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# MAS Guidelines on Environmental Risk Management (Asset Managers)

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# Deadline is upon us for MAS Environmental Risk Management Guidelines

Singapore's Fund Management Companies must meet new requirements for the management and disclosure of environmental risks from 7th June 2022. The guidelines were published in 2020, giving FMCs 18 months to get ready for implementation but it appears some Managers have a way to go. If you haven't addressed all the requirements yet, or want to check whether you're on track, there are some priority areas you should be looking at.

## Who's in scope?

The guidelines don't apply to all FMCs – only to those that have discretionary authority over portfolios. So, if you're a sub-Manager or adviser, you're not in scope (although may be captured by similar requirements elsewhere).

There isn't an AUM threshold although the MAS recognises that proportionality is important. The guidelines confirm that registered fund management companies (RFMCs) are on the hook (as well as Licenced FMCs and REIT Managers). Where Singapore FMCs delegate investment management to sub-managers (wherever they are based), they retain overall responsibility for compliance.

## Materiality is key

The approach that FMCs need to take to adopt the guidelines depends on the materiality of environmental risks to the portfolios being managed, as well as the FMC's overall ESG strategy. You therefore may want to start with the materiality assessment. Key inputs might include investment strategy, asset class, sector focus, and the characteristics of individual investee companies.

If you already have strong green credentials, then adopting the Guidelines might not require much more than dusting off your existing ESG policy.

## What the guidelines require of you

Managers of both funds and segregated mandates are required to:

- articulate their ERM strategy
- have in place appropriate governance
- incorporate ERM into their overall risk management frameworks
- factor environmental risk (where material) into their research and portfolio construction processes
- exercise sound stewardship
- make appropriate disclosures to stakeholders.

What this looks like will depend very much on the nature of the portfolios being managed – there isn't a "one size fits all" approach. We've prepared a summary of the requirements below.

## We can help

We have prepared a policy template as a starting point for MAS-licenced Fund Management Companies to document their approach to meeting the MAS' ERM Guidelines. We can help you understand how the guidelines impact you and what you need to do to be compliant.

Get in touch to find out more.

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# A summary of MAS Guidelines on Environmental Risk Management (Asset Managers)

Application:

- Licenced Fund Management Companies (LFMCs)
- Real Estate Investment Trust (REIT) managers
- Registered Fund Management Companies (RFCMs)

The guidelines cover both funds and segregated mandates, and are applicable to managers who have discretionary authority, including those who delegate investment management to sub-managers or advisers. They come into effect on 7th June 2022.

Asset managers *"should implement these Guidelines in a way that is commensurate with the size and nature of its activities, including the investment focus and strategy of its funds/mandates*". Note that many aspects of the guidelines are relevant only if the risks, as assessed by the FMC, or the information (e.g. disclosure of metrics and targets) are "material".

Environmental issues include climate change, loss of biodiversity, pollution and change in land use. Environmental risk for funds and mandates includes physical risk (e.g. weather events or environmental changes) and transition risks (from the process of adjustment). Asset managers can also be subject to reputational risk.

## Governance and Strategy

The board, or sub-committee, is responsible for:

- Approving an environmental risk management framework and environmental risk policies.
- Setting clear roles and responsibilities of the board and senior management.
- Ensuring that the directors have an adequate understanding of environmental risk, and senior management has appropriate expertise.

Senior management is responsible for:

- Ensuring the development and implementation of
  - an environmental risk management framework, and
  - tools and metrics to monitor exposure and resilience to different environmental scenarios.
- Regularly reviewing the effectiveness of the framework, polices, tools and metrics.
- Establishing an internal escalation process for managing environmental risk.
- Allocating adequate resources with appropriate expertise.

Allocation of responsibilities should be in accordance with the three lines of defence model.

## Research and Portfolio Construction

Asset managers should embed relevant environmental risk considerations in their research and portfolio construction process if they have assessed them to be material. In assessing materiality, asset managers could:

- Equities: consider the primary environmental risk factors that would affect the long-term success of the issuer.
- Fixed income: obtain a view of the environmental risk associated with a specific credit investment.
- Direct real estate investment: consider operational indicators (e.g. GHG emissions, energy management, waste and water management) as well as possible impact of climate change and extreme weather events.

Industry Associations, NGOs and other organisations also provide useful inputs into this. For instance, the Task Force on Climate-related Financial Disclosures (TCFD).

For portfolio construction, where material, asset managers should include measurement and management of the various environmental risk factors that are present in a portfolio on an aggregate basis (e.g., total GHG emissions of a portfolio, with reference to a benchmark).

## Portfolio Risk Management

**Ongoing monitoring:** asset managers should put in place appropriate processes and systems to monitor, assess and manage potential and actual impact of environmental risk on individual investments and portfolios on an ongoing basis, where material.

**Scenario analysis:** where environmental risk is material in the investment portfolios, asset managers should develop capabilities in scenario analysis to assess its impact on the portfolios, including the portfolios' resilience to financial losses under a range of outcomes.

**Capacity building:** asset managers should equip their staff with adequate expertise to assess, manage and monitor environmental risk in a rigorous, timely and efficient manner.

## Stewardship

Asset managers are expected to exercise sound stewardship to help shape the corporate behaviour of investee companies positively through engagement, proxy voting and sector collaboration. Depending on the asset class, this might include supporting investee companies' efforts in the transition towards more sustainable business practices.

Asset managers should consider aligning their stewardship initiatives to the Singapore Stewardship Principles, and also draw on international resources.

Real Estate Managers should consider implementing asset enhancement initiatives, such as energy and water efficiency, waste management, or green building certification.

## Disclosure

Asset managers should disclose their approach to managing environmental risk in a manner that is clear and meaningful to their stakeholders including, through metrics, the potential impact of material environmental risk to customers.

Disclosure should be in accordance with international reporting frameworks, such as the Task-Force on Climate-related Financial Disclosures (TCFD), which covers:

- Governance, including the Board's oversight and management's role in assessing and managing climate-related risks and opportunities.
- Strategy, in relation to the actual and potential impact of climate-related risks and opportunities on the asset managers' businesses, relevant products and investment strategies, where such information is material.
- Risk management, with regard to how the asset manager identifies, assesses, and manages climate-related risks.
- Metrics and targets, to assess and manage relevant climate-related risks and opportunities where such information is material. TCFD recommends the disclosure of Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks (Scope 1 emissions are direct emissions from owned or controlled sources; Scope 2 emissions are indirect emissions from the generation of purchased energy; and Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions).

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