

Consultative Paper

Indonesia Taxonomy for Sustainable Finance (TKBI) version 3 TSC Review Including Sunsetting and Grandfathering

The Indonesia Taxonomy for Sustainable Finance (TKBI) is a classification of economic activities that support Indonesia's Sustainable Development Goals and efforts, encompassing economic, environmental, and social aspects. The taxonomy is used as a guidance to increase the allocation of capital and sustainable financing to support the achievement of Indonesia's net-zero emissions target.

This Consultative Paper will serve as an update to Annex 3 – Technical Screening Criteria for the Indonesia Taxonomy for Sustainable Finance and will form an integral part of the TKBI Book, which was published on 11 February 2025 and can be accessed via <http://gapura.ojk.go.id/tkbi2025>.

The series of Public Consultations will be held starting 11 October – 21 November 2025. Responses can be submitted via: <https://gapura.ojk.go.id/TanggapanCPTKBIV3> or sustainablefinance@ojk.go.id.

Annex 3 – Sunseting and Grandfathering Mechanism

[Sub Cover]

TSC Review Including Sunsetting and Grandfathering

Table of Contents

Scope and Consultation Approach	7
Guidelines for Participation in Public Consultation Process	9
A. Context	10
B. TSC Review Including Sunsetting	11
B.1 Introduction to TSC Review Scheme Including Sunsetting	11
B.2 Objectives and Benefits of TSC Review Including Sunsetting	11
B.3 Proposed TSC Review Mechanisms Including Sunsetting	11
B.4 Discussion Points Related to Sunsetting and the TCS Review Scheme	14
C. Grandfathering	15
C.1 Introduction to Grandfathering	15
C.2 Objectives and Benefits of Grandfathering	15
C.3 Proposed Grandfathering Mechanisms	15
C.3.1 Grandfathering Mechanism and Period for Bonds	17
C.3.2 Grandfathering Mechanism and Period for Other Financial Instruments	22
C.4 Discussion Points Related to Grandfathering	7

List of Table

Table 1.Example of the TSC Setting, Review, and Sunseting Cycle Schedule	13
Table 2.TSC Categories Based on Review and Update Mechanisms	13
Table 3. Summary of Scenarios for Changes in Activity Classification and Grandfathering Applicability	16
Table 4.Summary of Use Cases of Implications on Bond Classifications Due to Changes in Activity Classification During the Grandfathering Period	18
Table 5. Illustrative Changes of TSC for Use Case 1	19
Table 6. Use Case 1: Implications on Bond Classification Due to Changes in Activity Classification from “Green” to “Unqualified” After TSC Changes (During the Grandfathering Period)	19
Table 7. Illustrative Changes of TSC for Use Case 2	20
Table 8. Use Case 2: Implications on Bond Classification Due to Not Meeting DNSH Requirements After TSC Changes (During the Grandfathering Period)	21
Table 9. Illustrative Changes of TSC for Use Case 3	21
Table 10. Use Case 3: Implications on Bond Classification Due to Changes in Activity Classification from “Transition” to “Unqualified” After TSC Changes (During the Grandfathering Period)	22
Table 11. Summary of Use Cases of Implications on Loan Classification Due to Changes in Activity Classification During the Grandfathering Period	23
Table 12. Illustrative Changes of TSC for Use Case 4	24
Table 13. Use Case 4: Implication on Loan Classification Due to Changes in Activity Classification from “Transition” to “Unqualified” After TSC Changes (During the Grandfathering Period)	24
Table 14. Illustrative Changes of TSC for Use Case 5	25
Table 15. Use Case 5: Implication of Loan Classification Due to Changes in Activity Classification from “Green” to “Transition” After TSC Changes (During Grandfathering Period)	25

List of Figures

Figure 1. Illustration of TSC Setting, Review, and Sunseting Cycle for an Activity	12
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Scope and Consultation Approach

The Taxonomy for Sustainable Finance in Indonesia (TKBI) is an economic activity classification that supports Indonesia's efforts towards the Sustainable Development Goals (SDGs), encompassing economic, environmental, and social aspects. The TKBI is used as a guideline to enhance capital allocation and sustainable financing in support of achieving Indonesia's net zero emission targets.

To achieve these goals, the Financial Services Authority (OJK), in collaboration with various Ministries/Agencies (K/L) and relevant stakeholders, will publish version 3 of the TKBI, which is a development of versions 1 and 2. TKBI version 3 will focus on sectors, including Agriculture, Forestry, and Fishing (AFF) - Advanced, Manufacturing/IPPU, Water Supply, Sewerage, and Waste Management (WSSWM), as well as enabling sectors such as Information & Communication and Professional, Scientific, and Technical (PST).

OJK, along with K/L and relevant stakeholders, held a kickoff meeting on May 26, 2025, to discuss the development of all Technical Screening Criteria (TSC). Each activity underwent further discussion through closed consultations with K/L and representatives of industry players to gather insights and the feasibility analysis of its implementation.

The Financial Services Authority (OJK) recognizes that the development of the TKBI cannot be achieved without involving public perspectives; therefore, we encourage the public to provide feedback through the Public Consultation process. Through this process, OJK aims to:

- Gather relevant technical input to optimize the taxonomy design in accordance with the core principles of the taxonomy, namely interoperability, credibility, usability, and being science-based.
- Ensure that all stakeholders involved in the development of TKBI version 3 could provide input; and
- Raise awareness of the taxonomy among various stakeholder groups while enhancing broader understanding of its functions.

The Public Consultation is part of the development process of TKBI version 3, which will be published in February 2026, with the scope of discussion including:

- TSC for EO1 - climate change mitigation, EO2 - climate change adaptation, EO3 - protection of healthy ecosystem and biodiversity, as well as EO4 - resource resilience and the transition to a circular economy (EO1 – EO4) regarding the five industrial sectors that are the focus of discussion in this TKBI version 3;
- The sunseting and grandfathering mechanisms; and
- The assessment of the TKBI using an entity and portfolio assessment approach.

Description	Scope of Sectors
Technical Screening Criteria for EO1 – EO4 The TSC is applied to each activity covered by the taxonomy. The TSC comprises the requirements that must be met for an activity to be assessed as making a substantial contribution to EO1 – EO4.	Focus Sector ➤ Agriculture, Forestry, and Fishing (AFF) ➤ Manufacturing/IPPU ➤ Water supply, sewerage and waste management (WSSWM) Enabling Sector ➤ Information, and Communication ➤ Professional, scientific and technical activities (PST)

Sunsetting Mechanism

Sunsetting is the process by which a TSC for a particular classification expires and can no longer be used from a specified year. For example, the “Transition” TSC for the Electricity Generation Activity with life-cycle emissions of 510 gCO₂/kWh is no longer valid in 2040, because based on developments in science, technology, and applicable policy, the activity has transitioned toward the 1.5°C pathway. Sunsetting aims to prevent transition activities from being permanently labeled “sustainable,” avoid greenwashing, and provide certainty to investors and issuers regarding planned changes to the requirements, thereby preventing stranded assets.

Grandfathering Mechanism

Grandfathering is a mechanism that sets out how the classification of financial instruments, used to finance certain activities or assets, retains its 'financial instrument classification' when changes occur in the TSC and result in the lower classification of those activities compared to the initial classification based on the previous TSC. Grandfathering also aims to preserve market stability or minimize market disruption following the review and update of the TSC, encourage more effective capital flows to support decarbonization, and facilitate monitoring of the classification of financial instruments throughout their lifespan.

Entity Level Assessment

Entity-level assessment is relevant for evaluating companies that have multiple distinct activities. The assessment is conducted by identifying how each activity is Taxonomy-aligned*, followed by aggregating contributions using the percentage of total revenue, capital expenditure (CapEx), or operational expenditure (OpEx).

Portfolio Level Assessment

Portfolio-level assessment is relevant for evaluating a portfolio managed by an institution that consists of multiple financial assets (such as equity and debt instruments). The assessment is conducted by assessing how each investment in different companies is Taxonomy-aligned*, followed by aggregating the contributions of each company using the percentage of total revenue, capital expenditure (CapEx), or operational expenditure (OpEx).

*) **Taxonomy-aligned:** Activities that meet the requirements of TKBI classification as “Green” or “Transition”

Guidelines for Participation in Public Consultation Process

The Public Consultation Process will take place from October 11, 2025, to November 21, 2025.

The Financial Services Authority (OJK) will consider all inputs from stakeholders through responses provided at the following link <https://gapura.ojk.go.id/TanggapanCPTKBIV3>

The feedback received during this round of Public Consultation will be used to refine TKBI version 3, which is currently under development, and will be published in February 2026.

OJK appreciates your participation in the development of TKBI version 3.

A.Context

The Indonesia Taxonomy for Sustainable Finance (TKBI) is a classification of economic activities that supports Indonesia's sustainable development efforts and goals, encompassing economic, environmental, and social aspects. TKBI adopts four environmental objectives (EO), namely EO1 - Climate Change Mitigation, EO2 - Climate Change Adaptation, EO3 - Protection of Healthy Ecosystems and Biodiversity, and EO4 - Resource Resilience and the Transition to a Circular Economy; and three essential criteria (EC), namely EC1 - DNSH (Do No Significant Harm), EC2 - RMT (Remedial Measures to Transition), and EC3 - SA (Social Aspect).

The final result of the TKBI assessment process is that activities are classified as "Green" or "Transition." If they do not meet either of these classifications, the activity is assessed as "Unqualified." There are two approaches in assessing activities: TSC (Technical Screening Criteria) for the corporate/non-MSME segment and SDT (Sector-agnostic Decision Tree) for the MSME segment.

In the future, in line with its nature as a living document, TKBI will be periodically reviewed to keep it current according to developments in science, technology, and transition priorities at the national and global levels. These updates aim to maintain the relevance, credibility, and integrity of TKBI while minimizing the risk of greenwashing.

The "Transition" classification is primarily intended for activities that have not yet been able to meet the "Green" criteria but have made ongoing efforts toward green practices. The "Transition" classification is temporary (time-bound). The mechanism for terminating the applicability of the "Transition" classification is referred to as sunset. This mechanism is important to encourage activities to adopt sustainable practices with a substantial contribution aligned with the "Green" classification for each EO. Without a time limit, transition activities risk being perceived as long-term sustainable labels, which can undermine the credibility of the system and increase the risk of greenwashing. The process of determining sunset dates is an integral part of the TSC review and setting cycle.

With the process of taxonomy updates and periodic review of the TSC, the TSC will naturally change over time. To maintain market stability and provide certainty for investors, a grandfathering mechanism is needed. The grandfathering mechanism ensures stability for financial instruments that have been issued and establishes how they can retain their financial instrument label even amid updates to the TSC. This way, the market remains assured that changes in rules do not suddenly affect instrument labels.

B. TSC Review Including Sunsetting

B.1 Introduction to TSC Review Scheme Including Sunsetting

The periodic review of the TSC ensures that all technical criteria are updated in accordance with developments in science, technology, and transition priorities toward sustainability. The establishment of governance for the TSC review mechanism as a whole is expected to maintain consistency, transparency, and certainty for the market when technical criteria are updated.

As part of the TSC review process, the “Green” or “Transition” classification of an activity may be deemed no longer applicable through a sunsetting process. Particularly, the “Transition” classification is designed to be interim or time-bound, ensuring that activities in the transition category are not permanently labeled as “sustainable.” After the sunset date, activities which were classified as “Transition” must meet the applicable “Green” classification, or otherwise will be “Unqualified”.

The next section will further elaborate on the overall TSC review scheme, including how sunsetting mechanism is integrated into it.

B.2 Objectives and Benefits of TSC Review Including Sunsetting

The TSC review and the implementation of the sunsetting mechanism are integral parts of the framework to ensure that the TKBI remains relevant, accountable, and adaptive to the dynamics of the transition toward a green economy. The objectives and benefits of the TSC review and the sunsetting mechanism are as follows.

TSC Review

Implementation of periodic TSC reviews within the TKBI aims to maintain the relevance and credibility of the activity classification framework for sustainable finance and support market stability, with the following benefits:

1. Aligning TSC with advancements in science, technology, and global policies, ensuring that TKBI remains a credible and relevant document.
2. Establishing a regular and predictable cadence for updates to promote policy continuity while providing adequate flexibility for businesses and investors to adapt.

Sunsetting

Meanwhile, the implementation of the sunsetting mechanism within the TKBI aims to ensure that classifications that are no longer relevant or do not meet current standards can be discontinued in a structured manner, with the following benefits:

1. To encourage businesses to promptly adopt technologies and practices that meet the “Green” classification, thereby accelerating the transition to a low-carbon economy and ensuring that the TKBI classification continues to reflect accountable sustainability principles. This aligns with international taxonomies, including the ASEAN Taxonomy for Sustainable Finance (ATSF).
2. To establish a clear timeline for the applicability of the “Transition” classification, providing certainty for investors and businesses in responding to policy changes.

B.3 Proposed TSC Review Mechanisms Including Sunsetting

The TSC review and setting sunset date, which are currently considered for TKBI, are based on the ATSF version 4 framework, as part of efforts to maintain alignment and interoperability, while being adapted to the local context.

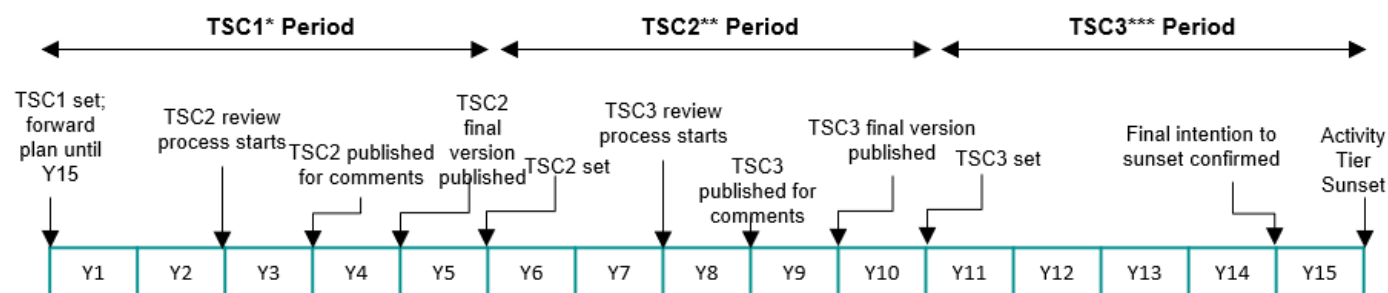
Considerations in the TSC Review Including Sunsetting

Adjustments to the TSC, including sunsetting, consider various factors such as (1) development of internationally-recognized regional and global decarbonization pathways, supported by scientific research and international studies; and (2) technological advancements that enable more efficient and affordable green practice implementation.

Similar to TSC adjustment process, sunset dates are set at the activity level by taking into account a realistic timeframe for a more effective transition process based on existing technologies. The proposed sunset dates for the sectors currently being developed for TKBI version 3 are included in the Consultative Paper for each sector, which are separate to this document.

TSC Setting, Review, and Sunsetting Cycle

In general, the TSC review process will be conducted periodically with 5-year cycle being considered. This mechanism is designed to provide certainty and stability for market participants. An illustration of the cycle for setting, reviewing, and sunsetting an activity is shown in Figure 1.



*) **TSC1**: The initial TSC serves as the preliminary version of the technical criteria used in the TKBI to establish the classification of activities based on the applicable standards and references at the time of its initial development.

) **TSC2: The second TSC is the result of TSC1 review, reflecting updates based on developments in policy, technology, and harmonization with regional taxonomies.

***) **TSC3**: The advanced version of the TSC replaces TSC2, serving as the new reference for activity classification, with prior versions being sunset.

Figure 1. Illustration of TSC Setting, Review, and Sunsetting Cycle for an Activity

1. TSC Setting

The initial phase of a cycle begins with the establishment of the first TSC for an activity (TSC1). The TSC is set for a specific period, referred to as the TSC Period. This TSC Period lasts for five years. During this period, the established technical criteria are consistently used as the basis for activity classification.

2. TSC Review

The review of the TSC begins 30 to 36 months before the end of the current TSC period. At the regional level, this process is carried out by the Taxonomy Review Body (TRB), which is a taskforce specifically assigned to evaluate the relevance, need for updates, or sunsetting of the applicable TSC. Based on the evaluation results, the taskforce may propose revisions to the TSC or recommend the establishment of a sunsetting mechanism. All recommendations will be submitted for formal consultation with stakeholders. Meanwhile, TKBI updates will take into account both developments and the outcomes of the TSC review at the regional level and national policies through coordination and consultation with stakeholders and public.

3. Sunsetting

If the "Transition" classification for an activity is deemed to be sunset, such decision will be confirmed during the TSC review cycle. The sunset date will be published no later than 12 months prior to the effective date of enforcement, alongside the new TSC that will apply in the next TSC period (TSC2), if applicable. After the sunset date takes effect, only the "Green" classification may be applied to the activity in question, thereby ensuring transition to sustainable practices.

In Annex 3 of the TKBI, the TSC1 period begins at the initial publication date for each related Activity and concludes on a specific date which may vary by Activity. To provide a clearer illustration, the following section shows an example of the TSC setting, review, and sunsetting cycle schedule.

Table 1.Example of the TSC Setting, Review, and Sunseting Cycle Schedule

Step	Date	Remarks
TSC1 Period starts	1 February 2026 or the initial date when TSC1 is published for an activity	Initial publication of TSC1 for each activity
TSC Review starts	1 January 2028 (not before)	TRB ASEAN begins the review process of TSC1
The revised TSC1 is available for public consultation	1 January 2029 (no later than)	The results of the TSC review are available for public consultation
The final version of TSC2 (Revised TSC1) is published	1 January 2030 (no later than)	Publication of the Revised TSC and Establishment of Sunseting
TSC1 Period ends	31 December 2030	The validity period of TSC1 ends
TSC1 Period commences	1 January 2031	TSC2 takes effect (or the "Transition" classification enters the sunset period as announced).

TSC Categories Based on Review and Update Mechanisms

TKBI considers implementation of three categories for the review and update mechanism of the TSC based on the characteristics and challenges faced by each TSC, as outlined in ATSF version 4. This structured and transparent approach is expected to enhance market certainty and the market's readiness for changes to the TSC.

Table 2.TSC Categories Based on Review and Update Mechanisms

Category	Characteristics	Example of Applications in TKBI
Enduring TSC	TSC that is stable or fixed and is not expected to change over a long period of time.	TSC of the nature of the activity that, through scientific evidence, technology, and best practices, has directly met the TSC EO classification for "Green" due to its proven contribution to supporting Net Zero Emissions (NZE). Examples include: - Energy Sector: Electricity generation activities utilizing energy from solar, wind, and tidal sources. - Transportation & Storage Sector: Non-motorized transport for passengers and goods. - Manufacturing/IPPU Sector: Manufacture of equipment for the production and use of hydrogen and renewable energy technologies.
Updates Pre-set TSC	TSC for which future changes to the criteria, such as thresholds and sunset dates, have been pre-defined.	For example: - Energy Sector: Electricity generation activities with TSC referring to lifecycle emissions (gCO₂/kWh) - Transportation & Storage Sector: Transportation activities using motorcycles, passenger cars, and other commercial vehicles.
Review Date Pre-set TSC	TSC that will change over time, although the details and schedule for changes or sunseting are not yet known with certainty.	TSC that depends on the development of technology or policies at the regional and national levels.

These three categories will be set for each TSC at the activity level for each environmental objective (EO). An activity may have different TSC categories for different EOs.

The overall TSC review mechanism process described in the section "TSC Setting, Review, and Sunset Cycle" can be applied to any TSC category, as needed, in line with national policy directions and/or developments in technology or international standards.

Governance for the TSC Review and Sunsetting

In the development of TKBI version 3, a robust governance structure is under consideration to ensure that the TSC review process, including sunseting, can operate effectively with emphasis on transparency, and accountability. This governance structure includes roles and authorities for overseeing the entire process, reviewing the TSC, approving TSC updates, and strategic involvement of various relevant stakeholders.

As mandated by Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector, Articles 223-224, a Sustainable Finance Committee (SFC), comprising members from the Ministry of Finance, OJK, and Bank Indonesia, will be established. Among other mandates, the committee will hold central coordination role for the development of the sustainable finance taxonomy. Moving forward, the governance for the TSC review and sunseting is likely to become one of the focus areas of this committee.

Implications of TSC Updates and Sunsetting

One of the implications of the TSC update and sunseting mechanism is the certainty regarding the classification of financial instruments issued prior to the TSC changes. The grandfathering mechanism will be explained in more detail in the following section.

B.4 Discussion Points Related to Sunsetting and the TCS Review Scheme

1	What is your perspective on the mechanisms and TSC review cycle, including sunseting, that are currently being considered for TKBI? Are these mechanisms clear, objective, and easy to understand, and able to enhance investor and market confidence while also providing room for flexibility? If not, which aspects need improvement, and what alternative mechanisms could help enhance the effectiveness of the TSC review process?
2	Are there challenges in implementing this TSC review mechanism in practice? If so, please provide some examples of real scenarios based on industry practices.
3	Is a 5-year TSC review period (in line with ATSF) appropriate for the context of Indonesia? If not, what would be more realistic and applicable alternative?
4	Is a 12-month official notice period prior to TSC changes, including sunseting, considered adequate for preparation time? If not, what would be more appropriate duration in your view, and why?
5	Is the categorization of the TSC based on the three review scheme categories (enduring, updates pre-set, and review date pre-set) clear and comprehensive? If not, please provide suggestions that could help clarify the categorization of the TSC based on the three review scheme categories.
6	For the three proposed categories of TSC review, do you have suggestions for specific data sources that could be used in determining changes to the TSC for an activity, including when such changes should be implemented?
7	In your view, which stakeholder groups are relevant and important to be involved in the regular review of the TSC? At which stages would it be most beneficial for stakeholders to be engaged in reviewing and discussing potential changes to the TSC?
8	Is the explanation of the TSC review mechanism and sunseting, including the terminology used, clearly understood? If not, please suggest alternative terms or details that would make this mechanism easier to understand.

C. Grandfathering

C.1 Introduction to Grandfathering

Within the TKBI framework, grandfathering mechanism establishes how the classification of financial instruments, used to finance specific activities or assets, retains its “financial instrument classification” following TSC changes that result in a lower classification of those activities compared to the initial classification based on the previous TSC. This principle has been applied in several international frameworks, such as the ATSF, the EU Green Bond Standard¹, and the Guidance for Leveraging the Singapore-Asia Taxonomy in Green and Transition Financing².

The implementation of this mechanism is important to maintain market stability and ensure that financing for sustainable activities is not disrupted by changes in regulations. It means that if a bond or another financial instrument has already been issued to finance an activity that meets a certain TSC, its status does not automatically change solely because of an update to the TSC.

C.2 Objectives and Benefits of Grandfathering

The goals and benefits of implementing this mechanism include:

1. **Ensuring consistency of the classification of financial instruments issued** for financing activities or assets, despite TSC changes, thereby reducing market disruptions following the review and update of the TSC;
2. **Providing certainty and stability to market**, ensuring that market players have confidence in classification of the instruments that are already in circulation, despite TSC changes;
3. **Avoiding the risk of stranded assets** and losses due to TSC changes by allowing the use of the initial classification, subject to certain conditions, for a specified period;
4. **Encouraging more effective capital flows** to projects that support decarbonization and long-term sustainability by allowing the classification of instruments to be maintained during the grandfathering period after changes to the TSC;
5. **Providing transparency to stakeholders** regarding plans for TSC changes or relevant sunset dates, through clear governance and responsibility for the issuers.

C.3 Proposed Grandfathering Mechanisms

The grandfathering mechanism and period being considered for the TKBI are based on the mechanism currently being explored in ATSF version 4³, as part of efforts to maintain alignment and interoperability, while being adapted to the local context. This mechanism is designed to ensure market continuity and support financing stability during the transition period. The proposed grandfathering period is seven (7) years, with more detailed arrangements for each financial instrument explained in subsequent sections. During the grandfathering period (from the effective date of the TSC changes for a specific activity or asset), financial instruments that have been classified may refer to the initial classification of the underlying activity based on the previous TSC (prior to the TSC changes) if, due to TSC changes, the underlying activity can no longer meet the better initial classification. The seven-year period is considered sufficient to maintain market continuity while providing issuers and industry participants with time to adjust to the stricter standards.

The grandfathering mechanism applies only when the change in the classification of the underlying activity is due to changes in the technical criteria (TSC). The primary objective of grandfathering is to provide protection so that a better sustainability label can be retained following TSC change scenarios. Thus, if the classification of the underlying activity improves or its performance enhances (e.g. from “Transition” to “Green”, or from “Unqualified” to “Green”), the grandfathering mechanism is no longer relevant. In addition, if the activity classification changes because the activity no longer meets the DNSH or social aspect requirements and not because of the TSC change, then grandfathering is not applicable.

¹ European Union, Commission Delegated Regulation (EU) 2023/631 of 19 December 2022 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council, Official Journal of the European Union, L 83, pp. 1–142, Mar. 2023. [Online]. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202302631

² Sustainable Finance Standards and Assessment (SSFA), Guidance for Leveraging the SAT in Green and Transition Financing, Singapore: SSFA, Jul. 2025. [Online]. Available at: <https://www.ssfa.org.sg/wp-content/uploads/2025/07/SSFA-Taxo-WS-Guidance-for-Leveraging-the-SAT-in-Green-and-Transition-Financing-FULL-Jul-2025.pdf>

³ This approach aligns with practices adopted in the EU Green Bond Standard and the SSFA Guidance for Leveraging the Singapore-Asia Taxonomy in Green and Transition Financing.

Furthermore, a TSC change is defined as a change in the TSC review process if, during the TSC review process, it is decided that the TSC for the next period (e.g., TSC2) will be different (compared to TSC1). In this case, a TSC that falls under the pre-set updates category, where the TSC for the current period (TSC1) has already set a threshold for future changes, can also be considered as a TSC change.

Table 3. Summary of Scenarios for Changes in Activity Classification and Grandfathering Applicability

No.	Scenarios for Changes in Activity Classification	Is Grandfathering Mechanism Applicable to Related Financial Instruments?
A	Classification of the underlying activity changes from “Green” to “Transition” or “Unqualified” due to changes in the TSC.	✓
B	Classification of the underlying activity changes from “Transition” to “Unqualified” due to changes in the TSC.	✓
C	Classification of the underlying activity changes from “Transition” to “Green” as a result of improved performance of the activity.	✗
D	Classification of the underlying activity changes from “Unqualified” to “Transition” or “Green” as a result of improved performance of the activity.	✗
E	Classification of the underlying activity changes due to DNSH or social aspects.	✗
F	Classification of the underlying activity changes (i) from “Green” to “Transition” or “Unqualified” or (ii) from “Transition” to “Unqualified” due to performance, which do not meet either the old or the new TSC, or situations where, in the absence of changes to the TSC, the activities cannot meet the initial classification.	✗

The mechanism being considered aligns with and will complement the national sustainable financing framework, such as the Green Bond and Green Sukuk Framework⁴, the Sustainable Government Securities Framework⁵, and POJK Number 18 of 2023 regarding the Issuance and Requirements for Sustainability-Based Debt Securities and/or Sukuk⁶. Therefore, the existence of the grandfathering mechanism supports the continuity of financing for green projects.

Scope of Grandfathering

The grandfathering mechanism applies solely to the classification of financial instruments and does not extend to the classification of the underlying activities. This means that although an activity may lose its eligibility for classification after a revision of the TSC, financial instruments that have been issued to finance that activity will retain their sustainability label according to the original classification, as long as they meet the applicable requirements. Financial instruments considered within the scope of the grandfathering mechanism include bonds and other financial instruments, particularly loans. This mechanism applies to financial instruments that receive the label “aligned with the Green Classification according to TKBI” and “aligned with the Transition Classification according to TKBI,” or TKBI

⁴ Directorate General of Financing and Risk Management, Green Bond & Green Sukuk Framework, Ministry of Finance of the Republic of Indonesia, Jakarta, Indonesia, 2023. [Online]. Available at: <https://api-djppr.kemenkeu.go.id/web/api/v1/media/B51F74A2-F8BF-47C7-A77F-DA48C2D33067>

⁵ Directorate General of Financing and Risk Management, Sustainable Government Securities Framework, Ministry of Finance of the Republic of Indonesia, Jakarta, Indonesia, 2025. [Online]. Available at: <https://api-djppr.kemenkeu.go.id/web/api/v1/media/EEC6A886-B698-4F48-9E0F-C5ED0C550E15>

⁶ Financial Services Authority, Regulation of the Financial Services Authority Number 18 of 2023 concerning the Issuance and Requirements for Sustainability-Based Debt Securities and Sukuk. Available at: <https://www.ojk.go.id/id/regulasi/Documents/Pages/Penerbitan-dan-Persyaratan-Efek-Bersifat-Utang-dan-Sukuk-Berlandaskan-Keberlanjutan-POJK-18-Tahun-2023/POJK%2018%20Tahun%202023%20-%20Penerbitan%20dan%20Persyaratan%20Efek%20Bersifat%20Utang%20dan%20Sukuk%20Berlandas.pdf>

Green/Transition-aligned instruments. The grandfathering period for both Green and Transition classifications is set to be the same for consistency and ease of administration across green and transition financing⁷.

Transparency Obligations

Issuers of financial instruments that use the TKBI for the classification of the underlying activities are responsible for conveying information to lenders or other stakeholders about potential changes in activity classification, including sunset dates, as soon as such change plans are known. Additionally, issuers need to document or prepare annual reports to ensure consistency in the use of funds with the relevant TSC,

C.3.1 Grandfathering Mechanism and Period for Bonds

The grandfathering mechanism for bonds being considered refers to the mechanism in the ATSF that aligns with the provisions in the EU Green Bond Standard⁸.

This grandfathering provision applies to bonds with proceeds that are allocated partially or entirely for:

1. Fixed assets that are not financial assets,
2. Capital expenditures,
3. Operating expenditure that was incurred no more than three (3) years before the issuance of the bond, and/or
4. Financial assets which were created no more than five (5) years after bond issuance.

Proceeds from the bond issuance must be allocated in alignment with TSC applicable at the time of issuance of the bond, whether for the TKBI Green-aligned or TKBI Transition-aligned classification, accompanied by an annual allocation reporting obligation.

Aiming to provide certainty regarding the classification of instruments that have been issued, even in light of changes to the TSC, the following are the proposed arrangements for the grandfathering mechanism for bonds.

1. Funds Allocated Before Changes to the TSC

If the proceeds from the bond issuance have been fully allocated to activities or assets prior to any changes to the TSC, the sustainability classification of the bond based on the activity classification in accordance with the initial TSC will remain valid until maturity, unaffected by changes in the TSC. This means that changes to the TSC do not affect the sustainability status of bonds that have been fully allocated. This provides stability in classification and prevents the need for readjustments to previously made allocations.

For the avoidance of doubt, allocation of proceeds applies to all cases where a bond issuance program with identified utilization for specific Activities or related assets has been approved, and for which the issuer has made a commitment to disburse funds, regardless of whether disbursement be made via a single issuance (tranche) or multi-issuances (tranches).

2. Funds Not Allocated at the Time of TSC Changes

If TSC changes after the bonds are issued but before all the funds have been allocated, allocation of the funds made within a maximum period of seven years from the date of the TSC changes can still be classified as compliant with the original TSC, provided that the intended use of the funds remains consistent. It means that the bond issuer has the flexibility to utilize the applicable TSC prior to the change for the classification of the underlying activities, thereby allowing the sustainability classification of the instrument based on the underlying activity to be maintained.

3. Portfolio Approach

For bonds with a portfolio approach, a grandfathering period of seven years also applies. After this period ends, all assets in the portfolio must comply with the latest TSC, and allocation reports must be published transparently in accordance with the applicable reporting requirements.

The following section covers several use cases aimed at providing a variety of illustrations for the grandfathering application in the context of bonds with funds have not been fully allocated at the time of TSC changes (either through

⁷ This also underpins the same approach used in the guidance for using the Singapore-Asia Taxonomy prepared by SSFA, "Guidance for Leveraging the SAT in Green and Transition Financing, Singapore".

⁸ European Union, Commission Delegated Regulation (EU) 2023/631 of 19 December 2022 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council, Official Journal of the European Union, L 83, pp. 1–142, Mar. 2023. [Online]. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202302631

changes or the sunset of a TSC). These examples are intended to provide stakeholders a clearer understanding of how the grandfathering mechanism works in practice.

Table 4. Summary of Use Cases of Implications on Bond Classifications Due to Changes in Activity Classification During the Grandfathering Period

Use Case	Dynamics of Activity Classification	Implications on Financial Instruments	Example of Application in TSC Activities
1	Implications on Bond Classification Due to Changes in Activity Classification from “Green” to “Unqualified” After TSC Changes (During the Grandfathering Period)		
	The initial classification of the activity is “Transition”, which then upgrades to “Green”. After the TSC changes, the activity is assessed using the new TSC and is classified as “Unqualified” because the “Transition” classification has been sunset.	The label of bond instruments may change in accordance with the classification of the underlying activity. However, once the grandfathering period begins, the “TKBI Green-aligned” label may be retained until maturity, provided that the change in activity classification is due to a revision of the TSC. If the classification change is due to performance deterioration, the grandfathering provision does not apply, resulting in the bond losing its “TKBI Green-aligned” label.	Construction, Extension and Operation of Wastewater Collection and Treatment
2	Implications on Bond Classification Due to Not Meeting DNSH Requirements After TSC Changes (During the Grandfathering Period)		
	The activity was initially classified as “Green”. However, it subsequently could not meet the DNSH criteria during grandfathering period, resulting in the activity being classified as “Unqualified”.	The bond is issued with the label “TKBI Green-aligned” and is grandfathered. However, as the activity is unable to meet the DNSH criteria, it becomes “Unqualified”. This change occurs not because of changes to the TSC, and the use of proceeds risks losing its sustainable label.	Power Transmission
3	Implications on Bond Classification Due to Changes in Activity Classification from “Transition” to “Unqualified” After TSC Changes (During the Grandfathering Period)		
	The activity was initially classified as “Transition”. After the TSC changes, the activity could not meet the “Green” criteria, and the “Transition” classification under the new TSC has been sunset, resulting in the activity being classified as “Unqualified”. Subsequently, in the following period (during the grandfathering period), the performance of the activity improved, allowing it to be reclassified as “Green”	The bond is issued with the label “TKBI Transition-aligned” and can retain that label until maturity, due to grandfathering, even if the underlying activities “Do Not Meet the Classification”, provided that no new funds are allocated after the change in the TSC.	Manufacture of Cement

Use Case 1 Bonds: Implications on Bond Classification Due to Changes in Activity Classification from “Green” to “Unqualified” After TSC Changes (During the Grandfathering Period)

In 2026, PT XYZ issued “TKBI Transition-aligned” bonds with a tenor of 17 years (2026-2043) to finance the construction of a wastewater treatment facility with a capacity of 150,000 p.e. This activity was assessed based on the TSC for EO1 – Climate Change Mitigation, as illustrated in [Table 5](#) (only the threshold for net energy consumption is shown).

The baseline design of the facility indicates an energy consumption of 55 kWh/p.e./year, leading to the initial classification of the activity as “Transition.” The instrument is issued with the label “TKBI Transition-aligned”. Over time, the facility’s performance improved to meet the “Green” classification. After the TSC changes in 2035, the activity now

longer meets the “Green” classification under the new TSC, and the “Transition” classification has been sunset. Therefore, the activity is considered “Unqualified”. However, during the grandfathering period until 2040, the bond may retain the “TKBI Green-aligned” label. In the last year of the grandfathering period, the bonds to lose their “TKBI Green-aligned” classification because the changes in the classification of the underlying activity is due to performance and not from TSC change.

Table 5. Illustrative Changes of TSC for Use Case 1

TSC (2026)*	Illustrative TSC (2035)**
The net energy consumption of the wastewater treatment plant: Green: (1a) ≤35 kWh per population equivalent (p.e.) per annum for treatment plant capacity below 10,000 p.e.; (1b) ≤25 kWh per population equivalent (p.e.) per annum for treatment plant capacity between 10,000 p.e. and 100,000 p.e.; (1c) ≤20 kWh per population equivalent (p.e.) per annum for treatment plant capacity above 100,000 p.e.; Transition: (1) ... ≤68 kWh per population equivalent (p.e.) per annum for all treatment capacity	The net energy consumption of the wastewater treatment plant: Green: (1a) ≤30 kWh per population equivalent (p.e.) per annum for treatment plant capacity below 10,000 p.e.; (1b) ≤20 kWh per population equivalent (p.e.) per annum for treatment plant capacity between 10,000 p.e. and 100,000 p.e.; (1c) ≤18 kWh per population equivalent (p.e.) per annum for treatment plant capacity above 100,000 p.e.; Transition: Sunset

*) For simplification, TSC shown only covers the net energy consumption threshold. The complete TSC is available on the Consultative Paper Final – Water Supply, Sewage and Waste Management Sector (WSSWM).

**) The TSC criteria for 2035 displayed are illustrative for use case purposes and may change. Currently, TKBI has not issued official criteria for the TSC period in 2035.

Table 6. Use Case 1: Implications on Bond Classification Due to Changes in Activity Classification from “Green” to “Unqualified” After TSC Changes (During the Grandfathering Period)

Year	Activity Evaluation	Financial Instrument Evaluation
2026	The company evaluates the wastewater treatment facility with a capacity of 150,000 p.e. against TSC EO1: Climate Change Mitigation. Baseline design: 55 kWh/p.e./year, within the threshold of “Transition” classification. DNSH Assessment EO2-EO4: no significant harms identified. The activity meets social aspects, thus receiving a final classification as “Transition”.	The bank issues bonds with a tenor of 17 years (2026-2043). Assessment result: bond is “TKBI Transition-aligned”.
2027-2033	Net energy consumption gradually decreases from 55 to 23 kWh/p.e./year. The facility consistently meets DNSH and social aspects. The activity is classified as “Transition” because it meets the “Transition” TSC.	In accordance with the underlying activity classification, the proceed allocation remains “TKBI Transition-aligned”.
2034	The facility reaches 19 kWh/p.e./year, meeting the “Green” criteria. The facility consistently meets DNSH and social aspects. The activity is then classified as “Green” because it meets the “Green” TSC.	In accordance with the underlying activity classification, the proceeds allocation in 2034 can be classified as “TKBI Green-aligned”.
2035-2036	A change in the TSC occurs in 2035, with the sunset of the “Transition” classification and the tightening of the “Green” TSC.	The grandfathering period begins in 2035. After the TSC changes, the activity is subject to the new TSC, but grandfathering rules apply to

Year	Activity Evaluation	Financial Instrument Evaluation
	The activity currently operates at 19 kWh/p.e./year, and the facility consistently meets DNSH and social aspects. Since grandfathering rules do not apply to activities, the activity is now assessed against the new TSC. Therefore, the activity is now classified as “Unqualified” because it does not meet the “Green” TSC and “Transition” tier is not available anymore.	financial instruments. Therefore, the bonds can continue to be labelled as “TKBI Green-aligned”.
2037-2040	The facility operates at 18 kWh/p.e./year, and the facility consistently meets DNSH and social aspects, so the activity remains to be classified as “Green” because it meets the new “Green” classification.	The bond is classified as “TKBI Green-aligned” during 2037–2040, as the underlying activity meets the “Green” classification criteria. The annual report discloses the use of proceeds as “TKBI Green-aligned.” The issuer must demonstrate transparency regarding which underlying activities qualify as green and which do not.
2041	Energy consumption rises to 22 kWh/p.e./year. The facility consistently meets DNSH and social aspects. However, since the “Transition” classification was already sunset in 2035, the activity can no longer be classified as “Transition”. Therefore, the activity is considered “Unqualified”.	The underlying activity no longer meets the “Green” classification under the previous TSC. This change in classification is due to performance deterioration, not a change in the TSC. Therefore, the grandfathering provision does not apply in this scenario, and the bond loses its “TKBI Green-aligned” classification.

Use Case 2 Bonds: Implications on Bond Classification Due to Not Meeting DNSH Requirements After TSC Changes (During the Grandfathering Period)

PT ABC issues “TKBI Transition-aligned” bonds in 2026 to finance the upgrade of the 110 kV electricity transmission network based on TSC EO1 – Climate Change Mitigation, as illustrated in **Table 7**. According to the initial TSC, the activity meets the “Green” classification, which is more than 67% of the newly connected generation capacity in the system has a lifecycle emissions of 95 gCO₂e/kWh, as well as meeting DNSH criteria and social aspects.

In 2031, the TSC is updated and grandfathering rules apply. The activity meets the “Green” classification based on the new TSC, and the proceeds allocation was made during the grandfathering period, allowing the bonds to retain the “TKBI Green-aligned” label until maturity. However, in 2032, there is significant harm to Protection of Healthy Ecosystems and Biodiversity (EO3). The activity is then classified as “Unqualified”, and the use of proceeds can no longer retain the sustainable label.

Table 7. Illustrative Changes of TSC for Use Case 2

TSC (2026)*	Illustrative TSC (2031)**
Green: (1) T&D infrastructure or equipment is a part of a System where: a. ≥67% of new generation capacity which achieved commercial operation on the System over a five-year rolling period is Green; OR b. Emission intensity <100 gCO ₂ e/kWh for the System measured on a life cycle basis over a rolling five-year period; ORand so on Transition: (1) lifecycle emissions ≥100 gCO ₂ e/kWh and <510 gCO ₂ e/kWh	Green: (1) T&D infrastructure or equipment is a part of a System where: a. ≥67% of new generation capacity which achieved commercial operation on the System over a five-year rolling period is Green; OR b. Emission intensity <100 gCO ₂ e/kWh for the System measured on a life cycle basis over a rolling five-year period; ORand so on Transition: (1) lifecycle emissions ≥100 gCO ₂ e/kWh and <285 gCO ₂ e/kWh

*) For simplification, TSC shown only covers the lifecycle emissions threshold. The complete TSC is available on the published TKBI version 2.

**) The TSC criteria for 2031 displayed are illustrative for use case purposes and may change. Currently, TKBI has not issued official criteria for the TSC period in 2031.

Table 8. Use Case 2: Implications on Bond Classification Due to Not Meeting DNSH Requirements After TSC Changes (During the Grandfathering Period)

Year	Activity Evaluation	Financial Instrument Evaluation
2026	The company assesses the upgrade of the 110 kV transmission network using TSC EO1: Climate Change Mitigation. The baseline activity has more than 67% of enabled generation capacity on the System over a five-year rolling period is 'Green' and is 95 gCO₂e/kWh (over a rolling five-year period). The activity is assessed against the DNSH requirements (EO2-EO4) and no significant harms are identified. The activity meets the requirements for Social Aspects, thus receiving a final classification as "Green".	Bonds with a tenor of 12 years labeled are issued. The result of the assessment is "TKBI Green-aligned".
2027-2030	The lifecycle emissions remain <100 gCO₂e/kWh, and >67% of the newly connected generation capacity is from renewable system. The facility consistently meets the DNSH requirements and social aspects. The activity is classified as "Green" because it meets the "Green" TSC.	Following the classification of the activity that underpins the financing, the proceeds allocation of this year remains classified as "TKBI Green-aligned".
2031	There is a change in the TSC with "Transition" classification being tightened. The activity still meets the "Green" thresholds under the new TSC (<100 gCO₂e/kWh and more than 67% of the newly connected generation capacity connected to renewable system and has lifecycle emissions of 95 gCO₂e/kWh), and the facility consistently meets the DNSH requirements and social aspects. The activity is classified as "Green".	The grandfathering period begins in 2031. After the TSC changes, the classification of the underlying activity must be assessed against the new TSC, allowing the use of proceeds to be classified as "TKBI Green-aligned". The bonds can retain their "TKBI Green-aligned" status until maturity.
2032	There is a significant harm identified from the activity on Protection of Healthy Ecosystems and Biodiversity (EO3). Thus, the activity does not meet DNSH and classified as "Unqualified".	Because the change in the underlying activity classification is not related to the TSC change in 2031, hence the grandfathering rules do not apply. Therefore, the bond can no longer retain its sustainable label.

Use Case 3 Bonds: Implications on Bond Classification Due to Changes in Activity Classification from "Transition" to "Unqualified" After TSC Changes (During the Grandfathering Period)

PT ABC issues "TKBI Transition-aligned" bonds in 2026 to finance the construction of an integrated cement plant with a capacity of 2.5 Mtpa using TSC EO1: Climate Change Mitigation, as illustrated in **Table 9**. According to the TSC, the activity is initially classified as "Transition" due to an emission intensity of 0.88 tCO₂e per ton of grey clinker produced. The bonds are issued with a tenor of 15 years (2026-2041).

In 2031, the TSC is updated with stricter criteria and a sunset for the "Transition" classification, requiring the activity to be assessed against the new TSC, resulting in the activity being classified as "Unqualified". However, the classification of the instrument can still retain the label "TKBI Transition-aligned" due to the grandfathering provisions, even though the classification of the underlying activity is deemed "Unqualified", provided that no new fund allocations occur after the TSC revision.

Table 9. Illustrative Changes of TSC for Use Case 3

TSC 2026*	Illustrative TSC (2031)**
Green: (1) Manufactures grey clinker where the specific GHG emissions ≤ 0.800 tCO₂e per tonne of grey clinker produced	Green: (1) Manufactures grey clinker where the specific GHG emissions ≤ 0.790 tCO₂e per tonne of grey clinker produced

TSC 2026*	Illustrative TSC (2031)**
Transition: (2) Until 31 December 2030, manufactures grey clinker where the specific GHG emissions ≤ 0.900 tCO ₂ e per tonne of grey clinker produced	Transition: Sunset

*) For simplification, TSC shown only covers the emission intensity threshold per unit of grey clinker. The complete TSC is available on the Consultative Paper Final – Manufacturing Sector.

**) The TSC criteria for 2031 displayed are illustrative for use case purposes and may change. Currently, TKBI has not issued official criteria for the TSC period in 2031.

Table 10. Use Case 3: Implications on Bond Classification Due to Changes in Activity Classification from “Transition” to “Unqualified” After TSC Changes (During the Grandfathering Period)

Year	Activity Evaluation	Financial Instrument Evaluation
2026	Company chooses to evaluate the cement production facility using TSC for EO1 – Climate Change Mitigation. <i>Baseline:</i> 0.88 tCO₂e/tonne grey clinker is within the Transition threshold (≤ 0.900 tCO₂e per tonne of grey clinker produced) and meets all TSC applicable to all classification. No significant harm identified during DNSH assessment (EO2-EO4). Activity meets social aspect, and is classified as “Transition” because it meets the “Transition” TSC.	The bank issues “TKBI Transition-aligned” bonds with a tenor of 15 years (2026-2041). The bond can be labelled as “TKBI Transition-aligned” because its proceeds are allocated to a “Transition” activity.
2027-2030	The emission intensity decreases to 0.85 tCO₂e/tonne grey clinker, and the facility continues to meet the applicable TSC for all classifications, as well as DNSH and social aspects. The activity is classified as “Transition” because it meets the “Transition” TSC.	Following the classification of the underlying activity, the use of proceeds allocation in these years remain “TKBI Transition-aligned”.
2031-2041	TSC is tightened for Green criteria and the Transition classification is sunset. After the TSC changes, the classification of the underlying activity must be assessed against the new TSC. The facility has an emission intensity of 0.85 tCO₂e/tonne grey clinker and continues to meet DNSH and social aspects. However, since the “Transition” classification has already been sunset and the activity does not meet the new “Green” TSC, therefore the activity is considered as “Unqualified”.	The grandfathering period begins in 2031. The use of proceeds allocation remains “TKBI Transition-aligned” up to maturity (2041) due to grandfathering rules, provided that no new fund allocations occur after the TSC revision.

C.3.2 Grandfathering Mechanism and Period for Other Financial Instruments

The grandfathering mechanism also applies to financial instruments beyond bonds, particularly, but not limited to, loans. The classification of financial instruments, such as loans, is determined based on the classification of the activities or assets financed at the time the instrument is issued. If the funds are disbursed in stages after the date of issuance, the

classification may still refer to the provisions in effect at the time of issuance, as long as the intended use of the funds remains unchanged. If there are updates to the TSC after the instrument is issued, the grandfathering period is set for seven years following the changes to the TSC and remains applicable as long as the stated use of proceeds does not change.

Flexibility is provided for the financing mechanism through innovative instruments, such as blended finance or fixed income securities with equity features. This approach aims to support the development of sustainable financial instruments that are adaptable to market needs and financing complexities while maintaining consistency and integrity in classification within the TKBI.

Several use cases are included to illustrate the application of grandfathering in the context of instruments other than bonds, particularly loans, following the tightening or sunset of a TSC. These detailed examples are intended to provide stakeholders with a clearer understanding of how the grandfathering mechanism works in practice.

Table 11. Summary of Use Cases of Implications on Loan Classification Due to Changes in Activity Classification During the Grandfathering Period

Use Case	Dynamics of Activity Classification	Implications on Financial Instruments	Example of Application in TSC Activities
4	Implications on Loan Classification Due to Changes in Activity Classification from “Transition” to “Unqualified” After TSC Changes (During Grandfathering Period)		
	The activity was initially classified as “Transition” and became “Unqualified” after the changes in the TSC. In the following year, the emission intensity of the activity decreased, allowing it to be reclassified as “Green.”	Loan issued as “TKBI Transition-aligned” until TSC changes will retain the “TKBI Transition-aligned” during grandfathering period, even though the underlying activity may subsequently be deemed “Unqualified”. In the following year, the loan can be relabeled as “TKBI Green-aligned” because the underlying activity has undergone a classification change, resulting in grandfathering no longer being applicable.	Manufacture of cement
5	Implication on Loan Classification Due to Changes in Activity Classification from “Green” to “Transition” After TSC Changes (During Grandfathering Period)		
	The activity meets the “Transition” classification (interim) and then meet “Green” classification (final classification). After TSC changes, the activity must be assessed based on the new TSC, resulting in it being classified as “Transition.” In the subsequent years, as the emissions of the activity decrease, it can be reclassified as “Green” based on the new TSC.	Loan with “TKBI Green-aligned” label upon TSC change can retain the status within the 7-year grandfathering period, unless there is a decline in the performance of the activity that results in the grandfathering being rendered inapplicable.	Electricity generation from bioenergy power

Use Case 4 Loan: Implication on Loan Classification Due to Changes in Activity Classification from “Transition” to “Unqualified” After TSC Changes (During the Grandfathering Period)

This use case scenario is the same as per the one in use case 3, but focusing on loan, instead of bond, as the financial instrument.

PT ABC issued “TKBI Transition-aligned” loan in 2026 to finance the construction of 2,5 Mtpa cement factory, using TSC for EO1: Climate Change Mitigation as illustrated in **Table 12** Activity is classified as “Transition” following the emission intensity of 0,88 tCO₂e per ton grey clinker produced. Loan is issued for 15 years (2026-2041).

In 2031, the TSC is revised with stricter criteria and the sunset of the “Transition” classification, requiring activities to be reassessed under the new TSC. As a result, the activity is reclassified as “Unqualified”. However, the instrument may retain the “TKBI Transition-aligned” label under the grandfathering provision for a period of seven (7) years, until 2037.

Table 12. Illustrative Changes of TSC for Use Case 4

TSC 2026*	Illustrative TSC (2031)**
Green: (1) Manufactures grey clinker where the specific GHG emissions are ≤ 0.800 tCO ₂ e per tonne of grey clinker produced Transition: (2) Until 31 December 2029, manufactures grey clinker where the specific GHG emissions are $\leq 0,900$ tCO ₂ e per tonne of grey clinker produced	Green: (1) Manufactures grey clinker where the specific GHG emissions are ≤ 0.790 tCO ₂ e per tonne of grey clinker produced Transition: <i>Sunset</i>

*) For simplification, TSC shown only covers emission intensity threshold per grey clinker produced. The complete TSC is available on the Consultative Paper Final – Manufacturing Sector.

**) The TSC criteria displayed for 2031 are Illustrative TSC for use case purposes and may change. Currently, TKBI has not issued official criteria for the TSC in 2031.

Table 13. Use Case 4: Implication on Loan Classification Due to Changes in Activity Classification from “Transition” to “Unqualified” After TSC Changes (During the Grandfathering Period)

Year	Activity Evaluation	Financial Instrument Evaluation
2026	Company chooses to evaluate the cement production facility using TSC for EO1 – Climate Change Mitigation. Baseline: 0,88 tCO₂e/tonne grey clinker is within the Transition threshold ($\leq 0,900$ tCO₂e per tonne of grey clinker produced) and meets all TSC applicable to all classification. No significant harm identified during DNSH assessment (EO2-EO4). Activity meets social aspect, and is receiving the final classification as “Transition”.	Bank issued 15-year “TKBI Transition-aligned” loan (2026-2041). The loan can be labelled “TKBI Transition-aligned” because its proceeds are allocated to a “Transition” Activity.
2027-2030	The emission intensity decreases to 0.85 tCO ₂ e/tonne grey clinker, and the facility continues to meet the applicable TSC for all classifications, as well as DNSH and social aspects. The activity is classified as “Transition” because it meets the “Transition” TSC.	Annual loan performance review shows that underlying activity and overall loan is “TKBI Transition-aligned”.
2031-2037	TSC is tightened for “Green” criteria and the “Transition” classification is sunset. After the TSC changes, the classification of the underlying activity must be assessed against the new TSC since 2031. The facility has an emission intensity of 0.85 tCO₂e/tonne grey clinker and continues to meet DNSH and social aspects. The activity cannot be classified as “Transition” because the “Transition” TSC has been sunset hence the activity is classified as “Unqualified”.	Grandfathering period starts in 2031. Annual loan performance review shows that label of the disbursed loan in 2031 and overall loan is “TKBI Transition-aligned” for a period of seven (7) years until 2037, aligned with the initial classification of the activity upon loan issuance, due to grandfathering, even though the underlying activity can no longer be classified as “Transition” based on the new TSC.

Use Case 5 Loan: Implication on Loan Classification Due to Changes in Activity Classification from “Green” to “Transition” After TSC Changes (During Grandfathering Period)

PT DEF took a loan in 2026 for development of bioenergy power plant, assessment is done against TSC for EO1 – Climate Change Mitigation as illustrated in **Table 14**. With lifecycle emission of 95 gCO₂e/kWh and RMT plan, activity is classified as “Transition” (interim) and finally “Green” after RMT completion in 2029. After TSC change in 2031, the activity could only meet the “Transition” classification under the new TSC. However, under the grandfathering rules, the instrument can retain the label “TKBI Green-aligned”. Then, in the following year, the performance of the activity declined, and emissions reached 110 gCO₂e/kWh, causing the loan for that year to be classified as “TKBI Transition-aligned” because the activity no longer meets the original “Green” TSC. Therefore, the changes to the TSC are not the reason for the loss of the underlying asset classification, and the grandfathering provisions do not apply in this case

Table 14. Illustrative Changes of TSC for Use Case 5

TSC 2026*	Illustrative TSC (2031)**
Green: (1) Lifecycle GHG emissions from the generation of electricity by the entire facilities <100 gCO ₂ e/kWh Transition: (1) Lifecycle GHG emissions from the generation of electricity by the entire facilities ≥100 gCO ₂ e/kWh <510 gCO ₂ e/kWh during the term of the Power Purchase Agreement.	Green: (1) Lifecycle GHG emissions from the generation of electricity by the entire facilities <95 gCO ₂ e/kWh Transition: (1) Lifecycle GHG emissions from the generation of electricity by the entire facilities ≥95 gCO ₂ e/kWh dan <285 gCO ₂ e/kWh during the term of the Power Purchase Agreement.

*) For simplification, TSC shown only covers lifecycle emissions threshold. The complete TSC is available on the published TKBI version 2.

**) The TSC criteria displayed for 2031 are Illustrative TSC for use case purposes and may change. Currently, TKBI has not issued official criteria for the TSC in 2031.

Table 15. Use Case 5: Implication of Loan Classification Due to Changes in Activity Classification from “Green” to “Transition” After TSC Changes (During Grandfathering Period)

Year	Activity Evaluation	Financial Instrument Evaluation
2026	Company chooses to evaluate the bioenergy power plant using TSC for EO1 – Climate Change Mitigation. Baseline lifecycle emissions is ~95gCO ₂ e/kWh and is within the green threshold. DNSH assessment (EO2-EO4) shows significant harm risk and the company has RMT plan to remediate all harms within 3 years from 2026. Company meets social aspects criteria. Activity is classified as “Transition” on interim basis.	Bank issued 10-year “TKBI Transition-aligned” loan. Allocation reporting starts this year (2026).
2027-2028	Emission is stable at 95 gCO ₂ e/kWh and facility continues to remediate significant harm risk while meeting social aspect. Activity is classified as “Transition”.	Annual loan performance review shows that underlying activity and overall loan is “TKBI Transition-aligned”.
2029	Within 3 years after initial assessment, emission is verified at 95 gCO ₂ e/kWh and activity meets DNSH assessment (no significant harm) and social aspect. Activity is classified as “Green” because it meets the “Green” TSC.	Annual loan performance review shows that DNSH assessment is met and loan is relabelled to be “TKBI Green-aligned” because the use of proceeds is being allocated to “Green” activity.
2030	Facility maintains emission at 95 gCO ₂ e/kWh and continues to meet DNSH and social aspect	Following the classification of activity, the annual loan performance review shows that the overall loan label is “TKBI Green-aligned”.

Year	Activity Evaluation	Financial Instrument Evaluation
	criteria. Activity is classified as “Green” because it meets “Green” TSC.	
2031	TSC is tightened for Green and Transition. Facility maintains emission at 95 gCO ₂ e/kWh. Thus, the activity does not meet “Green” criteria based on the new TSC but consistently meeting the DNSH and social aspect criteria. Activity is classified as “Transition” because it meets the new “Transition” TSC.	Grandfathering period starts in 2031. Although the classification of the underlying Activity is not “Green” anymore based on the new TSC, the loan can remain “TKBI Green-aligned” for 7 years due to grandfathering.
2032-2035	After TSC change, emissions become ~110 gCO ₂ e/kWh, while meeting DNSH and social aspect criteria. Activity is classified as “Transition” because it meets the new “Transition” TSC.	Grandfathering rules only applies where the underlying activity classification changes due to TSC change. In this scenario, the activity does not meet the original “Green” TSC, so the changes to the TSC are not the reason for the loss of the underlying asset classification. Therefore, the grandfathering provisions do not apply in this instance. Annual loan performance review shows that loan during 2032-2035 is “TKBI Transition-aligned”.
2036	Loan meets its tenure, emission from the activity is 94 gCO ₂ e/kWh with DNSH and social aspect criteria are met. Activity is classified as “Green” because it meets the new “Green” TSC.	Annual loan performance review explains that activities classified as “Green” based on the new TSC, aligned with the loan labeled as “TKBI Green-aligned”. Final annual allocation report shows that loan is “TKBI Green-aligned” for 2036.

C.4 Discussion Points Related to Grandfathering

1	What is your perspective on the effectiveness of the proposed grandfathering mechanism in providing consistency in classification and maintaining market stability? Could you provide alternative suggestions to enhance the effectiveness of the proposed grandfathering mechanism?
2	Is the scope of financial instruments for green and transition financing included in the grandfathering mechanism appropriate for the context of Indonesia? Otherwise, which instruments should be expanded or clarified?
3	Are there other financial instruments or specific scenarios that you believe should be governed by separate grandfathering provisions in the next version of TKBI? If so, please explain the examples, the feasibility considerations for implementation in Indonesia, and references to international practices.
4	Is a 7-year grandfathering period considered practical and relevant for financial instruments in Indonesia? Otherwise, what would be more appropriate duration, and why? Are there specific sectors, scenarios, or financial instruments that should be given special consideration at exception?
5	Are there challenges in implementing this grandfathering mechanism? Could you provide some examples of practical scenarios, along with recommended solutions?
6	What additional information or guidance do you think would assist issuers in adopting the grandfathering mechanism, including transparency obligations?
7	What is your opinion on the proposed grandfathering mechanism for a portfolio approach to financial instruments? In the current market practice, what are the reporting mechanisms and allocation requirements for bonds with a portfolio approach? How practical is it to integrate this grandfathering mechanism into existing reporting formats (e.g., Laporan Realisasi Penggunaan Dana)?
8	Is the explanation of the grandfathering mechanism, including the terminology used clear and easy to understand? If not, please suggest alternative terms or details that could make this mechanism easier to understand.