December 18, 2023

Mr. Ravi Menon, Managing Director, Monetary Authority of Singapore
CC: Mr. Chia Der Jiun, Managing Director Designate

Submitted via online consultation portal and via electronic mail

Re: IIF Response to MAS Consultation Papers on Proposed Guidelines on Transition Planning for Banks, Insurers, and Asset Managers

Dear Mr. Menon,

The Institute of International Finance (IIF) and its members, which broadly represent the global financial services industry, appreciate the opportunity to provide public comments to the Monetary Authority of Singapore (MAS) on its Consultation Papers on Proposed Guidelines on Transition Planning for Banks, Insurers, and Asset Managers (hereafter "the consultation papers" or "proposed Guidelines").[1] The IIF is the global association of the financial industry, with around 400 members from over 60 countries, including commercial and investment banks, asset managers, insurance companies, ratings agencies, market infrastructure providers, and professional services firms.

IIF members appreciate MAS's initiative to consult with stakeholders on its proposed Guidelines on Transition Planning. The topic of financial institution transition planning, and how prudential supervisors engage with it, is still nascent. The IIF considers the work of the MAS in this sphere to be extremely important and potentially precedent setting. Global financial institutions generally approach transition planning (i.e., decarbonization targets and plans to implement those targets) at the group level rather than the legal entity level, and it is therefore essential that the final MAS approach is appropriate, effective and allows for interoperability between jurisdictions.

In an October 2023 report entitled "***The Role of the Financial Sector in the Net Zero Transition: Assessing Implications for Policy, Supervision and Market Frameworks***"[2] (hereafter "IIF report (October 2023)"), the IIF has set out consensus views from the global financial industry on a range of topics relevant to the proposed Guidelines. It discusses the strategic relevance of transition planning for financial institutions, links between transition planning and finance, the importance of distinguishing transition planning from climate risk management, and some key issues associated with implementing transition strategies in a globally competitive marketplace which may need to be considered in any potential supervisory or regulatory approaches. Comments provided in this letter draw upon that recent report.

The remainder of this letter is organized as follows. First, we provide high-level comments of a cross-cutting nature which are relevant to the MAS consultation papers. Second, we provide detailed responses to specific questions posed in the consultation papers. In general, our remarks are provided on a cross-

[1] https://www.mas.gov.sg/news/media-releases/2023/mas-proposes-guidelines-for-financial-institutions-on-transition-planning.

[2] https://www.iif.com/Publications/ID/5552/IIF-Report-on-The-Role-of-The-Financial-Sector-in-the-Net-Zero-Transition.

sectoral basis drawing on input from IIF bank and insurance firm members in particular, and we indicate where certain comments are specific to certain business models.

PART 1. Summary of Key Messages

Broadly, the IIF and its members support the MAS's efforts to develop, consult on and clearly set out their supervisory expectations in relation to transition planning by supervised financial institutions. This is helpful as many financial institutions are developing and implementing transition plans, which is occurring in the context of evolving expectations from different market-based initiatives and stakeholder groups. It is beneficial that the MAS, which is an early-mover globally on this important topic, is willing to engage in transparent industry consultation as it develops its approach.

IIF members appreciate the MAS's recognition that financial institutions are undertaking transition planning with a multi-year view, that the net zero transition will not be linear, and that short-term increases in financed emissions may not be an indication of an increase in climate-related risk or of failure to meet a financial institution's publicly committed objectives. IIF members also support the MAS's recognition that the scale, scope, and business models of financial institutions can be different and that a risk-proportionate approach to supervision is needed.

IIF members appreciate the opportunity to offer suggestions on how the MAS can tailor its guidance to achieve its objectives, in consideration of how global financial institutions are approaching transition planning. We would like to offer some specific suggestions for how to revise the proposed Guidelines and would like to share industry perspectives on the current practicalities of implementing transition strategies in a globally competitive marketplace, which the MAS could consider as it seeks to finalize its supervisory approach.

1.1 The role of financial institutions in supporting real economy decarbonization, and transition planning as a business strategy exercise

IIF members perceive that aspects of the consultation are based on a specific "theory of change" about the potential relationship between financial institution transition planning, transition finance, and corporate activities, and how these relate to decarbonization outcomes in the real economy. We would like to offer some reflections on this theory of change.

Financial institutions act as intermediaries, and can support their client/customer and portfolio companies' own decarbonization efforts through the provision of financial products and services. These can include (among others): offering new financial solutions; debt and equity finance; advisory services for clients (e.g., on strategic M&A); institutional investment and stewardship; the provision of insurance and underwriting services, including new types of insurance; and management of household savings and investments for retail clients. These financial services are provided in response to demand from customers and counterparties. Financial institutions can also help to inform and educate their customers about any potential business opportunities associated with transitioning their business model. More broadly, some financial institutions may also be involved in advocacy in support of the implementation of economy-wide policy frameworks that are necessary to motivate an economy-wide transition.

However, **while the financial sector will clearly play a significant role in supporting the transition, it is important to recognize that financial institutions have limited direct influence over the emissions**

reductions of their customers, asset managers, counterparties, and investees. The degree of influence that a financial institution may have on the climate-related choices made by a given customer, asset manager, counterparty or investee is affected by multiple variables. The ability of corporations to transition, and therefore for financial institutions to facilitate and finance the transition, is dependent on whether they have economically-viable opportunities to transition their business strategies. This in turn will be dependent on government policy incentives, build-out of clean energy infrastructure, technological developments, and consumer demand shifts, among other external factors. Without these supporting factors to establish an enabling environment, there will not be client demand for financing of the transition.

In this context, global financial institutions generally approach transition planning as a **dynamic business exercise to operationalize a firm's strategic targets and commitments to achieve its longer-term low carbon goals (e.g., by end-2050) and interim targets (e.g., by 2030).** For example, as a first step in transition planning, some financial institutions are setting interim 2030 portfolio-level targets to reduce financed emissions over time in line with science-based emissions pathways, generally beginning with more carbon-intensive sectors. To operationalize and implement those targets, a financial institution must be able to assess and monitor the trajectory of a portfolio's emissions vis-à-vis the trajectory of the portfolio-level target. Financial institutions are sourcing customer emissions data to track progress against those portfolio-level targets (there is further detail on the current challenges in obtaining and estimating customer and counterparty emissions data in Section 2.6, below). **Importantly, financed emissions are unlikely to linearly decrease even if a financial institution develops and implements a science-based transition plan,** if it extends transition finance or investment to carbon-intensive sectors – which may be an effective channel for the financial institution to help support real economy decarbonization. IIF members welcome the clear recognition of this by the MAS in the proposed Guidelines, e.g. paragraph 4.20 of the draft banking guidelines: *"MAS recognizes that Banks may see a short-term increase in their financed emissions when they finance customers' projects that facilitate transition"* and in paragraph 4.12 of the draft insurance guidelines: *"MAS recognizes that insurers may see a short-term increase in their financed or insurance-associated emissions when they invest in or provide insurance coverage for projects that facilitate transition."*

Recognizing these factors and contingencies, it would be helpful for the final MAS guidance to reflect the strategic nature of financial institutions' transition plans and the inherent dependencies and uncertainties beyond the control of a financial institution that may affect achievement of its transition goals.

1.2 Recognizing the differences between transition planning and climate-related financial risk management

The draft Guidelines define transition planning as *"the internal strategic planning and risk management processes undertaken to prepare for both risks and potential changes to business models associated with the transition."* IIF members support the view of MAS that transition planning activities can help financial institutions identify and understand strategic risks and opportunities relevant for a firm's business model, as it seeks to support the decarbonization of customers and counterparties. IIF members also consider it important to highlight that transition planning is distinct from other types of core climate-related risk management activities, which have different objectives, approaches, metrics and tools. IIF members that have engaged in transition planning to date have not done so primarily for climate-related financial risk management purposes; similarly, transition plans should not be considered as a summary of a financial institution's core risk management response to potential transition (or physical) risks. However, a financial institution's risk function may be involved in governance and oversight of transition planning and in understanding the impact of business strategy (e.g., with respect to reputation or financial risk). In this regard, transition plans can provide a time-bound view on a firm's strategic response to the net zero transition.

Considering these important differences, IIF members perceive that there may be risks of distorting financial institution transition planning and climate-related financial risk management approaches if there is a lack of clarity regarding their differentiation in the context of supervisory guidelines – or if they are potentially conflated. IIF members believe that prudential supervisors including the MAS can account for the potential impact of transition planning on strategic risk in their engagement with financial institutions by focusing on links to strategic, reputational or legal risks.

The final MAS Guidelines could benefit from a revised structure, which clearly differentiates strategic risk at the level of the financial institution, and broader climate risk management approaches; we provide specific suggestions in Section 2.5. This would reflect the structure of leading frameworks, such as the International Sustainability Standards Board (ISSB) IFRS S2 standard, which is a global baseline standard for sustainability disclosures.

1.3 Challenges and risks associated with use of supervisory tools to actively motivate real economy transition outcomes through expectations on financial institutions

IIF members would highlight that transition planning <u>should not</u> be considered as a prudential risk management tool for financial institutions, or by supervisors – nor should financial institutions be considered as responsible for a customer's success in meeting transition goals. Prudential authorities generally should avoid seeking to influence a supervised firm's choice of legitimate business activities, which would be beyond the scope of their prudential mandate. As such, it is helpful that transition planning guidance developed by supervisors is *higher level* reflecting the strategic nature of transition planning and the inherent dependencies and uncertainties beyond the control of a financial institution that may affect achievement of its transition goals. Where an authority has other statutory objectives, it is important not to use a single tool to try to achieve multiple objectives as this can compromise the effectiveness and efficiency of prudential tools. In the case of transition planning, it also assumes that financial institutions have direct influence over their customers' ability to transition and ignores the need for more direct policy levers and incentives which are required to catalyze investment in the transition.

Recognizing these important considerations, **IIF members do not consider it appropriate for supervisors to set expectations for financial institutions to "*steer*" or "*accelerate*" their customers' transition planning.**[3] While financial institutions can support clients and create financial products/solutions to incentivize transition-related actions, they are unable to have an authoritative or directive influence over the strategic decisions of their clients, or the outcomes of these decisions. It is therefore important to avoid overly ambitious requirements on customer engagement in the final Guidelines and to keep the focus on what is relevant for prudential outcomes.

[3] "*Steer*" and "*accelerate*" are verbs used in several parts of the proposed Guidelines.

1.4 Integrating broader environmental risks within climate-related transition planning remains challenging at this time

Significant work remains to better understand the relationship between nature- and climate-related issues. While some financial institutions are investigating this, integrating nature and broader environmental assessments with climate-related transition planning is challenging due to the lack of a one-to-one correlation between actions that have a positive impact on nature and actions that reduce GHG emissions. More broadly, it is also important to differentiate between environmental risk management versus. pursuing nature-positive outcomes, similar to the distinction between climate-related risk management versus pursuing net zero outcomes.

IIF members recognize that there may be interlinkages and trade-offs between climate mitigation activities and broader environmental impacts, which may have implications for risk management. For example, in implementing its transition strategy, a financial institution could face reputational risk from environmental impacts associated with financing for, or investing in, transition-related activities.

1.5 Suggested clarification of implementation expectations and global coordination

It would be helpful for the MAS to revise its expectations for implementation of aspects of the Guidelines, especially in areas where methodologies are nascent. It is challenging to see how a 12-month implementation timeline will be realistic, considering that approaches in certain areas covered by the Guidelines are either still under development or not yet widely adopted (e.g., methodologies for assessing financed emissions associated with capital markets activities). A longer timeline (e.g. 24-months) or a phased implementation of certain requirements may be warranted. Furthermore, it would be beneficial for the MAS to clarify what is implied by the term 'transition period', and what it expects supervised entities to implement during this period, and to have implemented by the end of this period.

Importantly, the MAS should clarify that the guidelines do not require global financial institutions to adopt sub-targets or distinct transition plans for their MAS-regulated subsidiaries. As explained above, a financial institution's transition plan is fundamentally a plan to align its strategy, operations, and business model with any decarbonization targets or other sustainability targets it has set, most typically at group level. Regionally divided sub-targets and transition plans, in the absence of a strategic purpose, would be seemingly arbitrary and should not be required.

At the global level, IIF members would encourage the MAS to work through the global standard-setting bodies, and in partnership with other supervisors, to ensure that a common set of supervisory approaches for engaging with financial institutions on transition planning are developed. The IIF and its members remain supportive of international engagement to ensure appropriate alignment of supervisory approaches across markets, as well as the efforts of coalitions such as the Network for Greening the Financial System (NGFS) to address jurisdictional and regional factors which may affect transition planning practices (and supervisory approaches), including in emerging markets. Addressing these priorities can – among other things– help ensure that transition planning and implementation activities can facilitate the allocation of capital from developed to emerging markets, where financing needs are highest and the potential decarbonization impact can be very significant.

PART 2. Responses to Specific Consultation Questions and Themes

2.1 Definition of Transition Planning: Considerations regarding the relationship between Transition Planning and Climate Risk Management

(Question ("Q") 1 of the proposed Guidelines for banks, Q1 of the proposed Guidelines for insurers)[4]

As indicated in our recent IIF report (October 2023), the global financial industry considers that **transition planning is a dynamic business exercise to operationalize a firm's strategic targets and commitments to achieve its low carbon goals.**

Recognizing this, IIF members consider it important that the definition of transition planning included in the final MAS Guidelines reflects the core strategic nature of transition planning, and clearly distinguishes aspects of transition planning from climate-related financial risk management. IIF members support the MAS's view that transition planning can help financial institutions identify and understand strategic risks and opportunities relevant for a firm's business model as it seeks to support the decarbonization of customers and counterparties. IIF members would recommend that the MAS clarify that any risk-related dimensions considered within the definition of transition planning refer to strategic risks and to the role of the risk function in governing the risks associated with implementing a firm's transition strategy, and by extension, that transition planning is not expected to encapsulate other core climate-related financial risk management activities. This would help clarify the important differences between transition planning and climate-related financial risk management activities. We have developed Table 1, below, as a means to summarize some of the key differences between transition planning as a strategically-relevant activity, from core climate-related financial risk management.

Table 1: Comparison of transition planning and climate-related financial risk management by financial institutions

	Transition planning (business strategy)	**Climate-related financial risk management**
Objectives	Operationalize a firm's strategic targets and commitments to achieve its interim and end-state net zero goals, with a view towards informing strategic and competitive positioning, and broader alignment of business activities with those targets and commitments.	Manage risk of financial loss over the time horizon of the risk exposure, from a safety and soundness perspective. Climate risk is integrated into a financial institution's risk management framework as a driver of existing risk types (e.g., climate risk as a driver of credit risk).

[4] Specific questions in the banking and insurance Guidelines are referenced. Some of the comments and proposed edits may also be applicable to the draft asset manager Guidelines.

Table 1: Comparison of transition planning and climate-related financial risk management by financial institutions		
	Transition planning (business strategy)	**Climate-related financial risk management**
Scenarios	Scenarios providing specific sectoral and technological emissions pathways, to enable assessment of strategic business activities in alignment with a desired decarbonization outcome, at a given interval. For example, using IEA emissions pathways for interim 2030 portfolio-level target-setting, in line with the longer-term objective of alignment with net zero by 2050.	Macroeconomic scenarios (NGFS, IPCC) aimed at understanding risk transmission channels given different temperature increases or policy responses. Scenarios may be both near term as well as longer-dated, examining an array of severe but plausible events (e.g., sudden imposition of a steep US carbon tax), and may not explicitly consider financial institutions' capacities to mitigate risk (e.g., by taking a static rather than dynamic balance sheet approach).
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.	Risk management decisions are typically 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). However, financial institutions may run longer-dated climate scenario analysis exercises to understand potential risk transmission channels for periods beyond the tenor of their typical exposures.
Metrics	Financial institutions often use emissions intensity metrics for target-setting to be able to assess how clients are decarbonizing their business. Absolute emissions can also be used but can be subject to distortions and can increase and decrease from year to year for reasons that are unrelated to whether a company is decarbonizing 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).	Metrics relevant for climate risk management can differ from those which may be relevant for transition planning. Some financial institutions are using 'climate-adjusted' core risk metrics, to assess how climate risks may affect PDs, LGDs, etc. Metrics based on emissions, such as absolute emissions, are unlikely to be a meaningful indicator of risk on their own. Emissions intensity can be a proxy for the potential financial impact of certain types of transition risks drivers (e.g. implementation of a carbon tax under a given scenario); however, such metrics are not able to provide insight on the likelihood of these risk drivers manifesting (e.g. the carbon tax being imposed), or the likelihood of that financial impact transmitting into material financial risk (e.g., the EU's carbon price

Table 1: Comparison of transition planning and climate-related financial risk management by financial institutions		
	Transition planning (business strategy)	**Climate-related financial risk management**
		has significantly increased in recent years and has not resulted in widespread defaults on bank loans).
Use of client emissions data and client transition plans	Client emissions data may be used to monitor portfolio alignment with portfolio-level decarbonization targets. Client emissions profiles and transition plans (where available) can also be used to inform engagement with clients in supporting their decarbonization objectives via finance or advisory.	As noted above, emissions data may not be the most useful metric for assessing how climate risk may be a driver of other risk categories (e.g., client emissions data are not a direct or standalone indicator of credit risk). Financial institutions are continuing to explore how information disclosed in client transition plans may be able to be leveraged as an input in the risk management framework.

While they have fundamentally different objectives, there are several instances where the process of developing and implementing a transition plan and use of transition plans from customers, counterparties or investees may be relevant to overall risk management.

- **A financial institution may refer to its internal assessment of climate-related strategic risks and opportunities when determining its strategic transition plan, although the risk analysis may to be on a shorter time horizon than the transition plan strategy.** In addition, implementation of a financial institution's transition plan still needs to **operate within the risk appetite and governance framework** of the financial institution, and not be in conflict with its climate risk policies and approaches. Transition planning is a business-wide process, and a financial institution's risk management function must be able to understand and interpret the risk-related implications of setting and implementing that strategy (e.g., with respect to reputational risk or financial risk). From a strategic perspective, perceived climate transition risks may inform target setting and, where material, should be accounted for in transition plans (as should any other material risk). However, it is important to recognize that a transition plan is not inherently designed as a risk mitigation plan.
- In time, more **financial institutions may refer to information about a customer's or investee's transition planning as an indicator of their strategic orientation, adaptive capacity and resilience in the context of the broader risk assessment process** – for example, credit or reputational risk. If so, this information would be one factor affecting the assessment of risk stripes, among several others. However, due to the nascence, and limited information and quality of real economy transition plans, these applications are currently limited for financial institutions.
- To the extent that the process of developing and implementing a transition plan can help a firm better understand and strategize for shifts in the real economy, and potential future changes in policy, consumer demand and technology as a result of the net zero transition, it could contribute to reducing exposure to financial risks or strategic risk which may arise over the medium-to-long term.

Importantly, prudential supervisors can account for the potential impact of transition planning on strategic risk in their engagement with financial institutions, without distorting the concept of transition planning. Some early engagement by a few supervisory authorities across the world appears to align with this approach.[5]

Considering these factors, IIF members would encourage the MAS to revise the proposed definition of transition planning as shown with the following suggested edits in red font:

- In paragraph 1.2 of proposed banking and insurance Guidelines: *"Transition planning"[6] refers to the internal strategic planning ~~and risk management~~ processes undertaken by a firm to ~~prepare for and manage both risks~~[7] ~~and~~ manage potential changes in business models associated with the transition.*

IIF members agree with the MAS's distinction between the process of transition planning, and the output of a transition plan document, which reflects industry approaches.

The draft guidance makes references to short-term, medium-term and long-term targets in various places (for example, 1.3, 3.1, 3.12 of the banking Guidelines), e.g., "*short-, medium- and long-term time horizons depending on the nature of customers' risk profile*." It would be helpful for the final guidance to reflect that financial institutions are setting targets as business strategy, not with regard to specific customers' risk profiles.

2.2 Industry views on proposed TPG expectations on Risk Management and Risk Appetite

[Q2, 5 & 6 of the proposed Guidelines for banks, Q2, Q5 & 6 of the proposed Guidelines for insurers]

IIF members recommend that the final Guidelines should be revised to better reflect the strategic nature of transition planning and the relevant roles of different functions within financial institutions with regard to transition planning vs. climate-related financial risk management. In general, the MAS could more clearly differentiate its Transition Planning Guidelines from MAS's existing supervisory expectations on Environmental Risk Management, and not duplicate material from the Environmental Risk Management Guidelines unless it is directly related to interactions with transition planning.

As noted above, financial institutions consider that transition planning is a business-wide process. A financial institution's risk function must be able to interpret how the pursuit of that transition plan strategy could lead to material impacts to the firm (e.g., with respect to reputational risk), similar to any other major strategic business initiative. The financial institution's risk function must be able to understand how implementation of that target could create risk for the firm—e.g., implications for reputational risk if the financial institution does not meet its target, implications for litigation risk, or implications for financial risk if the financial institution's financial performance is negatively impacted by the pursuit of that target. As one example, a financial institution may have a risk appetite related to portfolio alignment with its target, or related to the reputational risk of misalignment with the target.

Although a financial institution's risk function is involved in transition planning, similar to any other major strategic initiative, it is important to note that financial institutions are not setting decarbonization targets for risk management purposes. Reductions in a financial institution's portfolio-

[5] As further discussed in Section 2 of the IIF report (October 2023).

[6] *""Transition plan" refers to the firm's tangible output of the transition planning process."*

[7] *"This includes ensuring resiliency to a range of future states of the world (including varying degrees of physical risk, and potential shifts in policy, technology, or consumer sentiments)."*

level emissions *do not automatically equate to* a reduction in credit risk, for example. Similarly, a customer's lack of a transition plan does not necessarily equate to increased credit or underwriting risk. Customer decarbonization plans may be useful in providing a forward-looking view of that client's decarbonization trajectory relative to the financial institution's portfolio-level target trajectory, but are not necessarily indicative of credit risk. For instance, assessment of credit risk (i.e., a customer's ability to repay a loan) would be limited to the length of the loan (e.g., a 3-year loan) and a company that is decarbonizing very quickly may in fact present greater credit risk over that 3-year time horizon than a company that is decarbonizing more slowly.

As shown in Table 1, above, transition planning and climate risk management have different objectives, time horizons, metrics, and use of scenarios, and use customer emissions data and customer transition plans differently. **Recognizing these practical realities, IIF members suggest that the proposed provisions regarding risk appetite expectations are revised.** Specifically, IIF members recommend that the text in the Paragraph 1.3(c) of the proposed Guidelines for banks, and 1.3(c) of the proposed Guidelines for insurers, is amended to clarify that risk appetite statements do not guide transition plans. Risk appetite statements may take account of potential climate-related financial risks associated with delayed decarbonization efforts, or reputational risks associated with a firm not meeting its stated transition plans and associated targets.

We would propose changes to paragraph 1.3 as follows, with corresponding changes to the proposed insurance Guidelines:

- **1.3 (c):** "*Banks should have clear, actionable and decision-useful risk appetite statements ~~to guide the implementation of their transition plans~~ 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.*"
- **1.3 (d) – this paragraph could be deleted for reasons given in section 2.3 of this letter**: ~~*"Banks should continue their efforts to address environmental risk beyond climate-related risks, particularly as the risks are inter-linked. Banks should apply safeguards against other environmental risks that may manifest as a result of their actions to address climate-related risks, while building capacity to manage both climate-related and environmental risks in a holistic manner. The remainder of the TPG should be read in this context, and banks should, to the extent possible, incorporate other environmental risks into their transition planning processes over time."*~~
- **1.3 (e):** "*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 the transition ~~a bank's near- and long-term risk appetite~~. 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 ~~adequately managing climate-related risks or~~ supporting transition.*"

IIF members disagree that risk appetite statements can take the form of portfolio decarbonization targets in support of banks' public climate commitments (footnote 9, 1.3(d) in the banking document). Financial institutions' decarbonization targets or commitments, e.g. net zero by 2050 goal and 2030 portfolio targets, are strategic business commitments to align financing with the goals of the Paris Agreement, which are separate from risk appetite and risk management.

MAS should clarify the role for risk appetite in the context of how business strategy could manifest as material impact. Risk managers must be able to interpret how the pursuit of climate business strategy could lead to material impacts to firms (e.g., with respect to reputational risk), similar to any other major strategic business initiative. However, this is separate from financial risk management of exposures more broadly.

2.3 Industry views on the consideration of broader environmental risks in the context of transition planning

[Q3 of the proposed Guidelines for banks, Q3 of the proposed Guidelines for insurers)

The MAS should consider differentiating net zero transition planning undertaken by financial institutions from environmental risk management activities. Transition planning is a strategic exercise focused on meeting decarbonization goals (including net zero targets); approaches for broader nature-related risks are at very early stages of development and should remain separate from transition planning. Environmental risk assessment, including of nature-related risks and biodiversity, would be most appropriately considered by supervisors in the contexts of broader financial risk management, which, as indicated earlier, is a separate process and serves a different purpose to financial institutions than transition planning. As such, the draft Guidelines should distinguish between environmental risk management and the transition planning process.

Significant work remains to better understand the relationship between nature- and climate-related issues. There are interlinkages between nature loss and climate change impacts; financial institutions are beginning to explore these connections with respect to nature-related risk, but decarbonization goals and target setting are focused on business strategy, oriented around reducing GHG emissions. Integrating nature and broader environmental assessments with climate-related transition planning is challenging due to the lack of robust data, the nascent state of methodologies to assess nature-related impacts and dependencies which may give rise to financial risks, and the lack of a clear one-for-one relationship between actions that have a positive impact on nature and actions that reduce GHG emissions. As described in the IIF's response to the TNFD, the dynamics of nature are complex and challenging to evaluate from a financial institution's perspective, and this will take time to improve.[8]

Recognizing these issues, the MAS should avoid expectations for financial institutions to integrate broader environmental risk within climate-related transition planning at this time, and could instead – in the context of risk management approaches – set out a timeline over which financial institutions should pursue implementation of market-based frameworks for nature-related risk identification, assessment, and disclosure.

As such, we would suggest paragraph 1.4(a) of the draft banking Guidelines be amended as follows, with corresponding edits in the draft Guidelines for insurers and asset managers:

- "*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 ~~that expose banks to material environmental risk~~.*"

2.4 Industry views on proposed expectations on Governance and Strategy

[Q5 of the proposed Guidelines for banks, Q5 of the proposed Guidelines for insurers]

[8] IIF (June 2023), "The IIF responds to the TNFD consultation on its v0.4 beta framework."

Some of the current text under the 'Governance and Strategy' section of the proposed Guidelines appears to be focused on governance and strategy associated with management of climate-related risks. It is unclear to IIF members why the MAS needs to cover that in the Transition Planning Guidelines, when these expectations are already covered in the MAS's existing Environmental Risk Management Guidelines. A specific discussion of any MAS governance and strategy expectations related to transition planning would be more appropriate in this context, and would align with the structure and approach in market-based frameworks for transition planning.

We would suggest that paragraph 2.2(e) of the proposed banking Guidelines, with corresponding edits in the draft Guidelines for insurers and asset managers, be amended as follows:

- "*Establishing mechanisms to ensure the incorporation of material climate-related financial risks into ~~implement~~ business strategies and risk management frameworks ~~align internal behaviour to address climate-related risk~~ (such as through performance measurement, remuneration policy and incentive structures).*"

We would suggest paragraph 2.3 of the proposed banking Guidelines, with corresponding edits in the draft Guidelines for insurers and asset managers, be amended 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 ~~climate-related risks~~ is regularly refined. In view of the evolving nature of transition planning approaches ~~climate risk management practices~~, the bank should view transition planning as an iterative process.*"

In relation to proposed paragraph 3.13 of the proposed banking Guidelines and 3.6 of the proposed insurance Guidelines, financial institutions have processes to actively monitor their risk levels and make sure they align with their goals. If they do not, they take steps to understand why, adjust their strategies, and possibly rethink their goals to ensure they are both realistic and in line with their risk management philosophy. This review process should be internal as part of the transition planning process, and it should be left up to the undertaking to decide whether and how to communicate this publicly.

2.5 Industry views on Customer and Counterparty Engagement

[Q6-7 of the proposed Guidelines for banks, Q12-15 of the proposed Guidelines for insurers]

As described above, while the financial sector will play a significant role during the transition, it is important to recognize that financial institutions have limited influence over the emissions reductions of their customers and investees. The degree of influence that a financial institution may have on the climate-related choices of a given customer, counterparty or investee is affected by multiple variables. Financial institutions are highly regulated, for-profit enterprises that can only support real economy activities that meet a commercially viable return profile and cannot responsibly decide to extend capital beyond their risk appetite thresholds to achieve climate ambitions or social objectives. How much the real economy will transition and decarbonize will be driven by fundamental factors – notably government policies, technological developments, and consumer preferences— which are exogenous to financial institutions. It is critical that supervisory expectations with respect to banks' client engagement reflect this reality.

There are suggestions in various parts of the proposed Guidelines that financial institutions should not "*indiscriminately*" withdraw credit, insurance or divest from assets where customers or sectors are deemed to face higher climate-related risks as this could slow down the real economy transition. **While financial institutions generally aim to work with their customers and counterparties to support their decarbonization efforts, these proposed supervisory expectations as worded place a very high burden on financial institutions, which need to balance a multitude of risks and opportunities in their engagement with customers.** It is important that financial institutions are able to take these business decisions without undue influence from prudential supervisors or other policymakers.

In terms of the **specific expectations for insurance firms on customer engagement in the context of underwriting**, it would be helpful for the MAS to include additional specific sections in the paragraphs on 'Engagement with customers' and 'Risk Selection' outlining to what extent the requirements are also applicable to reinsurers and reflecting the differences between facultative (covering a single risk or group of risks) and treaty (covering all risks associated with a particular contract) reinsurance. Given the differences between these types of reinsurance contracts and the data available to the reinsurer, it is more difficult to adopt differentiated strategies for treaty reinsurance as the reinsurer generally does not have the same level of access to customers.

In terms of **insurers' engagement with asset managers and investees** (Sections 5.1 to 5.6 of the proposed Guidelines for insurers), IIF members broadly support the suggested material but would also note that multilateral or collaborative engagements may be another element of engagement strategies, in addition to bilateral corporate and asset manager engagement.

MAS has stated that financial institutions must rely on the transition planning conducted by their customers, counterparties and investees to inform the development of their own transition plans. However, given the nascent state of these plans, and high degree of uncertainty associated with achievement of transition goals, **IIF members consider that client transition planning information is currently of limited direct use by financial institutions.** In theory, the current and forward-looking information contained in a corporate transition plan could be a useful input to a financial institution's assessment of a counterparty's GHG emissions trajectory, adaptive capacity, and potential future competitiveness, thereby serving as an input to a financial institution's client engagement, assessment of business opportunities – and in certain aspects, assessment of strategic business risk, which may be affected by portfolio exposures to different sectors.[9]

However, real economy corporate transition plans are still nascent, their quality is variable and certain key data points are lacking, making them of limited current use, and not wholly reliable by financial institutions, from a risk management perspective. **It is important to note that real economy clients are generally not yet disclosing transition plans that could provide more sophisticated insights—e.g., capex and insights into financial planning associated with implementation of decarbonization objectives.** While IIF 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.

It is important to note that many financial institutions do not source emissions data directly from customers. There are well-known challenges with the quality and reliability of emissions data in many

[9] Information about customers or investees transition planning in different sectors can help a financial institution to assess the decarbonization profile of its broader portfolio, and progress towards any transition targets or commitments.

sectors. Many financial institutions obtain data from third party service providers and also commonly rely on estimated emissions data in certain circumstances, which may be less accurate than directly measured emissions data.[10] Financial institutions are generally disclosing how they source emissions data used to track progress on portfolio-level targets.

While financial institutions may use information included in transition plans in multiple ways, it is not clear that they as private companies – or that third-party service providers – should be considered as solely responsible for evaluating the credibility of companies', including their customers', transition plans. While financial institutions as users of transition planning information may perform due diligence on that information, they are not necessarily equipped to make definitive credibility assessments on all the dimensions described above. Considering this, IIF members do not think that financial institutions can be reasonably expected to be wholly responsible for assessing the credibility of real economy companies' transition planning.

We would therefore recommend that:

- MAS moves the sections on customer, counterparty, and investee engagement from the risk management section and into a new "Engagement Strategy" section of the final Guidelines.[11]
- MAS removes references to 'steering' or 'accelerating' the transition planning of their customers, counterparties or investees.
    - For example, in the proposed banking Guidelines we would suggest footnote 3 under section 1.3(b) be amended 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 ~~steer~~ their customers to support their decarbonization objectives ~~proactively manage the risks arising from their carbon-intensive activities~~.*"
- MAS removes references to what would be a "*credible response*" by customers in terms of their transition planning (e.g. paragraph 3.1 of the proposed guidelines for Banks and paragraph 4.1 for insurers), as this suggests that financial institutions are responsible for assessing credibility of companies' transition plans.
- MAS removes references to "*indiscriminately*" divesting, withdrawing financing, credit or insurance due to climate-related financial risks.
- MAS does not require financial institutions to refer to specific information in their client and counterparty transition plans, as indicated in Paragraph 3.11 of the proposed Guidelines for banks and paragraph 3.4 for insurers, as financial institutions are still exploring what information in those plans is of sufficient quality to inform their own decision-making. For example, by deleting the sentence "*Point-in-time emissions data should hence be supplemented by additional information on the possible future emissions where relevant.*"
- MAS removes expectations for financial institutions to evaluate customer transition plan adequacy or credibility, or expectations for financial institutions to "*put in place risk mitigation measures*" (for example in paragraph 3.4 of the proposed bank Guidelines and paragraphs 4.4 and 5.5 of the proposed insurance Guidelines).

[10] For example, in the Oil & Gas sector, there are inconsistencies in the measurement, management and reporting of data across organizations, as well as the lack of reliable and standardized techniques for measurement in certain areas, such as methane emissions.

[11] This would reflect the structure of some leading frameworks for transition planning disclosure which include separate pillars for governance, metrics/targets, engagement, and implementation strategies. See Annex to the IIF report (October 2023).

- In the proposed insurance Guidelines, MAS includes additional specific paragraphs in the sections on 'Engagement with customers' and 'Risk Selection' outlining to what extent the requirements are also applicable to reinsurers and reflecting the differences between facultative and treaty reinsurance relationships.

2.6 Industry views on use of forward-looking risk assessment tools
[Q8 of the proposed Guidelines for banks, Q6 of the proposed Guidelines for insurers]

IIF members agree that forward-looking tools, like climate scenario analysis and climate stress testing, are important in a risk assessment context. However, given that the proposed Guidelines relate to transition planning, it is important that the supervisory expectations do not simply copy over from climate-related risk management guidance. Key issues to be considered include (also see Table 1):

- Scenarios and emissions pathways referred to in the context of transition planning vs. climate-related risk management may differ, both in terms of the scenarios themselves, as well as time horizons employed.
- In a transition planning context, the use of emissions pathways is primarily relevant for assessing alignment with a specific net zero outcome; aligning aspirational, long-term net zero goals, and identifying what could be considered the most likely emissions pathways and scenarios towards those goals (as indicated by current global emissions and policies in place).
- For climate risk management, climate scenario analysis is a tool to assess and understand potential vulnerabilities and financial impacts under alternative climate scenarios, some of which may have a low probability of manifestation. Risk management decision-making is consistent with the time horizon of the risk exposure (e.g., credit risk management decisions consistent with average length of a bank's loan book).
- These divergences in objective and time horizon reinforce the need to consider transition planning as a complementary, but fundamentally different, activity to climate risk management.

We would therefore recommend that:

- MAS removes reference to internal capital adequacy assessment process and bolstering capital and liquidity levels in Section 3.8 of the proposed banking Guidelines and 3.1 of the proposed insurer Guidelines.

2.7 Industry views on the expectations for setting decarbonisation targets
[Q9 of the proposed Guidelines for banks, Q7 of the proposed Guidelines for insurers)

IIF members believe that financial institutions should have discretion over the setting of any decarbonization targets, as these are strategic business decisions and not directly relevant to prudential supervision. Where a financial institution has voluntarily elected to set a decarbonisation target, this may be relevant to supervisors to the extent that it could generate reputational risk to the institution if it fails to take the necessary steps to implement such targets.

IIF members agree that a multi-year time horizon for decarbonization targets may be beneficial, with intermediate targets oriented towards a long-term goal. Intermediate targets are helpful to track progress, and identify where adaptations or modifications may be required. IIF members appreciate the MAS's recognition that targets should be based on appropriate scientific knowledge and data, as is also mentioned in section 3.12 of the draft banking Guidelines and 3.5 of the draft insurance Guidelines.

2.8 Industry views on use of proxy data

There is wide acknowledgement of the significant data availability issues facing financial institutions in terms of key information from a transition planning perspective about customers, counterparties and investees, with GHG emissions data being a key example. Particularly for smaller companies, private companies and those based in emerging and developing market economies (EMDEs), basic data are often lacking or unreliable and not even be available on a bilateral basis to a financial institution.

For this reason, many financial institutions will continue to rely on proxy data, at least in part, to track progress towards their decarbonization targets. IIF member firms' support the MAS's recognition (e.g., in Paragraph 3.10 of the proposed banking Guidelines) that there may be inherent limitations or tradeoffs in using proxy data to mitigate data availability issues when assessing transition plan implementation or performing climate risk assessment at the customer and portfolio levels.

2.9 Industry views on implementation strategy

[Q13 of the proposed Guidelines for banks, Q11 of the proposed Guidelines for insurers]

With respect to paragraphs 3.15 to 3.17 of the proposed banking Guidelines, IIF members would recommend that the guidance is focused on transition plan implementation rather than risk management. For example, in paragraph 3.16 of the proposed Guidance for banks:

- "*The bank should update its internal governance and processes, ~~including its risk management framework, to manage climate-related risks~~ to enable implementation of 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 ~~risk~~ strategy and plans effectively. This could include alignment of existing products, services and business activities with the bank's strategy, as well as embedding of strategic climate consideration in decision-making processes*."

A similar change should be made to paragraph 4.14(b) of the insurance guidance.

IIF members generally agree with the proposals in paragraphs 4.21 and 4.22 of the proposed banking Guidelines; paragraphs 4.13 and 4.14 of the proposed insurance Guidelines. With regards to capacity building, public support in respect of offering subsidies, grants, or offering relevant trainings/workshops could support the private sector in this initiative. With respect to expectations around building a data strategy, availability of granular and reliable data is still a major constraint for financial institutions, including banks, insurers and reinsurers.

2.10 Industry views on Disclosure and Reporting

[Q14-18 of the proposed Guidelines for banks, Q16-20 of the proposed Guidelines for insurers]

IIF members support the MAS's general approach of seeking to align with the ISSB's global baseline disclosure standards. However, it is important to clearly delineate the ISSB's broad expectations under IFRS S1 and S2, which relate to a range of topics including governance and risk management, from disclosure related to strategic transition planning.

We would therefore recommend that:

- MAS revises paragraph 4.2 of the proposed banking Guidelines, and the corresponding sections of the proposed insurer and asset manager Guidelines, as follows: *"To manage and mitigate potential reputational and greenwashing risk arising from its financing activities, the bank should clearly communicate its business strategy ~~risk management strategies~~ and approaches for different sectors, and how its financing activities relate to the bank's publicly committed climate* *objectives (where relevant), particularly where financing of such sectors or sub-sectors could be negatively perceived due to high financed emissions intensity in the shorter term."*

It is appropriate that transition planning disclosures be made according to the ISSB IFRS S2 standards, alongside other sustainability disclosures. **It would be helpful for the MAS to align key terms with the ISSB standards for clarity**, for example "*meaningful*" and "*relevant*" could be clarified as relating to financial materiality as defined by the ISSB. Such as an approach was taken recently by the UK Transition Planning Taskforce (TPT).

MAS should clarify that the guidelines do not require global financial institutions to adopt sub-targets or distinct transition plans/planning for their MAS-regulated subsidiaries. As described above, a financial institution's transition plan is fundamentally a plan to align its strategy, operations, and business model with any decarbonization targets or other sustainability targets it has set. Typically, these targets are set at the group level. Sub-targets, if set, should be decided by the firm and set for strategic reasons (e.g. to prioritize high-emitting sectors). Regionally divided sub-targets and transition plans, in the absence of a strategic purpose, would be seemingly arbitrary and should not be required.

We would therefore recommend that paragraph 1.4 of the proposed Guidelines for banks and of the proposed Guidelines for insurers are revised as follows (with comparable revisions to paragraph 1.4(c) in the proposed Guidelines for asset managers):

- *"[Banks or Insurers] that are branches or subsidiaries of global groups may ~~take guidance from~~ make reference to and rely on their Group's consolidated transition planning as long as the Group's transition planning approach ~~meets~~ is informed by well-established and widely accepted international guidance and comparable to the expectations set out in the TPG."*

2.11 Industry views on references to taxonomies

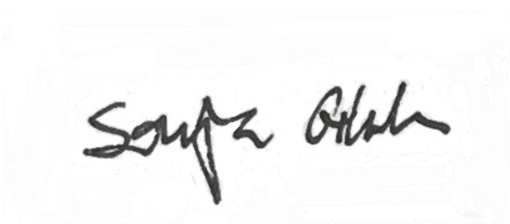
IIF members recognize that the MAS has suggested that financial institutions *"could consider the use of credible and well-regarded green and transition taxonomies in their product-level disclosures, such as labelling of sustainability and transition products"* (e.g. Paragraph 4.2 in the proposed banking Guidelines). **IIF members would encourage the MAS to further clarify that such product level disclosures should be considered as voluntary,** for several reasons. Firstly, the landscape of financial products which may be considered as relevant for sustainability and transition finance objectives is broad, and there is currently a lack of a widely agreed classification framework in this area. Secondly, there are important differentiations between taxonomies and transition plans; taxonomies label an activity as "green"/sustainable or not, and are generally developed by official sector authorities to align with government policy objectives at the jurisdictional levels. Taxonomies may be helpful in structuring a product to respond to market demand, but they may not be relevant for a financial institutions' own transition finance strategy, and as such, less relevant for an institution's transition plan. In general, as far as transition planning disclosure expectations, it would be helpful for MAS to align with the IFRS S2 standard to reduce the risks of fragmentation. IFRS S2 does not include taxonomy-related reporting as a firm-level disclosure requirement.

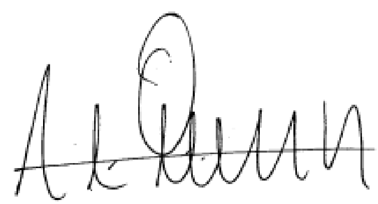
2.12 Industry views on proposed MAS implementation approach

It would be h**elpful for the MAS to revise its expectations for implementation of aspects of the guidelines, especially in areas where methodologies are at an early stage of development**. For example, paragraph 5.2 of the consultation papers for banks and insurers indicates that there may be a *"a transition period of 12 months after the TPG are issued, for Banks (Insurers) to assess and implement the TPG as appropriate."* Given the scope of the proposed Guidelines to banks is intended to apply to *"extension of credit to corporate customers and underwriting for capital market transactions",* it is challenging to see how a 12-month timeline would be realistic, given that an industry-accepted capital markets methodology for financed emissions has not yet been widely adopted. In this regard, expecting banks to be able to develop a transition plan that includes capital markets activities seems extremely challenging; a longer timeline (e.g., 24 months), or a phased implementation of certain requirements may be warranted. Similarly, insurers would need more than a 12-month window of time to implement expectations related to their underwriting and investment activities. Furthermore, **it would be beneficial for the MAS to clarify what is implied by the term 'transition period'**, and what it expects supervised entities to implement during this period, and to have implemented by the end of this period.

Thank you for your consideration of these comments. On behalf of the IIF membership, we hope that these global industry perspectives will contribute constructively to your efforts. We would be very happy to discuss any of our comments further or to assist in any way, including providing perspectives on approaches taken in other jurisdictions. We invite you to contact us directly (sgibbs@iif.com and aportilla@iif.com) should you have questions or comments.

Yours Sincerely,





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