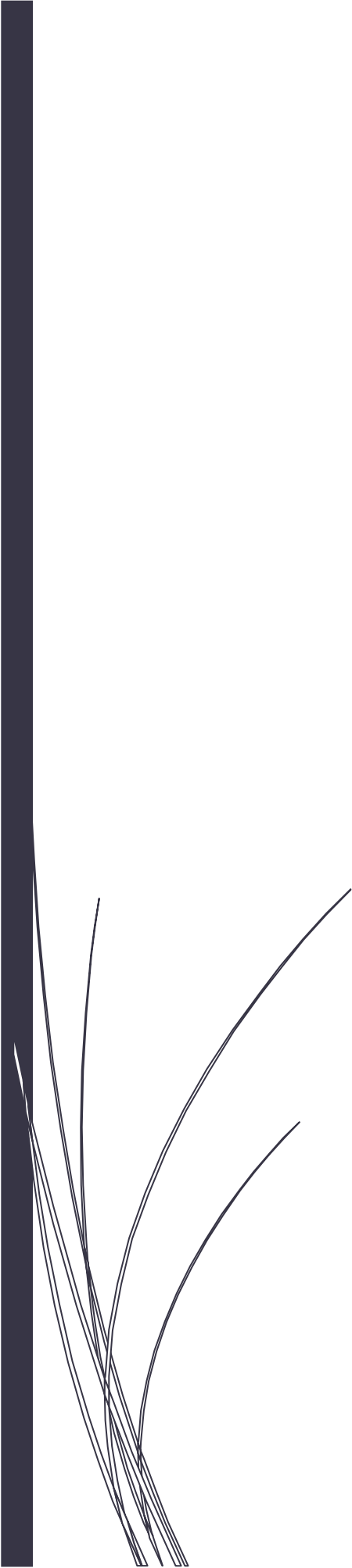




Due Diligence Questions

In assessing BNM Climate Change
Principle-based Taxonomy's
Guiding Principles 3 and 4

CCPT Implementation Group
Version 2.0 | January 2024

Preface

Joint Committee on Climate Change Sub Committee 1 - Risk Management (hereinafter referred to as the “JC3 SC1”) was established in September 2019 as part of Bank Negara Malaysia (BNM) and Securities Commission’s (SC) collective effort to further strengthen and upskill the financial industry in climate action.

In April 2021, BNM and JC3 SC1 published the Climate Change Principle-based Taxonomy (hereinafter referred to as the “CCPT”), a guidance document to facilitate financial institutions (hereinafter referred to as “FIs”) in identifying and classifying economic activities that could contribute to the financial sector’s climate change objectives. The CCPT aims to provide an overview of climate change risk and its impact to the financial system as well as promoting financial flows to activities that will support just transition to low carbon and a climate resilient economy.

Subsequent to this, the CCPT Implementation Group (hereinafter referred to as the “CCPT IG”) was established under the purview of the JC3 SC1. The CCPT IG was initially co-led by Maybank and AIA Insurance Group, followed by Bank Islam and Etiqa, and represented by members of various domestic and foreign FIs, including banks, insurance companies, takaful operators as well as asset management companies. The CCPT IG serves as a collaborative platform for financial industry players to share knowledge, experiences and common issues on the operationalisation and implementation of CCPT within their respective institutions.

As part of the effort to standardise CCPT classification across the financial industry and promote consistency for reporting and analyses, the CCPT IG Co-Leads in collaboration with WWF-Malaysia, have developed this document that comprises structured due diligence assessments designed to evaluate a client’s impact to climate change and measures undertaken to remediate the negative impact. This is in line with the questions set out in the CCPT Guiding Principle 3 (hereinafter referred to as “GP3”) ‘no significant harm to the environment’ and Guiding Principle 4 (hereinafter referred to as “GP4”) ‘remedial measures to transition’. As such, FIs are required to embed these assessment questions into their existing due diligence and screening criteria.

Upon issuance of BNM’s Dear CEO letter on 14 November 2023, this document has been refined to improve its clarity and user-friendliness, and to expand GP3 assessment to cover GHG emissions.

Should there be any clarifications required on the content of this document, please direct your queries to ccptig@bnm.gov.my.

General Guide	
1.	This document consists of foundational due diligence questions to assess compliance with GP3 and GP4. FIs may also refer to the accompanying guidance notes to support the due diligence assessment process.
2.	The following GP3 and GP4 assessments are to be conducted at the <u>borrowing entity/ customer (hereinafter collectively referred to as the “Client”) level only.</u>
3.	The due diligence consists of questions covering these 5 categories: i. General ii. Pollution iii. Ecosystem & Biodiversity iv. Efficient Use of Resources v. GHG Emissions
4.	The due diligence in each of these 5 categories consists of risk identification and management questions. Response to <u>all</u> risk identification questions is <u>mandatory</u> . If the response to the risk identification question is 'yes', the Client is required to proceed to answer the corresponding risk management questions of that category.
5.	The Client would be deemed to be in compliance with GP3 'no significant harm to the environment' provided that the Client has commenced ¹ at least 1 remedial measure for every concern identified from the risk identification questions <u>from each category</u> . This may include having relevant sustainability certifications such as RSPO, MSPO, FSC, PEFC, GRESB, BREEAM or ISO 14001 to address the harm identified.
6.	The Client must ensure that all remedial measures are able to address all concerns which have been identified as causing significant harm to the environment for the Client to comply with GP3. For example, if a Client is deemed to cause significant harm in 4 out of the 5 above categories, the Client will only comply with GP3 provided that all remedial measures are able to address all the concerns in the 4 identified categories. Hence, the Client will not be deemed to comply with GP3 should the remedial measures only address say 3 out of the 4 categories with concerns which have been identified as causing significant harm to the environment.
7.	Non-compliance with GP3 signifies that the Client is causing significant harm to the environment. Hence, it is <u>mandatory</u> for the Client to proceed in answering <u>all</u> due diligence questions in GP4 to ascertain the <u>remedial plans</u> . Remedial plans need to be time-bound, feasible to implement and effectively monitored to be recognised under GP4.
8.	FIs should support their GP3 and GP4 assessments with relevant and adequate justification which have the following attributes: • With documentary evidence. • For assessment that requires quantitative justification, FIs to leverage customers' declaration, coupled with data points already available in SC5's Data Catalogue. • In instances where data is unavailable, the utilisation of proxies is recommended. • Where possible, to benchmark Client's data against industry standards when assessing its significance.

Summary	Risk Identification	Risk Management
	Yes/ No	Yes/ No
General		
Pollution		
Ecosystem & Biodiversity		
Efficient Use of Resources		
GHG Emissions		
GP3 – No significant harm to the environment	Met/ Not met	
GP4 – Remedial measures to transition	Met/ Not met	

¹ Where the implementation of the remedial plan has started (i.e., beyond the planning stage), but not necessarily have been completed. For example, where the remedial plan entails the installation of solar panels, the remedial plan would be deemed to have commenced when the installation of solar panels has started but may not have been completed.

Due Diligence Questions: GP3 – No Significant Harm to the Environment				
No	Question	Answer		Remarks
		Yes	No	
GP3 – General				
1.1 Risk identification (General)				
a)	Has there been any legal, compliance issues and/or complaints, negative coverage received from media/NGOs etc. associated with the Client's environmental performance in the last 3 years?			<i>Provide details of the nature of the incident, and whether there was any corresponding regulatory action (enforcement/ prosecution/ quantity of fine).</i>
1.2 Risk management (General)				
a)	Are there any remedial measures which have commenced or are on-going to address the identified issues or complaints above?			<i>Provide details of measures undertaken to address the concerns.</i>
GP3 – Pollution				
2.1 Risk identification (Pollution)				
a)	Are any of the Client's activities involved in the release, and/or use of: - Hazardous chemicals/materials; and/or - Waste/pollutants (other than the above) that cannot be recovered, reused, and/or disposed of in an environmentally sound manner?			<i>Provide details of hazardous chemical/materials and/or waste/pollutants released and/or used.</i>
2.2 Risk management (Pollution)				
a)	Are there any remedial measures which have commenced or are on-going: - to avoid or reduce the use of hazardous chemicals/materials and waste/pollutants within the Client's operations; and/or - which entail environmentally sound disposal mechanisms?			<i>Provide details of measures undertaken to address the concerns.</i>
GP3 – Ecosystem & Biodiversity				
3.1 Risk identification (Ecosystem & Biodiversity)				
a)	Are the Client's operations located in or near environmentally sensitive areas ("ESAs") or key biodiversity areas ("KBAs")?			<i>Provide details of the ESAs and KBAs which are located at the Client's operating areas.</i>
b)	Does the Client's operations create negative impacts on biodiversity and surrounding ecosystem?			<i>Provide details of negative impact on biodiversity and surrounding ecosystem.</i>

3.2 Risk management (Ecosystem & Biodiversity)				
a)	Are there any remedial measures which have commenced or are on-going on the protection and conservation of biodiversity and surrounding ecosystem which are impacted by the Client's operations?			<i>Provide details of measures undertaken to address the concerns.</i>
GP3 – Efficient Use of Resources				
4.1 Risk identification (Efficient Use of Resources)				
a)	Does the Client's core activities involve significant consumption of: • Water • Natural resources (e.g. fossil fuel, minerals, timber, etc.)?			<i>Provide details of the significant consumption.</i>
4.2 Risk management (Efficient Use of Resources)				
a)	Are there any remedial measures which have commenced or are on-going to monitor, reduce and improve efficiencies in resource consumption?			<i>Provide details of measures undertaken to address the concerns.</i>
GP3 – GHG Emissions				
5.1 Risk identification (GHG Emissions)				
a)	Do the Client's core activities lead to significant greenhouse gas ("GHG") emissions?			<i>Provide details of the significant emissions.</i>
5.2 Risk management (GHG Emissions)				
a)	Are there any remedial measures which have commenced or are on-going to reduce GHG emissions and/or in relation to de-carbonisation efforts?			<i>Provide details of measures undertaken to address the concerns.</i>

Due Diligence Questions: GP4 – Remedial Measures to Transition				
No	Question	Answer		Remarks
		Yes	No	
<i>Note: This section consists of questions covering remedial measures which are planned but the implementation has yet to commence at the time of the assessment. Kindly note that measures described should address the specific areas of harm identified in the above GP3 assessment.</i>				
a)	Harm identified in GP3 where: - remedial measures have been identified/ planned but yet to commence; or - no remedial measures have been identified/ planned.			<i>To list based on GP3 assessment above.</i>
b)	Has the Client established time-bound remedial measures to address the specific significant harm identified in (a)?			<i>To elaborate details of remedial measures established by the Client.</i>
c)	Does the Client plan to monitor the progress and effectiveness of the remedial measures against an appropriate set of performance evaluation criteria (including subsequent review conducted post-remediation), indicators and time-bound targets?			<i>To explain progress of remedial measures planned at the Client level for the above.</i>
d)	Does the Client have financial capacity and/or secured financing facilities to fund its remedial measures?			