RESPONSE TO CONSULTATION PAPER

Consultation topic:	Proposed Guidelines on Environmental Risk Management (Asset Managers)
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Question 1. MAS seeks comments on the entities and business activities that are in the proposed scope of the Guidelines.

CFA Society Singapore are in agreement with MAS on the entities and business activities that are in the proposed scope of the Guidelines.

However, should entities not covered under the Guidelines engage in equivalent business activities to entities in the Guidelines, such as offering and distributing investment products, the licencing of these products for distribution in Singapore should take into account asset managers who have discretionary authority over these products to do the same or equivalent to their counterparts in the Guidelines. This is to ensure equal treatment to all investment products offered for distribution in Singapore.

Question 2. MAS seeks comments on the proposed responsibilities of the Board in overseeing environmental risk management, including its role in approving the environmental risk management framework and policies.

We agree that the Board should be responsible in overseeing environmental risk management, including its role in approving the environmental risk management framework and policies. However, the Board is unlikely to have the knowledge and expertise to effectively implement the above.

Based on the experience of CFA Society Singapore Members who are in the process of implementing or have already integrated ESG practices into the fund management space, we propose a pragmatic step-by-step phased route as an alternative to achieving the above:

- Delegate the responsibility for development and implementation of the environmental risk management framework and policies to preferably a senior in-house ESG expert(s). This could either be individuals or a committee (which may include a board representative) such as an ESG or environmental oversight committee with adequate representation from various key stakeholder groups such as investment teams, client relationship managers as well as ESG experts
- Apart from defining the policies and processes, this group should regularly track environmental risk metrics for each of the firm's strategies, and on a periodic basis such as semi-annually, update the Board on key risks in various strategies and how they are being managed. In this manner the Board will have oversight on environmental risk issues
- On a concurrent basis, the Board should undergo training to acquire the knowledge, expertise and skills required to ultimately be able to perform the proposed oversight responsibilities

In implementing the above suggested route, we should consider the following:

- Asset managers are in different phases of integrating environmental risks into their processes. Some managers have not started. Others are revising their governance framework to take into account environmental risks, whilst the more advanced managers are incorporating environmental risk into their fund management processes

- Managers of different asset classes may experience different challenges in implementing an environmental risk framework. For example, availability of data needed for private equity managers to implement the risk framework may be scarce and difficult to obtain

- In general, asset managers with huge AUMs are in better position to implement the framework due to more resources at their disposal. Small AUM fund houses will struggle to do the same, and may experience significant increase in costs, especially if they have to rely on vendor data and expertise, putting them at a disadvantage compared to bigger AUM fund houses. Hence, there should be a differentiation in timeline for different asset managers

- Nevertheless, there are numerous no-charge online training material for many asset classes which asset managers can subscribe to build in-house capabilities. Alternatively, the authorities or regulators may want to make available or catalyse the development of courses and training for the benefit of financial professionals

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 of the assets managed.

[Refer to response in Question 2]

Question 4. MAS seeks comments on the proposal for asset managers to designate a senior management member or a committee to oversee environmental risk, where such risk is material.

[Refer to response in Question 2]

Question 5. MAS seeks feedback on the examples of tools and metrics that may be used by asset managers to assess the impact of environmental risk at both the individual investment and portfolio level.

We should give careful consideration in specifying metrics for different asset classes. Data may not be available or within reach in terms of costs consideration, especially if engaging an external vendor, for certain asset managers. In specifying such metrics, MAS may want to consider what is reasonably achievable by various asset managers.

CFA Society Singapore would also like to highlight the following:

- Environmental factors should be part of the investment process. However, the starting point should be the Governance factor for sovereigns (and for any asset class). In general, the higher the governance standards of a country, the better the environmental policies. Therefore, governance standards would need to be addressed in order to effectively be able to attribute risks to the environment (given government policies dictate environmental policies and many sovereign issuers don't disclose environmental matrices or not in a standardized way). Hence, it makes it more challenging to assess environmental risks

- Fair value of companies held in an asset manager's portfolio are significantly impacted by country and global drivers. Therefore, in addition to factoring in company-level environmental risk assessment, asset managers may need to include macro or country-level environmental risks. For example, a country's higher exposure to erratic weather patterns (floods, droughts, wildfires) would expose certain sectors such as agri-commodities as well as their supply chain – both upstream and downstream significantly both in terms of operational resilience and price volatility. Even the most sustainably managed companies in these sectors are hostage to such macro-driven physical climate risks. Similarly, the degree of air and water pollution in a country or region will have a direct impact on both health expenditure as well as related deaths – which would lower the level of discretionary spending, especially in emerging markets, thereby impacting revenue growth for consumer discretionary companies. These examples highlight the need to evaluate and factor in macro or country level environmental risks in order to perform a more robust investment analysis and portfolio construction

Question 6. MAS seeks feedback on the examples of tools and metrics that may be used by asset managers to conduct portfolio risk management.

There are Task Force on Climate-related Financial Disclosures (TCFD) guidance, tools and data suggestions available under: https://www.tcfdhub.org/scenario-analysis/

However, we are of the opinion that these tools and metrics should be used as a starting point in identifying high risk companies in portfolios. Emphasis should instead be on company engagement.

Question 7. MAS seeks comments on the expectation for assets managers to engage investee companies to manage the impact of environmental risk and support their transition towards sustainable business practices.

Engagement is a key tool to manage environmental risk, and to support investee companies' transition to sustainable business practices.

However, engagement can come at a hefty price especially for asset managers with a small AUM. Hiring a dedicated team or specialist third party is costly. The alternative to an in-house team or specialist third party could be via collaborative engagement action (such as Climate Action 100+). Nevertheless, such collaboration may only work for publicly listed companies, not for all asset classes. As such, stewardship of this nature requires differentiation in requirements and adherence if made mandatory.

Question 8. MAS seeks comments on the proposed form of disclosure of environmental risk by an asset manager.

We are in agreement with MAS on the need for meaningful disclosure. We view the TCFD framework or other equivalent framework as viable reference points.

Nevertheless, there needs to be differentiation in terms of scope of disclosure and time frame for compliance for different asset classes. The availability of data necessitates this differentiation – publicly listed company data are in general more readily available compared to data required by private equity. When data is scarce, asset managers may also be offered the option of non-compliance. However, they need to explain the reasons for not complying.

Another point to note would be comparability on what matrices asset managers are expected to disclose on environmental risks – do asset managers disclose dollar impact on greenhouse gas reduction, or the actual reductions in volume or weight for example? There needs to be an agreed starting point for comparability – on what to disclose? And what is the aim/objective of doing so? Not all issuers (in any asset class) disclose these matrices globally in a standardized matter.

Question 9. MAS seeks comments on any aspects of the Guidelines that have not been covered in earlier questions.

MAS might want to consider a broader based ESG implementation approach instead of just focusing on E. Once asset managers incorporate ESG factors into portfolio management, refinement on environmental factors can follow.

Question 10. MAS requests for examples of sound risk management practices currently implemented by asset managers, which would meet the expectations in the Guidelines.

[No comments]

Question 11. MAS seeks comments on the proposed implementation approach, including the proposed transition period of 12 months.

From the experience of CFA Society Singapore Members who are already in the ESG space, the 12 months implementation timeframe would be sufficient for asset managers who have already laid the foundation on ESG risk evaluation and integration into their investment processes.

The same cannot be said for other asset managers who have not started or are at the very early stages of the ESG / environment or climate risk journey. It will be challenging to comply with the proposed guidelines in 12 months. Availability of data, size of AUM and many other factors may also affect the ability of different asset managers of different asset class to comply.

Secondly, with the availability of third-party data providers, evaluating and disclosing climate risks is plausible within 12 months but systematic integration into investment analysis and portfolio construction will take much longer. Mainstream analysts are not familiar with such factors and will require practical training to be proficient. In addition, the variety of assumptions made during scenario analysis makes integration even more complex as it is not clear when and how these risks could play out.

Lastly, the suggested phased step-by-step approach as per response in Question 2 will definitely require more than 12 months to implement.