December 18, 2023

Japanese Bankers Association

JBA comments on the Consultation Paper on Guidelines on Transition Planning (Banks) by the Monetary Authority of Singapore (MAS)

Questions	Comments
MAS' Supervisory Approach to Transition Planning for Banks	
Q1: MAS seeks comments on the proposed definition of transition planning.	• The proposed Guidelines on Transition Planning ("TPG") define transition planning as "the internal strategic planning and risk management processes undertaken to prepare for both risks and potential changes in business models associated with the transition", however, we believe that transition planning is a strategic exercise to define strategies and actions to achieve the voluntary net zero targets of financial institutions or real economy firms. Thus, the frameworks for transition planning and climate-related risk management should be considered separately. • Of course, the risk management department of a bank may be involved in understanding the governance and supervision of transition planning as well as the impact of risk on the business strategy, but transition planning should not be seen as a summary of the financial institutions' climate-related risk management. • In this definition, we are concerned about the risk of conflating a bank's transition planning with the approach to managing climate-related financial risks.
Q2: MAS seeks comments on the proposed context for the TPG as laid out in paragraph 1.3 of the TPG.	• Based on the proposed definition of transition planning, there may be a gap between what MAS expects in a bank's transition planning and a bank's actual transition planning efforts that banks have 'proactively' taken to achieve their net zero target that was 'proactively' committed to by banks. • Transition planning is a strategic exercise to support a complete economic transition to net zero. In the case of a large banking institution, transition planning is a joint endeavour undertaken together with clients to assess how to best deploy private and public capital to achieve decarbonisation of hard to abate sectors in the economy. Transition planning is a multiple stakeholder exercise, where financial institutions are 'enablers' not 'drivers'. • Climate risk management and scenario analysis are helpful for understanding which sectors may be exposed to heightened climate risk (either physical or transition risk), but there are limitations with respect to the ability for risk management to guide transition planning. At the same time, transition planning is not prudent risk

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	management either. Thus, regulators need to distinguish between transition planning and risk management. Transition planning rather looks at the longer term (strategic / business planning), whereas the current risk management frameworks and philosophy is rather short term focused, e.g. loan book 3-5 years horizon, capital / ICAAP 3 years, etc.
Q3: MAS seeks comments on whether the drafting of paragraph 1.3(d) of the TPG on factoring in the climate-nature nexus accords Banks with sufficient flexibility to improve their understanding of other environmental-related risks and risk management processes over time. What are some tangible areas regarding other environmental related risks (e.g. vulnerability on water availability) that you would see value in having elaboration in the guidance?	• The importance for banks to factor in the climate-nature nexus is unquestionable. Given, however, that the transition is currently at the initial stage of approach development, we consider that incorporating other environmental related risks into climate related transition plans would be premature. • In this regard, the MAS should not have excessive expectations that transition plans can simultaneously solve other environmental issues. The purpose of transition planning is ultimately to achieve net zero in the real economy, and it should be positioned to ensure that activities for this purpose do not bring significant negative impacts to other aspects of the environment.
Applicability of the TPG	
Q4: MAS seeks comments on the entities and business activities that are in the proposed scope of the TPG.	• It is reasonable to lay out that "banks that are branches or subsidiaries of global groups may take guidance from their Group's transition planning as long as the Group's transition planning approach meet the expectations set out in the TPG." However, due to a difference in the location of a head office, in some cases, it may be difficult to meet all the expectations and requests set out in the TPG. Therefore, consideration should be given to allow flexibility in alignment with guidance, etc. established by a jurisdiction in which the head office is located for branches of global groups. • Transition plans of financial institutions are typically developed at a global and group-level to define the group-wide strategies to achieve the group-wide decarbonisation target. Therefore, any framework developed for transition plans should be standardised at a global level to fit a group-wide transition planning. If each jurisdiction (in addition to MAS) develops different frameworks for transition plans, this may hinder the

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	ability of financial institutions to achieve the original objective of transition planning—realising net-zero. MAS may wish to further collaborate globally with jurisdictions to avoid fragmentation and develop a globally standardised supervisory approach for transition plans.
Proposed TPG	
Governance and Strategy	
Q5: MAS seeks comments on the proposed expectations on governance and strategy as laid out in paragraphs 2.1 to 2.3 of the TPG.	• The commitment of the board of directors and senior management of banks to address climate-related risks is essential. In delivering this commitment, TPG's expectation to avoid indiscriminately divesting or withdrawing financing by banks in the first instance and prevent any disorderly transition should be upheld. This needs to be taken into account, in particular, in setting risk appetites. • MAS may also wish to ensure that this framework will not hinder capital mobilisation for developing countries and emerging markets, who are the most vulnerable to the impact of global warming and therefore require transition finance the most.
Risk Management	
Q6: MAS seeks comments on the proposed expectations on customer engagement as laid out in paragraphs 3.1 to 3.5 of the TPG.	• It is reasonable to set out the expectations for banks to engage and steer customers, particularly those identified as vulnerable to transition and/or physical risks. In meeting these expectations, it is essential to avoid a disorderly transition and indiscriminately divesting or withdrawing financing by banks. • Collecting climate-related data from customers will be the basis of risk assessment. Since, in many cases, data disclosure by many customers is still a work in progress, the proposed expectations should take into account the fact that, in practice, data collection by banks cannot be completed at this stage. • MAS may also wish to ensure that this framework will not hinder capital mobilisation for developing countries and emerging markets, who are the most vulnerable to the impact of global warming and therefore require transition finance the most.
Q7: MAS seeks comments on the proposed expectations on the approach to portfolio management as laid out in paragraphs 3.6 and 3.7 of the TPG.	• Considering the current business environment, the portfolio management based on engagement described in the proposed TPG seems to overestimate the role of banks. While the role of finance is important, there are various external factors (especially government policies, technological development, consumer preferences, etc.) on the path to net zero in the real economy, and it should not be positioned as if all problems can be solved by a bank's engagement and responses in the portfolio.

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Q9: MAS seeks comments on the proposals set out in paragraphs 3.10 to 3.12 of the TPG, particularly in relation to the expectations around setting of decarbonisation targets by Banks.	• We understand the importance of setting targets that are sufficiently ambitious. These expectations, however, should take into account scenarios such as an orderly transition being prevented, or indiscriminately divesting or withdrawing financing by banks. • MAS may also wish to ensure that this framework will not hinder capital mobilisation for developing countries and emerging markets, who are the most vulnerable to the impact of global warming and therefore require transition finance the most.
Disclosure	
Q15: MAS seeks views on whether paragraphs 4.1 and 4.2 of the TPG set out the key aspects necessary for market transparency.	• The importance of stakeholder engagement is unquestionable. Responding to climate-related risks is a challenge common to all stakeholders, which cannot be addressed by banks alone, and therefore requires joint initiatives. The views of stakeholders may differ in certain aspects of joint initiatives due to differences in their stance. Mandating disclosure of engagement strategies that encompass all stakeholders to address such differences is not considered to be appropriate in light of the underlying purpose of this disclosure. Therefore, this disclosure should be optional.
Implementation Approach	
Q20: MAS seeks comments on the proposed implementation approach, including the proposed transition period of 12 months.	• For the moment, the MAS and other regulators may need to wait for the finalisation of the TPG until banks have started publishing their transition plans. This transparency may bring a more accurate understanding of the roles and challenges of the actual transition plans. This insight may lead to a different view on the framework for transition planning or prudential framework/treatment needed to actually support the transition. • Even if the proposed guidelines will be applied 12 months after the transition period, it will not be easy to meet all expectations set out in the TPG. We therefore request MAS to consider a phase-in implementation approach allowing banks to first apply those that are feasible for them.

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