14 December 2023

To
Monetary Authority of Singapore (MAS)
10 Shenton Way,
MAS Building
Singapore 079117

Re: ASIFMA Response to MAS Guidelines for Financial Institutions on Transition Planning for a Net Zero Economy (Banks)

Dear Sir, Madam(s),

The Asia Securities Industry and Financial Markets Association ("ASIFMA"),[1] on behalf of its members, appreciates the opportunity to provide feedback on the Consultation Paper on Guidelines on Transition Planning (Banks) released by the Monetary Authority of Singapore ("MAS").

Transition planning is an increasingly important strategic activity for financial institutions, including those that make up ASIFMA's membership. As such we are very keen to work with the MAS to ensure these Guidelines are as usable and helpful for industry as feasibly possible. In turn we would encourage the MAS to continue referencing existing industry frameworks on transition planning, such as the ISSB and TCFD, as these Guidelines are finalised, while continuing to work with regional and international policymakers to ensure global alignment as new standards emerge. Within this overarching approach, ASIFMA would also recognise and support the application of tailored approaches to transition planning by global financial institutions and their regulators, considering the realities of the different markets they operate in.

To that end, we have provided detailed comments across most of the various questions posed in the Consultation Paper, in the Annex below.

To help frame the more detailed feedback below, I would like to highlight three important points of principle at the outset, all of which feature prominently throughout and have helped shape this response:

- First, ASIFMA members would contend that the central objective of financial institutions' transition planning activities is to operationalise a firm's strategic targets and commitments to achieve its low carbon goals, with interim milestones. Climate related financial risk management is part of broader financial risk management, a complimentary yet distinct process to transition planning. It is important not to conflate the two.
- Second, the importance of financial institutions, including banks, engaging their clients in support of collective decarbonisation is clear. However, there are limits to what active engagement by

[1] ASIFMA is an independent, regional trade association with over 160 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive and efficient Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the Global Financial Markets Association ("GFMA") alliance with the Securities Industry and Financial Markets Association ("SIFMA") in the United States and the Association for Financial Markets in Europe ("AFME"), ASIFMA also provides insights on global best practices and standards to benefit the region.

banks can achieve and it is crucial that banks are not held solely responsible for what clients are or are not able to achieve within their customer base from an emissions reduction perspective.

- Finally, the MAS' draft Guidelines come at a time when many financial institutions may already have, or are in the process of preparing, a transition plan at global or Group level. It is crucial that such plans, where present, can be used to meet the requirements spelled out by the MAS via this initiative, to ensure as proportionate an application of these rules as possible.

Our response has been drafted with the support of our professional firm member PwC Singapore, based on feedback from the wider ASIFMA membership. We thank the MAS for the opportunity to provide feedback and for considering our comments. We would be happy to meet with MAS to further discuss any of the issues raised and provide clarity on our response.

Should you have any questions, please do not hesitate to contact me Diana Parusheva (dparusheva@asifma.org), Managing Director, Head of Public Policy and Sustainable Finance at ASIFMA.

Yours faithfully

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Annex – Consultation Paper Question Responses

Question 1. MAS seeks comments on the proposed definition of transition planning.

We would suggest slight amendments to the proposed definition, in keeping with what ASIFMA members observe to be commonly held approaches to transition planning recommended by different organisations around the world.

We believe the following definition would be more suitable:

> "Transition planning for Banks refers to the internal strategic planning processes undertaken to manage potential changes in business models, associated with the transition".

The MAS' proposed definition rightly highlights the importance of internal strategic business planning to "transition planning". However, ASIFMA members would contend that the proposed amendments above, if included, more accurately capture the *centrality* of strategic business planning to the process of transition planning.

Members do recognise the management of risks as important, but complimentary to and distinct from the core strategic business planning inherent within transition planning. For those institutions more open to focussing on risks, these could also be considered as a consequence of "potential changes in business models" as referenced in the definition above. But we do not feel referencing risks explicitly lends itself to definitional clarity, considering what ASFIMA members agree to be the core aspects of transition planning.

For reference, the Network for Greening the Financial (NGFS) defines "Transition Plans" as:

> "A key product of the transition planning process and are mainly used as an external facing output for external audiences (e.g. public stakeholders or supervisors) which represent the strategy of how firms plan to align their core business with a specific strategic climate outcome."[2]

Our view is that amendments as described above would move MAS' definition into greater alignment with the form and substance of leading industry groups, or NGFS, regarding the transition planning definition.

Question 2. MAS seeks comments on the proposed context for the TPG as laid out in paragraph 1.3 of the TPG.

We will address each distinct part of section 1.3 in turn, for the sake of clarity.

"1.3.a. Banks should take a multi-year view for the continued sustainability of their business models".

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[2] NGFS (2023) Stocktake on Financial Institutions' Transition Plans and their Relevance to Micro-Prudential Authorities - https://www.ngfs.net/sites/default/files/stocktake_on_financial_institutions_transition_plans.pdf

ASIFMA members agree with this point, as it speaks to the need to have interim decarbonisation targets on route to a net zero end state. ASIFMA members appreciate MAS' recognition that setting and implementing decarbonisation targets (i.e., transition planning) is as a "strategic decision to guide the pivoting or transformation of their business models towards a low carbon economy."

ASIFMA members agree that "strategic decisions made by banks will have a bearing on the sustainability of banks' business models and risk profiles over varying time horizons" and that banks should "assess the implications of their strategic decisions and continually adapt their business models, as well as governance frameworks, risk management policies and processes, in a forward-looking manner."

In line with comments made under Question 1, a multi-year view begins with strategic business planning on the part of the bank. The risk implications of a given strategic course will need to be understood (for example, reputational risks or the possible consequences from a profit and loss perspective when setting scope three decarbonisation targets) but in the first instance this is a business strategy decision.

"1.3.b. Banks should engage their customers on the need to adopt mitigation and adaptation strategies as they transition towards a net zero economy and deal with the physical effects of climate change".

ASIFMA members see the following wording in this section as more appropriate:

> "A robust customer engagement approach should bear in mind that:
>
> > i. indiscriminate credit withdrawal by banks from customers or sectors deemed to be higher-emitting could hinder companies with credible transition and adaptation plans from securing the financing they need to transition and/or deal with the physical effects of climate change. This could impede the real economy's transition, and increase the risk of stranded assets and a disorderly transition;
> > ii. short term increases in financed emissions due to actions to support climate positive outcomes should be viewed against potential longer-term reductions of financed emissions due to improvements in customers' emissions profiles, and managed through appropriate governance guardrails established by banks"

We would suggest deletion of paragraph 1.3.b.iii altogether.

While ASIFMA members agree that indiscriminate credit withdrawal by banks from customers or sectors deemed to be higher emitting could hinder real economy transition, most ASFIMA members have voluntarily developed sector policies in some high emitting sectors, based on various factors such as indirect environmental and social impact and ESG risk management and mitigation. We would expect that such policies would not be considered as "indiscriminate". We would also welcome any further clarity the MAS is able to provide around what exactly would constitute "indiscriminate withdrawal" here, potentially in the form of hypothetical examples.

In discussing banks' climate risk exposure, it is important to note that banks do not treat climate risk in isolation. Rather, climate risk is a driver of existing risk types (e.g., credit risk). For example, a client with physical assets exposed to near-term increases in severe weather events due to climate change might have increased credit risk driven by climate risk.

Client emissions do not equate to credit risk, however. Credit risk exposure (i.e., risk of default on a loan) is limited to the length of the bank's risk exposure (i.e., the length of the loan). A bank would not have 10-year credit risk on a one-year loan. A higher-emitting client may present very little credit risk given that transition risk to that client's business model may be unlikely to materialize over the time horizon of the loan.

The amendments above are intended to clarify that banks' alignment of their portfolios over time in line with their net zero targets (i.e., transition planning) is driven by strategic business objectives, not driven by risk management objectives that generally have a shorter time horizon.

Client transition plans (where available) can be useful to inform engagement with clients in supporting their decarbonization objectives. However, banks are limited in their ability to influence their client's decarbonization and are dependent on several external factors related to the broader real economy transition. It is important to recognise the limits of what client engagement can achieve in regards decarbonisation, as well as the possibilities. This is a topic we expand upon in greater detail under our response to Question 6, but considering this we would suggest amending footnote 3 so that it reads as follows:

> "Banks should incorporate the management of facilitated emissions into their climate strategies as measurement methodologies mature where appropriate, and to the extent possible, engage with their customers to support their decarbonisation objectives."

Point iii) of paragraph 1.3.b states that "collective inaction or delays may increase the chances of a disorderly transition and precipitate climate tipping points which can heighten financial stability risks".

For ASIFMA members, this issue appears one that should be monitored and regulated by competition and or/anti-trust authorities. It does not appear suitable for a bank's climate transition plan to address this type of behaviour. As an alternative, we suggest that this text be included in the introduction as broader context for MAS' Guidelines.

"1.3.c. Banks should have clear, actionable and decision-useful risk appetite statements to guide the implementation of their transition plans."

In the first instance, we would clarify ASIFMA members' understanding of what risk appetite means in this regard, i.e., setting an appetite for risk of financial loss arising from implementation of a bank's decarbonisation targets that the business is willing to tolerate. We would highlight that banks may have a risk appetite, for example, around the consequences of portfolio misalignment with decarbonisation targets, but this is in relation to reputational risk, rather than credit risk. This again speaks to the centrality of strategic business planning within transition planning activities.

Therefore, ASIFMA members would suggest reframing paragraph 1.3 so that it reads as follows:

> **"Banks should have clear, actionable and decision-useful risk appetite statements to govern the risks associated with implementing a bank's transition strategy."**

Banks have the flexibility to select a range of metrics and targets in support of their risk appetite statements. In selecting the appropriate metrics and setting targets for their business model and risk profile across the short-, medium- and long-term, banks are expected to consider the potential adverse

impacts or shocks that could manifest from a delayed response in supporting transition or from misalignment with national, regional and/or global decarbonisation pathways. However, we would suggest striking footnote 5 on the basis that ASIFMA members disagree that a firm's risk appetite statement can take the form of portfolio decarbonisation targets.

We would also highlight that banks may have a risk appetite around the consequences of potentially missing, say, decarbonisation targets, but this is in relation to reputational risk, rather than credit risk. This again speaks to the centrality of strategic business planning within transition planning activities.

For reference, our comments on section 1.3.d. can be found under our response to Question 3.

"1.3.e. Banks should proactively communicate their transition planning process to stakeholders."

We agree that banks should proactively communicate their transition planning process.

Banks, in general, voluntarily disclose their Scope 3 decarbonisation targets and implementation strategy. This disclosure is typically aimed at an investor audience (rather than a stakeholder audience) to help investors understand a bank's strategic business objectives with respect to transition. While many banks may not yet use the term "transition plan" in their disclosure, banks are generally disclosing this information in TCFD-aligned disclosures under the TCFD's "Strategy" and "Metrics and Targets" pillars.

We would note, however, that banks are undertaking transition planning for strategic business objectives, not for risk management objectives. As such, a perceived lack of transparency or credibility in a bank's transition planning may create reputational risk for a bank that would not be relevant for how a bank is managing climate risk.

We therefore suggest this section be sligthly amended so that it reads as follows:

> "Banks should proactively communicate their transition planning process to stakeholders. This can be done through published sustainability reports, general purpose financial reports and/or transition plans. Such reports or plans can be useful tools to inform stakeholders on how a bank is implementing its strategic business objectives with respect to transition. Conversely, a perceived lack of transparency or credibility in a bank's transition planning could elevate a bank's risk profile if it is not viewed as supporting transition."

Here, we would draw particular attention to footnote nine which reads: "Beyond financial risk considerations, such public disclosure of risk appetite statements can take the form of portfolio decarbonisation targets in support of banks' public commitments and/or nation-wide/global climate goals."

As discussed above, banks may have a risk appetite with respect to a portfolio's alignment with the portfolio-level target, but the portfolio decarbonisation target itself is not a risk appetite statement. Hence why we suggest that this point is deleted.

Question 3. MAS seeks comments on whether the drafting of paragraph 1.3(d) of the TPG on factoring in the climate-nature nexus accords Banks with sufficient flexibility to improve their understanding of other environmental-related risks

and risk management processes over time. What are some tangible areas regarding other environmental related risks (e.g. vulnerability on water availability) that you would see value in having elaboration in the guidance?

Given that banks' transition plans are focused on implementing strategic decarbonisation objectives rather than managing environmental risks, we would suggest deleting Section 1.3(d) and including any further environmental risk management guidance in a separate update focused on environmental risk management rather than transition planning. We explain further below.

It is important to differentiate between consideration of broader environmental factors in the context of transition planning (i.e., implementation of decarbonisation targets) vs. in the context of environmental risk management. Transition planning is a business strategy exercise focused on meeting decarbonisation or net zero targets, while environmental and nature-related risk management would be considered within the context of broader financial risk management.

With respect to transition planning, the climate-nature nexus is an important topic. However, understanding around correlation levels between climate and nature impact remains in their early stages. While members recognise there are interlinkages between nature loss and climate change, significant work remains to better understand the relationship between the two.

It will be a further challenge to then understand whether and how those interlinkages could materially impact banks' strategies to align their financing portfolios with their decarbonisation targets. In particular, integration of environmental assessments with climate-related transition planning is difficult due to the lack of a one-to-one correlation between actions that impact nature and reduce GHG emissions.

As such, ASIFMA members would suggest that reflection on the climate-nature nexus be integrated into the appropriate risk guidance once general understanding levels in this area have increased. It is also worth adding here that with respect to environmental risk management, MAS' existing Guidelines on Environmental Risk Management for Banks (December 2020) already incorporates consideration of broader environmental risk management.

We would also draw the MAS' attention to footnote eight in this regard: "Reasonable effort should be made to consider if risk mitigation and adaptation measures adopted by customers have unintended financial or non-financial risks through negative impact on nature".

It is critical to differentiate between a client company's risk and risk to a bank with which that client has a business relationship. As discussed above, a client's impacts on nature may cause risk to that client's business, but risk to the client's business does not necessarily transmit into risk to a bank. As one example, a client's negative impacts on nature may create risk for its business model over a longer term, but if a bank is providing a one-year loan to a client, the client's credit risk might be negligible. The bank would make risk management decisions consistent with the time horizon of the risk exposure (e.g., the one-year loan).

We would therefore suggest deleting this footnote.

Question 4. MAS seeks comments on the entities and business activities that are in the proposed scope of the TPG.

ASIFMA members appreciate MAS' recognition that global banks generally approach transition planning (i.e., setting and implementing decarbonisation targets) at the group-level. We also support MAS' recognition that the scale, scope, and business models of banks can be different, and that supervision should be proportionate.

As discussed above, transition planning is aimed at implementing a bank's strategic business objectives with respect to transition. We therefore suggest amendments to Section 1.4 so that it reads as follows:

> "1.4.a. The TPG is applicable to banks extending credit to corporate customers, underwriting capital market transactions, and other activities covered by banks' decarbonisation targets and transition plans."

Regarding paragraph 1.4 b., we request the MAS allow banks to take a proportionate approach (similar to our response to Question 7) in meeting the expectations set out in the Guidelines. For example, a bank headquartered outside of Singapore should be allowed to refer to relevant internal policies, procedures, and disclosures, including transition plans, at the group or head office level without the need to create internal frameworks for disclosure specific to Singapore. This approach is consistent with the approach for disclosure under the MAS Guidelines on Environmental Risk Management for Banks. This is especially important when one considers the need to ensure that transition planning does not ring-fence but rather facilitates the allocation of capital from developed to emerging markets, widely seen as a global imperative if we are to keep global climate goals within reach.

For clarity, we would suggest deleting the first sentence of paragraph 1.4b which reads, "The TPG is applicable on a group basis for locally incorporated banks," as this may be read to imply that a bank headquartered outside of Singapore is subject to MAS oversight at the group-level.

Finally, ASIFMA members would also welcome clarification on the meaning of "material investment activities" under section 3.3 of chapter 2 (MAS' Supervisory Approach to Transition Planning for Banks). This requires banks refer to the Guidelines on Transition Planning (Asset Managers) as the stewardship guidelines are not included in the guidelines for banks. We believe materiality should be assessed from multiple aspects including, but not limited to, whether the investment is material from the investor's perspective as well as from the investee's perspective. Also, the nature of the investment (*e.g.*, voting securities or non-voting securities, equity investment or debt investment, etc.) should also be factors in assessing materiality for this purpose.

Question 5. MAS seeks comments on the proposed expectations on governance and strategy as laid out in paragraphs 2.1 to 2.3 of the TPG.

First, and following on from comments made under Question 4, ASIFMA members would request that banks that undertake group-level governance around transition planning should be able to point to this process to sufficiently adhere to this section of the Guidelines regarding governance.

Second, considering that the proposed Transition Planning Guidelines are intended to complement the existing Environmental Risk Management Guidelines of the MAS, we would recommend consistency and coherence between these two Guidelines be pursued to the greatest possible extent, including on the governance and strategy aspects. This would help ensure that new and additional – but perhaps not additive – requirements on governance in this context are kept to a minimum.

Further to this, we would suggest paragraph 2.3 be amended so that it reads as follows:

> "The bank's senior management should establish a mechanism(s) through which the bank's existing approach (and implementation thereof) to respond to potential changes in business model arising from the transition is regularly refined. In view of the evolving nature transition planning, the bank should view transition planning as an iterative process."

This appears proportionate considering that provisions around governance of climate-related risk are already covered under the Environmental Risk Management Guidelines.

It does of course stand to reason that a bank's Board of Directors and Senior Management should have sufficient responsibilities and ownership of the details outlined in a prospective transition plan. Only via such an approach will the actions/commitments detailed in a prospective plan generate requisite levels of responsibilities and ownership throughout the bank.

Question 6. MAS seeks comments on the proposed expectations on customer engagement as laid out in paragraphs 3.1 to 3.5 of the TPG.

ASIFMA members would make the initial point here that the MAS should consider targeted amendments to its guidance to reflect the limits that customer/client engagement alone can deliver regarding decarbonisation[3].

It is critical that supervisory expectations, with respect to banks' client engagement, reflect the reality that banks generally do not have direct influence over a client's ability to transition. Banks' ability to support their clients' transition is limited by external factors beyond their control, including government supporting policy and consumer preference. These factors will impact the ability for banks to engage with clients to ultimately impact the extent that the real economy decarbonises.

The role of banks is to engage their customers and clients, working with them to understand how best they may be supported on their transition journey. Each customer will act under the guidance of their own Board of Directors, whose Senior Management will independently determine and decide on their ESG strategy and implementation. While we acknowledge the MAS consultation does not explicitly state this, making banks directly responsible for the transition plans and actions of their customers and clients may be disproportionate.

We therefore propose the following edits to section 3.1 to reflect this distinction (we would propose deleting the subsequent wording, beginning with "by actively engaging" and ending with "depending on the nature of the customers' risk profile":

[3] This point is elaborated on in a recent paper from the Institute for International Finance (2023) The Role of The Financial Sector in the Net Zero Transition: Assessing Implications for Policy, Supervision and Market Frameworks https://www.iif.com/portals/0/Files/content/32370132_iif_transition_planning_report_2023_final_for_publication.pdf

> “**The bank should have a structured process to review customers’ transition plans as an indicator of their strategic orientation, adaptive capacity, and resilience in the context of broader risk assessment.”**

We would also request that the MAS clarify that a customer in this regard should be interpreted as a non-financial firm. Banks, asset managers, and insurers will be subject to transition planning requirements directly, in time, because of this exercise. As such it appears more reasonable to have this process play out, rather than require financial services firms to engage in what could be seen as a ‘self-policing’ exercise within the industry.

More generally, government policies on decarbonisation will play a key role in the real economy transition to net zero and provide direct policy levers and incentives to catalyse investment in the transition. Therefore, we encourage MAS to coordinate with Government entities, policymakers, and other regulators to advocate for supportive economy-wide transition policy and pathways, alongside increasing expectations on the financial sector.

The importance of/need for enabling government policies is especially acute when it comes to the energy transition. Governments across the world are mobilising public resources to accelerate the transition to renewable energy sources. In turn, expectations on corporates active in this space – e.g., high GHG emitting sectors – to adapt are increasing. This is understandable given the climate imperative we collectively face.

For many parts of the energy sector, this transition presents considerable upside potential. However, there will inevitably be many private companies that simply do not have the means (*e.g.*, financial, technology or operational resources) to adapt their business models in time to realise the economic opportunities the energy transition affords.

This will result in certain vulnerable businesses, particular in the hard-to-abate sectors facing an increasingly challenging operating environment, as government/societal expectations and priorities evolve further in the carbon neutrality direction, which in turn drives policy change in key areas, such as subsidy regimes. For example, currently there is not enough supply of sustainable aviation fuel (SAF) at an affordable price for all airline companies globally to replace conventional jet fuel with SAF.

The nature and longevity of such policy regimes will play a critical role in the ongoing viability of clients active in legacy industries within the energy sector. ASIFMA members would recommend this reality – as seen in, but not exclusive to the energy sector – be acknowledged within finalised guidelines.

This point is also relevant in the context of the following wording under paragraph 3.5, where we would propose the sentence ends at “re-assessing the customer relationship”, reflecting the limitations on what customer engagement can achieve and therefore what is a proportionate (re)action on the part of banks, reflecting points made above:

> “Where customers do not have credible roadmaps to address transition and physical risks, the bank should consider a range of mitigating options such as reflecting the cost of the additional risk in the loan pricing, applying limits on the loan exposure, and re-assessing the customer relationship.”

Again, banks can of course work with clients to help them articulate a roadmap to address transition and physical risks. But increasing expectations/demands on clients arising from their own sectoral regulators (by way of example) would accelerate the rate of progress significantly, considering the primary role of financial regulators and central banks is the safety and soundness of the banking system, not necessarily driving net zero outcomes via banking supervision.

Paragraphs 3.1 to 3.5 of the Guidelines are also relatively broad in scope. This means that expectation levels among ASIFMA members regarding what constitutes "sufficient action" are unclear. If the MAS was able to provide additional guidance here that would potentially be helpful. As part of any prospective guidance, it would be helpful if the MAS could recognise that even active engagement on the part of banks would likely take time – two to three years at least – to deliver discernible results, as this is an incremental process.

We would also recommend that any additional guidance in this regard reflect the principles of materiality/proportionality. It does not necessarily follow that a client's climate risk equates to its bank's climate risk, in a linear fashion (see proposed changes to paragraphs 1.3b and 3.14 under questions 2 and 12). It would be helpful if this reality could be reflected upon further and expressed in the context of any prospective guidance on what constitutes sufficient engagement, should this point be accepted.

Given these considerations, we propose the following amendments to paragraph 3.2 so it reads as follows:

> "**The bank should engage customers, particularly those identified as vulnerable to transition[14] and/or physical risks, to understand how they factor into the bank's risk assessment.** Such engagements may include, where assessed as appropriate for the customer's business models and risk profile and the bank's risk exposure to that customer…"

We would also suggest the changes to paragraph 3.4 so that it reads as:

> "**Customers exposed to elevated climate-related risks and who are not implementing adequate risk mitigation and adaptation strategies should be noted and monitored.** While the effects of climate change may not be pronounced in the short term, the manifestation of physical and transition risks is likely to accelerate in the longer term. A firm that does not recognise and manage this risk could face a reduced capacity to service its loans. The bank should consider customers' response (or lack thereof) to address climate change as part of the customer onboarding, credit application and credit review processes."

Collecting climate-related risk data, we would state that this remains a challenge particularly for banks' small and medium-sized and non-listed customers that may not be subject to a robust mandatory sustainability disclosure regime or lack the financial or operational capabilities to produce the relevant data. Ongoing paucity of data here does not necessarily reflect a lack of engagement on the part of the bank.

It is also important to note that many banks do not source emissions and other transition-related data directly from clients. Many banks obtain data from third party service providers and commonly rely on estimated emissions data in certain circumstances, which may be less accurate than directly measured emissions data.

Real economy clients are generally not yet disclosing transition plans that could provide more sophisticated insights. While ASIFMA members expect that client data availability will improve over time, it is essential for supervisory expectations to reflect that real economy client transition planning is still in early stages.

Given these considerations, we suggest the following amendments to Section 3.3 so it reads as:

> "3.3 Banks should undertake reasonable efforts to collect climate-related risk data on customers to facilitate a better understanding of the impact of climate change on customers' businesses and risk profiles."

Question 7. MAS seeks comments on the proposed expectations on the approach to portfolio management as laid out in paragraphs 3.6 and 3.7 of the TPG.

The proposed portfolio management approach recognises the importance of banks taking a differentiated approach to the transition, one that accounts for geographical and sectoral specificities. This is crucial and it is welcome that the MAS acknowledges this at the outset. This is an especially important point when one considers the relative positioning of global financial institutions, many of which make up ASIFMA's membership.

Within our broad agreement on the importance of and necessity for banks taking a tailored and differentiated approach to portfolio management here, there are certain areas of the proposed Guidelines where we would recommend slight amendments/further reflection.

First, there appears to be the implicit assumption within this section of the Guidelines that exposure to high emitting sectors automatically equates to increased transition risk exposure. As a point of principle, ASIFMA would caution against this reading.

Certain blue-chip companies in high emitting sectors could be well equipped both financially and technologically to smoothly transition towards decarbonisation without any issues. A prerequisite for transition risk to crystallise when it comes to high emitting sectors is the presence of policies such as carbon taxes which have the potential to inflict significant social costs. This often weighs against the likelihood of their being implemented. Furthermore, we would reference the fact that within the European Union, the effective carbon tax for many industries is now relatively high, but this has not resulted in mass loan defaults. Considering this, we would urge the MAS to take as considered a view as possible in its evaluations of the causal relationship between emissions exposure and transition risk.

We welcome MAS' recognition in the guidance that it would not be beneficial for banks to indiscriminately withdraw credit from customers or sectors that are higher-emitting, and that banks can consider the circumstances of each client, such as jurisdictional operating environment, in engaging with its clients. However, this engagement is referring to client engagement in the context of implementing a bank's decarbonisation targets, not risk management. With respect to risk management, a bank must make risk management decisions from a safety and soundness perspective, not with regard to supporting clients' decarbonisation objectives. This is one of the reasons why it is important to differentiate in the guidance between "higher climate risk sectors" and "high-emitting sectors."

We also note that Section 3.7(b) refers to customers or sectors exposed to high physical risk, which is relevant for climate risk management, but not for transition planning, which is aimed at implementing decarbonisation targets. A client's exposure to physical climate risk is not related to their emissions profile and reducing emissions does not reduce physical climate risk. As one example, a client may reduce their emissions but still have operations located in an area that is heavily exposed to potential damage from increasing severe weather events. While we agree with the text of Section 3.7(b), we would suggest removing this text from the TPG, since it is not related to transition planning.

Given the above comments, we would suggest the following additional amendments to paragraphs 3.6 and 3.7 so they read as detailed below, in addition to our proposed deletion of paragraph 3.7.b:

> "3.6 The bank should take a differentiated approach for higher-emitting sectors (at an appropriate level of granularity) in its transition planning to take sectoral specificities into account. The bank should factor in global and/or regional sectoral pathways and jurisdictional level specificities to inform transition planning decisions and facilitate engagement with customers, including having sufficient understanding of the assumptions, scope and ambition behind the sectoral pathways it references. This will allow targeted measurable progress in implementing decarbonisation targets.
>
> 3.7 For more effective customer engagement, the bank should have differentiated strategies that cater to customers at different stages of readiness for transition.
>
> > a. In developing its portfolio management strategy, the bank should avoid indiscriminately withdrawing credit from customers or sectors deemed to be higher-emitting to reduce the formation of stranded assets and support an orderly transition. The bank can consider the circumstances of each customer, such as its jurisdictional operating environment, in engaging its customers. The bank can utilise a range of financing solutions (e.g. blended finance, early retirement of carbon-intensive assets) to support customers in carrying out climate mitigation and adaptation measures based on specific and meaningful climate performance targets."

Finally, paragraph 3.7.c states that a: "bank should pay attention to potential correlations or novel risks that it is exposed to as a result of such exposures (individually or in aggregate), such as potential technological risks arising from uncertainty around future developments and potential supply chain risks." ASIFMA members would welcome any additional clarity that the MAS could provide around the definitions of "potential correlations" and "novel risks".

Our current reading of this paragraph would seemingly confirm our view that a client/customer may be green/attractive from a transition perspective but remain risky when reviewing fundamentals. This speaks to the point made throughout our response that transition planning does not absolve banks from the complementary need to manage risk from a safety and soundness perspective.

Further, it may be challenging for banks to assess the supply chain risks of clients to the extent seemingly expected in this paragraph. As such, if there was potential scope to defer inclusion of this reference to a prospective future iteration of the Guidelines that would be welcome.

Question 8. MAS seeks comments on the proposed expectations on the use of forward-looking tools for portfolio management as laid out in paragraphs 3.8 and 3.9 of the TPG.

As an immediate point of principle here and as stated throughout this response, it is the view of the ASIFMA members that climate risk management and transition planning, while complementary, remain distinct processes that should not be conflated. This confirms comments made under Question 1 in relation to an appropriate definition of transition planning.

Climate related financial risk management is part of broader financial risk management, while the objective of financial institution's transition planning activities is to operationalise a firm's strategic targets and commitments in regards climate, to achieve its low carbon goals, with interim milestones.

Metrics that may be used to measure progress towards transition targets or commitments are often entirely different to those being developed to evaluate the impact of climate-related financial risks. However, transition planning by a financial institution may help reduce the expected strategic and transition risk exposure of an institution over the medium to long term. Hence, our view that these processes are complimentary, but should not be conflated.

To that end, it does not appear necessary to reference internal capital adequacy assessment processes in this regard, as is done under paragraph 3.8. We would therefore suggest deleting this reference.

For context, please refer to below which outlines the differences between banks' transition planning vs their climate risk management efforts, with respect to use of scenarios, time horizons and metrics:

	Business Strategy	**Risk Management**
Scenarios	Emissions pathway scenarios used for business alignment with a desired outcome—i.e., interim 2030 portfolio-level target-setting using IEA emissions pathways with the objective of alignment with a desired outcome of net zero by 2050	Macroeconomic scenarios (NGFS, IPCC) aimed at understanding risk transmission channels given different temperature increases or policy responses. Scenarios may be longer-dated, may be less likely to occur (e.g., sudden imposition of a steep US carbon tax), and may not account for banks' ability to mitigate risk (e.g., static rather than dynamic balance sheet).
Time horizons	Target-setting and transition planning aligned with longer-term net zero objectives (e.g., net zero by 2050), with interim 2030 targets aligned with that longer-term objective.	Although banks may run longer-dated climate scenario analysis exercises to understand potential risk transmission channels, risk management decisions are made on a time horizon consistent with the risk exposure (e.g., climate risk as a

		driver of credit risk on a 3 year loan would be assessed over a 3 year time horizon, not a 10 year time horizon).
Metrics	Banks often use emissions intensity metrics for target-setting to be able to assess how clients' are decarbonising their business. Absolute emissions can also be used but are subject to distortions and can increase and decrease from year to year for reasons that are unrelated to whether a company is decarbonising its business – e.g., market share increases or decreases, share price of a company increases or decreases, production increases or decreases (e.g., over COVID).	Absolute emissions are not a meaningful indicator or risk. Emissions intensity can be a rough proxy for the potential financial impact of a carbon tax (i.e., potential transition risk in the scenario where a carbon tax is imposed), but does not indicate the likelihood of a carbon tax being imposed, or the likelihood of that financial impact transmitting into material credit risk (e.g., the EU's carbon price has significantly increased in recent years and has not resulted in material defaults on bank loans).

In line with points made under Question 5, we would recommend that, recognising the respective roles of climate risk management and transition planning, additional requirements in this regard within these Guidelines, on top of those contained in the Environmental Risk Management Guidelines be limited as much as possible.

Question 9. MAS seeks comments on the proposals set out in paragraphs 3.10 to 3.12 of the TPG, particularly in relation to the expectations around setting of decarbonisation targets by Banks.

The expectation of ASIFMA members is that with the regional implementation of the IFRS' ISSB standards, the market for and availability of sustainability data will be increasingly enriched with higher quality information over the coming years. This will however be a gradual process and in the interim, there will remain a heavy reliance on proxy data.

The does not reflect a lack of engagement on the part of banks. On the contrary, banks make continuous efforts to design and implement robust proxies to ensure the highest levels of integrity and comparability. To that end, we would suggest a softening of the language under paragraph 3.10 by deleting the requirement for a bank to "recognise the inherent limitations or trade-offs that it faces in using proxy data".

Consistent with comments made under Question 8, we would question the linkage expressed under footnote 20 and therefore recommending deleting this reference: "The bank should also consider interlinkages with broader environmental risk in choosing metrics and setting targets". From our perspective, the emphasis here should be on tracking decarbonisation trajectory; the links to environmental risk are seemingly not clear.

We would also recommend that MAS does not require financial institutions to refer to specific information in their client and counterparty transition plans, as indicated in paragraph 3.11 in the proposed Guidelines, as financial institutions are still exploring what information in those plans is of sufficient quality to inform their own decision-making.

As such, we recommend the following amendments to paragraph 3.11 so that it reads as follows:

> "The bank should set metrics and targets to track progress towards its strategic goals, recognise the limitations thereof and supplement with additional information20 as necessary. For example, a bank may identify portfolio decarbonisation as a strategic goal and track progress using point-in-time emissions data in the absence of forward-looking emissions data. However, point-in-time emissions data would not capture future reductions in emissions (e.g. an investment to install carbon abatement technology). In monitoring such metrics, the bank should keep its intended outcome in mind. As data availability increases, the bank should also review existing metrics for continued relevance."

Question 10.MAS seeks views on the proposed required attribution process set out in paragraph 3.13 of the TPG, including any practical constraints that Banks may face.

The expectation that banks should "be able to attribute causation to specific factors and consider the need to implement additional measures to keep within its risk appetite, and/or achieve its stated targets and commitments" may present practical compliance challenges. For example, macro-economic factors such as inflation can have a significant impact on how a bank's transition plan interacts with real world reality. In such a case, it would be difficult to attribute causation to specific factors considering the macro-nature of the causation.

ASIFMA members would therefore suggest MAS consider an alternative approach. A bank's risk function should be able to interpret how the pursuit of its climate business strategy – as articulated in its transition plan – could lead to material impacts to the firm e.g., with respect to reputational risk, similar to any other major strategic business initiative.

A bank's Risk function must be able to understand how implementation of targets could create risk for the firm—e.g., implications for reputational risk if the bank does not meet its target, implications for litigation risk, or implications for financial risk if the bank's financial performance is negatively impacted by the pursuit of that target. As one example, a bank may have a risk appetite related to portfolio alignment with the target, related to the reputational risk of misalignment with the target.

Although a bank's Risk function is involved in transition planning, like any other major strategic initiative, it is important to note that banks are not setting decarbonisation targets for risk management purposes.

Consistent with our comments in response to Question 2, we suggest the following amendments to Section 3.13 so that it reads as detailed below, to clarify that banks may have a risk appetite with respect to a portfolio's alignment with the portfolio-level target, but the portfolio decarbonisation target itself is not a risk appetite statement:

> 3.13 Where there is a misalignment between the bank's espoused risk appetite and actual trajectories, the bank should have a structured process in place to explain the variance. The bank should consider the need to implement additional measures to keep within its risk appetite, and/or achieve its stated targets and commitments. If the misalignment is assessed to be fundamental and not temporary, the bank should review the continued relevance of its risk appetite and/or targets.

Question 11.MAS seeks views on whether it would be useful to specify broad categories for attribution referenced in paragraph 3.13 of the TPG, and if so, what such categories could include.

Given that each bank's client profile and risk profile is different, it would be difficult to come up with a useful set of broad categories.

As such, we would recommend keeping the current wording.

However, if the MAS was willing to provide illustrative example categories, without necessarily being prescriptive at this stage, this is something that may be useful to aid understanding around expectation levels.

Question 12.MAS seeks views on whether the drafting in paragraph 3.14 of the TPG will allow Banks to support climate positive outcomes, and if there are other considerations to include in the drafting to ensure that these are done in a credible manner and not used as a means of transition washing.

In line with comments made under Question 2, for the sake of definitional clarity and consistency we would suggest the following amendments to paragraph 3.14 so that it reads as follows:

> "Given the evolving nature and understanding of climate change, the bank should review all relevant risk indicators periodically for continued relevance and monitor these metrics using a multi-year risk perspective. For example, short term increases in financed emissions due to actions in support of climate-positive outcomes (e.g. projects for which reductions in emissions will materialise only after the project is completed) may not be an indication of a divergence from the bank's climate transition plan or failure to meet their publicly committed climate objectives. The bank may see a short-term increase in its financed emissions when it finances customers' projects that facilitate transition, but this should be viewed against potential longer-term reduction of financed emission due to improvement in customers' emission profiles. The bank should be able to explain how its transition plan, as well as the financing it provides to customers, is consistent with the bank's risk appetite statements, commitments and decarbonisation targets (if any)."

Question 13.MAS seeks views whether paragraphs 3.15 to 3.17 of the TPG provide an adequate overview of the people, processes and systems necessary for a robust implementation of Banks' transition planning.

ASIFMA members would suggest that the objective of client engagement in this regard is not about helping clients respond to climate risk. Rather, it is about supporting clients in decarbonising and tracking the extent to which a bank's portfolio emissions trajectory aligns with its target for that portfolio. To that end, we would suggest deleting the sentence under paragraph 3.15 that starts with "The bank should develop staff capability" and ends with "as a response to the climate-related risks."

This same point of principle extends to paragraph 3.16, the emphasis of which should be on governance and processes and the extent to which banks can drive engagement to support client decarbonisation. Rather than "manage climate-related risks in a systematic manner and on a regular basis".

As such we would recommend the following drafting changes to paragraph 3.16 so that it reads as follows:

> "The bank should update its internal governance and processes, to enable its climate transition strategy in a systematic manner and on a regular basis. Scalable and consistent processes will allow the bank to cascade and implement its climate strategy and plans effectively."

Finally, and in the same vein, we would make the point that the tracking of a banks' commitments in this regard as described under paragraph 3.17 relates to the implementation of business strategy, not environmental risk management. Again, we would suggest slight drafting changes here, for the sake of consistency, with paragraph 3.17 reading as follows:

> "Relevant environmental-related data could include information to enable tracking of the bank's commitments, transition and physical risks, as well as other environmental risks it is exposed to through its portfolio, and sector analysis to identify changes in business operating environment…As data availability and quality are expected to improve over time, banks should be agile in how they embed relevant climate-related data in their frameworks and processes, and be flexible enough to allow enhancements (e.g. inclusion of new datapoints or additional granularity) over time."

Question 14.MAS seeks views on whether paragraph 4.1 of the TPG should reference other reporting frameworks.

We agree with the reference to the ISSB standards, considering their audience is the primary users of general-purpose financial reporting. We encourage the MAS to also include reference to the TCFD.

Question 15. MAS seeks views on whether paragraphs 4.1 and 4.2 of the TPG set out the key aspects necessary for market transparency.

We do not have any comments on this question.

Question 16. MAS seeks views on whether paragraphs 4.1 and 4.2 of the TPG provide sufficient additional guidance (i.e. in addition to existing expectations in paragraphs 5.1 and 5.2 of the ENRM Guidelines) for Banks to disclose information

related to their response to material climate-related risks and governance around processes for addressing such risks.

We would simply suggest reference to “risk management’ strategies under paragraph 4.2 be replaced with reference to business strategy, in line with comments/amendments made above.

Question 17. MAS seeks views on the proposed drafting under paragraph 4.2 of the TPG for Banks to consider the use of taxonomies in product-level disclosures, including the suitability of including GFIT’s Singapore-Asia and ASEAN taxonomy as examples. For instance, would such suggestions restrict or support Banks’ transition financing activities?

The MAS should be mindful that not all elements of the transition plan are suitable to be based on taxonomies.

The business model of banks may vary across the industry and hence the portfolio composition of banks may similarly vary. As such, the use of a taxonomy at the product-level may be suitable for certain types of banks, while it may not be suitable for other types of banks. For example, taxonomy labelling may assist with structuring a product to respond to market demand however it is separate from transition planning and setting a business strategy to meet net zero targets. In this light, we believe the use of taxonomies at product-level disclosures should be at the discretion of the bank to be decided based on the business model and portfolio composition of the bank.

Question 18. MAS seeks views on the cited areas of disclosure under paragraph 4.3 of the TPG (i.e. disclosures of factors, inputs, methodologies, material assumptions and dependencies), such as whether there are any practical constraints or competitiveness concerns in providing such disclosures.

Many ASIFMA members disclose factors, inputs, methodologies, material assumptions and dependencies with respect to target-setting and reporting on progress against decarbonisation targets.

However, ASIFMA members would caution against supervisory expectations that more detailed disclosure be made publicly available. ASIFMA members would suggest that any more detailed disclosure per paragraph 3.4 be to the MAS in the first instance.

Should the MAS deem certain information necessary to be made public, this could then happen following an internal review. This should lead to a better outcome in the first instance as any medium- and longer-term projections or estimations would be highly speculative and could be misleading to a less sophisticated public audience.

Question 19.MAS seeks suggestions of other examples of transition planning practices currently implemented by Banks that could be incorporated in the TPG.

We do not have any comments on this question.

Question 20.MAS seeks comments on the proposed implementation approach, including the proposed transition period of 12 months.

The MAS' initiative here is more advanced than many peer financial regulators regionally, or globally. It therefore appears pragmatic to allow industry a slightly longer implementation period to allow for the necessary preparation.

Our primary recommendation therefore would be that the MAS opts for publishing the output from this consultation process as a monograph or information paper in the first instance. This would send a signal to the industry without the extensive operational and implementation work that responding to Guidelines inevitably entails, despite their non-binding nature. Such a monograph or information paper could form the basis of Guidelines at a later stage, once the policy issues discussed in this response have developed further.

Should the MAS decide on proceeding with the publication of Guidelines, ASIFMA members would request at least an 18-month transition period, instead of 12 months. This to give banks sufficient time to fully prepare for adherence to the MAS Guidelines here.