

## Green Bonds and the Singapore-Asia Taxonomy of Sustainable Finance: the Next Level of Ambition and Credibility

The EU Green Bond Regulation<sup>1</sup> entered into force on 20 December 2023 and came into effect on 21 December 2024. It sets a standard for EU Green Bonds that issuers can choose to adopt when labelling their bonds to raise finance for environmentally sustainable projects. One of the requirements for the voluntary ‘gold’ standard is that the proceeds from a bond labelled as an EU Green Bond must be used to finance or invest in economic activities aligned with the EU Taxonomy Regulation. Other requirements include a statement in the bond prospectus that the bond is a ‘EU Green Bond’ issued in accordance with the Regulation; and the publication of post-issuance annual allocation reports until full allocation of proceeds and post issuance annual external review after full allocation; and a one-time post allocation impact report on the environmental of the bond proceeds. It has been reported that two bonds that comply with it have already been announced.<sup>2</sup>

The introduction of a green bond standard that requires alignment with a regional or national taxonomy is a world-first and may represent the next step in the evolution of the green bond market with the creation of a new tier of credibility.

Here in Singapore, the Singapore-Asia Taxonomy (“**Taxonomy**”)<sup>3</sup> was launched in December 2023 by the industry-led Green Finance Industry Taskforce (“**GFIT**”) convened by the Monetary Authority of Singapore (“**MAS**”) to focus on initiatives to catalyse the sustainable and transition financing needs for the region and globally. More recently, the Singapore government has blazed a trail by revising its Singapore Green Bond Framework to align it with the Taxonomy.<sup>4</sup>

This article explores how the Taxonomy may potentially strengthen green bond issuance market practice, foster investor confidence, and drive the finance of a sustainable transition to a greener economy in Singapore and the broader Southeast Asia to greater heights.

### Green Bond Principles

The Green Bond Principles (“**GBP**”)<sup>5</sup> was first launched in April 2014 by the International Capital Markets Association (“**ICMA**”). Green bonds have come a long way in Singapore, with the first issuance of a green bond in Singapore in 2017, the proceeds from which were used to refinance the purchase of a green office building, and Singapore’s first sovereign green bond issued in 2022.

In the most recent version of the GBP, launched in June 2021, green bonds are described as,

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<sup>1</sup> Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds.

<sup>2</sup> David Zahn, et al, “Franklin Templeton Fixed Income’s Take on the New EU Green Bond Standard” (31 January 2025) <<https://www.franklinresources.com/articles/2025/fixed-income/eu-green-bond-standard>>.

<sup>3</sup> MAS, *Singapore-Asia Taxonomy for Sustainable Finance* (2023 Edition) (December 2023) <<https://www.mas.gov.sg/-/media/mas-media-library/development/sustainable-finance/singaporeasia-taxonomy-dec-2023.pdf>>.

<sup>4</sup> Ministry of Finance, “Progress in Sustainable Finance: Second Edition of Singapore Green Bond Framework and MOF’s Progress Report on Green Budgeting Practices” (23 January 2025) <<https://www.mof.gov.sg/news-publications/press-releases/progress-in-sustainable-finance-second-edition-of-singapore-green-bond-framework-and-mof-s-progress-report-on-green-budgeting-practices>>.

<sup>5</sup> ICMA, *Green Bond Principles: Voluntary Process Guidelines for Issuing Green Bonds* (June 2021) (with June 2022 Appendix 1) <<https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles-June-2022-060623.pdf>>.

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“any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects ... and which are aligned with the four core components of the GBP.”

These four components are:

1. **Use of Proceeds:** The proceeds of the bond are utilised for eligible Green Projects, which should be appropriately described in the legal documentation of the security. The GBP non-exhaustively explicitly recognise several broad categories of eligibility for Green Projects, which contribute to environmental objectives such as: climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control.
2. The GBP does not define what ‘Green Projects’ are, and explains that while the GBP’s purpose is not to take a position on which green technologies, standards, claims and declarations are optimal for environmentally sustainable benefits, there are several current international and national initiatives to produce taxonomies and nomenclatures. These
3. may give further guidance to Green Bond issuers as to what may be considered green and eligible by investors.
4. **Process for Project Evaluation and Selection:** The issuer should clearly communicate investors, the environmental sustainability objective(s) of the eligible Green Projects; the process by which the issuer determines how the project(s) to be funded fits within the eligible Green Projects categories; and complementary information on the processes by which the issuer identifies and manages perceived, actual or potential environmental and social risks associated with the relevant project(s);

**Management of Proceeds:** The proceeds of a green bond should be credited to a dedicated account or otherwise tracked by the issuer in an appropriate manner, and attested to by the issuer in a formal internal process linked to the issuer’s lending and investment operations for eligible Green Projects; and

**Reporting:** Issuers should make, and keep, readily available up to date information on the use of proceeds, such information to be renewed annually until full allocation is fully drawn, and on a timely basis in case of material developments.

## **Singapore-Asia Taxonomy for Sustainable Finance**

The Taxonomy aims to enhance transparency, credibility, and consistency in sustainable financing, and promote the development of an environmentally sustainable economy for Singapore and ASEAN through defining science-based and robust technical screening criteria for economic activities and projects that are aligned with Singapore and region’s overall environmental objectives. It also serves to guide market participants to identify and allocate capital to green and transition activities and projects. It lays down detailed thresholds and criteria for the definition of green and transition (amber) activities which contribute to the environmental objective of climate change mitigation across eight selected sectors, namely, energy; transport; real estate/construction; forestry; carbon capture and storage; information and communications technology; waste; water; and agriculture.<sup>6</sup> The thresholds for the remaining four environmental objectives of climate change adaptation; protecting healthy ecosystems and biodiversity; promoting resource resilience and circular economy; and pollution prevention and control, are left for future editions of the Taxonomy to determine. Activities that do not comply with green or amber criteria, or are directly unsustainable activities, e.g. activities that are incompatible with a 1.5°C-aligned pathway and will need to be phased out if emissions (including Scope 3) cannot be reduced are currently not eligible under the Taxonomy, and are considered ineligible (red) activities for financing under the Taxonomy.

Additionally, the Taxonomy requires that even when an economic activity makes a substantial contribution to one of the five environmental objectives, to be aligned with the Taxonomy, the activity does not through its practices or policies cause potential or actual harm to the other four environmental objectives of the

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<sup>6</sup> MAS, “MAS Launches World’s First Multi-Sector Transition Taxonomy” (3 December 2023) <<https://www.mas.gov.sg/news/media-releases/2023/mas-launches-worlds-first-multi-sector-transition-taxonomy>>.

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Taxonomy. This requirement helps to avoid the blind spot of a green activity unintentionally causing environmental harm even while contributing to an environmental objective. The Do No Significant Harm (“DNSH”) criteria lays down the potential principal harm of an activity, and the metrics to be monitored and requires continuous due diligence to understand the risk associated with the activity or project, and its location, and potential social impact, and assess the metrics. The Taxonomy clarifies that the DNSH requirement is currently applied as best practice disclosure about whether the criteria are met. In time, compliance with the criteria may be required so that if there is no identifiable approach or option to meet the DNSH criteria, the activity will be considered ‘ineligible’ for financing under the Taxonomy.

The Taxonomy also establishes certain minimum social safeguards (“MSS”). The borrower must conduct due diligence to identify, prevent, mitigate and account for how they address in their own operations, their supply chain and other business relationships,<sup>7</sup> the actual and potential adverse impacts related to human rights, workers, the environment, bribery, and consumers. The due diligence and disclosures must be compliant with the OECD Guidelines on Multinational Enterprises (“**OECD Guidelines**”)<sup>8</sup> and the UN Guiding Principles on Business and Human Rights (“**UN Guiding Principles**”), with specific reference to the International Labour Organisation’s (“**ILO**”) Core Labour Conventions regarding freedom of association and right to collective bargaining; non-discrimination and equal pay for equal work; and elimination of forced labour,<sup>9</sup> and child labour. The Taxonomy recommends the OECD Due Diligence Guidance for Responsible Business Conduct (“**OECD Due Diligence Guidance**”)<sup>10</sup> as a helpful guide for investors. This Guidance guides investors on due diligence process generally, and particularly on impacts related to human rights, employment and industrial relations, the environment, bribery, and consumer interest. Due diligence should also be supported by embedding responsible business conduct into policies and management systems.

Considering that the structural underpinnings of the Taxonomy is designed to be largely consistent with the EU Taxonomy, advice from the Platform on Sustainable Finance, an advisory body established under the EU Taxonomy Regulation<sup>11</sup> comprising experts on sustainability from the corporate and public sector, from industry as well as academia, civil society and the financial industry, on the application of the minimum safeguards (“**MS**”) in relation to the Regulation may be instructive as a guide to the application of the MSS requirements in relation to the Taxonomy.

In its final report,<sup>12</sup> the Platform advised that given that MS have the function to establish social and governance criteria for the entity which carries out an environmentally beneficial activity as defined by technical screening criteria in the EU Taxonomy, additional environmental criteria in the OECD MNE Guidelines are not considered relevant in the in the context of the EU Taxonomy. As the topic of science and

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<sup>7</sup> The Taxonomy does not define “business relationship”, but the OECD Guidelines defines it as including “relationships with business partners, sub-contractors, franchisees, investee companies, clients, and joint venture partners, entities in the supply chain which supply products or services that contribute to the enterprise’s own operations, products or services or which receive, license, buy or use products or services from the enterprise, and any other non-State or State entities directly linked to its operations, products or services”.

<sup>8</sup> OECD, *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct* (2023) <<https://www.oecd-ilibrary.org/docserver/81f92357-en.pdf?expires=1732671448&id=id&accname=guest&checksum=4981155B92D1409308599D05C92C741D>>. The Guidelines encourages enterprises to make positive contributions to economic, environmental, and social progress and minimise the adverse impacts relating to human rights; employment practices and industrial relations; the environment, bribery and other forms of corruption; consumer protection; science, technology, and innovation, competition; and taxation; that may be associated with an enterprise’s operations, products and services.

<sup>9</sup> Forced labour is defined in the *Forced Labour Convention 1930* as “all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily”. According to the ILO, indicators pointing to the possible existence of forced labour are abuse of vulnerability, deceptive recruitment practices, restriction of movement, isolation, physical and sexual violence, intimidation and threats, retention of identity documents, withholding of wages, debt bondage, abusive working and living conditions, and excessive overtime. The ILO further noted that the presence of a single indicator in a given situation may in some cases imply the existence of forced labour. However, in other cases it may be necessary to look for several indicators which, taken together, point to a forced labour case See ILO, *ILO Indicators of Forced Labour* (2012) <[https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@ed\\_norm/@declaration/documents/publication/wcms\\_203832.pdf](https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@ed_norm/@declaration/documents/publication/wcms_203832.pdf)>.

<sup>10</sup> OECD, *OECD Due Diligence Guidance for Responsible Business Conduct* (2018) <<https://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf>>.

<sup>11</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

<sup>12</sup> Platform on Sustainable Finance, *Final Report on Minimum Safeguards* (October 2022) <[https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards\\_en.pdf](https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf)>.

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technology in the OECD Guidelines focuses on the swift transfer of science and technology to developing countries and encourages the development of R&D facilities in host countries, and this topic is not aimed to safeguard against harm, but to promote technological transfer to certain countries and regions, it is also not relevant for MS. This means the substantive topics which are pertinent to the MS are human rights (including labour and consumer rights); bribery; taxation; and fair competition.

Further, as the chapters in the OECD Guidelines on science and technology, fair competition, and taxation are not covered by due diligence recommendations laid out in the OECD Due Diligence Guidance, companies are not expected to avoid and address impacts on topics from these chapters in their business relationships and value chains – thus, the chapters on fair competition and taxation are only relevant in the context of the companies' own activities.

## **The Potential Impact of the Singapore-Asia Taxonomy on the Application of the GBP in Singapore**

In exploring how the Taxonomy may affect the application of the GBP in Singapore, it may be useful to consider the application of the GBP for the issuance of a green bond to finance the construction of new buildings in Singapore.

The current practice for issuing green bonds aligned with the GBP for financing or refinancing the construction or acquisition of buildings is to require such buildings to be green-rated, usually with the award of a Green Mark rating by the Building Control Authority. Such bonds currently typically do not incorporate any reference to the Taxonomy in the issuers' green bond framework, although there is typically a commitment in the framework to identify and manage significant social and environmental aspects associated with the relevant Green Projects that can potentially have a negative social and environmental impact during the process of project selection and evaluation. This is understandable considering the final version of Taxonomy was only released in December 2023. The GFIT had also observed in the Taxonomy that the application of the Taxonomy to financial markets, debt instruments such as green bonds/loans, corporate disclosure regulations as well as its voluntary or mandatory status had not yet been decided or put forward for public consultation and were, at that stage beyond the scope of the Taxonomy.

In order for the construction of a new building to be eligible for categorisation as green for contributing to climate change mitigation, the issuer must ensure that the building to be constructed meets one of the available technical screening criteria for the category, namely the attainment of the prevailing Green Mark certification standard or selected international green building certification standards. A new building is not eligible for the transition (amber) category and can only be classified as green or ineligible under the Taxonomy. Further, the Taxonomy considers that the construction of buildings for the purpose of occupation for fossil fuel extraction, transporting of fossil fuels or manufacturing of fossil fuels activities are not eligible for inclusion as a green activity. So the intended downstream use and consequent impact of the building is relevant to the classification of the construction.

In addition, to be categorised as green, an issuer must also disclose whether or not the financed construction project in question meets the DNSH criteria in respect of the other environmental objectives, and at a later stage may need to ensure the project meets the DNSH criteria. These include criteria on the lack of resistance to extreme weather events or lack of resilience to future temperature increases; inefficient water appliances; the landfill disposal or incineration of recyclable or reusable construction and demolition waste; the presence of asbestos and/or substances of very high concern in the building materials; the presence of hazardous contaminants in the soil of the building site; impacts on ecosystems through inappropriate building location; and the use of timber products originating from forests that are not sustainably managed. Once again, the DNSH criteria signal that both the upstream and downstream environmental impacts of the building construction are relevant to its classification.

As noted, some issuers currently state in their framework, as part of their process for project evaluation and selection, that they have processes for identifying and managing environmental and social risks associated with the relevant project(s), without further elaboration. To meet the DNSH requirement, an issuer may have

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to disclose how their processes continually assess eligible projects against the applicable DNSH criteria before selecting them for financing using the proceeds of the green bond and monitor these projects against the DNSH criteria during the tenure of the bond; and commit to continual post- issuance reporting on whether the financed projects continue to meet the criteria.

Similarly, to meet the MSS requirements in alignment to OECD Guidelines and UN Guiding Principles, an issuer may have to continually disclose policies and management systems that embed a commitment to human (including labour and consumer) rights, anti-corruption, tax governance and compliance, and fair competition. They may also have to show how their processes enable them to identify and assess adverse impacts; take actions to cease, prevent, and mitigate such adverse impacts; track implementation effectiveness of their actions; communicate the impacts; and remediate adverse impacts that they cause or contribute to. Here, setting aside aspects of the MSS requirements that overlap with the DNSH criteria, adverse sustainability impacts may come from the acquisition of land; sourcing and extraction of building materials; the recruitment and management of the workforce and management of the working environment; and procurement of contracts for land, labour, and suppliers, and application for permits.

### **Other Related Potential Enhancements**

Drawing reference from the EU Green Bond Regulation, as the current practice is to explicitly exclude the issuer's green bond framework and its external review from being part of the bond documentation, consideration can be given to boosting investor confidence by including in the bond documentation, whether directly or indirectly through incorporation by reference to the issuer's green bond framework, an externally reviewed statement to the effect that the issuer and proposed use of proceeds from the bond meet the criteria of the Singapore Taxonomy. The documentation could also include a commitment to publish throughout the tenure of the bond, externally reviewed annual post-issuance allocation reports confirming that the proceeds continue to be allocated in alignment with the Taxonomy criteria, and a one-time post allocation impact report on the financed project. No doubt, such inclusions carry with it additional costs associated with additional reporting and the appointment of external reviewers, as well as a legal risk of liability should the disclosures turn out to be inaccurate or misleading. Issuers may not be inclined to commit to such additional contractual obligations for so long as the application of the Taxonomy is not mandatory, especially if there is a low likelihood of this translating into a better investor response or better financing terms. Committing contractually to a certain course of action or use of proceeds may also limit the flexibility of the issuer to change course. Nevertheless, this risk can be mitigated through clear and careful drafting of the disclosures and appropriate qualifications and disclaimers.

### **Conclusion**

The potential application of the Taxonomy to green bonds marks a big leap forward in the evolution of green financing in the region. No longer would it be sufficient to consider a bond environmentally sustainable because the proceeds from the bond are put to green purposes. By standardising and advancing more holistic definitions and criteria for sustainable activities, the application of the Taxonomy to the GBP will also require a scrutiny of the environmental and social impacts of financed projects, and deliver a greater confidence in the positive sustainability impact of such projects and facilitate greater capital flow into truly sustainable activities. Alongside the adoption of sustainability reporting and climate-related financial reporting by listed and large companies, and environmental risk management disclosures by financial institutions, the adoption of the Taxonomy for sustainable financing will not only strengthen Singapore's position as a global sustainable finance hub but also accelerate the region's urgent need to progress toward achieving its sustainability goals.

Should you have any queries on this case update or generally, please feel free to contact any one of the undersigned.

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