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Client Alert

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Singapore: MAS consults on guidelines on transition planning for a net-zero economy

In brief

On 18 October 2023, the Monetary Authority of Singapore (MAS) issued a set of consultation papers proposing guidelines on transition planning by banks, insurers and asset managers ("**TP Guidelines**") to enable the global transition to a net-zero economy. The TP Guidelines set out MAS' supervisory expectations for the in-scope financial institutions to have a sound transition-planning process to enable their customers and investee companies to take effective climate change mitigation and adaptation measures when dealing with the global transition to a net-zero economy and the expected physical effects of climate change.

In this issue

Proposed guidelines on transition planning to a net-zero economy

Application of the TP Guidelines

MAS proposes to apply the TP Guidelines to certain in-scope financial institutions in respect of their corresponding activities, as summarised in the table below.

In-scope financial institutions ("In-scope FIs")	In-scope FIs' relevant activities to which the TP Guidelines will apply
- Banks and merchant banks licensed under the Banking Act 1970 - Finance companies licensed under the Finance Companies Act 1967 ("**Banks**")	- Extension of credit to corporate customers and underwriting for capital market transactions - Other activities that involve exposure to material environmental risks - Banks with material investment activities should refer to the relevant sections of the TP Guidelines for asset managers for sound transition-planning practices with respect to investments.
All insurers, including insurers carrying on business in Singapore under a foreign insurer scheme established under Part 2A of the Insurance Act 1966 ("**Insurers**")	- Underwriting and investment activities - Other activities that involve exposure to material environmental risks - Insurers with material investment activities should refer to the relevant sections of the TP Guidelines for asset managers for sound transition-planning practices with respect to investments.

- All holders of a capital markets services licence for fund management and/or real estate investment trust management - Fund management companies registered under paragraph 5(a)(i) of the Second Schedule to the Securities and Futures (Licensing and Conduct of Business) Regulations, i.e., registered fund management companies ("**Asset Managers**")	The TP Guidelines will apply to Asset Managers that have discretionary authority over the portfolios that they are managing. This includes funds, real estate investment trusts and segregated mandates. Where Asset Managers delegate the investment management of such portfolios to sub-managers or advisers, they should still retain overall responsibility for their compliance with the expectations set out in the TP Guidelines.

As the scale, scope and business models of In-scope FIs can be different, they will be expected to implement the TP Guidelines in a way that is commensurate with the size, nature and risk profiles of their activities.

Key MAS expectations under the TP Guidelines

The TP Guidelines build on MAS' existing supervisory guidance to the In-scope FIs and focus on the In-scope FIs' internal strategic planning and risk management processes to prepare for both risks and potential changes in business models associated with the transition. While the underlying risk principles are similar, the TP Guidelines were developed recognising the different business models and needs of the In-scope FIs in banking, insurance and asset management.

We summarise the key expectations under the TP Guidelines in the table below.

Governance and strategy	Decisions made by the board and senior management around business strategy and risk appetite should consider how the current and future operating environment will impact the In-scope FIs' risk profiles. Senior management should actively ensure that climate-related business strategies and risk appetites are effectively embedded within operations, and establish mechanisms through which the In-scope FIs' existing approach (and its implementation) to responding to climate-related risks is regularly refined.
Stakeholder engagement	The In-scope FIs should have a structured process to engage customers and investee companies on the physical and transition risks they face and work closely with them to implement effective measures to reduce their carbon footprint and build resilience to climate change. Indiscriminate withdrawal of credit, insurance coverage or investments by the In-scope FIs from customers or investee companies deemed to be at higher climate-related risk will deprive those entities with credible transition and adaptation plans of the financing they need to decarbonise.
Multiyear perspective	Given that the time horizons for physical and transition risks to manifest are long and uncertain, the In-scope FIs need to take a multiyear risk perspective when assessing the sustainability of their business models and portfolios.

	This implies the use and continual refinement of forward-looking risk management tools like scenario analysis and stress testing. The In-scope FIs should also seek to improve data availability and their understanding of it, including the need to contextualise metrics for better risk assessment — for instance, point-in-time financed emissions should be supplemented with forward-looking information, such as customers' and investees' planned transition pathways.
Holistic treatment of risks, as well as recognising environmental risks beyond climate-related risks	The interactions across risk drivers in the transition toward a net-zero economy are complex. As the In-scope FIs are exposed to climate-related risks through the effects of both transition and physical risks to their portfolios, they should take an integrated approach to climate mitigation and adaptation measures by working closely with their customers and investee companies. To facilitate a better understanding of the impact of climate change on customers' or investee companies' businesses and risk profiles or investment portfolios, the In-scope FIs should collect climate-related risk data from their stakeholders. They should consider developing or building on existing structured templates to facilitate the collection of consistent and comparable data. In addition, the loss of nature capital and biodiversity must be recognised and addressed as related but distinct environmental risks to be managed. Therefore, the In-scope FIs should holistically consider the important interdependencies between climate and nature as well as the potential trade-offs, such as environmental degradation, arising from the pursuit of climate solutions.
Transparency	The In-scope FIs are expected to disclose meaningful and relevant information to help stakeholders understand how they are responding in the short, medium and long term to material climate-related risks, and the governance and processes for addressing such risks. Sharing relevant information from the transition-planning process could prevent adverse reactions and accusations of greenwashing arising from heightened scrutiny of the In-scope FIs' activities, while allowing them to demonstrate accountability for any public commitments they have made.

Implementation timeline and transitional period

As MAS is cognisant that some In-scope FIs may face initial challenges in implementing the TP Guidelines, including in relation to the availability of data and expertise, and will need time to operationalise the requirements, MAS is proposing to provide a transition period of **12 months** after the TP Guidelines are issued for the In-scope FIs to assess and implement the TP Guidelines as appropriate.

MAS is seeking comments on the consultation papers until **18 December 2023, 11:59 pm**.

If you have any feedback or questions, please let us know.

The above is not intended to be exhaustive or to constitute legal advice.

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