Financial Supervisory Commission
Republic of China (Taiwan)

Green Finance Action Plan 2.0

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Contents

I. Introduction

The Green Finance Action Plan previously proposed by the Financial Supervisory Commission (FSC) was approved by the Executive Yuan on November 6, 2017. The Action Plan includes a total of 25 measures that cover the following 7 aspects: credit, investment, capital market fundraising, professional development, promotion of further development of green financial products or services, information disclosure, and promotion of the concept of green sustainability. Under the concerted efforts of the FSC and relevant central authorities in the past two years, the Action Plan has attained major achievements in the following areas: (1) relaxed rules and regulations on extension of credit and financing by financial institutions to make it easier for renewable energy companies to obtain credit (loans) from banks and insurance companies; (2) created and developed a green bond market to facilitate the raising of capital that will be used for environmental improvement and green transformation, and to steer capital market toward responsible investment; (3) encouraged insurers to invest directly or indirectly in the green energy industry; (4) offered training courses, workshops, and seminars to cultivate financial professionals with knowledge of the green energy industry; (5) encouraged banks to develop green credit cards so as to raise public awareness of the importance of green lifestyles and green consumption; (6) promoted green stock index and green ETFs derived therefrom, green insurance, and other green financial products; and (7) required banks and insurers to disclose their management directives for sustainable finance in their corporate social responsibility reports (CSR reports)[1].

The Sustainable Development Goals (SDGs) adopted by the United Nations in 2015 call the world's attention to sustainability issues. Since then, seeking co-existence and co-prosperity between man and nature, fostering peaceful, just and inclusive societies, and working toward a sustainable future have become the core values for governments and business development around the

[1] To align with international norms, the term "CSR report" will be changed to "sustainability report." The definitive timetable for the change will follow the plan laid out in the "Corporate Governance 3.0 – Sustainable Development Roadmap." This Action Plan uses the term "CSR report" for now.

world. Taiwan has also adopted sustainable development as one of its core values. Our National Council for Sustainable Development adopted the "Taiwan Sustainable Development Goals" in 2018 in response to the global call for action on sustainable development while taking into account local development needs.

Seeking economic growth while taking into consideration sustainable development issues requires substantial investments and reallocation of capital to bring about economic transformation. Financial institutions take in funds from the public, and manage and utilize those funds by undertaking activities such as lending and investment. They hold enormous assets and play the role of allocating social resources. They are a key force in steering public attention toward sustainable development. Hence, governments around the world have been employing financial market forces to promote sustainable development. In the early stage, their promotional efforts emphasized green or environmental issues, but they have now moved on to pursue sustainable finance, which additionally emphasizes environmental, social, and corporate governance (ESG) concerns. Sustainable finance is the core consideration in financial policy in many countries.

In the field of sustainable finance, the main practices and measures currently adopted internationally include: (1) definition of the scope of sustainable finance; (2) enhanced disclosure of actions taken in response to climate change and sustainable development; (3) integration of climate change-related factors into prudential supervisory frameworks, and (4) development of mechanisms and standards to promote sustainable and responsible investment. Domestically, the FSC, in order to maximize the role of the financial system in the pursuit of sustainable development at the national level, has been inviting specialized institutions as well as foreign governments and financial institutions that have achieved considerable success in promoting green and sustainable finance to share their experiences and challenges encountered in the process and make policy recommendations. On the basis of the existing "Green Finance Action Plan," the FSC has proposed the "Green Finance Action Plan 2.0." The term “green finance” still appears in the title of Action Plan 2.0, but it has in fact been expanded to cover sustainable finance. In the future, the FSC will introduce a clearer definition and taxonomy (classification system) for “sustainable development,” and then modify the name of the Action Plan and measures to be promoted.

The short-term focus of the “Green Finance Action Plan 2.0” is to refer to international practices in researching the scope of sustainable finance, and upon that basis to develop a clearer definition or taxonomy for green and sustainable industries. The aim is to provide further guidance for financial institutions to gradually expand their business scope, i.e. whereas they currently focus on financing of and investment in renewable energy projects, the idea is to additionally focus on financing of and investment in green and sustainable development projects (e.g. green transportation, green buildings, green manufacturing, projects of social benefit), and the development of innovative financial products and services. Another short-term objective of the Action Plan 2.0 is to enhance the quality and transparency of corporate ESG disclosures to improve the availability, comparability, and utility of relevant information. The medium-term plan includes planning and promoting a data integration platform and a database based on the aforementioned definition or taxonomy for sustainable finance, and to create an evaluation mechanism to encourage financial institutions to promote sustainable finance-related businesses.

The promotion of green finance and sustainable finance involves a wide range of domains and expertise. The FSC will implement the “Green Finance Action Plan 2.0” through inter-agency efforts, and unite the forces of finance industry associations, self-regulatory organizations, non-profit organizations, and industry players to study the international trends, fine-tune our legal systems as well as the directions of industrial development, and build frameworks and foundations for effective green and sustainable financial markets. The FSC will also leverage the role of financial institutions in the financial markets to raise the awareness of businesses and investors regarding ESG issues, thereby bringing about a healthy cycle of investment and sustainable development and helping the country attain emissions reduction and sustainable development goals.

II. International Trends

Green finance has been developed and practiced for many years internationally. In the early stage, green finance stressed the policies of promoting green finance and investment or green bond development and encouraging financial institutions to sign on to a set of principles on a voluntary basis, such as the Equator Principles (EPs), Principles for Responsible Banking (PRB), Principles for Responsible Investment (PRI), and Principles for Sustainable Insurance (PSI) to channel funds to the green energy industry. In recent years as countries have pledged to reduce greenhouse gas emissions under the Paris Agreement and aim to attain the UN Sustainable Development Goals (SDGs), financial supervisors around the world have begun to adopt policies to guide their financial institutions and businesses to appreciate the importance of managing risks associated with climate change and enhancing information disclosure. Financial supervisors have also extended policy guidance to address sustainable finance (which focuses on ESG factors as the core of financial policy development) in the hope of using market forces to instill the concept of sustainable development in investors and businesses, and furthermore, to bring about economic transformation. Set out below are the main practices and measures adopted by countries to move beyond green finance to focus on sustainable finance:

1. Defining the scope of sustainable finance activities

To give businesses and investors better understanding and a basis for comparison to determine whether an economic activity conforms to sustainable development goals that will facilitate the effective functioning of green and sustainable financial markets, many organizations have developed relevant guidance. For instance, the World Bank published “Developing a National Green Taxonomy: A World Bank Guide” in June 2020. The European Union also published an EU taxonomy for sustainable activities in March 2020 that requires a qualified sustainable economic activity to make a substantive contribution to environmental objectives. For example, a qualified sustainable economic activity must contribute to climate change mitigation, climate change adaptation, protection of water and marine resources, pollution prevention and control, and protection or restoration of ecosystems. In addition, it must also do no significant harm to any of the objectives mentioned above, and meet specific technical screening criteria. For member states, the EU taxonomy should also be used as the basis for developing rules for information disclosure and for relevant financial products and services. The UK Government has commissioned the British Standards Institution (BSI) to produce a Sustainable Finance Standardization Programme to establish guidance, common terminology and definitions for the reference of relevant organizations. Bank Negara Malaysia (Central Bank of Malaysia) has also developed a principle-based taxonomy to help financial institutions identify and classify economic activities that could contribute to climate change objectives, and has issued a discussion paper to solicit public opinions.

2. Enhancing information disclosure relating to climate change and sustainable development

The physical risks associated with climate change as well as transition risks (including policy and legal risk, technology risk, market risk, and reputation risk) and opportunities (e.g. improved resource efficiency, product and service innovation, etc.) stemming from transition to a low-carbon economy may produce varying degrees of impact on the financial status of corporations and undermine the stability of financial systems. On the other hand, financial market participants have increasing needs for information to help them make business decisions and assess the financial impact of their response to climate change. For the sake of enhancing the quality, consistency, and transparency of climate-related information disclosed by companies, and to provide financial market participants with comparable, reliable, and comprehensive information, thereby improving the quality of risk-based pricing, the Financial Stability Board (FSB) has created the "Task Force on Climate-related Financial Disclosures (TCFD)" to develop a voluntary and consistent framework for the reference of financial information providers and users.

As of June 2019, 36 central banks/financial supervisors around the world have encouraged their businesses to adopt TCFD recommendations, and the EU and France have included the recommendations into information disclosure requirements for listed companies. Japan's Ministry of Economy, Trade and Industry (METI) has launched a Study Group on Implementing TCFD Recommendations and published the TCFD Guidance in Japanese for the reference of businesses. As of October 2019, close to 200 Japanese companies have responded to the call. The second edition of the Sustainability Reporting Guide issued by Bursa Malaysia Berhad in 2018 also includes the TCFD recommendations.

To encourage businesses to disclose material sustainability information, the US Sustainability Accounting Standards Board (SASB), from the perspective of investors' need for information, stresses that ESG information disclosed by businesses should be financially material and useful for decision making, and has published a series of sustainability accounting standards. The standards that define and cover material sustainability topics as well as indicators and activity data to be disclosed for 77 industries are for the reference of businesses regarding ESG disclosure. Such disclosure will help investors understand the ESG planning and performance of individual corporations. Many multinational asset managers and mutual funds now ask their prospective investees to produce SASB reports.

3. Integrating climate change factors into prudential supervision

To improve the business operations of financial institutions, uphold financial stability, and promote the development of financial markets, the majority of financial supervisors take a macro and a micro approach to prudential supervision. The macro approach gives comprehensive consideration to macro-economic factors and the overall financial market, and financial regulators implement policies and controls systemic risks to uphold the stability of financial markets. The micro approach focuses on the operational and financial soundness of individual financial institutions. The Bank for International Settlement (BIS) published "The Green Swan" in January 2020. The report calls attention to the systemic financial crisis that may be caused by climate risks and suggests that central banks, regulators, and supervisors measure climate-related risks through the development of forward-looking scenario-based analyses, integrate those risks into financial stability monitoring and prudential supervision, and take coordinated actions involving governments, the private sector, civil society, and the international community to respond to climate change.

The Network of Central Banks and Supervisors for Greening the Financial System (NGFS) published a report in April 2019 for the reference of central banks and supervisors in the study of climate-related risks and to facilitate development of appropriate tools and methodologies to identify, quantify, and mitigate climate-related risks. As for the actions of individual countries, the UK has proposed a strategic approach to managing climate-related financial risks for banks and insurers, and plans to include climate change scenarios in the stress test for banks and insurers. The European Union also plans to integrate climate and other environmental risks into the risk management policies of financial institutions and into the capital requirements to properly reflect the risks of assets held by banks and insurers.

4. Developing mechanisms and rules to promote sustainable and responsible investment

Many governments have taken actions to encourage public funds and private capital to engage in sustainable and responsible investment by, for instance, establishing sovereign investment funds, simplifying the approval process, or by offering guarantees, consultation, or technical assistance. In addition, many jurisdictions require institutional investors and asset management firms to include ESG factors into their investment decision-making process (e.g. EU and UK are amending their laws) to raise their awareness of responsible and sustainable investment. The EU has also amended their laws requiring investment and insurance companies to ask potential investors whether they prefer investments with ESG considerations when they give investment advice, and will require credit rating agencies to include ESG factors and disclosure of relevant information in the credit rating mechanism.

III. Challenges and opportunities for Taiwan in the promotion of green finance

Amidst its ongoing efforts to promote green finance, the FSC, after reviewing challenges faced in the past and exploring potential opportunities, finds that the current state of our green finance development has room for refinement from an international perspective, and that there are considerable opportunities for developing green and sustainable finance, as described below:

1. Room for refinement in green finance development from an international perspective

(1) There are no clear definitions of "green" or "sustainable" economic activities and assets.

Currently Taiwan has not yet had uniform and clear definitions or criteria to determine whether an economic activity or asset qualifies as "green" or "sustainable." Consequently, financial institutions, businesses, and investors are having a hard time in choosing companies that are environmentally friendly and truly adopt green and sustainable business practices for investment or financing purposes. Financial institutions, when trying to develop relevant products, services, or businesses, are also faced with the dilemma of lacking classification standards and adequate information to go by. In addition, there is a lack of reliable, consistent, and comparable information and criteria as the basis for market players to make judgment or evaluation that greenwashing may be taking place or there may be overvaluation of stranded assets. Thus to boost economic activities and assets that aid carbon reduction or the achievement of sustainable development goals, it would be better to establish clear and consistent definitions so that investors, businesses, and financial institutions can have a basis for assessing their businesses and asset value. The definitions will also serve as the foundation for further promotion of information disclosure, risk management, supervisory requirements, and sustainable finance evaluation mechanisms.

(2) The quality of corporate ESG disclosure has room for improvement.

Currently Taiwan only requires large TWSE-listed and TPEx-listed companies (with paid-in capital of NT$5 billion or more in the most recent fiscal year) and listed companies in specific industries (food, chemicals, and financial services) to prepare and file CSR reports. The filing of a CSR report is voluntary for other listed companies. As of the end of 2019, 475 listed companies had filed a 2018 CSR report (314 compulsory and 161 voluntary), of which, 105 reports (46 compulsory and 59 voluntary) included a CPA's letter of opinion, whereas 147 reports had third-party verification (e.g. SGS and BSI).

Some investors and organizations that promote ESG have commented that although many TWSE-listed and TPEx-listed companies in Taiwan have prepared CSR reports, the quality of those reports and the content of climate-related information disclosure have room for improvement. Currently the rules for the preparation of CSR reports are set forth by the Taiwan Stock Exchange and the Taipei Exchange. Those rules only stipulate the disciplinary action or fines to be imposed against companies that fail to file their CSR reports within a given time period, but do not have a specific requirement for the quality of reports. In addition, the percentage of CSR reports that have third-party assurance or verification is still low. Users of CSR reports are principally assessment/rating agencies and investors, so it is sensible to make the most of their influence to improve the quality of corporate CSR reports.

(3) Responsible investment data await integration and promotion.

The FSC has adopted the Stewardship Principles for Institutional Investors and urges finance industry associations to incorporate responsible investment into their self-regulatory rules. However, currently there are no government agencies or independent third-party organizations in place to provide holistic data on the market for responsible investments, so the public and private sectors lack any traceable or comparable references when they promote or engage in responsible investment. There are international publications that compare responsible investment data of major countries every year for the reference of institutional investors, so Taiwan should also consider establishing a responsible investment data integration platform to keep abreast of international trends, facilitate the continuing promotion of responsible investment, and spur institutional investors to implement the Stewardship Principles.

(4) Domestic companies and investors in general do not integrate ESG factors into decision-making process.

As international investors and organizations pay increasing attention to ESG issues, businesses that are indifferent to ESG will gradually lose international competitiveness. However, the majority of domestic companies and investors still underestimate the impact of ESG factors on investment allocations and asset values, and fail to include ESG considerations in business decision-making and risk management. In an effort to enhance the international competitiveness and visibility of domestic businesses, the FSC plans to use the financial markets to ensure that businesses and investors properly appreciate the importance of ESG, and to hopefully bring about a healthy cycle of investment and economic development.

(5) Most financial institutions have not factored climate change into their risk management strategy.

Climate change and environmental issues will have an impact on the operations and financial performance of businesses. The financial system, which is at the core of real economic activity and capital operations, will also be affected directly or indirectly by those issues, which means the assets and operations of financial institutions are subject to higher credit risk, market risk, liquidity risk, and operational risk. Currently, few domestic financial institutions have formulated appropriate risk management strategies and assessment mechanism for potential climate risks. So most financial institutions may overestimate their overall risk-bearing ability, and make mistakes in risk asset pricing. Financial institutions should therefore be urged to value the importance of climate change governance to reasonably reflect associated risks in decision making on financial assets and investment.

2. Developable opportunities of green and sustainable finance

TCFD suggests that efforts to mitigate and adapt to climate change also produce opportunities for organizations, for example, through resource efficiency and cost savings, the adoption of low-emission energy sources, the development of new products and services, access to new markets, and building resilience along the supply chain. An economy, in the process of pursuing low-carbon transformation and sustainable development goals, needs to embark on technology and resource upgrade, and make substantial investment. Related investment, financing, and fundraising needs will generate more business opportunities for the financial industry. On the other hand, the “greening” of financial market, through innovation and developing green and sustainable financial products and services, can help guide consumers, investors, and entities to pay more attention to green and sustainability issues, and boost the functions and contribution of the financial system to overall socioeconomic system.

IV. Green Finance Action Plan 2.0

For the sake of promoting the effective operation of green finance market and steer the market toward sustainability, the FSC proposes the “Green Finance Action Plan 2.0” (referred to as the “Action Plan” hereunder). The objectives, core strategies, aspects of promotional efforts and specific measures, and implementation of the Action Plan are presented below:

1. Objectives

(1) Short-term objectives

The short-term objectives of the Action Plan are to build a framework and the foundation conducive to the effective operation of green and sustainable finance market, increase information transparency, and channel funds to support green and sustainable development industries. Thus, short-term actions will focus on defining the scope of sustainable finance, improving the quality of ESG disclosure, enhancing the disclosure of climate-related information, and amending relevant rules and regulations to align with international norms, while continuing to implement measures laid out under the Green Finance Action Plan 1.0.

(2) Medium-term objectives

The medium-term objectives of the Action Plan are to guide the financial market on addressing the potential risks of climate change and capitalize on associated opportunities and strengthen the competitiveness of our financial industry and market, and furthermore, raise the awareness of businesses and investors to ESG issues through the financial mechanism to bring about a healthy cycle of investment and sustainable development. Thus the medium-term actions will focus on establishing an ESG data integration platform and a database to address sustainable development issues through ongoing public-private collaboration, and embarking on sustainable finance evaluation to achieve transition to low-carbon economy and sustainable development goals.

2. Core strategies

(1) Facilitating effective information disclosure for effective business decision- making.

Regular disclosure of material impact of climate change by businesses on their operations and finance is the first and foremost step in the implementation of climate change governance. It also provides useful information for the corporate board of directors and stakeholders in decision-making. Thus the FSC plans to tackle the task in 3 aspects: (1) Strengthen the contents of ESG disclosure: require TWSE-listed and TEPx-listed companies to disclose financially material, decision-useful ESG information in reference to SASB standards, and require corporations to disclose climate-related information in accordance with the TCFD recommendations; (2) Improve the quality of ESG disclosure: Step up disclosure audit or provide guidance to listed companies on ESG disclosure through Taiwan Stock Exchange, Taipei Exchange, accountants or third-party institutions. And through evaluating financial institutions and institutional investors to urge them to require their borrowers and investees to improve the quality of their CSR report; (3) Extend the scope of requirements on preparation of CSR report to listed companies with certain capital scale or on other sectors.

(2) Pushing financial institutions to address climate change risks and capitalize on associated opportunities.

To prompt financial institutions to examine climate-related risks which they may be faced with and their ability to address such risks, and furthermore, to build resilience and grasp opportunities, they should be encouraged to obtain international rating or sign up for international principles, so that through the process they may understand more about international trends and come up with response strategies. On the other hand, support of the board is key to the recognition and actions to be taken by financial institutions. Thus financial institutions should require their relevant departments to gather climate-related data and conduct scenarios analysis for the purposes of risk assessment and formulation of response measures (e.g. capital charge, asset allocation), submit related findings to their board for review and draft relevant business strategies, and perform stress tests.

(3) Using market mechanism to steer the economy toward sustainable development.

Climate governance and ESG encompass a wide range of issues and produce varying impact on different sectors so that it is difficult for regulators to stipulate specific requirements. It is best to use market mechanism, and leverage the power of shareholder activism and the business activities of financial intermediaries such as lending, investment or products, to call the attention of businesses to climate change and ESG issues. It is hoped that businesses ultimately become aware of the importance of managing ESG risks and opportunities for their sustainable operations. In addition, financial associated organizations or financial institutions can form a taskforce to discuss common issues that need to be addressed (e.g. stress testing model, scope or definition of sustainable finance and disclosure). These actions are critical to starting a successful path to industry transformation and low-carbon economy.

3. Implementation aspects and specific measures

The Action Plan continues implementing measures laid out in the Action Plan 1.0 and adds more measures based on the core strategies described above. The implementation covers 8 aspects, including credit, investment, capital market fundraising, professional development, promotion of further development of green financial products or services, information disclosure, prudential supervision, international connection and incentive mechanism. The Action Plan 1.0 covers 25 measures in 7 aspects, and 8 of them have been completed. The Action Plan will continue the other 17 measures and add 21 new measures to implement a total of 38 measures.

(1) The aspect of credit

In the credit front, the Action Plan will implement 8 measures below that aim to encourage, through incentives and support programs, financial institutions to grant credit and loans to green energy industries and sustainable development projects and to adopt measures in line with international norms:

A. Study international principles, such as The Principles for Responsible Banking (PRB) to draft measures that align with international norms.

B. Encourage financial institutions to extend credits to sustainable development projects.

C. Actively promote the "Program to encourage domestic banks to provide loans to new key innovative industries" to assist the green energy industry in obtaining loans; banks that have effective results in extending loans to renewable energy plants will be individually rewarded.

D. Encourage banks to support the policies and preferential mechanisms launched by central authorities in charge of respective industry in the financing of renewable energy projects.

E. Urge domestic banks (including subsidiaries of foreign banks in Taiwan) or Taiwan branches of foreign banks with experience in renewable energy financing to act as the lead bank in syndicated loans to related projects, and encourage other banks to participate in syndicated loans to facilitate use of bank funds and experience sharing.

F. Develop support measures to strengthen the operation of green finance market:

   a. Suggest the Ministry of Economic Affairs (MOEA) to construct a third-party certification mechanism for technology assessment and renewable energy project certification.

   b. Encourage offshore wind power developers to use local funds:

The MOEA will take into account the percentage of financing offered by domestic banks when reviewing an application for approval to establish an offshore wind farm. A wind farm development project will be given priority consideration for approval if the financing for the project provided by domestic banks reach a certain percentage.

c. Suggest the MOEA to provide information on the financing needs of offshore wind power developers and the FSC will tally periodically and get hold of the situation of bank financing for renewable energy projects.

d. Suggest the MOEA to provide domestic banks with business opportunity information on green energy (e.g. solar and wind power) policies, industrial technology development, market scale, etc.

G. Strengthen the green energy information websites: Enhance the financing information content on MOEA service websites dedicated to solar photovoltaic and wind power by providing information on financial institutions interested in making investment in or extending loans to solar photovoltaic or wind power projects for the reference of developers with financing needs.

H. The National Development Council (NDC) will handle timely inter-agency communication and coordination regarding green finance involving such as offshore wind power project.

(2) The aspect of investment

In the aspect of investment, the Action Plan will implement 5 measures below that aim to advocate responsible investing by amending relevant rules and guidelines and encourage financial institutions and government agencies to invest in sustainable development projects:

A. Amend the Stewardship Principles for Institutional Investors: The amendment will include requiring institutional investors to integrate ESG considerations in their investment evaluation and decision-making process, strengthen dialogue and interaction with investees on ESG issues, and enhance the disclosure of ESG information in their Stewardship Reports.

B. Incorporate ESG responsible investment into self-regulatory rules.

C. Encourage financial institutions to invest in sustainable development projects.

D. Encourage state-owned enterprises and government funds (including National Development Fund, Postal Savings Fund, Labor Insurance Fund, Labor Pension Fund, and Public Service Pension Fund) to participate in investment in sustainable development projects.

E. Continue to encourage financial institutions to invest in green financial products such as shares of domestic green energy companies and green bonds.

(3) The aspect of capital market fundraising

In the aspect of capital market fundraising, the Action Plan will implement 2 measures below pertaining to the promotion of green bond issuance and investment, and the development of sustainability bonds to provide a wide variety of financial products and financing channels in our capital market:

A. Continue to review and grow the green bond market and encourage green bond issuance and investment.

B. Develop sustainability bonds in reference to the issuance framework and administration mechanism for green bonds.

(4) The aspect of professional development

In the aspect of professional development, the Action Plan will implement the following measure pertaining to cultivating financial professionals with expertise in green and sustainable finance in the hope to build capability for developing sustainable finance:

A. Strengthen the cultivation of financial professionals who understand green and sustainable finance:

    a. Continue to urge associated research and training institutions to conduct rolling evaluation and hire instructors with practical experience in green energy industry or green and sustainable finance, and offer relevant courses or hold seminars to cultivate more financial professionals with expertise in green and sustainable finance.

    b. The trainees of the abovementioned courses should include senior management, or courses for high-level officers should be offered to facilitate the development of green and sustainable finance related business and risk assessment.

(5) The aspect of development of green financial products or further development of services

In this aspect, the Action Plan will implement 7 measures below that aim to encourage financial institutions to develop innovative green financial products or services that will meet the financial demands of businesses and investors pursuing low-carbon transformation and sustainable development:

A. Encourage banks to roll out green credit cards.

B. Urge the Taiwan Stock Exchange and the Taipei Exchange to build domestic green stock index and green bond index when time is appropriate.

C. Continue to encourage securities investment trust enterprises to look into the possibility of issuing domestic green funds (including ETFs).

D. Encourage the development of green insurance to meet the needs of growing green energy industry and green economy transformation in

Taiwan.

E. Continue to strengthen the existing “Industrial Value Chain Information Platform” by gathering more green industry information to help investors identify green investment targets: Urge the Taipei Exchange to quarterly review or update the industry information platform, and strengthen the platform content, including the content on green industry.

F. Encourage credit rating agencies to provide green evaluation services meeting the needs of the industry:

   a. To call the attention of TWSE-listed and TEPx-listed companies to green credit records (past misconduct of environmental pollution, environmental compliance, etc.), encourage credit rating agencies to conduct evaluation on the green credit records of issuers (not limited to issuers of green bonds), the greenness level of an investment project, and the impact of environmental cost on the credit rating of the issuer and the debt, and to disclose the stand-alone information.

   b. The FSC has approved the Taiwan Ratings Corporation to engage in green evaluation business, and thus urge it to continue promoting the new businesses.

G. Support the total greenhouse gas emission control plan of the Environmental Protection Administration (EPA) by carrying out the following matters:

   a. Assist the EPA in the construction of a greenhouse gas emissions trading platform system.

   b. Assist the EPA in drafting sub-regulations governing, for example, the registration and trading of emission source accounts in accordance with Paragraph 6, Article 21 of the Greenhouse Gas Reduction and Management Act.

c. Assist the EPA in clarifying relevant accounting treatments and financial disclosure on free acquisition, trading, and implementation of emission reduction projects, under the framework of the Greenhouse Gas Reduction and Management Act.

d. Study when it is appropriate the feasibility of developing carbon futures, options, and other carbon derivatives based on the actual operation of the spot trading of carbon emissions.

(6) The aspect of information disclosure

In the aspect of information disclosure, the Action Plan will implement 5 measures below that aim to improve the quality, consistency, and transparency of corporate ESG disclosure by amending related regulations and establishing integration platforms so as to provide the financial market participants with comparable, reliable, and comprehensive information:

A. Enhance the content of ESG disclosure:

a. Consider requiring companies to disclose ESG information (including greenhouse gas emission related information) that is financially material and useful for decision-making.

b. Consider including TCFD recommendations on climate-related information disclosure in the CSR report or annual report of listed companies.

c. Consider requiring financial institutions to disclose climate-related information in accordance with TCFD recommendations.

B. Enhance the quality of ESG disclosure:

a. Urge the Taiwan Stock Exchange and the Taipei Exchange to engage third-party institutions to inspect the content of CSR reports of listed companies and make suggestions for improvement.

b. Consider expanding the scope of listed companies whose CSR report requires third-party verification.

c. Consider requiring financial institutions to prepare CSR report and study matters regarding content of disclosure and third-party verification to enhance the quality of ESG disclosure by financial institutions.

① Consider requiring financial holding companies and domestic banks not under any financial holding company to prepare CSR reports.

② Consider requiring securities firms and futures commission merchants of a certain size to prepare CSR reports.

③ Consider requiring listed insurance companies or life insurers with asset size over NT$1 trillion and non-life insurers ranked in top 5 by asset size to prepare CSR reports.

d. Strength the quality of green bond information disclosure:

① Strengthen the information disclosure of green bond prospectus, external evaluation opinion or certification report on a green investment project and its fund utilization plan for the reference of investors.

② Urge the Taipei Exchange to continue tracking international norms and standards, and amend operating rules for green bond when it is appropriate to align with international standards.

C. Consider expanding the scope of listed companies required to prepare CSR report.

D. Construct and strengthen the ESG data integration platforms:

a. Enhance the functions of CSR report or ESG data integration platforms.

b. Consider the construction of an integration platform that discloses data about sustainable and responsible investment, mutual funds, loans, and insurance products.

c. Promote an industry sustainable development database platform: Integrate the Taiwan Climate Change Projection Information and Adaptation Knowledge Platform (TCCIP) of the Ministry of Science and Technology, and climate change and environment-related information gathered by the EPA and relevant ministries to promote the platform for use by businesses and financial institutions in the assessment of potential risks and scenario analysis.

d. Create inter-agency information links for query by financial institutions and other parties: Urge the Joint Credit Information Center (JCIC) to work on linking up its database with the database of other ministries and integrate ESG related information into the database system for query by financial institutions and other parties.

E. Study the feasibility of requiring financial institutions to disclose information on "green finance performance" in their CSR reports to step up the promotion of green finance.

(7) The aspect of prudential supervision

Prudential supervision is a new aspect added to the Action Plan that aims to prompt financial institutions to examine climate-related risks they may be faced with and their ability to address such risks, and furthermore, build resilience and grasp opportunities. Below are 2 measures to be implemented:

A. Study the promotion of climate-related risk management measures for financial industry:

a. Consider using a top-down approach to promote climate-related risk management measures for financial industry. For example, study the feasibility of requiring the board of directors and the management of financial institutions to fulfil related duties and responsibilities.

b. Integrate climate-related risk assessment into the supervisory report of Own Risk and Solvency Assessment (ORSA) by insurers.

B. Continue to collect information on climate scenario analysis and stress tests performed by foreign financial institutions and study the feasibility of requiring the same from domestic financial institutions.

(8) The aspect of international connections and incentive mechanisms

In this aspect, the Action Plan will implement 8 measures below pertaining to studying the scope of sustainable finance in reference to international practices, and through incentives such as evaluation, public commendation, and rewards, education, and propagation, encouraging financial institutions, businesses, and investors to seek sustainable development and continue to participate in international activities and align with international trends so as to boost Taiwan's visibility in the international community:

A. Study the scope of sustainable finance in reference to international practices.

B. Encourage financial institutions to participate in, sign up for or comply with international initiatives or principles (e.g. Equator Principles, Responsible for Responsible Banking, Principles for Responsible Investment, and Principles for Sustainable Insurance).

C. Continue to encourage financial institutions to implement the "Energy Conservation Measures through Self-Management by Objectives for Financial Sector."

D. Study the feasibility of conducting "sustainable finance evaluation" for the financial market through the establishment of an evaluation mechanism and indicators, and encourage financial institutions to promote sustainable finance related business.

E. Participate in international sustainable finance conferences to promote international exchange.

F. Evaluate the green finance performance of financial institutions and facilitate the financial industry to assist in the development of green energy industry:

  a. Add “Performance in the promotion of green finance” as a review item for the "Best Social Responsibility Award" in the Taiwan Banking and Finance Best Practice Awards of the Taiwan Academy of Banking and Finance (TABF), and urge the TABF to study the feasibility of adding a "Good Green Finance Promotor Award.”

  b. Suggest the Taiwan Insurance Institute (TII) to continue including green insurance in the categories of Taiwan Insurance Best Performance Award or including green finance related activities in the evaluation criteria for relevant awards.

  c. Add "Green Finance" as a subject under the "Corporate Social Responsibility" category of the Best Securities & Futures Paper Award hosted by the Securities and Futures Institute (SFI), to encourage relevant research.

  d. Suggest the SFI to study and establish awards related to green finance performance in the Golden Goblet Awards.

G. Advocate the importance of sustainable development and relevant measures among financial institutions and listed companies through finance related associated organizations.

  a. Enhance financial institutions’ understanding of ESG and sustainable finance trends through the publicity and training activities of financial industry associations or associated organizations.

b. Urge the Taiwan Stock Exchange and the Taipei Exchange to step up publicity, education, and training among directors, supervisors, and senior management of listed companies regarding improving the disclosure quality of CSR report, participating in the corporate governance evaluation system and inclusion in ESG related indices.

H. Educate the public about green and sustainability, green energy development, green finance, etc.:

a. Urge financial associated organizations to hold green finance quiz contests or other publicity activities to increase social consensus on green economy, green energy development, green finance, green consumption, and green lifestyles.

b. Urge the "Taiwan Banker" magazine to publish articles on issues related to green energy industry and green finance to promote the idea of green energy and sustainability.

c. Enhance the public's understanding of green economy and green finance through financial literacy promotion activities.

d. Urge the TII to hold green finance quiz contest or other promotional activities through the annual "A+ Tour Lectures on Financial Literacy" program.

e. Urge the SFI to add topics related to green finance, green economy, and green energy development in the financial knowledge online quiz contests.

4. Implementation means

(1) Promoting the specific measures under the Action Plan will involve the authority of Financial Supervisory Commission (FSC), Ministry of Economic Affairs (MOEA), Ministry of Finance (MOF), National Development Council (NDC), Ministry of Transportation and Communications (MOTC), Ministry of Labor (MOL), Ministry of Science

and Technology (MOST), Environmental Protection Administration (EPA), Ministry of Civil Service (MOCS), and National Development Fund (NDF). Therefore, implementation of the Action Plan calls for inter-agency coordination and collaboration.

(2) In light that some measures under the Action Plan require medium-to-long-term study and planning, the FSC will integrate resources of relevant financial industry associations, the Taiwan Stock Exchange, the Taipei Exchange, finance research and training institutions, and non-profit organizations to study the international trends, draft standards, guidelines or incentive measures to jointly promote green and sustainable finance.

5. Performance measurement and review

(1) The FSC will conduct quarterly review of the implementation status of each measure and undergo annual modification on a rolling basis.

(2) The FSC will also conduct evaluation by including important items into evaluation indicators based on their implementation status and publicly commend businesses that perform well.

V. Conclusion

Under the basis of Green Finance Action Plan 1.0, the FSC will build a more comprehensive green and sustainable finance system and a set of guidelines in alignment with international norms. The aims are to enhance the quality and transparency of ESG disclosure and develop the definition or taxonomy for green and sustainable development industry to guide the financial sector step-by-step toward investing in and financing renewable energy projects, and furthermore, supporting green and sustainable development. Furthermore, the Action Plan aims to assist financial institutions in building climate resilience. With the forces of financial market in full play, it will steer and support the development of physical industries while bringing about low-carbon transformation to drive a positive cycle of sustainable finance ecosphere, and create a win-win situation for financial sector, physical industries, and society as a whole.