PRI'S RESPONSE TO THE CONSULTATION BY THE MONETARY AUTHORITY OF SINGAPORE ON THE GUIDELINES ON ENVIRONMENTAL RISK MANAGEMENT FOR ASSET MANAGERS

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INTRODUCTION

The United Nations-backed Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 3000 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US $90 trillion in assets under management.

Responsible investment explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors in investment decision-making for the long-term health and stability of financial markets.

The COVID-19 crisis has demonstrated the importance of resilient societies and economies, supported by a sustainable financial system. In the short-term, policy makers have rightly focused on the health crisis, immediate economic relief and the prevention of future outbreaks. Policy makers will also need to address existing environmental and climate challenges to ensure the recovery is sustainable. ESG issues, and climate change in particular, remain a priority for financial institutions.

The PRI is working to help investors protect portfolios from risks and to expose them to opportunities in the shift to a low-carbon global economy. The PRI welcomes the opportunity to contribute comments and suggestions to the Environmental Risk Management guidelines for asset managers in Singapore.

ABOUT THE CONSULTATION

The Monetary Authority of Singapore (MAS) has issued three consultation papers on its proposed Guidelines on Environmental Risk Management for banks, insurers and asset managers. The Guidelines aim to enhance financial institutions' resilience to environmental risk and strengthen the financial sector's role in supporting the transition to an environmentally sustainable economy. Developed with support from financial institutions and industry associations, the Guidelines aim to set out sound practices in relation to FIs' governance, risk management and disclosure of environmental risk.

PRI'S RESPONSE TO THE CONSULTATION

The PRI welcomes the publication of the Environmental Risk Management Guidelines. The Guidelines provide a comprehensive framework for asset managers to assess, manage and disclose environmental risks.

In this response the PRI seeks to provide feedback via a number of recommendations listed below, please note that these do not correspond directly to the individual questions outlined in the consultation document:

1. The PRI recommends amending the introductory paragraph mentioning fiduciary duty:

"The Guidelines are not intended to prohibit or restrict asset managers from complying with and discharging their fiduciary duties and other legal obligations to their customers."

The current text may be misinterpreted to imply that managing environmental risks may be opposed to fulfilling fiduciary duties. The modern understanding of fiduciary duties is that they require investors to:

- Incorporate environmental, social and governance (ESG) issues into investment analysis and decision-making processes, consistent with their investment time horizons.
- Encourage high standards of ESG performance in the companies or other entities in which they invest.
- Understand and incorporate beneficiaries' and savers' sustainability-related preferences, regardless of whether these preferences are financially material.
- Support the stability and resilience of the financial system.
- Report on how they have implemented these commitments.

More analysis and evidence can be found in the PRI report on Fiduciary Duty in the 21st Century.[1]

2. The PRI recommends that The Guidelines should include a broader scope on systemic and sustainability risks that may affect investment portfolios. Beyond climate and other environmental risks, other ESG factors are also material to investors and therefore should be included in the risk management process.

3. The PRI recommends that MAS incorporates key aspects of the environmental risk management guidelines within relevant existing financial regulations. ESG risks are material to investors, and climate risks are financial risks. Evidence demonstrates that mandatory regulations are more impactful than voluntary guidelines and can also create market efficiencies, as today global and regional investors are required to manage climate risks in multiple jurisdictions.

Mandatory regulation, aligned with international standards, will not only help to codify terminology (for greater consistency), it will also level the playing field on existing best practices rewarding first movers and the best environmental performers.

4. The PRI recommends an alignment of environmental risk management with the TCFD framework, and that climate and broader environmental risks are integrated into existing risk management processes. Climate-related risks exist alongside other investment risks, it is therefore important to undertake a materiality assessment and to stipulate where the priorities sit compared to other investment risks.

[1] https://www.unpri.org/fiduciary-duty-in-the-21st-century-final-report/4998.article

5. On metrics, the PRI recommends setting out a core set of basic metrics which should apply to all managers above a certain threshold, as well as an optional set of more advanced metrics.

This could be drawn from the metrics table listed below:

1) Emission foot printing • Total GHG emissions; • Carbon intensity; • Weighted average carbon intensity of each portfolio in MtCO2e/$m AUM versus a benchmark; • Exposure to carbon related assets. **2) Governance related / forward looking** • The % investee companies where executive remuneration is linked to climate targets; • The % of sovereign bonds in the portfolio issued by countries with net zero 2050 targets; • Portfolio warming potential of investments in °C; • Financial products / funds and portoflio's % alignment with the EU Taxonomy*
Physical climate risk • % or absolute value of assets exposed to identified key indicators of physical climate risk in specific geographic areas, including sovereign risk monitoring; • Weather-related operational losses for real assets.
Transition and physical risk • Disclosure of climate-related metrics used to determine executive remuneration (both how they are calculated and how they are used); • Quantitative, scenario-based impairment metrics, for example, using carbon prices and forward-looking climate models (see the scenario analysis chapter for guidance). Firms should disclose the results of scenario analysis from a range of scenarios, including the potential impact on AUM/expected revenues in $bn. Any limitations or uncertainties around assumptions and analytics should be reported, as should the % assets/loans/liabilities assessed. For asset managers, this may include a change in the market value of investments/total investment returns.

The PRI recommends that MAS adds to the Guidelines the setting of targets to improve environmental performance and align portfolios with the Paris agreement. In describing their targets, asset managers should consider including the following:

- Whether the target is absolute or intensity based or a combination of the two,
- Time frames over which the target applies,
- Base year from which progress is measured,
- Key performance indicators used to assess progress against targets.

The outputs from scenario analysis should also be a key consideration for asset managers when setting targets. The TCFD recommends the use of a range of scenarios, including a 2ºC or lower scenario, to assess resiliency of an investment strategy.

A table of reference climate scenarios may be found on the PRI website Climate Scenario Analysis section.[2]

[2] https://www.unpri.org/climate-change/climate-scenario-analysis/3606.article

The PRI has experience of public policy on sustainable finance policies and responsible investment across multiple markets and stands ready to further support the work of the Monetary Authority of Singapore in promoting financial regulations aligned with a sustainable recovery and green economies.

Any question or comments can be sent to policy@unpri.org.