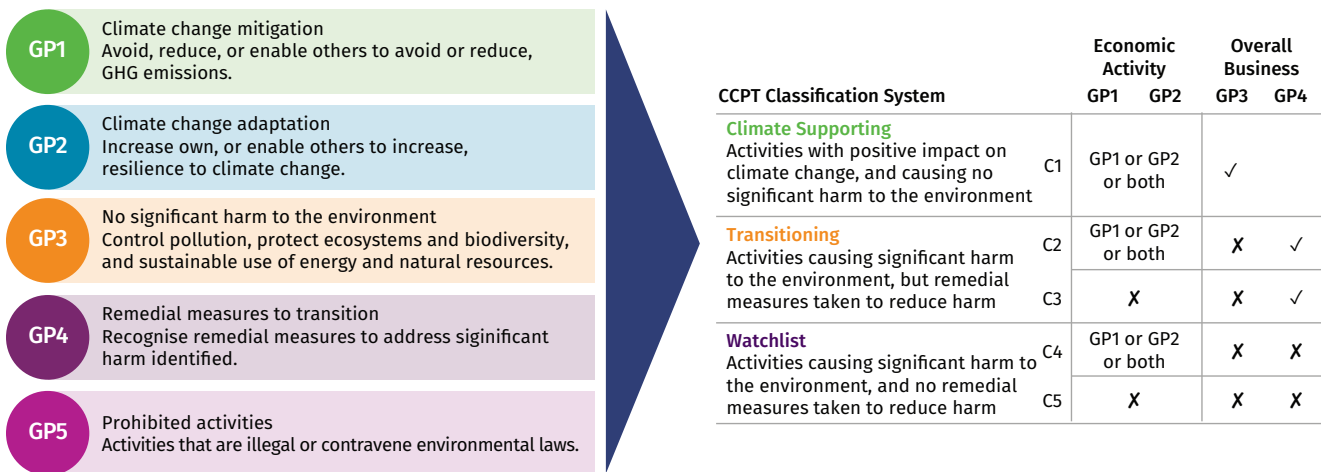


## Implementation Progress of the Climate Change and Principle-based Taxonomy (CCPT) in the Financial Sector

The CCPT is a framework<sup>1</sup> to facilitate financial institutions in identifying and categorising economic activities that contribute to climate resilience. Beginning July 2022, financial institutions have started submitting half-yearly reports to the Bank on their exposures in line with the CCPT guiding principles and classification system (Diagram 1).

Diagram 1: CCPT Guiding Principles and Classification System



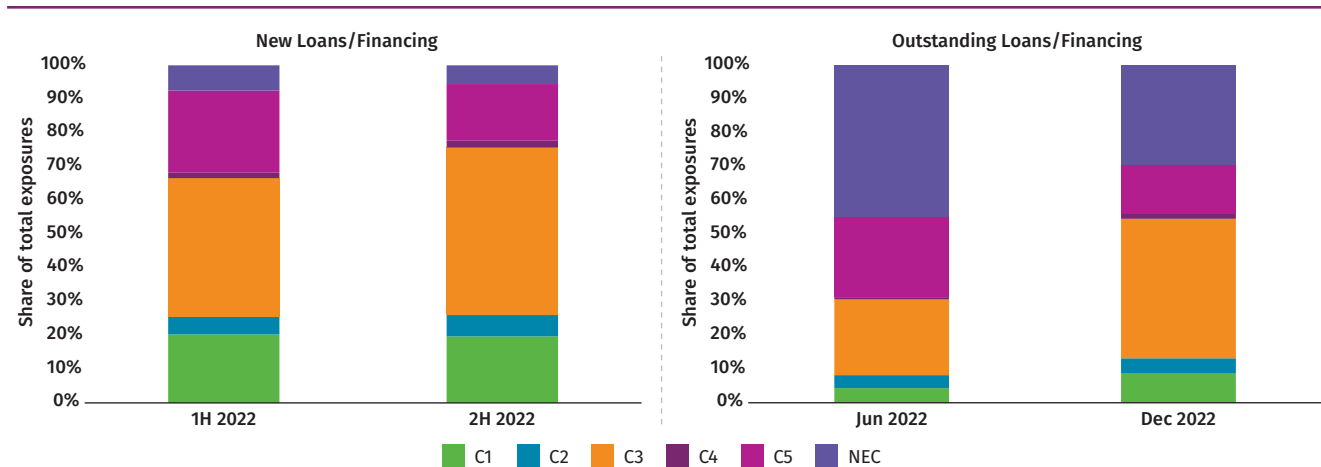
Note: There are five guiding principles (GP) in the CCPT.

Source: Document on Climate Change and Principle-based Taxonomy, 30 April 2021

## Encouraging progress observed in the classification of exposures

Although CCPT reporting is still in its early days, financial institutions are making progress in improving the quality and coverage of reporting. Financial institutions were able to classify 94.5% of total new loans/financing approved in 2H 2022, and 70.5% of outstanding loans/financing as at December 2022, up from 92.5% and 55.0% respectively for the period ending June 2022 (Chart 1). The improvement follows increased efforts by financial institutions to incorporate climate-related factors in the annual credit reviews of their customers.

Chart 1: CCPT Classification of New and Outstanding Loans/Financing



Note: Exposures to non-SME and SME segments. NEC refers to 'not elsewhere classified' due to exposures exempted from CCPT reporting and accounts pending review.

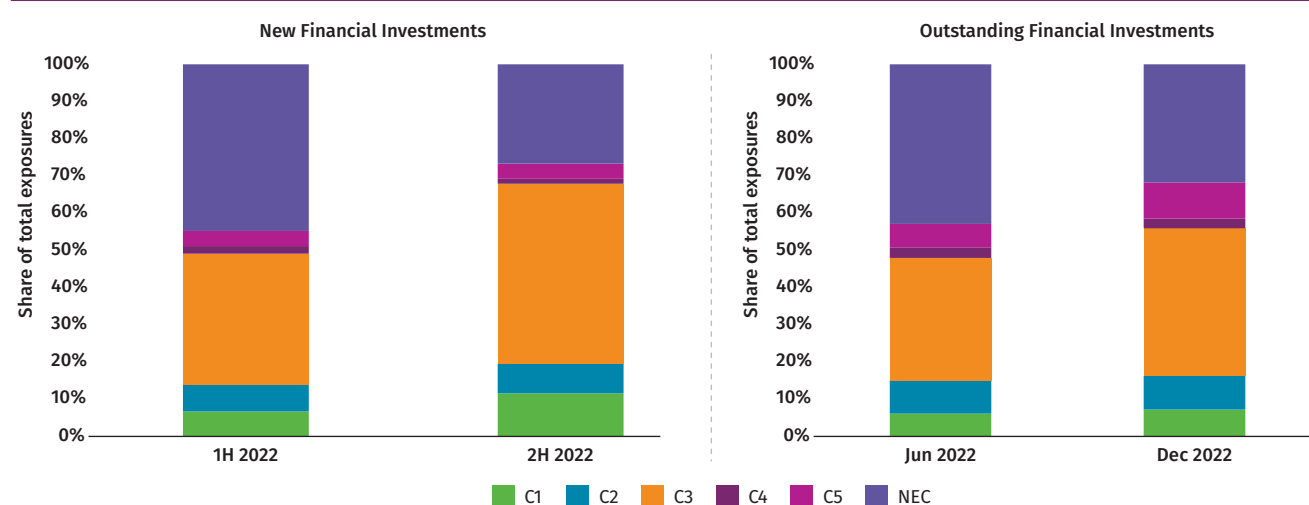
Source: CCPT Reporting, June and December 2022

<sup>1</sup> Refer to the box article titled 'Implementation of the CCPT in the Financial Sector' in the BNM Financial Stability Review Second Half 2021.

In 2H 2022, a higher share of new loans/financing was classified by financial institutions in the climate transitioning categories, namely C2 and C3 (55.9%; 1H 2022: 46.3%). This was also observed for outstanding loans/financing (December 2022: 45.9%; June 2022: 26.3%). The larger share reflects financial institutions' continued support for businesses undertaking initiatives to transition to lower-carbon activities and operations, alongside better visibility into their customers' climate strategies, as engagements with customers in this area continue to improve.

Financial institutions are also demonstrating progress in classifying financial investment<sup>2</sup> exposures. Financial institutions were able to classify 73.3% and 68.3% of new and outstanding investments respectively in 2H 2022, up from 55.2% and 57.1% in 1H 2022 (Chart 2). Financial institutions have cited limited climate-related disclosures made by issuers of financial instruments as a key factor contributing to the challenge in classifying these exposures.

**Chart 2: CCPT Classification of New and Outstanding Financial Investments**



Note: NEC refers to 'not elsewhere classified' due to exposures exempted from CCPT reporting and accounts pending review.

Source: CCPT Reporting, June and December 2022

The reported CCPT classification still reflects considerable variance across financial institutions, in part driven by the quality of data available to financial institutions and differences in the criteria used to assess the CCPT guiding principles. In this regard, the Bank and financial institutions are taking active steps to improve consistency in assessments and address climate-related data gaps. In December 2022, the Joint Committee on Climate Change<sup>3</sup> (JC3) published the Climate Data Catalogue<sup>4</sup> as a starting point to address the critical data needs of the financial sector (Diagram 2). Following this publication, the JC3 will now focus on working with relevant data providers to resolve data accessibility issues, and improve the quality, comparability and consistency of climate-related data from identified data sources. The JC3 is also collaborating with the Value-based Intermediation Community of Practitioners to expand the CCPT use cases through the sector/project-specific use cases covered in the VBIAF<sup>5</sup> Sectoral Guides. These actions to improve the quality of classification for CCPT reporting will continue to be a key priority to mitigate risks of greenwashing.<sup>6</sup>

<sup>2</sup> Includes equities and bonds.

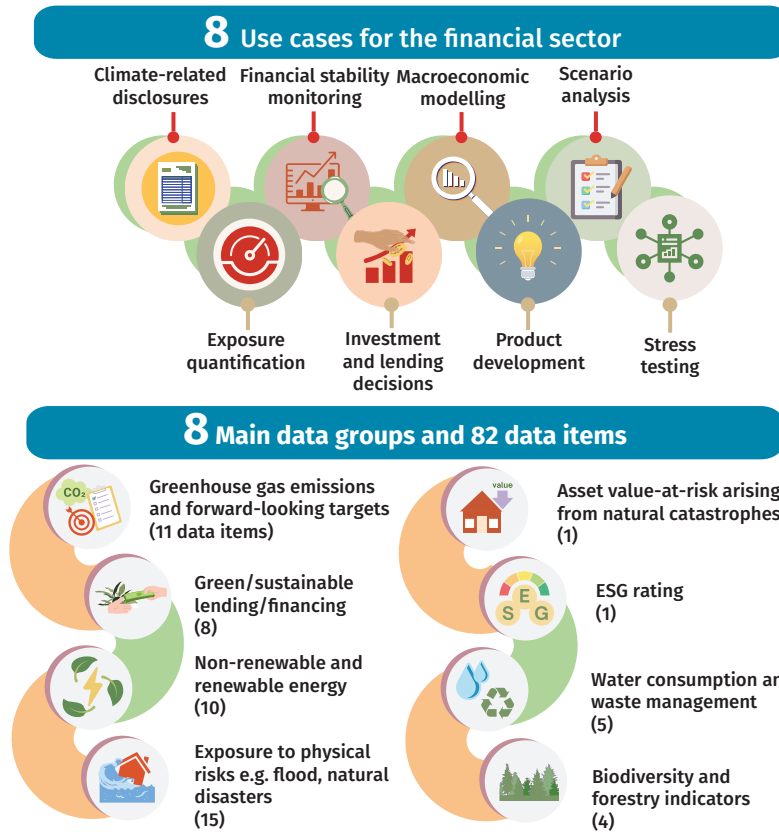
<sup>3</sup> The JC3 is a platform established in September 2019 to pursue collaborative actions for building climate resilience in the financial sector. The JC3's initiatives are undertaken by five sub-committees: Risk Management, Governance and Disclosure, Product and Innovation, Engagement and Capacity Building, and Bridging Data Gaps.

<sup>4</sup> The Climate Data Catalogue serves as a common source of reference on the availability and accessibility of climate and environmental data based on a priority list of financial sector use cases. Refer to Chapter 2.2 titled 'Towards a Greener Financial System' in the BNM Annual Report 2022.

<sup>5</sup> Value-based Intermediation Financing and Investment Impact Assessment Framework.

<sup>6</sup> Greenwashing refers to practices where companies make false or misleading claims about their climate change mitigation and adaptation efforts or overstate extent of their impact.

Diagram 2: Climate Data Catalogue



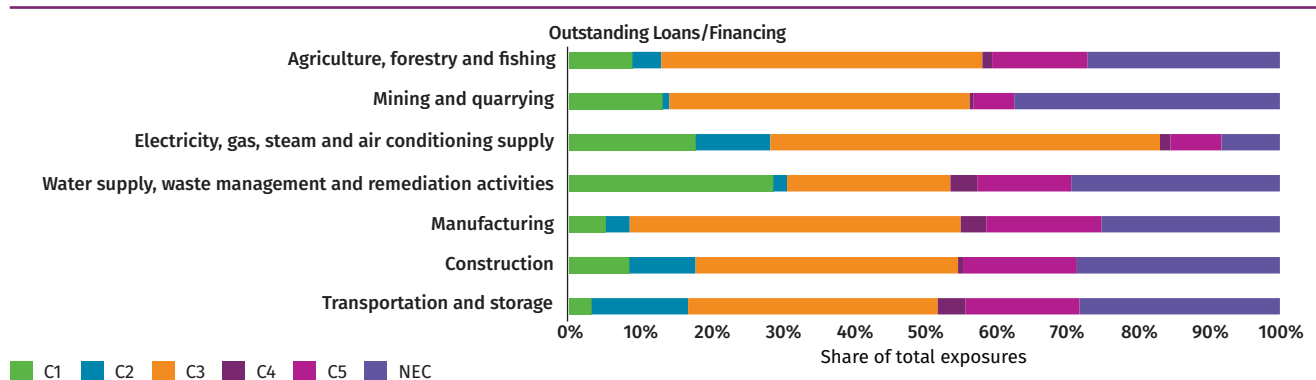
Note: The Climate Data Catalogue has 82 data items, of which 55 items are in the 8 main data groups and 27 items are under others.

Source: Bank Negara Malaysia

## Growing new innovative forms of financing to support transition

The high share of exposures observed in the transitioning and watchlist categories, namely C2 to C5 (including NEC), across most sectors (Chart 3) point to the critical need of significant green investments and transition finance to support climate mitigation and adaptation measures by businesses, particularly SMEs. Meeting this need requires new financing approaches to scale up financial flows towards climate transition activities. This includes utilising a diverse array of financing instruments, such as alternative finance solutions featuring public-private partnerships, and blended finance options with risk-sharing arrangements.

Chart 3: CCPT Classification for Selected Sectors



Note: Exposures to non-SME and SME segments. NEC refers to 'not elsewhere classified' due to exposures exempted from CCPT reporting and accounts pending review.

Source: CCPT Reporting, December 2022