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Monetary Authority of Singapore

10 Shenton Way, MAS Building
Singapore 079117

ASIFMA AMG Feedback on Consultation Paper on Proposed Guidelines on Environmental Risk Management (Asset Managers)

The below responses will be submitted to the Monetary Authority of Singapore (“MAS”) online system on 7 August 2020.

Q1. MAS seeks comments on the entities and business activities that are in the proposed scope of the Guidelines.

On behalf of the Asset Management Group (“AAMG”) of Asia Securities Industry & Financial Markets Association (“ASIFMA”), we wish to submit the views of our members, which are predominantly global asset managers, on the MAS Consultation Paper on Proposed Guidelines on Environmental Risk Management (Asset Managers).

We have no issue with the entities in scope of the proposed Guidelines, namely holders of a capital markets licence for fund management (“LFMC”) and real estate investment trust (“REIT”) management, and fund management companies registered (“RFMC”) under paragraph 5(1)(i) of the Second Schedule to the Securities and Futures (Licensing and Conduct of Business) Regulations (Rg.10) (collectively “asset managers”).

However, we think that it would be helpful to clarify the scope of the Guidelines given the diversity of business activities and roles carried out by asset managers. The Guidelines, for example, only propose exclusion from applicability where the asset manager does not have discretionary authority over the investments of the funds/mandates.

Active or Passive Managers

We would like it if the Guidelines can clarify whether asset managers with passive mandates or strategies linked to benchmarks and indices would be included or excluded.

Some of our members are of the view that asset managers which manage passive funds or mandates should be excluded from the Guidelines, particularly the Guideline’s investment management, risk management and tools and metrics aspects, because such managers merely

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make investments based on the constituents in an index that they are tracking and do not exercise any discretion per se. Whether it is their client who chooses a particular index or a fund that is designed to track an index, the investment manager thereof has no choice but to track the index when making investments.

However, some other members would like to see managers of passive mandates or strategies to be within scope of the Guidelines because inclusion of passive managers within the Guidelines would enable investors to better compare and assess active and passive managers' approach to environmental risk management and the underlying environmental risk of individual companies within a benchmark or index. They also feel that any attempt to introduce ESG principles and environmental risk management into the broader investment community by regulators will be diluted if passive managers are excluded due to the sheer size of passive funds.

We feel that it would be helpful if the MAS can be more explicit about how the Guidelines would apply in the passive context, for example, in research and portfolio construction, and portfolio risk management. We do think that ultimately, materiality should be the driving concept behind applicability of the Guidelines.

Client Mandate and Investment Objective/Guideline

In addition and more important, we ask that the Guidelines take into consideration the fact that the asset managers' discretionary authority is limited by the investment objective(s) and guidelines of the fund and/or client mandate that they manage or the risk profile of client. Therefore, we would suggest that the Guidelines adopt a more flexible approach so that discretionary managers can take into consideration such investment objectives and guidelines. With more and more institutional investors paying attention to ESG factors in their investments, we believe that providing discretionary asset managers with such flexibility would not detract from the intentions of the Guidelines.

Primary Manager or Delegate

We also believe that it is important for the Guidelines to recognize the different roles of an asset manager, i.e. as the primary investment manager or just a delegate of a primary investment manager. For example, under the laws of certain jurisdictions (e.g. US ERISA requirements), asset managers may have a fiduciary duty to select investments based solely on financial considerations, albeit over a certain time horizon. If an asset manager in Singapore is merely a delegate or sub-investment manager of a fund/mandate managed by an overseas asset manager, even if it has discretion, it is bound by the investment objectives as well as the requirements to which the primary investment manager is subject.

Being part of a global asset management firm, many of our members may be managing their group's funds/mandates or the Singapore or Asian sleeve of such funds/mandates. For example, they may be managing UCITS funds, such as Luxembourg SICAVs, which are subject to UCITS requirements and guidelines. To avoid conflict or unnecessary duplication, we suggest that the Guidelines permit asset managers in Singapore to comply with the environment risk management guidelines or requirements of the jurisdiction where the funds they manage are domiciled or where the mandates they manage are originated if such guidelines or requirements already exist.

Group Level Framework

In addition, we would like to suggest that where the asset manager's group is already subject to or has already implemented globally accepted environmental risk standards and frameworks such as the Global Reporting Initiative ("GRI"), the Sustainable Accounting Standards Board ("SASB") and/or the Financial Stability Board's Task-Force on Climate-related Financial Disclosure ("TCFD"), then the environmental risk framework (including the responsibilities of the Board and senior management, approach to portfolio construction and risk management, stewardship, and disclosure) implemented at the group level can be used to meet the requirements of the Guidelines expected of asset managers in Singapore.

We note that the Guidelines include non-climate environmental issues such as loss of biodiversity, pollution, and changes in land use, and would like to understand the MAS's expectations around the approach to these and other non-climate environmental issues which would be beyond the scope of the TCFD framework, for example.

Compliance with the Guidelines

Finally, given the nature of MAS guidelines as principles or "best practice standards", as opposed to legally binding requirements, our members would like clarity on the expectations around explaining and documenting the adoption of globally accepted environmental risk frameworks at the Group level in lieu of the Guidelines, or the non-adoption of certain aspects of the Guidelines on the basis of materiality or for other reasons.

We hope that the Guidelines will take into consideration the aforementioned circumstances and suggestions and provide flexibility for asset managers in Singapore. Otherwise, it will be operationally challenging for them to comply with potentially conflicting requirements and they may be disadvantaged vis-a-vis asset managers based in other parts of the region.

- Q2. MAS seeks comments on the proposed responsibilities of the Board in overseeing environmental risk management, including its role in approving the environmental risk management framework and policies.**

Board Responsibilities of Large Asset Managers

When considering the role of governance and strategy in environmental risk management, the Guidelines suggest its implementation will be based on the size and nature of the asset manager's activities. Even though most of our members are global asset managers, the scope of their activities and operations in Singapore will vary. Therefore, for some of them, the overseeing of environmental risk management, including the approval of environmental risk management frameworks and policies, may rest with the Board of the member's parent company overseas.

Our members would like to have flexibility to determine the appropriate entity's Board to have responsibility for overseeing environmental risk management, particularly if the management of a fund/mandate is delegated from a group entity overseas. We suggest that only where a Singapore asset manager has primary investment management responsibility that its Board be given responsibilities to oversee such manager's environmental risk management.

Scope of Responsibilities

We believe that responsibility for “ensuring adequate management expertise and resources for managing environmental risk, especially training and capacity building”, in Paragraph 3.4(c) of the Guidelines, should not sit at the board level which sets the high-level risk management framework, but rather at the senior management level, as already covered by Paragraph 3.5(d).

- Q3. MAS seeks comments on the proposed responsibilities of senior management in overseeing environmental risk management, including its role in developing an environmental risk management framework and policies, regularly reviewing their effectiveness, and allocating adequate resources to manage environmental risk of the assets managed.**

For many large global asset managers, the overseeing of environmental risk management, including the development of environmental risk management frameworks and policies, generally rests with the senior management at the group level or at a regional level. Our members would like to have the flexibility to determine the appropriate level of senior management at the local, regional or group level to have responsibility for the environmental risk management of the asset manager based in Singapore. Only where a Singapore asset manager has primary investment management responsibility would we suggest that a member of its senior management be given responsibilities to oversee such manager’s environmental risk management.

We would also like to highlight that senior management is usually best placed to oversee the operational risks of the asset manager (i.e. enterprise risk), whilst investment risks at the portfolio level are usually best managed by the portfolio managers themselves. We would request that the Guidelines clarify and distinguish between enterprise risk and portfolio/investment risk when referring to environmental risk management to avoid any potential conflation of the two concepts.

- Q4. MAS seeks comments on the proposal for asset managers to designate a senior management member or a committee to oversee environmental risk, where such risk is material.**

For many large global asset managers, the overseeing of environmental risk management, generally rests with a committee at the group level or at a regional level. Our members would like the flexibility to determine the appropriate senior management member or committee at the regional or group level to have, or be delegated, responsibility even if they are not located in Singapore. Even though the Individual Accountability and Conduct (“IAC”) regime in Singapore has not yet been implemented, we think that a senior manager under the IAC regime in Singapore would have oversight over environmental risk as a subset of overall investment risk, where such risk is material.

We agree with the approach of materiality in overseeing environmental risk, i.e. what is appropriate to the nature, scale and complexity of the assets managed. We would request that the MAS makes reference to global standards when considering material risk, but also allow flexibility, especially in the context of multi-asset portfolios, where environmental risks may be material for a portion of the portfolio only.

Q5. 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.

Globally Accepted Frameworks and Metrics

Our members agree that globally accepted standards such as SASB, GRI, UNPRI and TCFD guidelines provide good frameworks and metrics to assess the impact of climate risk at both the individual investment and portfolio level. We would like asset managers in Singapore to be allowed to choose the appropriate framework and metric and not be required to adopt any specified tools and metrics.

Third Party Rating Systems

It has been suggested that third party rating systems are available to aid the assessment of environmental risk. Our members would suggest that the adoption of third party ratings systems should not be recommended or mandated, especially since many of our members treat ESG risks the same as other fundamental risks to draw their own investment conclusions and some invest a lot in their own in-house investment research capabilities.

In addition, although current third-party providers provide a good baseline for certain historical ESG data, there is limited data for forward-looking climate scenario analysis and physical climate change risk for example. We are at a nascent stage in the integration of environmental risk into investment management, and third party providers' processes and protocols are still being fine-tuned. Given current data gaps, the proprietary opacity of third party providers' underlying assumptions and thus a degree of subjectivity in the resultant ratings, we would request that the MAS give weight to the lack of climate related data when coming up with its guidelines.

Specific Examples and Guidance

Separately we note that in Paragraph 4.4 of the Guidelines on Research and Portfolio Construction, specific examples of materiality of environmental risk are provided for fixed income and direct real estate investments only. We would suggest that the MAS provide examples for other asset classes, such as public and private equities.

Furthermore, Paragraph 4.5 of the same section refers to the identification of "sectors with higher environmental risk" and the development of "sector-specific guidance to aid its investment personnel". We would request that the MAS take into account the principle of materiality in any requirement related to investment decisions, and allow asset managers the flexibility to develop investment guidance depending on the strategy and investment objectives.

Q6. MAS seeks feedback on the examples of tools and metrics that may be used by asset managers to conduct portfolio risk management.

Many of our members believe that globally accepted standards such as the TCFD Guidelines provide appropriate frameworks and metrics to conduct portfolio risk management, and prefer that the MAS not prescribe tools and metrics that are different from global standards, especially given that data in the market remains incomplete. We agree with the approach of suggesting rather than prescribing short-term and long-term scenario analysis and the assessment of physical and transition risk only "where relevant" in Paragraph 5.3 of the Guidelines on Portfolio

Risk Management, especially given current data gaps and the shortcomings in third party ratings systems as highlighted in our response to Question 5. We suggest that the MAS clarify if this reference to “where relevant” is referring to the principle of materiality, and whether it is at the portfolio level or some other level.

Our members would also like to seek additional clarity on the MAS’s expectations in relation to capacity building and training, and how the MAS intends to assess efforts to train and equip staff on issues relating to environmental risk management.

Q7. MAS seeks comments on the expectation for assets managers to engage investee companies to manage the impact of environmental risk and support their transition towards sustainable business practices.

Stewardship

Being part of a global asset management firm, many of our members already adopt a stewardship policy on a group basis. To avoid conflict or unnecessary duplication, we suggest that these Guidelines permit asset managers in Singapore to comply with the policies around stewardship which are adopted on a group basis if such policies already exist. We would also prefer that expectations around engagement efforts take into account the specific investment mandate and be linked to the material factors of an investee company’s environmental risks.

Asset managers, especially through their stewardship initiatives, are able to engage with investee companies to manage the impact of environmental risk. The ability to influence, the engagement approach of different asset managers, and the adoption approach of investee companies may all vary, thus a more flexible approach is preferred. In addition, we believe that the engagement expectations of asset managers should also be linked to the materiality of an investee company’s environmental risks.

Some members are also concerned with the express reference to “collaborative engagements with other asset managers/investors” which may give rise to anti-competition concerns in jurisdictions in which they or their group operate. We believe, in general, engagement that would enhance the efficiency of markets should not be seen as anti-competitive. However, for the avoidance of doubt, our members would prefer the option to choose whether to engage collectively with other asset managers/investors, taking into account applicable rules and regulations.

Shareholder vs. Bondholder

Separately, we would like to note that the ability of asset managers to engage investee companies to manage the impact of environmental risk and support their transition towards sustainable business practices is more relevant to equity investments where the asset manager is in the position of a responsible owner, i.e. shareholder with exercisable voting rights, and not where it is a bondholder. We suggest that the MAS takes the foregoing into consideration when drafting the Guidelines.

Comprehensive Approach

Our members believe that it would be far more effective to transition towards sustainable business practices with the help of regulators and through listing rules and regulation of investee companies as well as the provision of training and education to investee companies. The foregoing would ensure consistency of implementation and disclosure, and facilitate comparability between investee companies. Putting the onus on asset managers alone will not be enough or effective.

Q8. MAS seeks comments on the proposed form of disclosure of environmental risk by an asset manager.

Reference to Global Standards

We agree with the approach of materiality in disclosing environmental risk, and the ability to consolidate disclosure at the group or head office level, in so much as they refer to the governance frameworks, the description of how environmental risks are integrated into investment decisions according to strategy, and the metrics which may be used for different strategies. We support the fact that the Guidelines do not prescribe actual forms of disclosure or particular international reporting frameworks to follow but rather make reference to international frameworks, such as TCFD.

We would propose that asset managers that are already subject to or have already implemented such globally accepted environmental risk management standards can provide their disclosure in accordance with such standards. We would also request that the MAS base disclosure guidelines on data generally available from Singaporean issuers as an example.

Given the evolutionary nature of the Guidelines, we would also expect that the Guidelines will continue to align and converge with global standards over time.

Level of Disclosure

Paragraph 7.1 of the Guidelines refers to the disclosure of “potential impact of material environmental risk to customers, including quantitative metrics such as exposures to sectors with higher environmental risk” which seem to point to portfolio level disclosure. But the paragraph then suggests that disclosure may be “consolidated at the group or head office level”, suggesting the aggregation of metrics across all portfolios. We would suggest that the disclosure of quantitative metrics should only be required on a portfolio level in order to provide decision-useful information to investors.

Q9. MAS seeks comments on any aspects of the Guidelines that have not been covered in earlier questions.

Our members believe that the adoption of environmental risk management requires a comprehensive ecosystem of players working to promote the long-term investment outcomes that sustainable business practices engender. We would suggest that the MAS bring investee companies to the table (as suggested in our response to Question 7), as well as engage with all stakeholders in our industry, i.e. not only large asset owners, but also retail intermediaries and CPF fund administrators, and educate financial advisors and their end clients on climate risks. We

would also recommend introducing guidelines on sales practices would encourage long-term investment in line with the aims of ESG and sustainable finance.

Finally, our members would like to seek clarity on where the MAS expects disclosure to be made to ensure that the disclosure is “clear and meaningful” to stakeholders. For example, is disclosure on the manager’s website sufficient or does the MAS expect disclosures in Product Highlight Sheets, fund prospectus, fund performance report, etc)?

Q10. MAS requests for examples of sound risk management practices currently implemented by asset managers, which would meet the expectations in the Guidelines.

Many of our members are signatories to and have adopted TCFD frameworks.

Q11. MAS seeks comments on the proposed implementation approach, including the proposed transition period of 12 months.

We would ask that the MAS consider extending the transition period to 18 months after taking into account the implementation timeline of similar regulations in the EU as many of our member are also subject to those regulations which are often more complex and expected to take longer to be finalized.