisions future possibilities in reducing GHG emissions in its supply chain, and thus is not locked-in to dependency on equipment with high lifecycle emissions.
	Do the Company's policies and business strategy generally avoid contradicting or impeding alignment with the specified EO1 principles?	Yes, because as a solar farm operator, the Company's business strategy involves expanding their solar farm footprint across Malaysia, which is in line with EO1 principles, as an increase of solar energy production will enable more low-carbon energy and hence climate change mitigation.
	Yes, the Activity avoids/reduces GHG emissions.	

DNSH / RMT Assessment	**2A. Does the Activity avoid causing potential significant harm to other EOs?**	
	Has an EIA been conducted and approved on the Activity?	Yes
	What are the results of the EIA where do the impact of the Activity lie?	The results of the EIA indicate that the new solar farm, due to its proximity to an unprotected forest, will adversely affect the habitats and biodiversity surrounding it, because of land disturbance, habitat loss and pollution to soil and water resources.
	(EO3) 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)*	Yes. Solar farms require large areas of land which interfere with existing uses of land e.g., grazing, natural functioning of the ecosystem. The solar farms operations will also encroach onforests, while unprotected under local legislation, are still habitats for endangered species, who might be threatened by the intrusion into their habitats. Solar farms may also contain hazardous substances and chemicals which results in the contamination of soil and groundwater.

	No. The Activity causes potential significant harm to EO3.	
	2B. Has the implementation of remedial measures already commenced at the time of assessment?	Yes. To mitigate this harm, the mitigation hierarchy for biodiversity protection has been applied. Further expansion towards forested areas that are home to endangered species will be prohibited. Additionally, any loss of habitat will be restored or replanted to ensure no net loss of natural habitat. Proper management and disposal of hazardous substances is also considered to avoid/reduce the contamination of soil and water resources. These processes are ISO14001-certified, which indicates that the company has in place an effective and international-standard environmental management system that manages harms that might arise from any operational processes that interact with the environment. Beyond ensuring legal compliance, the environmental management system also involves other measures to minimise environmental footprint.
	3A. Does the Activity no longer cause significant harm to other EOs at the time of assessment?	Yes. Harm has been mitigated, as critical habitat will remain untouched, contamination of soil/water reduced significantly, and any other loss of natural habitat will be replaced.

Initial Classification	Green	
Social aspect Assessment	**4A. Does the Company meet minimum national standards relating to human rights, forced labour, child labour and impact on people living close to investments?**	The activity is carried out by the Company based in Malaysia. A subsidiary based in Singapore is also involved by supplying the solar panels without which the activity cannot be carried out. Therefore, the social aspect assessment will cover both the Company and the subsidiary. Both organisations will be assessed according tothe national legislations and regulations in their respective location. **1.** The Company's operations meet the relevant Malaysian legislation and regulations on: • Respect human rights (main references:Federal Constitution of Malaysia) • Prevention of forced and child labour (National Action Plan on Forced Labour& Child Act 2001) • Impact on people living close to investments (Environmental Quality Act 1974 & Town and Country Planning Act1976) **2.** The subsidiary's operations meet the relevant Singaporean legislations and regulations on:

		• Respect human rights (Constitution of the Republic of Singapore) • Prevention of forced and child labour (Prevention of Human Trafficking Act 2014) • Impact on people living close to investments (Environmental Protection an Management Act 2002) **3.** Both organisations uphold the rights and principles indicated in the ASEAN Human Rights Declaration (AHRD), ASEAN Consensus on the Protection and Promotion of the Rights of Migrant Workers (ACPPRMW), and ASEAN Declaration on Strengthening Social Protection (ADSSP) such as but not limited to the following: • Provision of minimum wage and normal hours of work in line with Paragraph 27(1) of the AHRD on "just, decent and favourable conditions of work" • Employment of policies and guidelines regarding occupational health and safety for all workers in line with Paragraph 40(b) of the

		ACPPRMW on "occupational safety and health protection" • Implementation of a stakeholder engagement plan in line with Paragraph 8 of the ADSSP on "inclusive and participatory approach" **Yes, the Company and its subsidiary meet minimum national standards relating to human rights, forced labour, child labour and impact on people living close to investments.**
Final Classification	**Green**	

Use Case 2: Agriculture

Company introduction	**The Company cultivates and produces palm oil. It has operations across multiple Southeast Asian countries, owning both oil palm plantations and on-site processing facilities.**	
Case context	The Company is hoping to expand their cultivation footprint within Indonesia, by **seeking new project financing for palm oil plantation expansion.** The expansion involves reclaiming previously degraded soil and planting new oil palm trees on the restored land.	
Sustainability efforts	1. Adherence to Indonesian Sustainable Palm Oil (ISPO) standards 2. Development of water control structures to regulate plantation water levels for the protection of peatlands 3. Water categorisation and optimisation, as well as conservation efforts 4. Monitoring and disclosure of carbon emissions, in line with the Carbon Disclosure Project (CDP)	
User entry point	Which EO is the nature of the activity most relevant to?	Assessment of the Company's sustainability strategy and disclosures showed that the Company's environmental principles include peatland protection, soil health maintenance, water accountability and emissions reduction. Both EO1 Climate Change Mitigation and EO3 Protection of Healthy Ecosystems and Biodiversity are applicable.
	Which EO(s) is most aligned to the	Given the heavy focus on ecosystem protection (i.e., peatland protection, soil health maintenance and water

	Company's strategic focus?	accountability), EO3 was selected as the primary EO for assessment.
EO3 Assessment	**1A. Does the Activity contribute to protecting, conserving or restoring ecosystems and biodiversity?**	
	Which specific principles under EO3 does the Activity meet or contribute to?	'Implementation of necessary measures to protect ecosystems and biodiversity'. While the activity conventionally involves extensive deforestation and loss of biodiversity, several policies are already in place, including measures that prevent soil erosion and runoff into watercourses. An internal policy prohibiting peatland conversion is also in place. The expansion will involve reclaiming previously degraded soil and planting new oil palm trees on the restored land, which has less significant impact on the biodiversity of the area, relative to clearing of peatlands and forests. The clearing and reclamation of the degraded soil area will not involve land burning practices.
	Does the Activity minimize or eliminate negative effects of operations on the natural ecosystem and biodiversity?	Yes. The activity avoids unsustainable peatland use through its policy that prohibits planting on new peatlands regardless of depth.

	Is a 3rd party certification or verification of alignment of Activity with EO3 available?	Yes. The Company adheres to the Indonesia Sustainable Palm Oil (ISPO) standard.
	Yes, the Activity contributes to protecting ecosystems and biodiversity by minimising or eliminating negative effects of its operations.	
DNSH/ RMT Assessment	**2A. Does the activity avoid causing potential significant harm to other EOs?**	
	Has an EIA been conducted and approved on the Activity?	Yes
	What are the results of the EIA and where do the impact of the activity lie?	The results of the EIA highlight the following: 1) Existing plantations on peatlands and wastewater treatment of palm oil mill effluents (POME) are significant sources of emissions with no established mitigation efforts in place; 2) Lack of internal policies that prohibit deforestation practices in the pursuit of new plantation projects.
	(EO1) Does the activity avoid leading to significant GHG emissions, incl. CO2,	No. As reflected in the EIA, emissions from peat and wastewater treatment of POME are significant sources of GHG emissions.

	CH4, N2O, SF6, NF3 and/or HFCs?	
	(EO1) Does the activity avoid leading to or causing extensive deforestation practices?	No. While there has not been any record of deforestation activities by the Company since 2018, a No Deforestation policy is not yet in place.
	No. The activity causes potential significant harm to EO1.	
	2B. Has the implementation of remedial measures already commenced at the time of assessment?	Yes. A recent internal environmental review has highlighted the high emission potential of the Company's peat emissions and POME wastewater treatment, and the planning and implementation of remedial measures have just begun. These measures include offsetting carbon emissions by emission credits from the export of electricity and palm kernel shells.
	3A. Does the activity no longer cause significant harm to other EOs at the time of assessment?	No. The remedial measures that have been implemented are insufficient as there is still a significant amount of emissions, so the activity still causes significant harm to EO1.
	3B. Are there concrete plans to implement remedial measures to	Yes. Methane capture facilities will be installed at palm oil processing facilities. The Company has also pledged to commit to 'no deforestation, no peat and

	address residual harm within 5 years?	no exploitation (NDPE)' within the next 3 years.
Initial Classification	**Amber**	
Social Aspect Assessment	**4B. Does the Company meet minimum national standards relating to human rights, forced labour, child labour and impact on people living close to investments?**	The activity is solely carried out by the Company. Therefore, the social aspect assessment will only cover the Company which will be assessed according to Indonesian legislations and regulations. 1. The Company's operations meet the relevant Indonesian legislations and regulations on: • Respect human rights (Constitution of the Republic of Indonesia Year 1945) • Prevention of forced and child labour (Labour Law 2003) • Impact on people living close to investments (Decree of Ministry of Environment No. 17/2012 on Community Participation and Information Disclosure in Environmental Impact Assessment) 2. The Company also upholds the rights and principles indicated in the AHRD, ACPPRMW, and ADSSP such as but not limited to the following: • Employment of policies and guidelines to overcome discrimination in line with

		Paragraph 2 of the AHRD on entitlement of every person to rights and freedoms "without distinction of any kind, such as race, gender, age, language, religion, political or other opinion, national or social origin, economic status, birth, disability or other status" • Employment of policies and guidelines that set out measures taken to prevent and eliminate violence and abuse in line with Paragraph 30(b) of the ACPPRMW on preventing "abuses, exploitation and violence" • Implementation of social policies and guidelines on risk and vulnerability assessments and mitigation measures in line with Paragraph 11 of the ADSSP on "implementation of social protection programme, as well as effective targeting systems to ensure social protection services would go to those most in need" 3. However, upon discovery by the assessor, it was found that there were previous credible allegations of forced labour, as workers were found to be held against their will to work on

		plantations. Workers were physically confined in the plantations which is a violation of Article 28I of the Constitution of the Republic of Indonesia Year 1945 and Paragraph 12 of the ACPPRMW. The Company rectified this issue by providing compensation, implementing a human rights due diligence process and workers' grievance mechanism to ensure there is no forced labour in its operations. **Yes, the Company meets minimum national standards relating to human rights, forced labour, child labour and impact on people living close to investments and has demonstrated improvement of their operations to prevent a repeat of violations.**
Final Classification	**Amber**	

Use Case 3: Manufacturing

Company Introduction	**The Company is a semiconductor manufacturer. The Company has operations across Southeast Asia, including Malaysia and the Philippines.**	
Case context	The Company wants to take advantage of the rapid growth of semiconductor manufacturing in Viet Nam, and plans on expanding their operations there. As such, the Company is **seeking new project financing for the construction of a new semiconductor manufacturing factory** in the outskirts of Ho Chi Minh City.	
Sustainability efforts	1. ISO 50001 Energy Management Standard certification for all manufacturing facilities. 2. Maximum energy efficiency achieved through the use of energy efficient machinery and lighting system, as well as regular energy audits. 3. Conservation of water used and watershed restoration 4. Diverting manufacturing waste (e.g., sulfuric acid) from landfills by processing waste into raw materials reusable by others 5. Stringent occupational health and safety standards	
User entry point	What is the investors' priority and investment strategy?	The investor, who has a history of investments in manufacturing infrastructure, recognises the semiconductor manufacturing boom in Viet Nam and wishes to capitalise on it. However, the investor is cognisant of the environmental impacts of such an expansion, as semiconductor manufacturing is a resource- intensive process. As part of their investment strategy, the investor has incorporated elements of the OECD's Sustainable

		Manufacturing Toolkit into its sustainable investment framework, including the de-prioritisation of infrastructure investments that do not support a circular economy. Since the Company is pursuing a circular economy strategy with their new factory, the investor is interested to assess the Activity in line with EO4, which is also in line with their strategy.
	Which EO(s) is/are most aligned to the investors' priority and strategy?	Given the heavy focus on optimising resource use, which is a key tenet within a circular economy EO4 is the most relevant EO
	EO4 (Promotion of Resource Resilience and Transition to Circular Economy) is the primary EO.	
EO4 Assessment	**1A. Does the Activity minimise resource use?**	
	Does the Activity use renewable energy, bio- based resources or other recovered materials to reduce rate of resource extraction?	1. No. Given the high purity standards required of raw material inputs into the semiconductor manufacturing process, and the high-quality standards upheld, the Company is reluctant to use recovered materials. As such, production of semiconductors in the new factory will utilise primary raw materials.
	No, the economic activity does not use renewable energy, bio-based resources or other recovered materials to reduce rate of resource extraction.	

	1B. Does the Activity optimise resource yield?	
	Does the Activity increase resource efficiency by ensuring recovered materials are recycled as high-quality secondary raw material?	Yes, the process of semiconductor manufacturing involves a number of different solvents, which are separated and refined by a third-party. Sulfuric acid is another waste product in the process of semiconductor manufacturing, and the Company practices resource recovery by sending sulfuric acid waste to a third-party that processes it into technical grade, reusable sulfuric acid. The Company is able to recover 95% of sulfuric acid used in the facility which is refined by a third-party for resale to other companies. The percentage of recovery is comparable with the industry standard. Recovered and refined solvents, processed sulfuric acid and reclaimed precious metals are sold to other companies, supporting the continuation of a circular economy.
	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 life cycle?	Yes. The activity avoids inefficiencies in its manufacturing processes through end-to-end digitisation and predictive maintenance.

	Yes, the Activity optimizes resource yield	
DNSH/ RMT Assessment	**2A. Does the activity avoid causing potential significant harm to other EOs?**	
	Has an EIA been conducted and approved on the Activity?	Yes
	What are the results of the EIA and where do the impact of the activity lie?	The results of the EIA highlight that the specific manufacturing process that will be used at this plant will release significant amounts of greenhouse gas into the environment as a byproduct.
	(EO1) Does the activity avoid leading to significant GHG emissions, incl. CO2, CH4, N2O, SF6, NF3 and/or HFCs?	No. The process of creating the intricate circuitry patterns in semiconductors will be done using fluorinated GHGs, which enables the creation of faster and more powerful semiconductors. However, some of these GHGs will remain unreacted and escape the manufacturing chambers, potentially being released into the environment uncaptured; this process results in significant GHG emissions.
	No. The activity causes potential significant harm to EO1	
	2B. Has the implementation of remedial measures already commenced at the time of assessment?	No. Given the high level of precision involved in the process of semiconductor manufacturing, these manufacturing processes require significant amounts of time for designing.

		Changing the gases used therefore will require an overhaul of the manufacturing process, which requires significant R&D time and expenditure. As such, the Company is currently reluctant to change their longstanding manufacturing processes, and has no remedial measures implemented at the time of assessment.
	3B. Are there concrete plans to implement remedial measures to address residual harm within 5 years?	No. There are no remedial measures planned within 5 years due to the Company's reluctance to change their manufacturing processes.
Final Classification	**Red**	

No Social Aspects assessment is performed as the Activity has failed the Do No Significant Harm and Remedial Measures to Transition assessment

Use Case 4: Construction

Company introduction	**The Company is a land developer, with operations across Southeast Asia, including Philippines, Viet Nam and Cambodia.**	
Case context	The Company has recently acquired a plot of land in the Philippines, which contains a dilapidated office building and several informal settlements. The Company is seeking financing to develop the land area by demolishing the dilapidated office building and constructing a multi-towered office complex. The Company procures the construction materials (concrete, steel, wood, etc.) from an accredited supplier and enlists specialised services (roofing, plumbing, electricians, etc.) from a subcontractor for the activity. Both supplier and subcontractor are based in the Philippines.	
Sustainability efforts	1. Increasing the resilience of developments to the effects of climate change. 2. Protecting and restoring local biodiversity through native tree conservation, moving/re-planting and planting in the design 3. Increasing resource efficiency, by reducing resource use, upcycling and recycling 4. Ensuring the health and safety of employees in and out of work	
User entry points	Has the government issued any guidance (including policies, roadmaps and guidelines) which indicates that this Activity contributes to a specific EO under their NDC or national plan?	Given the vulnerability of the Philippines to the effects of climate change, including droughts, heatwaves and flooding, the Department of Environment and Natural Resources has lead the Inter-Agency Committee on

		Climate Change to put together the National Strategy for Climate Change Adaptation. A focus of this action plan is infrastructure, including investments in public and private buildings of all types. This will in part involve designing and constructing infrastructure according to the country's guidelines on climate resilient buildings. Therefore, EO2 is most aligned to the priorities of the government of the Philippines.
	What is the investors' priority and investment strategy? Which EO(s) is most aligned to investors' priority and strategy?	The investor is looking into environmentally responsible investments and understanding the Philippines' vulnerability to climate change related extreme weather conditions, is seeking investments that improve Manila's resilience to climate change, including the construction of infrastructure with climate resilient features like drainage systems and passive cooling. Therefore, EO2 is most aligned to the investors' priority and strategy.
	EO2 (Climate Change Adaptation) is the primary EO.	

EO2 Assessment	**1A. Does the Activity implement measures to increase the Company's resilience to climate change?**	
	How does the activity contribute to Company's resilience against adverse physical impacts of current and future climate change?	The office complex will use passive cooling methods, like green roofing and landscaping with native trees. This helps reduce temperatures within and around the buildings, as well as manage the Urban Heat Island Effect, hence increase resilience to extreme heat. The construction of the office complex will also involve building extensive drainage systems and a decent percentage of permeable surfaces. Given that Manila is prone to flooding, this infrastructure will enable an increase of the Company's portfolio's resilience to floods.
	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?	No, because the building is constructed with climate change resilience in mind, it generally does not lead to an increase in vulnerability to the effects of climate change
	Yes, the activity implements measures that increase the Company's resilience to climate change.	

DNSH / RMT Assessment	**2A. Does the activity avoid causing potential significant harm to other EOs?**	
	Has an EIA been conducted and approved on the Activity?	Yes
	What are the results of the EIA and where do the impact of the activity lie?	The results of the EIA highlight biodiversity protection through conservation of on-site native trees as part of the building design, moving/re- planting if incorporation to the current design is not possible, and planting native trees. However, the demolition and construction of the new office building could potentially generatevast amounts of construction waste.
	(EO4) Does the activity avoid leading to a significant increase in the generation, incineration or disposal of waste?	Construction and demolition activities generate significant amounts of waste, including steel, wood, concrete, and asphalt. Without proper management, this will lead to the significant increase in the generation, incineration and/or disposal of waste.
	No. The activity causes potential significant harm to EO4.	
	2B. Has the implementation of remedial measures	Yes. To minimise the amount of waste bound for landfills and promote the establishment of a

	already commenced at the time of assessment?	circular economy, the Company has measures in place e.g., purchasing mostly recycled materials, and recycling any construction waste they generate. When procuring construction materials, the Company purchases a majority of their inputs from companies that upcycle construction waste to produce new construction materials. Any construction waste generated is also separated and sent to in-house or third-party recycling companies. Construction of the new building will adhere to the circular economy standards which are laid out in the Company sustainability policy.
	3A. Does the activity no longer cause significant harm to other EOs at the time of assessment?	Yes. Harm has been mitigated, as recycled materials will be primarily used and construction waste will be recycled.
Initial Classification	**Green**	
Social Aspect assessment	**4A. Does the Company meet minimum national standards relating to human rights, forced labour, child labour**	The activity is carried out by the Company based in the Philippines. A supplier and a subcontractor are also involved by providing materials and services,

	and impact on people living close to investments?	respectively, without which the activity cannot be carried out. Therefore, the social aspect assessment will cover the Company, supplier and subcontractor. The organisations are based in the same location, hence they will be assessed according to Philippine legislations and regulations. The Company's, supplier's and subcontractor's operations meet the relevant Philippine legislations and regulations on: 1. Respect human rights (Constitution of the Philippines) 2. Prevention of forced and child labour (Labour Code of the Philippines, Expanded Anti-Trafficking in Persons Act of 2012, and Special Protection of Children Against Abuse, Exploitation and Discrimination Act) 3. The Company, supplier and subcontractor uphold the rights and principles indicated in the AHRD and ACPPRMW such as but not limited to the following:

		• Employment of policies and guidelines that respect freedom of association and right to collective bargaining in line with Paragraph 27(2) of the AHRD on "right to form trade unions and join the trade union of his or her choice for the protection of his or her interests" • Issuance of written employment contracts that clearly stipulate the basic terms of employment in line with Paragraph 14 of the ACPPRMW on "right to be issued an employment contract or proper documentation by relevant authorities/ bodies and/or employers with clear and basic terms of employment" 4. The supplier and subcontractor have also been found to be in compliance with the Company's Supplier's Code of Ethics 5. However, the Company's operations do not meet the

		relevant Philippine legislations and regulations on: • Impact on people living close to investments (Department of Natural Resources and Environment Administrative Order No. 30 Series of 2003) 6. The Company at present does not have any avenues for affected groups to raise grievances, despite the potential for social harm in land development (e.g., displacement of nearby communities) which is a violation of Paragraph 12 of the ADSSP on advocating "strategies that promote the coverage, availability, comprehensiveness, quality, equitability, affordability and sustainability of various social protection services.
	No, the company does not meet minimum national standards relating to human rights, forced labour, child labour and impact on people living close to investments.	
Final Classification	**Red**	