

MEMO# 35501

November 2, 2023

Asia ESG: Singapore Proposes Transition Planning Guidelines for Asset Managers

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November 02, 2023

TO: ICI Global Members

Asia Regulatory and Policy Committee

ESG Advisory Group SUBJECTS: ESG

International/Global RE: Asia ESG: Singapore Proposes Transition Planning Guidelines for Asset Managers

On October 18, 2023, the Monetary Authority of Singapore (MAS) launched a consultation on proposed guidelines on transition planning for asset managers,[\[1\]](#) along with two separate proposed guidelines for banks and insurers.[\[2\]](#) Building on MAS' existing supervisory guidelines on environmental risk management,[\[3\]](#) the proposed guidelines set out additional details on asset managers' transition planning processes, covering areas on (i) governance and strategy, (ii) portfolio management, (iii) engagement and stewardship, and (iv) disclosures.

Under the proposal, where climate risk is assessed to be material in the portfolios, MAS expects asset managers' transition planning would involve active customer and investee engagement on the need to adopt climate mitigation and adaptation strategies, and when possible, encourages setting decarbonization targets that are supportive of the global transition to a low carbon economy.

As with MAS' existing environmental risk management guidelines, the transition planning guidelines would apply to asset managers that have discretionary authority over the portfolios they are managing. Asset managers that delegate investment management to sub-managers or advisers would retain overall responsibility for complying with MAS' expectations on transition planning.

The consultation will close on December 18, 2023. Asset managers will have 12 months to implement the requirements after the transition planning guidelines are finalized.

KEY ASPECTS OF THE PROPOSED TRANSITION PLANNING GUIDELINES FOR ASSET MANAGERS

Increased Regulatory Expectations on Engagement and Stewardship Activities

The current environmental risk management guidelines set out the broad expectations for asset managers to incorporate environmental risk considerations into their stewardship framework. MAS proposes that asset managers should develop an engagement and stewardship plan with clear objectives or intended outcomes to support their overall strategy to address climate-related risks in their portfolios. Under the current guidelines, asset managers are required to establish a process to prioritize issues and companies for engagement that is consistent with the interests of its customers and aligned with the asset manager's investment objective and strategy. The proposed guidelines would clarify how to approach prioritizing engagement, indicating in particular that asset managers should take into consideration the climate risk profiles of their investee companies and prioritize their engagement with companies that are more vulnerable to transition and/or physical risks.

In cases where investee companies are not responsive to engagement, the proposed guidelines indicate asset managers should have an escalation framework in place with appropriate consequences, for example, voting against directors, remuneration policies and annual reports, terminating support to future capital-raising efforts, and divesting. Nevertheless, MAS highlights its view that engagement, instead of divestment, should be the key lever of asset managers' stewardship activities.

Encouragement to Set Decarbonization Targets

MAS encourages asset managers to consider setting decarbonization targets. MAS further indicates that such targets (if any) should be based on appropriate science-based pathways, relevant to the specific risk profile of the portfolios managed by the asset manager, and should take into consideration the likelihood of progressively stronger policy responses by governments to fulfill Paris Agreement commitments.

Recognizing that asset managers may face challenges in setting decarbonization targets for certain investments or portfolios, for example, in view of customers' preferences or due to a lack of credible data, MAS proposes that asset managers in these cases should document the explanation of any alternative approaches or mitigation actions taken to manage the climate risks for these investments. MAS expects asset managers to expand the scope of the investments or portfolios covered by decarbonization targets over time by engaging and educating customers on the importance of managing climate-related risks and the impact of climate change on investee companies' risk-return profiles.

Requirement to Disclose Transition Planning Process

MAS will require disclosure on how asset managers are responding over the short-, medium-, and long-term to material climate-related risks they and their portfolios face, as well as the governance of processes for addressing such risks. MAS further states that the disclosures should be in accordance with well-regarded international reporting frameworks, and highlights the International Sustainability Standards Board (ISSB) standards as an example. The proposed guidelines are not clear with respect to whether asset managers would be required to disclose information using the full set of ISSB Climate Standards.

Further, asset managers will be required to consider the appropriate level of disclosures of climate-related considerations embedded in every product, in order to facilitate an understanding of how a given asset manager's overall climate-risk strategies are relevant to the products it offers. MAS suggests asset managers may consider using taxonomies

(including the EU Taxonomy and Singapore-Asia Taxonomy) in their product-level disclosures.

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Notes

[1] Consultation Paper on Proposed Guidelines on Transition Planning for Asset Managers, October 2023, available at <https://www.mas.gov.sg/publications/consultations/2023/consultation-paper-on-proposed-guidelines-on-transition-planning-for-asset-managers>.

[2] MAS Guidelines for Financial Institutions on Transition Planning for a Net Zero Economy, October 18, 2023, available at <https://www.mas.gov.sg/news/media-releases/2023/mas-proposes-guidelines-for-financial-institutions-on-transition-planning>.

[3] Guidelines on Environmental Risk Management for Asset Managers, December 2020, available at <https://www.mas.gov.sg/regulation/guidelines/guidelines-on-environmental-risk-management-for-asset-managers>; ICI Memorandum [33009], dated December 23, 2020, available at <https://www.ici.org/memo33009>.

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