

MEMO# 32596

July 13, 2020

Monetary Authority of Singapore (MAS) Proposes Environmental Risk Management Guidelines for Asset Managers

[32596]

July 13, 2020 TO: ICI Global Members

ESG Task Force

ICI Global Regulated Funds Committee SUBJECTS: Compliance

Disclosure

ESG

International/Global

Investment Advisers

Portfolio Oversight

Risk Oversight RE: Monetary Authority of Singapore (MAS) Proposes Environmental Risk Management Guidelines for Asset Managers

The Monetary Authority of Singapore (MAS) has issued a set of three consultation papers on separate proposed Guidelines on Environmental Risk Management for asset managers, banks, and insurers, with feedback due on 7 August at 6:30 p.m. (Singapore Standard Time).^[1] The proposed Guidelines set out MAS' supervisory expectations for financial institutions' governance, risk management, and disclosure of environmental risk.

We are holding two member calls to discuss our response to the consultation on proposed Guidelines for asset managers. The first call, for members in Asia, will be held on **Thursday, 16 July, at 9:00 a.m. (HKT)** (9:00 p.m. EST on 15 July). The second call, for members in the US and Europe, will be held on **Thursday, 16 July, at 11:00 a.m. (EST) / 4:00 p.m. (BST)**. Please contact Linda French (linda.french@ici.org) if you have not yet received a calendar invite and would like to join one of the calls.

This summary focuses on the proposed Guidelines for asset managers. MAS notes that it is crucial for asset managers to ensure the resilience of their customers' assets against the impact of environmental risk. The Guidelines also state that asset managers can play a key role in the transition towards an environmentally sustainable economy by channeling capital through their green investment activities.^[2]

The proposed Guidelines on Environmental Risk Management for asset managers focus on

four main areas.[\[3\]](#)

1. **Governance** – Boards and senior management of asset managers are expected to incorporate environmental considerations into their strategies, business plans, and product offerings, and maintain effective oversight of the management of environmental risk.
2. **Risk Management** – Asset managers should put in place policies and processes to assess, monitor, and manage environmental risk.
3. **Stewardship** – Asset managers should exercise sound stewardship to manage environmental risk associated with investee companies.
4. **Disclosure** – Asset managers should make regular and meaningful disclosure of their environmental risks.

I. Scope

The Guidelines for asset managers will apply to all institutions licensed to carry on the regulated activity of fund management or real estate investment trust management, and all registered fund management companies, under the Securities and Futures Act.[\[4\]](#) MAS will expect banks that engage in asset management also to adhere to these Guidelines. The consultation includes some language around proportionality.

The Guidelines generally would apply only to asset managers that have discretionary authority over the investments of the funds/mandates that they are managing. The consultation also notes that the Guidelines are not intended to prohibit or restrict asset managers from complying with and discharging their fiduciary duties and other legal obligations to their customers.

II. Definition of Environmental Risk

The proposed Guidelines define environmental risk as risk arising from the potential adverse impact of changes in the environment on economic activities and human well-being, including issues such as climate change, loss of biodiversity, pollution, and changes in land use. MAS views environmental risk as posing potential financial impact to funds/mandates managed by asset managers, through both physical and transition risk.[\[5\]](#) The Guidelines also mention that asset managers can be subject to reputational risk when making investments into companies whose business activities have a negative impact on the environment.

III. Proposed Guidelines on Governance and Strategy

The Guidelines set out detailed expectations on the board of directors and senior management to oversee the integration of environmental considerations into the asset manager's strategies, business plans, and products.

Board oversight. MAS seeks comment on the proposed responsibilities of the board in overseeing environmental risk management, which include approving an environmental risk management framework and policies, and setting clear roles and responsibilities of the board and senior management.[\[6\]](#)

Senior management responsibilities. MAS seeks comment on the proposed responsibilities of senior management, which include developing an environmental risk management framework and policies, regularly reviewing their effectiveness, and allocating adequate resources to manage environmental risk of the assets managed.[\[7\]](#)

Designation of an individual or committee. MAS requests comment on its proposal that, where environmental risk is deemed material to the funds/mandates managed, asset managers should designate a senior management member or a committee to oversee environmental risk.[\[8\]](#)

IV. Proposed Guidelines on Management of Environmental Risk on Investments

The proposed Guidelines focus on assessment and management of the potential impact of relevant environmental risk on an investment's financial returns.

Integration in investment process. MAS seeks feedback on the examples of tools and metrics that may be used by asset managers to assess the impact of environmental risk at both the individual investment and portfolio level.[\[9\]](#) The proposed Guidelines require asset managers to embed relevant environmental risk considerations in their research and portfolio construction processes if they have assessed them to be material. The asset manager should apply appropriate tools and metrics to identify sectors with higher environmental risk and then develop sector-specific risk guidance for its investment personnel. For portfolio construction, MAS expects asset managers to measure and manage environmental risk factors that are present in a portfolio on an aggregate basis, where material (e.g., GHG emissions of a portfolio, with references to a benchmark of a comparator group).

Scenario analysis. MAS seeks feedback on the examples of tools and metrics that may be used by asset managers to conduct ongoing portfolio risk management, including scenario analysis.[\[10\]](#) The Guidelines would require asset managers to put in place appropriate processes and systems to monitor, assess, and manage the potential and actual impact of environmental risk on individual investments and portfolios on an ongoing basis, where material. MAS specifically proposes extensive requirements around scenario analysis to evaluate portfolio resilience and valuation under different environmental risk scenarios. Asset managers should maintain proper documentation of the key features of the scenario analysis, including the choice of scenarios, reasonableness of assumptions, assessment of scenario analysis results, considerations on the need to take actions, and actions taken to address the risk.

Examples of current practices. MAS requests examples of sound risk management practices currently implemented by asset managers, which would meet the expectations in the Guidelines.[\[11\]](#)

V. Proposed Guidelines on Stewardship

MAS seeks comments on the expectation for asset managers to incorporate environmental risk considerations into their stewardship frameworks, including establishing a process for issue prioritization and maintaining proper documentation.[\[12\]](#) MAS also states that asset managers should consider collaborative engagements with other asset managers/investors.

VI. Proposed Guidelines on Disclosure

MAS seeks comments on the proposed form of disclosure of environmental risk by an asset manager.[\[13\]](#)

Manager-level disclosure. MAS proposes that an asset manager disclose its approach to managing environmental risk and the potential impact of material environmental risk on

the assets it manages, including quantitative metrics such as exposures to sectors with higher environmental risk. An asset manager's disclosure may be consolidated at the group or head office level.

International frameworks. MAS also proposes that asset managers use international reporting frameworks, including the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), to guide their environmental risk disclosures as follows:

- Governance, including the board's oversight and management's role in assessing and managing climate-related risks and opportunities;
- Strategy, in relation to how climate-related risks and opportunities are factored into relevant products or investment strategies, where such information is material;
- Risk management, with regard to how the asset manager identifies, assesses, and manages climate-related risks (including through engagement with investee companies); and
- Metrics and targets, to assess and manage relevant climate-related risks and opportunities where such information is material.

VII. Implementation Timeline

MAS seeks comment on its proposed implementation approach, including a 12-month transition period, beginning once the Guidelines are finalized, for financial institutions to implement the Guidelines.^[14]

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endnotes

[1] See MAS press release at <https://www.mas.gov.sg/news/media-releases/2020/mas-consults-on-environmental-risk-management-guidelines-for-financial-institutions>. The MAS press release notes that the Guidelines were co-created with the Association of Banks in Singapore, General Insurance Association of Singapore, Life Insurance Association Singapore, Singapore Reinsurers' Association, and Investment Management Association of Singapore.

[2] See also MAS' Green Finance Action Plan to become a leading global center for green finance, available at <https://www.mas.gov.sg/development/sustainable-finance>.

[3] The proposed Guidelines for banks and insurers similarly focus on governance, risk management, and disclosure.

[4] See p. 14-15.

[5] According to the Guidelines, physical risk arises from the impact of weather events and long-term or widespread environmental changes. Transition risk arises from the process of adjustment to an environmentally sustainable economy, including changes in public

policies, disruptive technological developments, and shifts in consumer and investor preferences. See p. 16-17.

[\[6\]](#) See Consultation Question 2, on p. 7 and 19-20.

[\[7\]](#) See Consultation Question 3, on p. 7 and 19-20.

[\[8\]](#) See Consultation Question 4, on p. 8 and 19.

[\[9\]](#) See Consultation Question 5, on p. 8 and 21-23.

[\[10\]](#) See Consultation Question 6, on p. 23-24.

[\[11\]](#) See Consultation Question 10, on p. 11.

[\[12\]](#) See Consultation Question 7, on p. 25-26.

[\[13\]](#) See Consultation Question 8, on p. 10 and 26-27.

[\[14\]](#) See Consultation Question 11, on p. 11.

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