

7 August 2020

Monetary Authority of Singapore
10 Shenton Way, MAS Building
Singapore 079117
[Submitted through MAS' online portal]

Dear Sir/Madam,

SUBMISSION TO MONETARY AUTHORITY OF SINGAPORE (MAS): PROPOSED GUIDELINES FOR MANAGEMENT OF ENVIRONMENTAL RISKS BY BANKS, INSURERS AND ASSET MANAGERS

CPA Australia represents the diverse interests of over 166,000 members working in 100 countries and regions around the world, including around 8,500 members in Singapore. We make this submission on behalf of our members and in the broader public interest.

We commend the MAS on its initiative to introduce a set of Guidelines on Environmental Risk Management to enhance financial institutions' ("FIs") resilience to and management of environmental risk; and to tailor it for different categories of FIs: banks, insurers and asset managers.

In CPA Australia's view, there is a high level of interrelationship between: (i) the underlying policy objectives of greening the financial system, (ii) building capacity to manage climate related and associated environmental risks, (iii) setting robust and adaptive criteria for evaluating the climate change impact, and (iv) determining the mitigation and adaption effects of economic activities.

Our comments to the questions raised in the consultation papers are appended below. Please note that while we have used the "Bank" consultation paper as a template for our submission, our comments also apply to the questions posed in the "Insurer" and "Asset Managers" consultation papers.

If you have any queries do not hesitate to contact Dr. John Purcell, Policy Advisor (Environmental, Social and Governance) at CPA Australia on john.purcell@cpaaustralia.com.au or +613 9606 9826.

Yours Sincerely,



Melvin Yong
Country Head – Singapore
Encl.



Dr. Gary Pflugrath CPA (Aust.)
Executive General Manager, Policy & Advocacy

APPENDIX

Question 2. MAS seeks comments on the proposed responsibilities of the Board in overseeing environmental risk management, including its role in ensuring that environmental risk, where material, is addressed in the bank's risk appetite framework.

A range of well-regarded and authoritative corporate governance resources which reiterate the role of the board in setting risk appetite, and the monitoring and management thereof, now make direct reference to climate change within a broadening horizon of environmental and social risks. This reflects both the practical complexities of dealing with the interconnection between risks occurring within the corporate external environment and developing societal expectations of corporate conduct. These include, for example, Recommendation 7.4 of the [ASX Corporate Governance Principles & Recommendations \(4th ed. 2019\)](#) which states “A listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.” Measures such as these are applied broadly across the listed entity environment on a ‘report or explain’ basis and are complementary, again for example, to direct statutory reference to environmental risks such as [section 172](#) of the UK Companies Act 2006. Moreover, these approaches reflect common law legal principles applicable in both Singapore and Australia whereby directors who are vested with powers of management owe duties to safeguard and promote the interests of the company to which they are appointed. A valuable resource to which the Authority may wish to refer is produced by the UK-based [Commonwealth Climate Law Initiative](#). This reference analyses the evolving understanding of corporate and director liability posed by the impact, and associated regulatory and investor responses, of climate change.

Notable also, is “Governance” being one of the ‘four pillars’ within the [FSB's Taskforce on Climate-related Financial Disclosures \(TCFD\) 2017 Recommendations](#) – the other three being; Strategy, Risk Management, and Metrics and Targets. At the first tier of disclosure, is a description of the board's oversight processes of climate-related risks and opportunities. The dynamics of evolving risks which permeate across vast areas of economic and market activity is particularly well captured in the World Economic Forum's annual global risks reports. Their [2020 report](#) notes, in particular, physical climate change (both catastrophic weather events and permanent shifts in climatic conditions) as a systemic risk to global capital markets, acknowledging views such as those of the [Bank of England](#) that non-action is not an option. The myriad of emerging risks relevant to central bank oversight and prudential regulation of market participants, includes stranded assets for extractive companies, pension fund shortfalls, disruption to mortgage markets and continued widening of the insurance catastrophic protection gap. We point to these types of analysis as context supporting the significance of financial market entity capacity building as complementary, if not essential, to market oversight and associated policy setting by central banks.

Question 3. 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.

Following on from the above reference to the TCFD Recommendations, the second tier of Governance disclosures requires description of management's role in assessing and managing climate-related risks and opportunities. At one level, this merely reflects the reality

of delegated management responsibility within any relatively complex and sophisticated corporation. More particularly though, are the aspects of development of suitable processes and associated capacity building. With respect to the latter, the [TCFD's Annex/ Implementation Guide](#) to their 2017 Recommendations provides, firstly, what should constitute minimum best governance practice across all sectors (financial and non-financial), and secondly, attributes of business practices – here in the context of banks; lending and other financial intermediary activities – to which exposure to climate-related risks and opportunities should be analysed and reported on. Relevant also to the Authority's considerations will be the TCFD supplementary guidance for insurance companies and asset managers.

With respect to the process and discipline around delegation and application of climate-related risk governance, the TCFD suggest the following:

In describing management's role related to the assessment and management of climate-related issues, organisations should consider including the following information:

- whether the organisation has assigned climate-related responsibilities to management-level positions or committees; and, if so, whether such management positions or committees report to the board or a committee of the board and whether those responsibilities include assessing and/or managing climate-related issues,
- a description of the associated organisational structure(s),
- processes by which management is informed about climate-related issues, and
- how management (through specific positions and/or management committees) monitors climate-related issues.

Generally, this may be seen as merely descriptive of sound practice. However, it is when overlaid with the TCFD's description of the nature of exposure associated with banking activity that both the internal practices, and the disclosure thereof, set out above, can be fully appreciated as vital to sustaining transparent and long term viable financial institutions. As such, banks, as financial intermediaries, will assume exposure to climate-related risks through their borrowers, customers or counterparties who themselves are directly exposed to physical risk (for example; real property owners) or transition risk (for example; fossil fuel producers). This is in addition to the bank's own reputation and litigation risk. The 'flipside' of course, are the opportunities offered as funding gravitates to economic transformation associated with emissions reduction and, increasingly, technology-based decarbonisation.

The TCFD supplemental guidance for banks recommends, for example, that:

- Banks should describe significant concentrations of credit exposure to carbon-related assets.
- Banks should consider characterising their climate-related risks in the context of traditional risk categories such as credit risk, market risk, liquidity risk and operational risk.
- Banks should provide metrics used to assess the impact of both physical and transitional climate-related risk on their lending and intermediary activities in short, medium, and long-term time horizons, broken down by industry, geography, credit quality and average tenor (time to maturity).

In making reference to this body of climate-related reporting architecture and guidance developed by the TCFD, which is readily accessible by MAS, CPA Australia is more than merely referencing what in many respects has emerged as the preferred or default framework understood by regulators, standard setters, preparers and investors. Importantly, what underlies these developments is complexity and uncertainty in the data and subject matter itself. As such, we urge a focus on capacity building within the reporting entities concerned, accompanied by a communicated regulatory expectation of continuous improvement. Achieving the desired ends will take time. However, we recognise the ever-shortening timeframe for effective emission reduction and averting runaway global warming.

Question 5. MAS seeks comments on the expectation for banks to engage each customer that poses higher environmental risk to improve its risk profile and support its transition towards sustainable business practices.

CPA Australia broadly supports the endeavour of driving business practices more widely, which appears to underlie this consultation question and is elaborated on in para. 4.4 of the Consultation Paper (Banks). However, we suggest that the transparency and risk response gains being sought by MAS, and to be applied to entities in each of the key Singapore economic sectors of banking, insurance and asset management, might be undermined if capacity within the wider economy is not appropriately developed. Capacity development is critical in relation to the collection, assimilation and presentation of relevant data, along with the growing capacity to adjust practices and wider business models in response to climate-related risks and opportunities. CPA Australia sees this as both a significant challenge and opportunity for Singapore with its real and financial economies spanning manufacturing clusters, financial and transport hubs, and with Singapore being seen as a preferred location for the regional and global corporate headquarters.

Broader policy considerations and actions that should be considered include:

- Aside from urging an approach which is cognisant of the need for economy-wide capacity building, CPA Australia believes that regulatory development around disclosure and wider governance response to climate change risks and opportunities, warrants collaborative cross-agency action. Two Australian developments are possible useful reference points for allied development. Firstly, in August 2019 the Australian Securities and Investments Commission updated its Regulatory Guide (RG 247) for preparation of an operating and financial review by listed company directors.¹ In addressing prospects for future financial years, this update provides an emphasis that “*climate change is a systemic risk that could have a material impact on the future financial position, performance or prospects of entities.*”² Within this, direct mention is made of the TCFD. Secondly, in April 2019 the Australian Accounting Standards Board and the Auditing and Assurance Standards Board released their joint bulletin: [Climate-related and other emerging risk disclosures: Assessing financial statement materiality using AASB/IASB Practice Statement 2](#). Aside from the reference again to the TCFD, this Practice Statement is highly significant with respect to its criteria for application, including investor expectations that climate-related risks could influence their decisions, thus creating a positive obligation on entities to assess these risks as potentially affecting the amounts recognised or disclosed in financial statements.

¹ Corporations Act 2001 section 299A

² RG 247.66

- More broadly, respective financial and non-financial disclosure responses to climate change mitigation and adaptation, should be drawn from an as common as possible understanding of the economic transformation implications. As such, both management and disclosure responses in the financial and real economy sectors, need to reference and understand major policy drivers associated with transition risk. For example, both Singapore and Australia as signatories to the Paris Agreement³ are subject to the Convention's required five-year cycle for updating of emissions reduction targets within nationally determined contributions (NDCs). The progressive 'review, refine and ratchet' mechanism can form part of signalling to both financial economy and real economy participants, the trajectory of climate-related impacts and associated economic adjustments.⁴

Question 6. MAS seeks feedback on the expectation for banks to develop tools and metrics to monitor and assess their exposures to environmental risk, and examples of the aforementioned tools and metrics that may be adopted.

CPA Australia is of the view that the key relevant themes in response to this question are financial institution readiness and capacity building. We acknowledge the endeavours outlined in para. 4.5 of the Consultation Paper (Banks) and expect that the Authority would rely, to substantial degree, on the [scenario analysis technical supplement](#) developed by the TCFD.

Sustainability report practices amongst both banks and insurance companies, as a possible proxy for management aptitude and technical capacity to easily adopt such tools and metrics, should be considered.

In June this year, CPA Australia published its research report [Banking on Governance, Insuring Sustainability](#). The report is wide ranging, and probes corporate governance, remunerations and risk management in major Asia-Pacific banks and insurance companies. We believe the section on Sustainability (pp. 66 – 71) is pertinent to the Authority's current considerations in addressing the speed at which the banking and insurance sectors could be expected to fully implement the integration of environmental risk considerations into their financial management practices. Although, we note that the Consultation Papers states that the companies concerned are at different stages along this path. Our report notes that all except three of the 50 banks surveyed produce a section/report on sustainability.

Nevertheless, the predominant areas of focus are community development, customer welfare and sustainable development. This propensity towards social aspects might be indicative of a lesser capacity, or willingness, to disclose and discuss environmental risks. This points to a need for closer regulatory engagement to encourage practices in these directions.

Our report also addresses attributes of emerging risk disclosure practices amongst Asia-Pacific insurance companies directed at managing insurance value chain risks, whilst aiding the minimisation of adverse environmental and social impacts. Using as its reference point the UN Environmental Program Finance Initiative Principles for Sustainable Insurance, there

³ United Nations Framework Convention on Climate Change (UNFCCC) 21st Conference of Parties (COP 21) held in Paris December 2015.

⁴ The means and extent to which NDCs influences twenty or so climate risk and opportunity variables is examined in a CPA Australia commissioned research report: *Australia's international climate change commitments – Associated accounting assumptions and auditing of climate risk disclosures* <https://www.cpaustralia.com.au/-/media/corporate/allfiles/document/professional-resources/esg/cpa-australia-climate-risk-assumptions-final-report-january-2020.pdf?la=en&rev=d4654c69924644979ffda812c847b7ab>

is presently only very limited disclosure of these commitments - relevantly only three Australian insurers and one Singaporean insurer (Great Eastern Holdings) make such disclosures. Again, we believe this analysis, while somewhat secondary and anecdotal in character, points to an associated need in the promulgation of the MAS Guidelines to work with the targeted organisations in building both technical risk management capacity and sympathy towards a diverse, yet interconnected, range of emergent risks.

Question 8. MAS seeks comments on the proposed form and frequency of disclosure of environmental risk by a bank.

Consistent with the recommendations of the TCFD and CPA Australia's broader views around the harmonisation of financial and non-financial reporting, environmental risk disclosures by banks should be part of annual reporting. Aside from promoting governance discipline and meeting reasonably anticipated report-user expectations, this formality would complement, where necessary, any audit and assurance requirements. Also, we note that Singapore, like Australia, operates a continuous disclosure regime for stock exchange listed entities, offering a critical safeguard of market integrity to which climate-related risks will potentially, in the not distant future, become a major driving factor.