Sustainable investing takes off in Asia Pacific

A markets and tax tour around the region

Foreword

Companies are pledging to achieve net zero emissions. Investors are urged to set science-based client targets. Being responsible and accountable takes many forms, but one thing is clear – ESG is absolutely critical in asset and wealth management, and here to stay.

More than a year into the pandemic, we have seen accelerated behavioural and strategic changes driven by the impact of environmental regulation, or the 'E' in ESG. While responses vary across companies, sectors, and regions, tax continues to be an important part of the conversation and any sustainable investment strategy. This is particularly so since tax, specifically 'total global tax borne by a company', is one of the common ESG metrics the World Economic Forum recommended in its 2020 report.

How does the increasing role of tax in ESG and sustainability translate into the Asia Pacific asset and wealth management industry?

ESG has thrived during the global pandemic as asset managers and investors refocused and changed their attitudes towards sustainable investing. The accelerated introduction and emergence of green deals and sustainable investments have reshaped the industry. Sales of ESG funds and fund flows into green-linked financial products and services have hit record highs, with around 79% of investors in the region saying they would increase ESG investments either significantly or moderately in response to COVID19 according to a recent MSCI 2021 Global Institutional Investor survey – the highest compared to the US and EMEA. Similar to the global trend, we expect to see a rise in tax incentives being introduced in the region to achieve the societal transition to achieve net zero. While asset and wealth managers are not the primary targets of the schemes, there are opportunities and indirect benefits from the financing of green assets and sustainable investments.

How do you monitor and manage ESG related tax charges and opportunities?

This publication follows our ESG in Asia – Asset and Wealth Management publication, as we take you on a markets and tax tour to explore the sustainable investment landscape in 11 Asia Pacific jurisdictions. While taxes are often seen as a cost affecting investment return, there are upsides to ESG tax considerations, especially from targeted tax measures and incentives.

On the tax leg of the tour, we look at tax in environmental metrics – environmental taxes, green subsidies, incentives and penalties, and any associated compliance and reporting requirements.

On markets, we delve into the green product and market trends for asset and wealth managers locally and regionally. We also explore domestic policy direction and how it compares regionally.

There is no doubt that ESG considerations now form a major part of investment strategies and investors are holding asset managers accountable, demanding transparency on ESG credentials, including tax aspects.

We hope this publication on sustainable investing around the region provides you with more insights. We encourage you to consult your regular PwC contact and would be happy to discuss this area in more detail.

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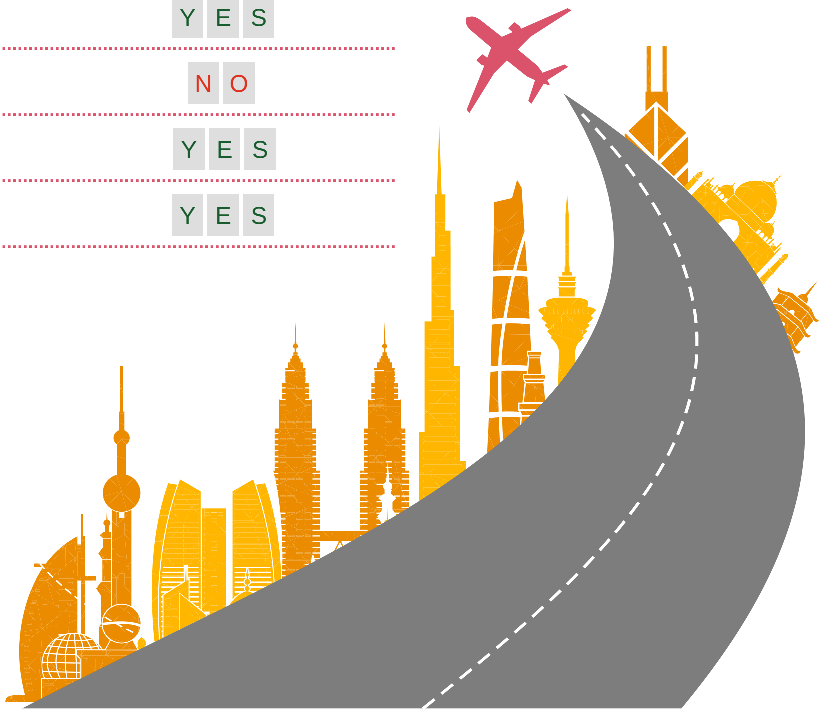
Green tax incentives in the region – at a glance

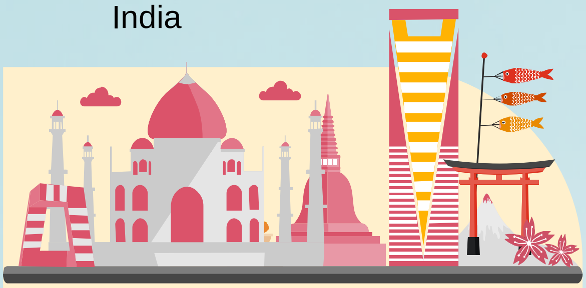
Many jurisdictions in the Asia Pacific region already have green tax incentives in place, however the extent to which they apply to asset and wealth managers and investors vary. Our markets and tax tour will explore the sustainable investment landscape starting from Northeast Asia, to Southeast Asia and South Asia, before reaching our final destination in Oceania.

	Market destination	Available green tax incentives?
1	JAPAN	YES
2	MAINLAND CHINA	YES
3	HONG KONG SAR	YES
4	TAIWAN	YES
5	SINGAPORE	YES
6	MALAYSIA	YES
7	THAILAND	YES
8	PHILIPPINES	YES
9	INDONESIA	NO
10	INDIA	YES
11	AUSTRALIA	YES



The 11 jurisdictions covered are in different stages of the sustainable investing journey, but can be broadly categorised as follows.

Japan
Mainland China
Hong Kong SAR
Taiwan
Thailand
Philippines
India



Green tax incentives are available, but none that apply to the asset and wealth management sector directly. Existing tax incentives are available, providing indirect benefits for certain investments.

Singapore
Malaysia
Australia

Specific green tax incentives are available to the asset and wealth management sector. Other tax incentives are also available, providing indirect benefits for certain investments.

Indonesia

No green tax incentives are available currently, but there are plans to explore this further.

Northeast Asia

Japan
Mainland China
Hong Kong SAR
Taiwan

Japan

Japan does not currently have specific green tax incentives that apply to the asset and wealth management sector. However, there are existing tax incentives in place to encourage sustainable investing in Japan. Japanese companies that acquire assets to make production processes carbon neutral can enjoy tax incentives. Global asset and wealth managers adopting these strategies should be aware of the tax incentives offering preferential tax treatment to investees.

Where we are

The Japanese government is targeting to achieve net zero emission of greenhouse gases by 2050. To this end, certain tax incentives have been introduced in the recent 2021 tax reform to promote investment in assets which contribute to decarbonisation. Broadly, eligible companies which acquire assets that make production processes carbon neutral, as well as assets for manufacturing carbon neutral products, may qualify for the tax incentives, either in the form of a special depreciation (based on 50% of acquisition cost) or tax credits (of 5% or 10% for certain assets that contribute significantly to the reduction of greenhouse gases), up to an acquisition limit of JPY 50 billion. To qualify, the assets must be acquired based on a plan certified under the revised Industrial Competitiveness Enhancement (ICE) Act.

The tax incentives are applicable to assets acquired during the period from the effective date of the revised ICE Act (which is expected to be in August 2021) until 31 March 2024.

There are certain conditions to be complied with (in addition to the ones mentioned above), including (i) the taxpayer having blue form taxpayer status (which requires it to meet certain conditions and maintain certain accounting books, etc.); and (ii) having a business plan approved under the revised ICE Act and meeting certain decarbonisation benchmarks. The requirements / changes under the ICE Act have not been finalised and are expected to come into effect sometime in August 2021.

Where we're heading

There has been increasing focus on (in a broader context) ESG investments in Japan, with Japan accounting for 80% of the ESG exchange traded funds in Asia as of Q1 2021. Japan (with about 85 institutions as at December 2020) also ranks 14th in place in terms of jurisdiction with the most number of signatories to the Principles for Responsible Investment, which is an initiative advocated by UN Secretary-General Annan to consider ESG in the investment decision-making process of institutional investors.

Given the rise in ESG popularity coupled with the competition amongst asset managers to attract capital flow, the Financial Services Agency (FSA) in Japan has been studying US regulation, generally known as the 'names rule' (which would generally require a fund to have certain minimum proportion of its portfolio invested in line with the stated name of the fund given an investment objective is disclosed), in order to determine whether additional disclosure / compliance should be considered for ESG investment in Japan.

In addition, in line with the increasing focus on greenwashing globally, there has also been increased emphasis on transparency regarding ESG related disclosures in Japan. The FSA has recently probed disclosures made by a large listed ESG fund in Japan, which resulted in the fund manager including more transparency regarding how ESG principles are achieved for investments which constitute a significant proportion of the fund's AUM. It is anticipated that the FSA will make similar inquiries and push for greater transparency, and the monitoring process asset managers undertake around ESG, given the popularity of this asset class within Japan and as a means of promoting ESG to domestic investors.

The focus on ESG is also evident through initiatives of the Government Pension Investment Fund (GPIF), who, in October 2017, determined that it would expand the scope of its ESG investments to not only equities but also fixed income and other assets including alternatives. According to its FY19 annual report its ESG AUM increased to JPY 5.7 trillion from JPY 3.5 trillion. In March 2020, in line with the World Bank Group's proposal to invest in green bonds and other similar products, GPIF developed an investment platform together with 10 multilateral development banks and three government-affiliated financial institutions. As a result, investments in green bonds, etc. reached JPY 440 billion as of March 2020.

Mainland China

The Mainland China market (or referred to as 'China' below) has green tax incentives but none that apply to the asset and wealth management sector directly. Existing tax incentives are available to enterprises engaging in green projects. Global investors and funds targeting green projects can share the indirect economic benefits arising from these green tax incentives granted to their underlying investments.

Where we are

Green tax incentives in China include the following:

Industry Catalog	Enterprise Income Tax (EIT) Incentive (Standard rate: 25%)	Value-added Tax (VAT) Incentive (Standard rate: 6%-13%)
Environmental protection, energy saving, water conservation	Qualified enterprises can enjoy a '3+3' tax holiday, i.e. • EIT exemption for the first 3 years starting from the tax year when they generate the first operating income; and • 50% EIT reduction for the subsequent 3 years For special types of equipment purchased and used by enterprises for environmental protection, energy-saving, water-conservation and safe production purposes, 10% of the purchase price can be used to offset the enterprise's EIT payable that year	For electric power produced by small-size hydropower enterprises at the county level or below, a reduced VAT rate of 3% is available using the simplified VAT calculation method For the sale of self-produced power products from wind power, 50% of the VAT paid will be refunded upon collection Sewage treatment charges, which are entrusted by government and collected by water plants together with water charges, are VAT-exempt
Comprehensive use of resources	Where an enterprise uses the prescribed resources as its primary raw materials to manufacture qualified products, only 90% of the sales income will be used to calculate the taxable income for EIT purposes	Income from the sale of products or provision of labour services derived from the comprehensive use of resources could enjoy a VAT refund immediately after collection
Energy management contract (EMC) projects	Qualified enterprises can enjoy a '3+3' tax holiday, i.e. • EIT exemption for the first 3 years starting from the tax year when they generate the first operating income from EMC project; and • 50% EIT reduction for the subsequent 3 years	Income derived from EMC services can enjoy VAT zero rated treatment

In addition to EIT and VAT incentives, others include:

- From 1 April 2018 to 31 December 2023, resource tax on shale gas is reduced by 30%
- From 1 January 2019 to 31 December 2021, resource tax for small-scale VAT payers is reduced by 50%
- From 1 December 2014 to 31 August 2023, resource tax on coal replaced by filling mining is reduced by 50%

Additionally, enterprises in China may also receive green subsidies for participating in green finance projects if they are in the Pilot Zones such as the Guangdong, Guizhou, Jiangxi, Xinjiang, and Zhejiang provinces. In such cases, qualified enterprises may be granted a certain percentage (e.g. 1%) of the loan amount as a subsidy if they obtain green loans from commercial banks or receive certain subsidies based on the green premium paid to insurance companies.

As expected, there are compliance requirements to meet to make use of the above incentives. The compliance requirements for EIT and VAT incentives vary, and enterprises may need to adopt different processes to make use of the available tax incentives.

For example, enterprises looking to enjoy the EIT incentives will need to go through a self-assessment process to assess their eligibility and if eligible, the enterprises will need to apply the tax incentives when they do their EIT filings. The enterprises will also need to collect and retain the relevant supporting documents for tax authorities' inspection. Supporting documents include government approvals or business permits issued by the Ministry of Natural Resources or the Ministry of Ecology and Environment for the encouraged industries or projects, project completion and acceptance reports, and/or testing reports issued by qualified third-party institutions.

Likewise, enterprises looking to enjoy the VAT incentive will need to seek pre-approval by China's tax authorities and complete the requisite record filings.

Where we're heading

China's ambition is to reach carbon neutrality by 2060, with its emissions peaking before 2030. To achieve this, the China State Council issued an 'Instructive Opinion for Rapidly Building up Green and Low Carbon Recycling Economic System' (Instructive Opinion) in February 2021. The Instructive Opinion states that China will further step up its support efforts through its fiscal and tax policies on the development of environmental infrastructure, the green ecosystem industry, and high efficiency use of energy.

Relating to the tax sector, since December 2017, China's government has expanded the water resource tax pilot reform in nine provinces to strengthen the management and protection of water resources, promote comprehensive conservation, and form a green development method. China's government is also looking to expand the water resource tax pilot reform in the coming years and the water resource tax is expected to gradually cover more natural resources such as forests, meadows, and mudflats.

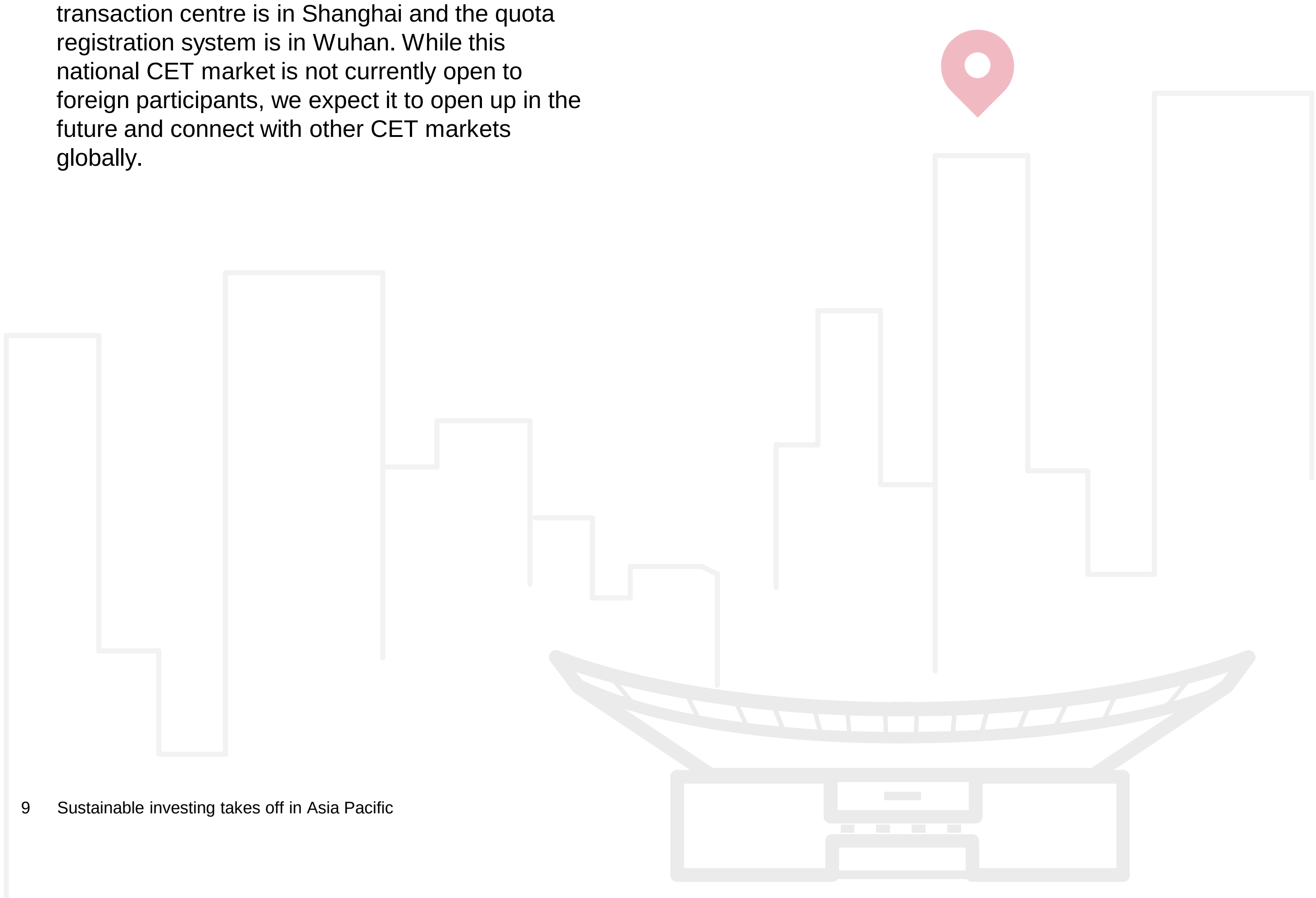
Relating to the finance sector, China's local governments are striving to mobilise funds (including cross-border funds) towards a sustainable green transition. During the Boao Forum in April 2021, Governor Yi of People's Bank of China (PBOC) asserted that the PBOC is now working with its European Union counterparts to harmonise taxonomies and plans to announce a common taxonomy by 2021 to promote a sustainable green transition in the finance sector. Additionally, Governor Yi also revealed that local governments will continue to open-up the financial sector and facilitate international investors who are looking to invest in China's green finance market. Given foreign investors who invest into China through existing channels such as QFII, RQFII and stock connect can already enjoy various tax incentives (such as EIT and VAT exemption) on the capital gains they derive, it will not be surprising if local governments grant further tax incentives to international investors looking to be part of China's green finance market.

China's local governments are looking to improve green finance more broadly, Specifically, China's local governments are revising the Green Bond Endorsed Project Catalogue, which will remove fossil fuel projects. Financial institutions are now required to disclose the use of funds raised from green financial bonds in the inter-bank market and report the use and allocation of any green loans. The PBOC plans to develop a mandatory disclosure system that would require all financial institutions and firms to follow a unified disclosure standard. On top of this, the PBOC has included green bonds and green credit into the eligible collateral of central bank lending facilities and will create tools to encourage financial institutions to finance emission reduction. China's government will also strengthen its support for carbon emission reduction through commercial bank ratings, deposit insurance rates, and a macro-prudential assessment framework.

It is also interesting to note local carbon emission trading (CET) markets were launched in 2011 in eight provinces or cities, such as Beijing, Tianjin, Shanghai, Chongqing, Guangdong, Hubei, Fujian and Shenzhen. The aim was to use market mechanisms to reduce the intensity of carbon emissions. Some pilot markets (e.g. Shenzhen and Guangdong in the Greater Bay Area) are open to qualified foreign participants with no restriction on trading quota or settlement currency since the launch. Following this, in 2021, the national CET market was launched. The transaction centre is in Shanghai and the quota registration system is in Wuhan. While this national CET market is not currently open to foreign participants, we expect it to open up in the future and connect with other CET markets globally.

China's government also released Administrative Measures for Carbon Emission Right Trading (for Trial Implementation) effective from 1 February 2021. The measures list out high-polluting industries covered by the national CET market and the scope of key emission enterprises on a national level. Key emission enterprises will each be assigned an annual carbon emission quota. When the yearly carbon emission exceeds the quota, the key emission enterprise can purchase additional quota from other key emission enterprises that have unused quota.

All in all, through the above mechanisms, it is evident that China's government has put in a great deal of effort to promote green technological innovation and reduce carbon emissions by China's enterprises.



Hong Kong SAR

Hong Kong SAR (or referred to as 'Hong Kong' below) has green tax incentives but none that apply to the asset and wealth management sector directly. Existing tax incentives are available, providing indirect benefits for certain investments. These tend to focus more on companies that invest in power efficiency and those that are taking efforts to minimise their environmental impact. There are also schemes for bond issuers, including green and sustainable bond issuers and lenders.

Where we are

Current tax incentives available are set out below.

Accelerated Deduction under Profits Tax: Energy Efficiency Registration Scheme for Buildings (HKEERSB)

With effect from 1 January 2018, new or existing buildings / premises with energy performance over and above the minimum statutory requirement under the Building Energy Efficiency Ordinance may be eligible for an accelerated tax deduction. For the year of assessment 2018/19 and subsequent, the Hong Kong government will further enhance the tax concessions for capital expenditure incurred by a company (including an asset and wealth management company) to procure eligible energy efficient building installations and renewable energy devices. The accelerated tax deduction means that the tax deduction can be claimed in one full year instead of five.

Expenditure on environmental protection machinery, environmental protection installation and environmental-friendly vehicles

If a company incurred expenses on above items, a full deduction is allowed during the basis period in which the expenditure was incurred.

Requirements for an Accelerated Deduction under Profits Tax: HKEERSB

- Overall final assessment rating at the 'Bronze' level or above under the Building Environmental Assessment Method Plus Assessment System (BEAM Plus) for buildings or interiors as promulgated by the Hong Kong Green Building Council (HKGBC), or
- Individual aspect scoring (final assessment stage) at the 'Bronze / Satisfactory' level or above under Energy Use (EU) category in any BEAM Plus Assessment System for buildings or interiors as promulgated by the HKGBC, or
- The minimum award grading (or above) in other internationally recognised building environmental assessment system for buildings or interiors. The applicant shall provide necessary supporting documents to justify compliance with the energy efficiency performance under this scheme.

If the applicant cannot fulfil any of above requirements, it cannot enjoy the tax concession or the accelerated tax deduction. However, there are no penalties or reversal of the incentives as the incentives are only granted if the applicant fulfils the requirements.

Expenditure on environmental-friendly vehicles

Companies purchasing environment-friendly vehicles (EVs) are entitled to a 100% profits tax deduction for the capital expenditure on the EVs in the year of purchase. The government will also waive the First Registration Tax (FRT) on electric commercial vehicles (including goods vehicles, buses, light buses, taxis, and special purpose vehicles), electric motorcycles and electric motor tricycles.

For electric private cars, the concession arrangement is as follows:

- except for eligible private car owners (see below), FRT for electric private cars will be waived up to HKD 97,500
- private car owners who arrange to scrap and de-register their own eligible old private car (private car with an internal combustion engine or electric private car) and then first register a new electric private car can enjoy a higher FRT concession up to HKD 287,500 under the 'One-for-One Replacement' Scheme

Green and Sustainable Finance Scheme

To support green and sustainable bond issuance and lending in Hong Kong, the Green and Sustainable Finance Grant Scheme (GSF Grant Scheme) was launched in May 2021 to provide subsidies for eligible bond issuers and loan borrowers to cover their expenses on bond issuance and external review services. The GSF Scheme began on 10 May 2021 and will last for three years.

Qualifying Debt Instrument Scheme

Hong Kong also has a qualifying debt instrument (QDI) scheme, which was introduced in 1996 to attract overseas issuers to Hong Kong by providing a concessionary tax treatment on interest income and trading profits from QDIs. Interest income and trading profits derived from a QDI issued on or after 1 April 2018, regardless of its tenor, are exempt from profits tax. However, the exemption will not apply if at the time during which the interest income and trading profits is / are received or accrued, the person is an associate of the QDI issuer. While this scheme is not directly targeted at the asset and wealth management sector, it does incentivise the issuance of debt instruments, including any green, social, and sustainability bonds.

Where we're heading

During the AIMA APAC Annual Forum in June 2021, Hong Kong's Financial Secretary remarked that 'Hong Kong's financial future will be green and sustainable, and that includes achieving carbon neutrality before 2050'. Hong Kong's government is placing a lot of focus in this area and taking active steps to ensure Hong Kong plays a greater role in all stages of sustainable and green investment.

To promote the development of green finance, especially the green bond market in Hong Kong, the Government Green Bond Programme was launched in 2018. One of the two batches of green bonds launched to date remains the longest-tenor, USD-denominated government bond in Asia. Proceeds raised under the Programme would be used for financing public work projects with environmental benefits.

The intention of the Government Green Bond Programme is to:

- demonstrate the Government's support for sustainable development and determination to combat climate change
- set a benchmark for green bond products in the market
- provide a good example for other potential green issuers
- promote awareness of and Hong Kong's international profile in green finance

Hong Kong's government also plans to issue more retail green bonds in the coming years and has doubled the borrowing ceiling of the Programme to nearly USD 26 billion to help retain its position as the region's most popular green-bond listing venue.

These steps evidence Hong Kong's green commitment and provide an insight into the policy direction ahead. Given its proximity to China, Hong Kong and the Greater Bay Area can again be a springboard for China companies to raise funds for green projects and to access global capital.

Taiwan

Taiwan does not currently have any green tax incentives for the asset and wealth management sector. However, Taiwan has introduced the ‘Statute for Industrial Innovation’ (Statute) in May 2010, implementing several tax incentives to promote industrial innovation and investments in start-ups within Taiwan. Various green projects should qualify as industry innovation and investments in start-ups under the Statute.

Where we are

Current tax incentives available are set out below.

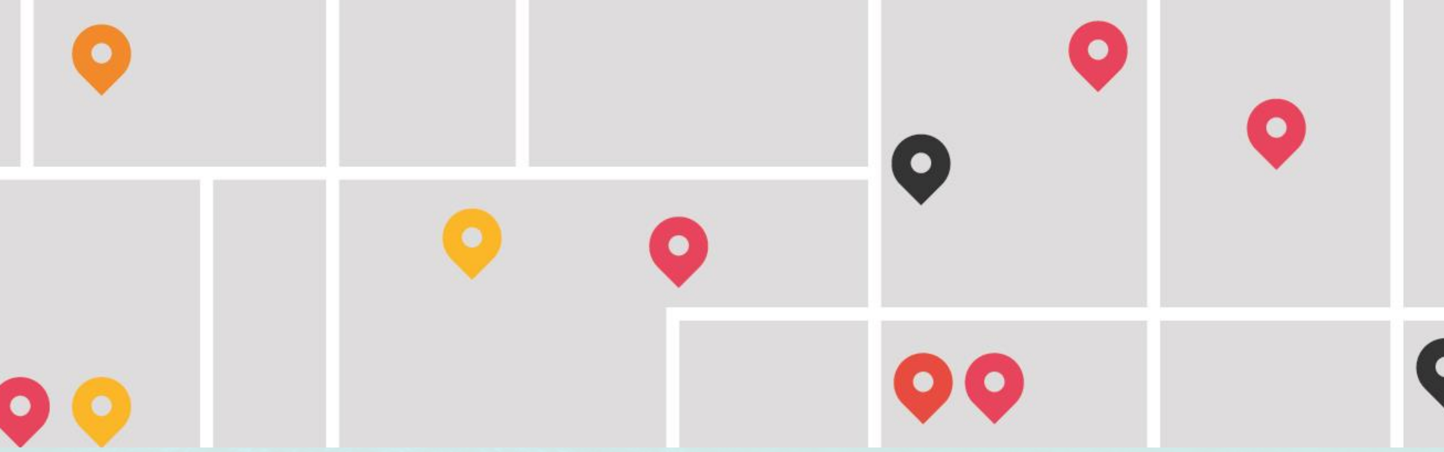
Innovation investments and expenditures

Under Article 10, 10-1 and 23-3 of the Statute, an enterprise that has qualified innovation investment or expenses during a year can apply for one or more tax incentives to credit against its corporate income tax and/or retained earnings tax within a prescribed limit. The qualified innovation investments or expenses are not limited to any specific industries and are therefore applicable to all companies including green / clean energy businesses.

Semi-transparent taxation for a limited partnership

Under Article 23-1 of this Statute, a limited partnership can apply to be a non-taxable entity by satisfying certain criteria, including making a minimum investment amount or percentage in Taiwan start-up companies. There is no industry restriction on the start-up companies invested. In practice, private equity funds (in the form of limited partnerships) investing in the green or renewable energy industry have adopted this structure.

In addition to the quantitative requirements, the applicant must not have any prior violation records relating to environmental protection, labour safety, and health or food safety and sanitation laws in the three years leading up to the tax incentive application. Applicants failing to meet this requirement would not be able to enjoy the tax incentive.



Where we're heading

ESG mutual funds and ETFs

In accordance with the Financial Supervisory Commission (FSC), at the end of March 2021, there were 21 ESG funds worth a total of TWD 107.5 billion (approximately USD 4 billion). These funds include equity funds, bond funds and ETFs. While the investment strategy of many ESG funds is to focus more on the 'G' in ESG and corporate governance, we expect future fund launches to also consider green and environmental factors, and sustainability.

On 2 July 2021, the FSC released guidance to prevent greenwashing and enhance the market standard by establishing a disclosure framework for ESG mutual funds. The Guidance sets out the information that must be disclosed in an ESG mutual fund's prospectus, including ESG investment objectives, the principle / standard adopted (e.g. SASB Standards, GRI Standards, UNPRI), the investment strategy and methodology, the minimum proportion of the fund invested in ESG portfolios, and the performance benchmark to be referenced. Additionally, ESG funds that have already been launched are required to update their prospectuses to reflect the Guidance framework within 6 months from the Guidance release date (i.e. January 2022).

Green bonds

The Taiwan regulator introduced the green bond regime in 2017 to help the green energy technology industry to obtain mid-term and long-term funding, and to promote the development of sustainable financing.

On 29 April 2021, the Taipei Exchange introduced the Operation Directions for Sustainable Development Bonds (Directions), combining the two guidelines already issued (being the Operation Directions for Green Bonds in 2017 and Operation Directions for Sustainability Bonds in 2020). The Directions also detail the qualified investment evaluation criteria, fund utilisation scope and issuance procedures.

Following the announcement of the Directions, a Sustainability Board has also been set up to provide investors with a clear overview of all bonds issued (covering green bonds, sustainability bonds and social responsibility bonds). Taiwan is the fourth major exchange in Asia to introduce the Sustainability Board.

Private equity funds

Since 2017, Securities Investment Trust Enterprises (SITEs) and securities firms can establish subsidiaries to serve as general partners of private equity funds. On the back of this, the first private equity fund focusing on renewable energy was launched in 2019 by a leading financial group in Taiwan. We expect more private equity funds to follow suit and launch funds with similar investment strategies.

The FSC has announced that financial institutions and listed companies alike will need to adopt common standards for assessing their future sustainable economic activities. On this, the FSC has been working with the Environment Protection Department to formulate a local sustainable taxonomy regulation. This taxonomy regulation is expected to be announced by the end of 2021.

Additionally, to raise Taiwan's international profile, we expect the FSC to announce the definition of Taiwan green financial commodities by the end of 2021, which will include the definition of green credit cards, green stocks, green bond indices, green funds, and green insurance policies.

Southeast Asia

Singapore
Malaysia
Thailand
Philippines
Indonesia

Singapore

Singapore leads Southeast Asia with its green incentives that apply to the asset and wealth management sector, including green bond issuers. Investors can indirectly benefit from investments in these funds / green bonds.

Where we are

Fund tax exemption schemes

The fund tax exemption schemes in Singapore (e.g. section 13X and 13R schemes) provide tax exemption on 'specified income' from 'designated investments' for qualifying funds. Emission derivatives and emission allowances are included as 'designated investments' under these fund tax exemption schemes, making them attractive investments for funds and investors. In addition, ESG related investments, such as bonds, stocks and shares are already included in the 'designated investments' list for the schemes.

The fund tax exemption schemes (e.g. section 13X and 13R scheme) require approval by the Monetary Authority of Singapore (MAS) and there are various conditions that have to be satisfied by the applicant fund. After obtaining approval, the fund is also required to maintain certain conditions on an on-going basis as well as submit an annual declaration to the MAS.

While these tax incentives are only available to issuers not investors, hopefully these may improve the yield offered by these bonds to the investors.

Sustainable Bond Grant Scheme (SBGS)

The SBGS incentivises the issuance of green, social, and sustainability bonds by helping issuers cover costs associated with external reviews. In 2020, the scope of the existing SBGS was expanded to include sustainability-linked bonds. Under the scheme, qualifying issuances can offset 100% of qualifying expenses (e.g. costs incurred in respect of obtaining an external review or rating for green bonds), up to a cap of SGD 100,000 per issuance.

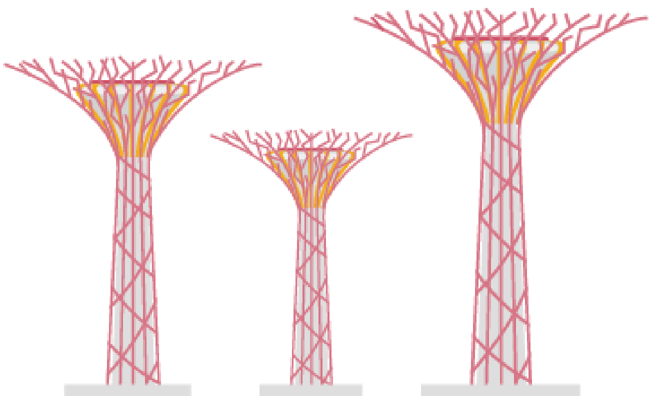
The SBGS requires pre and post issuance external review or rating performed by external reviewers in Singapore. In addition, for sustainability-linked bonds, reporting is also required to be done annually for the first three years or up till the tenure of the bond (whichever is earlier).

Green and Sustainability-Linked loans (GSLS)

The MAS launched the GSLS with effect from 1 January 2021. The GSLS is the world's first grant scheme to support green and sustainability-linked loans which aims to help corporates obtain green and sustainable financing. The grant covers qualifying expenses of up to SG 100,000 per loan. Qualifying expenses include fees incurred to engage independent sustainability assessment and advisory services providers to develop green and sustainability frameworks and targets, obtain external reviews and report on the sustainability impact of the loan.

Prior to the origination of the green or sustainability-linked loan, external review is required to demonstrate alignment of the loan with internally recognised green loan principles. On top of this, external review is required for suitability-linked loans to demonstrate that minimally two of the total sustainability performance targets (SPTs) need to contribute to environmental objectives of the UN Sustainability Development Goals or Sustainability Linked Loan Principles.

Post origination of a sustainability-linked loan, external review is required to be performed on an annual basis for the three-year funding period to verify the attainment of the qualifying borrower's SPTs.



Green Mark Incentive Scheme (GMIS)

Singapore has implemented mandatory minimum environmental sustainability standards for new buildings and existing buildings undergoing major retrofitting. In addition, the GMIS was introduced by the Building and Construction Authority (BCA) to accelerate the adoption of environmentally friendly building technologies and building design practices. The GMIS includes the Building Retrofit Energy Efficiency Financing Scheme which provides financing options to offset upfront costs of energy efficiency retrofits. The GMIS lowers the cost of such retrofitting works for real estate projects.

The conditions / obligations depend on the specific scheme. The BCA may require pre-assessment audit and also conduct site verification upon project completion. In respect of the Building Retrofit Energy Efficiency Financing Scheme, the approved borrower is required to achieve a minimum Green Mark Certification standard, which is to be maintained throughout the loan tenure.

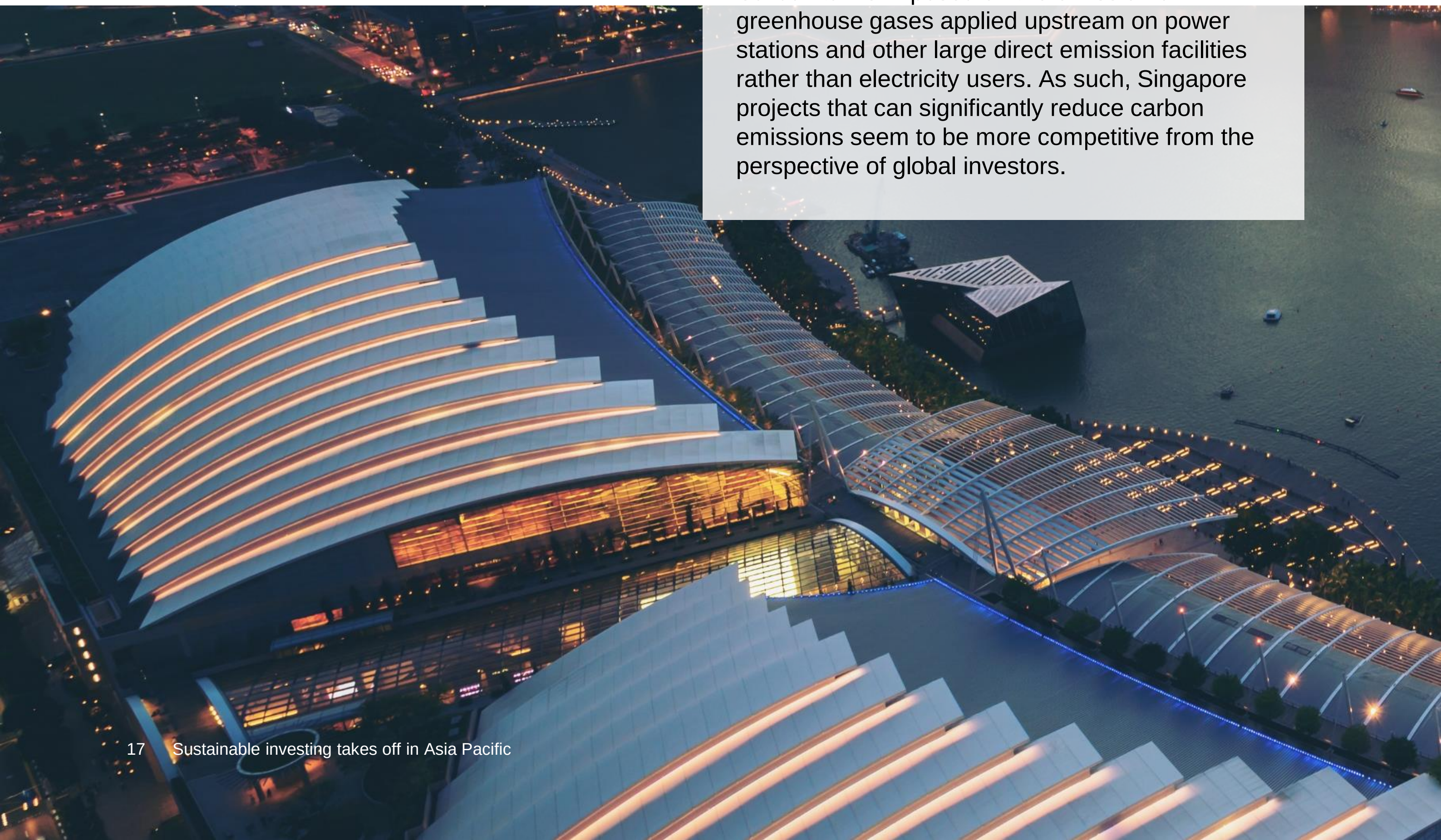
Other green tax incentives

The other tax incentives / rebates / credits that are available in Singapore that are not specific to the asset and wealth management industry include the following:

- Singapore has launched initiatives under the Enhanced Industry Energy Efficiency packaged to encourage Singapore companies to be more energy efficient. This includes three types of grants, namely the Energy Efficiency Fund, Resource Efficiency Grant for Energy and Genco Energy Efficiency Grant Call which provide funding of up to 50% of qualifying costs to projects.
- The Investment Allowance for Emissions Reduction scheme provides investment allowance for energy efficiency improvement projects approved by the Economic Development Board. Following the Budget 2021, the scope will expand to include projects involving a reduction of greenhouse gas emissions.
- The Climate Friendly Households Programme was launched on 28 November 2020 to encourage households to reduce energy and water consumption. Under the programme, eligible households can receive vouchers to offset the cost of purchasing certain energy efficient appliances.

Carbon emission tax

Carbon tax is imposed on the emission of greenhouse gases applied upstream on power stations and other large direct emission facilities rather than electricity users. As such, Singapore projects that can significantly reduce carbon emissions seem to be more competitive from the perspective of global investors.



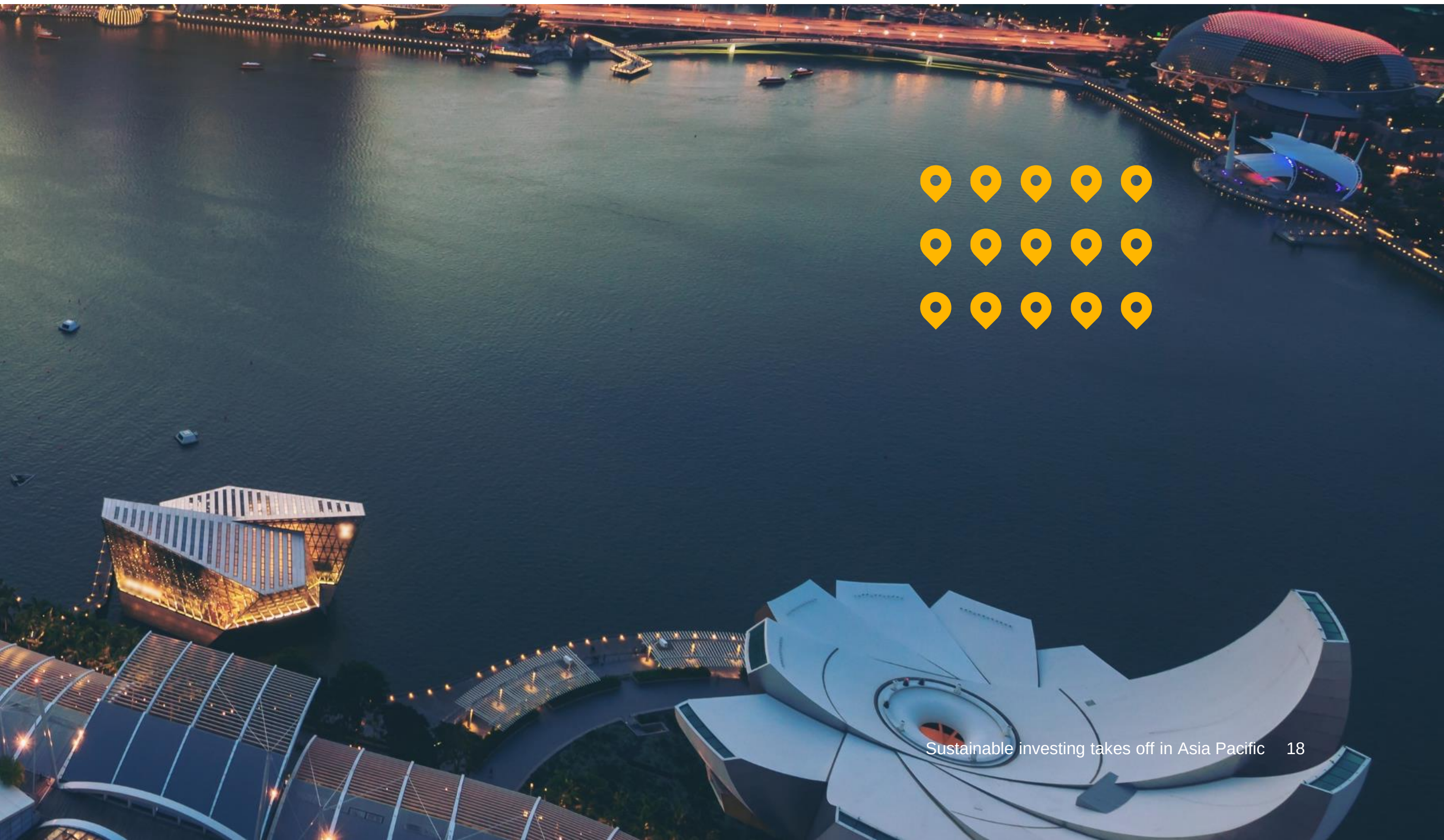
Where we're heading

Regulatory push in Singapore has been encouraging the adoption of ESG among financial institutions, asset managers and investors. The MAS supports the adoption of industry standards and guidelines associated with sustainable finance, encourages industry-led capacity building efforts and supports the development of the green bond market in Singapore. The MAS has set up a USD 2 billion green investment programme to invest in public market investment strategies with strong green focus to support the Singapore financial center in promoting environmentally sustainable projects.

Singapore is primarily a retail-investor driven market where investors' needs are centered towards generating returns and obtaining regular income from their investments. There is growing ESG demand from Singaporean investors, noting that cross-border ESG fund sales reached USD 1.2 billion from January to November 2020, according to Broadridge data. BlackRock has filed an application with the MAS to launch the BlackRock Global Impact Fund to retail investors in Singapore. The MAS has urged asset managers operating in Singapore to launch more ESG and sustainable funds. Increase in retail investor awareness coupled with the growing importance of sustainability and climate change is driving ESG integration in Singapore to serve the needs of ESG-conscious clients.

Among the ESG funds available in Singapore, most of them are either equity or fixed income funds. Singapore has five sustainable funds as of 2020, with one new fixed income fund launched in 2021 by UOB. Among fund types, asset managers are still using broader themes - out of the five funds, three funds have 'sustainable' in their names rather than focusing on specific E, S or G issues. Equities were by far considered the asset class that would attract the most ESG-related flows.

Firms have been stepping up their efforts to build ESG credentials and launch more sustainable funds in Singapore. This likely stems from a combination of regulatory actions and fund selectors in Singapore making a big push to place ESG products on their shelves, with distributors intent on pushing these products. In Singapore, questions on ESG are generally becoming a part of the due diligence process for onboarding funds on distributors' platforms. From managers' perspective, lack of standardised ESG regulations, lack of data availability and the absence of suitable benchmarks to measure fund performance continue to be some of the main barriers to ESG integration in Singapore.



Malaysia

Like Singapore, Malaysia also has various green incentives which are applicable to the asset and wealth management sector and green bond issuers. Investors can also indirectly benefit from investments in funds managed by a Licensed Fund Management Company / bond.

Where we are

In line with global trends, various green tax incentives have been introduced in Malaysia in recent years.

Tax exemption for a Licensed Fund Management Company

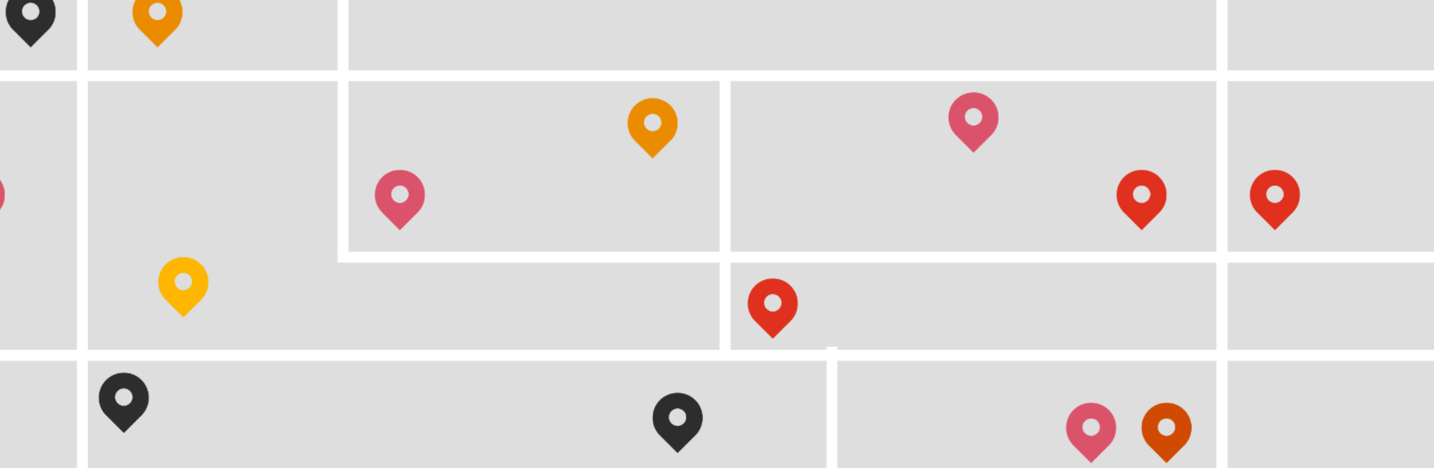
Licensed Fund Management Company can enjoy a tax exemption on management fee income from managing conventional and Shariah-compliant Sustainable and Responsible Investments (SRI) funds for the years of assessment (YAs) 2018 to 2023. The SRI fund must be approved by the Securities Commission Malaysia (SC). To qualify for the tax exemption, the company has to be (i) resident in Malaysia, (ii) incorporated under the Companies Act 2016 and (iii) licensed under the Capital Markets and Services Act 2007 or registered with the Securities Commission Malaysia as a venture capital management corporation or a private equity management corporation.

Tax incentives on sustainable Islamic financing

i) Green Sustainable and Responsible Investments (Green SRI) Sukuk grant

The SC provides Green Sustainable and Responsible Investments (Green SRI) Sukuk grant (up to 90% of the actual review cost subject to a maximum of RM300k) to Sukuk issuers to finance the external review expenditure incurred in issuing a Green SRI Sukuk. The grant received by the Green SRI Sukuk issuer is subject to tax exemption from 1 January 2018 to 31 December 2020.

The Malaysia Budget 2021 proposed for the above to be extended to cover grants for all types of SRI sukuk and bonds which meet the ASEAN Green, Social and Sustainability Bond Standards approved by the SC and an extension of the above tax incentive to 31 December 2025.



ii) Issuance of SRI Sukuk

Companies resident in Malaysia are eligible to claim a special tax deduction for expenditure incurred on the issuance or offering of an SRI Sukuk, subject to meeting the stipulated conditions. The special tax deduction is granted till the YA 2023.

Tax incentives on investment in Green Assets / Projects / Services

The various incentives are subject to meeting the stipulated conditions. Failure to comply after the approval of the incentive could result in revocation of the incentive.

- Green Investment Tax Allowance (GITA – Asset)
- Green Investment Tax Allowance (GITA – Project)
- Green Investment Tax Exemption (GITE – Services)
- Green Investment Tax Exemption (GITE – Solar Leasing)

The incentives above are largely governed by the Malaysian Investment Development Authority (MIDA) and Malaysian Green Technology and Climate Change Centre (MGTC) with the following objectives:

- To encourage investments in green technology industry on a project basis either for business purpose or own consumption and the adoption of green technology by selected services / system providers;
- To encourage companies to acquire / purchase assets that have been verified as green technology assets by the MGTC and these assets are listed under MyHijau Directory; and
- To widen the coverage of green services to include solar leasing activity.

Key features of the above green incentives are summarised in the table below:

<table>
<tr><th></th><th>GITA – Asset</th><th>GITA – Project</th></tr>
<tr><td>Qualifying person</td><td>A company incorporated under the Companies Act 2016 and resident in Malaysia</td><td>New or existing companies incorporated under the Companies Act 2016 and resident in Malaysia

Note: Companies which incurred their first qualifying capital expenditure (QCE) prior to submission of application to MIDA are not eligible for the incentive</td></tr>
<tr><td>Incentive</td><td>GITA of 100% of QCE incurred from 25 October 2015 and 31 December 2023, to be set off against 70% of statutory income (SI)</td><td>GITA of 100% of QCE incurred for 3 years, to be set off against 70% of SI</td></tr>
<tr><td>Qualifying assets / projects / sectors</td><td>The green technology assets must be:
• Registered and listed under the MyHIJAU directory
• Owned by the company and used for its own consumption (not for income generation)

Qualifying assets are those in the following areas:
• Energy efficiency
• Building
• Transport
• Renewable Energy
• Waste
• Water</td><td>Projects in relation to:
• Renewable energy
• Energy efficiency
• Green building
• Green data centre
• Integrated waste management</td></tr>
<tr><td rowspan="2">Key eligibility criteria (non-exhaustive)</td><td colspan="2">• Minimise the degradation of the environment or reduce greenhouse emission
• Promote health and improvement of environment
• Conserve the use of energy, water and/or other forms of natural resources energy or able to recycle waste material resources</td></tr>
<tr><td>N/A</td><td>• Incurs adequate amount of operating expenditure annually in Malaysia. Operating expenditure includes local services for insurance, legal, banking, ICT and transportation</td></tr>
<tr><td>Submission of application</td><td>Application to be submitted to MGTC by 31 December 2023 and within 2 years from the date of purchase</td><td>Applications to be submitted to MIDA from 1 January 2020 to 31 December 2023</td></tr>
</table>

GITE – Services	GITE – Solar Leasing
New or existing company which has been established after 25 October 2013 and proposes to undertake qualifying activities. The company must be incorporated under the Companies Act 2016 and resident in Malaysia Note: Companies which have issued their first invoice prior to submission of application to MIDA are not eligible for the incentive	A company that is incorporated under the Companies Act 2016 and resident in Malaysia and: • Has been verified by Sustainable Energy Development Authority (SEDA) and listed under the Registered Solar PV Investor (RPVI) Directory; • Has at least 60% of its equity held by Malaysians; and • Possess a minimum installed capacity of 3MW solar PV projects aggregated under the Net Energy Metering or Self-Consumption Programme which have achieved Commercial Operation Date. Note: Companies which have issued their first invoice prior to submission of application to MIDA are not eligible for the incentive
GITE of 70% on SI for qualifying green services for 3 years.	GITE of 70% on SI from solar leasing activity as follows: • >3MW - ≤10MW - 5 years • >10MW - ≤30MW - 10 years
Green technology services for the following sectors: • Renewable energy • Energy efficiency • Electric Vehicle (EV) • Green building • Green data centre • Green certification and verification • Green township • Integrated waste management	Solar leasing
• Employs at least 5 full-time employees working in Malaysia including at least 2 competent personnel in green technology • Must have a green policy related to the environment or sustainability • Must have documented Standard Operating Procedure to ensure quality of services • 100% income must be derived from the respective green technology services	• Employs at least 5 full-time employees working in Malaysia including at least 2 competent personnel in green technology • Assets must be incorporated in the RPVI balance sheet
• Incurs adequate amount of operating expenditure annually in Malaysia. Operating expenditure includes local services for insurance, legal, banking, ICT and transportation	
Applications to be submitted to MIDA from 1 January 2020 to 31 December 2023	

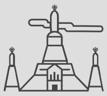
Where we're heading

Since 2009, the various green incentives introduced by the Malaysian Government has shown that green technology is instrumental in decoupling economic growth from natural capital depletion. This is reflected in the contribution to GDP made by the adoption and use of green technology-based practices, systems and products.

In 2017, the Malaysian Government introduced the Green Technology Master Plan (GTMP) 2017 to 2030 in which green growth was earmarked as one of six game changers altering the trajectory of the nation's growth. The GTMP creates a framework which facilitates the introduction of green technology into the planned developments of Malaysia under the four pillars set in the National Green Technology Policy (NGTP) i.e. energy, environment, economy and social. This first edition of the GTMP focuses on six key sectors, which are energy, manufacturing, transportation, building, waste and water and is with the intention to align policy directions of each sector towards a common goal of sustainable utilisation of natural resources. We expect that the green technology goals established for each of these sectors will be progressively realised and fine-tuned in the policies and actions developed in every five-year National Development Plan period.

The above plan appears to be on a right track as among the neighbouring countries, Malaysia has the highest rating (75) under the Environmental Performance Index[1], compared to the Philippines (82), Thailand (121) and Indonesia (132).

[1] The Environmental Performance Index is a project lead by the Yale Center for Environmental Law & Policy (YCELP) and Yale Data-Driven Environmental Solutions Group at Yale University (Data-Driven Yale), the Center for International Earth Science Information Network (CIESIN) at Columbia University, in collaboration with the Samuel Family Foundation, McCall MacBain Foundation, and the World Economic Forum.



Thailand

There are no green tax incentives specific to the asset and wealth management sector in Thailand. Existing tax incentives such as the corporate income tax exemption focus more on companies engaging in green technologies. Similar to other jurisdictions, the asset and wealth management sector can indirectly benefit from investments in such companies.

Where we are

Thailand has introduced certain tax measures to encourage green initiatives. These include tax incentives for businesses that invest in alternative energy technologies and power efficiency, minimise their environmental impact and purchase biodegradable plastic.

Green tax incentives are offered to companies that carry out qualified green activities. The incentives could take the form of exemptions on corporate income tax (CIT) or import taxes for green technologies and machinery.

Taxpayers must meet certain requirements to be granted with tax benefits under the Investment Promotion regulation (BOI Announcement: Measures to Promote Improvement of Production Efficiency). These requirements include, for example, minimum capital investment, ratios of reduced energy consumption, alternative energy usage ratios and other criteria for reducing environmental impact.

In cases where tax incentives are granted but the taxpayer fails to meet the minimum required conditions, the tax benefits could be withdrawn in total or in part. For instance:

- a total withdrawal of import tax benefits with the taxpayer paying the import tax. The conditions, prices and rates of the item at the date of the import would be applied; and
- a withdrawal of CIT incentives where the power to withdraw could extend retroactively to the accounting period in which the taxpayer failed to fulfil the conditions. In this case, the taxpayer would be required to pay CIT that was previously waived within one month of being informed of the withdrawal. Failure to do so would be subject to an additional surcharge.

There is an income tax incentive provided on revenue generated from the sales of carbon credit. In terms of tax collection, an excise tax on certain goods is imposed on variable rates, increasing with the levels of carbon emission.

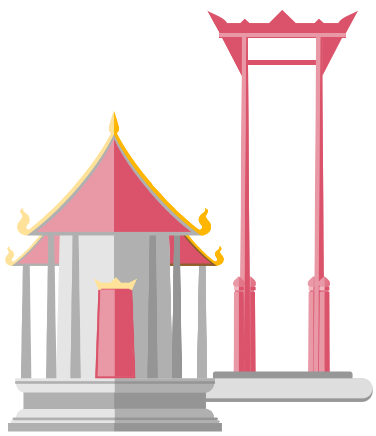
Where we're heading

The asset value of sustainability funds has increased significantly in Thailand over the last couple of years. By February 2021, the asset value of the sustainability mutual fund had soared to THB 34 billion. The fund had increased from THB 22 billion in 2020 and THB 5 billion in 2019.

The Stock Exchange of Thailand (SET) has recognised the importance of going green. Listed companies can choose to voluntarily disclose their environmental, social and corporate governance (ESG) performance to be assessed by the SET. Any listed companies that pass the assessment will be included in the Thailand Sustainability Investment index (THIS).

The SET has established the following green goals for the near future:

- Create more ESG investment stars
- Promote green initial public offerings (IPOs) and green bonds
- Construct a variety of ESG indices and portfolios
- Social bonds
- Develop social digital coins and a social funding platform
- Drive green and sustainable exchange as part of the SET digital exchange



Philippines

The Philippines does not currently have green tax incentives that apply specifically to the asset and wealth management sector. Existing tax incentives tend to focus on companies that develop and/or commercialise renewable energy. Again, industry players may be able to benefit from these tax incentives indirectly through investments.

Where we are

The Renewable Energy Act of 2008 provides tax incentives to renewable energy developers and companies that commercialise renewable energy. The Philippine Green Jobs of 2016 grants incentives to business enterprises that promote employment that contributes to the preservation or restoration of environment quality – be it in the agriculture, industry or services sector – while significantly reducing environmental risk and ecological scarcities. The incentives are set out as follows.

Renewable Energy Act

- Income Tax Holiday (ITH) for seven years on the initial investment, for every additional investment, a fresh seven years period of ITH is given, but it should not exceed 21 years
- Duty Free Importation - Exemption from Duties on RE Machinery, Equipment, and Materials
- Special Realty Tax Rates (not to exceed 1.5% on net book value)
- Net Operating Loss Carry-Over (NOLCO) during the first three years from the start of commercial operation which had not been previously offset as deduction from gross income shall be carried over as deduction from gross income for the next seven years of such loss provided: (a) The NOLCO had not been previously offset as deduction from gross income and (b) the loss should be a result of the operation and not from availability of incentives provided for in the law
- After ITH – Corporate Tax Rate of 10%
- 0% Zero rated vat on sale of RE
- Tax Exemption of Carbon Credits – All proceeds from sale of the carbon emission credits shall be exempt from any and all taxes
- Tax Credit on Domestic Capital Equipment and Services Related to the Installation of Equipment and Machinery

Green Jobs Act

- Special deduction from the taxable income equivalent to fifty percent (50%) of the total expenses for skills training and research development expenses which is over and above the allowable ordinary and necessary business deductions for said expenses under the Tax Code
- Tax and duty-free importation of capital equipment provide that the capital equipment is actually, directly and exclusively used in the promotion of green jobs of the business enterprise

The Department of Energy (DOE) sets guidelines for renewable energy developers to be renewable energy certified to qualify for the incentives. Likewise, the DOE issues implementing rules, which provide prohibited acts and sanctions that lead to penalty and revocation of the incentive. Businesses that make use of the Green Jobs Acts incentives will need to meet certification requirements of the Climate Change Commission.

At present, the Philippines has no carbon emission taxes, however this may be on the horizon to fight the effects of climate change. Although the Renewable Energy Act provides for tax exemption on sale of carbon credit of renewable energy developers, there is no established market for the trading of carbon credits in the Philippines currently.

Where we're heading

In accordance with the Green Infrastructure Investment Opportunities Report published by Asian Development Bank (ADB) in November 2020, Green Infrastructure Investment is also thriving. In fact the Philippines is a leader in Green Finance in Association of Southeast Asian Nations (ASEAN) and the first ever green bond from an ASEAN entity was issued in 2016 by Philippine corporation (AP Renewables). In addition to being a leader, it also issued the first Climate Bonds Certified green bond, a sign of best practice in the market in terms of climate ambition. The growth of the green bond market in the Philippines is notably driven by the private sector. As of November 2020, a few domestic banks have issued green bonds in three currencies, and a number of private companies are also issuing green bonds supporting green projects such as renewable energy, low carbon transport, sustainable water management, sustainable waste management, and other green opportunities.

The Philippine government also forged various partnerships with the private energy companies in producing Geothermal power as an alternative source of energy. There are seven known geothermal fields in the country that supply 12% of the nation's energy. There are also wind power plants in the Philippines although they only provide a small percentage of energy.

There is also a growing demand for solar products in the market like solar electric light, fans and solar panels for houses.

Indonesia

While Indonesia does not currently have any green tax incentives, there are plans to explore this further and we expect more developments to follow – do watch this space.

Where we are

Currently, there are no tax incentives and/or penalties available in Indonesian on green investments or products. Although the Financial Services Authority (OJK) has put in place a regulation for the issuance of green bonds since 2017, there are still very few green bonds issued in Indonesia.

In general, Indonesia's government has undertaken significant reforms to make investing into Indonesia more attractive. The withholding tax applicable on interest payments in foreign-currency denominated government bonds issued in the international market has been borne by the Government for several years, but is not specific to green bonds. Under the Omnibus Law, the withholding tax on bond interest received by non-residents has also been reduced effective 2 August 2021. This is also applicable to, but is not specific to green bonds.

However, it may be of interest to note that to apply for a Corporate Income Tax reduction, one of the many weighted assessment criteria used to determine if an investment is indeed in a pioneer industry or not is if the applicant company is using environmentally friendly technology.

Where we're heading

The Director General of New Renewable Energy and Energy Conservation has mentioned in the media that tax incentives to support the development of the renewable energy sector are being discussed within the Ministry of Finance so there may be more developments to come. Indonesia's government also plans to introduce a carbon tax imposed on carbon emissions, but this is still under discussion.

South Asia

India

India

There are no green tax incentives specific to the asset and wealth management sector in India. Existing green tax incentives tend to target companies that acquire assets to make production processes more carbon neutral. Industry players may be able to benefit indirectly from investments in such companies.

Where we are

Green tax incentives

Electric mobility	Certain States provide (i) reimbursement of State Goods and Services Tax (SGST) for a specified period, (ii) reimbursement of stamp duty on purchase of land for industrial use, lease of industry sheds / building, (iii) reimbursement of road tax and registration charges for retail purchase up to a specified period, and (iv) reimbursement of electricity duty up to a specified period by certain States.
Renewable Energy generation:	(i) accelerated depreciation on fixed assets at the rate of 40%, (ii) reduced custom duty on import of parts for manufacturing of solar cells, panels, etc. and wind turbines, motors etc., and (iii) reduced GST rate of 5% on the sale of solar goods.
Waste Management	(i) investment linked tax incentive for companies undertaking solid waste management project, and (ii) reduced GST rate of 5% on sale of plastic and other waste.

Green taxes

Logistics / transport:	(i) petrol / diesel not part of GST and subject to dual taxes – central excise by Central Government and VAT by State Government, and (ii) Environmental Compensation Charge on commercial vehicles older than 8 years at the time of renewal of fitness certificate
Conventional energy / power sector:	(i) compensation cess of INR 400 per tonne on extraction of coal and other specified solid fuels under the GST regulations, and (ii) electricity duty levied by States on power consumption at varied rates, depending upon the end user

Green tax incentives are provided based on the prescribed eligibility conditions in the relevant tax law. As the tax incentives are linked to operation of above specified businesses, these incentives are available so long as the recipient is engaged in the specified business. If the recipient discontinues the specified business, the recipient will no longer be entitled to these incentives. There are also provisions for the reversal of tax incentives or the levy of penalties but only in cases where the recipient had presented incorrect facts or data to the tax authorities and/or where the tax authorities are of the view that the business carried on by the recipient does not qualify as ‘specified business’.

Where we're heading

Like many jurisdictions in the region, in India, ESG is gaining importance in various sectors. In the last few years, there is a growing interest in fund managers to invest in Indian companies which are environmentally conscious and have good ESG scores. Fund managers, irrespective of any requirement of local regulations, are seen complying with global standards for responsible investing. Few of the Indian fund managers have recently become signatories to the United Nations – Principles of Responsible Investing (UN-PRI). Some fund managers have also started undertaking global environmental reporting like CDP. Large asset management houses in India have launched at least 10 ESG mutual funds in the last two to three years.

There is also an increasing trend where Indian companies are seen (i) taking green initiatives like pledging carbon negative operations / roadmaps, developing energy efficient products like electric mobility, green buildings and promoting recycling and waste management, and (ii) complying with global standards for environmentally sustainable business practices (such as GRI, SASB, TCFD and Integrated Reporting).

Fund managers and Indian companies are now seeking advice on and assistance with ESG due diligence, setting up ESG framework and policies, monitoring and annual assessments of such framework and policies, and obtaining an ESG score in accordance with global standards. Indian companies launching green projects like renewable energy, electric mobility, waste management, etc. are looking for advice relating to various green tax and other incentives or subsidies available when undertaking the project and developing a roadmap to ensure they meet the eligibility criteria to make use of the incentives.

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India is a signatory to Paris Agreement 2015 and India's government is set to be on track to achieve emission reduction targets under the Paris Agreement referencing its reduction in emission intensity by 21% as compared to 2005. India's renewable energy capacity, being fourth largest in the world, is expected to reach 175 gigawatts by the end of 2022 and the government has an ambitious target of 450 gigawatts of renewable energy capacity by 2030. The government has also recently extended the Production Linked Incentives (PLI) to local manufacturing and storage of electric vehicle batteries (giga factories) by launching the National Programme on Advanced Chemistry Cell (ACC) Battery Storage. This is to promote the ecosystem for manufacture of electric vehicles in India by reducing the overall production costs of electric vehicles.

From a reporting standpoint, the Ministry of Corporate affairs launched the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs) in 2011, which included a principle for businesses to provide goods and services that are safe and contribute to sustainability throughout their life cycle. NVGs were further upgraded in 2019 to meet the global trends and are currently known as National Guidelines for Responsible Business Conduct (NGRBC). Based on the comprehensive principles provided in these guidelines, the Securities and Exchange Board of India (SEBI), introduced reporting requirements for top 1,000 Indian listed companies by market capitalisation to furnish a Business Responsibility Report (BRR) to stock exchanges. SEBI has now upgraded the reporting requirement in line with principles of NGRBC and has renamed the report as Business Responsibility and Sustainability Report (BRSR).

Oceania

Australia

Australia

Australia has green incentives for the asset and wealth management sector, specifically for funds that invest in clean buildings. Investors can also enjoy indirect benefits from investments in these funds.

Where we are

Australia has provided non-resident investors in countries with which Australia has effective exchange of information (EOI countries) a concessional 10% withholding tax rate on 'Fund Payments' from a Clean Building Managed Investment Trust (Clean Building MITs). Fund Payments include Australian sourced income (other than royalties, interest and dividends) and 'Taxable Australian Property' capital gains (i.e. gains on land-rich type investments). The withholding tax rate for Fund Payments from other MITs is typically 30%, or 15% for residents in EOI countries.

In order to be a Clean Building MIT, broadly, a fund must:

- Satisfy the MIT requirements such as the widely held and closely held tests.
- Hold one or more clean buildings which are office buildings, hotels or shopping centers (or combination of these) constructed after 1 July 2012, and meet and maintain at least a 5 Star Green Star rating as certified by the Green Building Council of Australia or a 5.5 star energy rating as accredited by the National Australian Built Environment Rating System (NABERS).
- Derive income and capital gains from clean buildings and assets that are 'reasonably incidental' to these clean buildings.

Where we're heading

Australian investors and stakeholders are increasingly calling for companies to be more focused on environmental and sustainability issues. This is evidenced by:

- The Australian Sustainable Finance Initiative's recent roadmap recommended convergence of global frameworks and for listed entities to report on and obtain assurance over ESG information.
- The Australian Council of Superannuation Investors (ACSI) report on the climate policies of major companies has highlighted that making a net zero commitment without detail of how it will be practically achieved is insufficient.
- Climate Action 100+, representing the world's largest institutional investors, has written to the CEOs of Australia's top 12 carbon emitters requesting they publish plans to reduce their carbon emissions to net zero.
- Investor advocacy has gained traction with the promotion of various ESG resolutions including the establishment of science-based climate targets.
- Members of the Responsible Investment Association Australasia, representing a myriad of investors with more than AUD 9 trillion in global assets, expects more than AUD 100 billion in potential demand from Australian investors in impact investing products in the next five years (2020-2025).

More and more of the top 200 Australian Securities Exchange (ASX) listed companies are providing ESG reporting to their investors, although the standard of this reporting can be variable. In addition, most of the top fund managers are taking account of ESG in their investment philosophy, and some have launched ESG specific funds.

The Australian Government has not committed to zero net carbon emissions by a specific date but is committed to the Paris Agreement targets (including reducing greenhouse gas emissions by 26% to 28% below 2005 levels by 2030). To support this commitment, the Government in the 2021-2022 Budget is investing AUD 1.6 billion to fund priority clean energy technologies and partner with other nations to accelerate the commercialisation of low emission technologies. Other Government initiatives include investment to support the acceleration of other technologies that deliver lower emissions and expenditure for incentives to support abatement activities across the economy.

The State Governments have committed to the following greenhouse emissions targets compared with 2005 emission levels as follows:

- New South Wales: 35% reduction by 2030
- Queensland: 30% reduction by 2030
- Victoria: 28% to 33% reduction by 2025 and to reach 45% to 50% by 2030

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