

MAS bets on transition finance in next phase of its green finance plan

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By Janice Lim

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THE Monetary Authority of Singapore (MAS) is placing its bets on transition finance with an expanded vision on how it plans to corral capital towards Asia's net-zero transition.

The central bank on Thursday (Apr 20) unveiled the major strategies it will pursue in its updated green finance action plan, which builds on its 2019 one. Among the moves it plans to make: growing the sustainable-debt market through green and transition solutions, improving the quality of environmental, social and governance (ESG) data and disclosures, and ensuring financial institutions are adopting credible transition plans.

MAS has been making a big push for transition financing over the last year, in light of how non-green activities make up the bulk of the global economy; this is especially the case in South-east Asia, which still relies heavily on coal for power generation.

Announcing MAS' expanded action plan at the National University of Singapore's launch of its Sustainable and Green Finance Institute, Deputy Prime Minister Lawrence Wong said: "No amount of new green projects will get us to net zero. We need to resolve everything that's existing today, and especially in Asia, where 60 per cent of electricity is generated by coal plants..."

"So how do we bring about a more orderly and responsible phasing out of coal plants in Asia, while safeguarding the lives and livelihoods of people in this region? That's the big challenge."

Market players welcomed the move by MAS to expand the scope



Deputy Prime Minister Lawrence Wong (second from left) at the launch of the National University of Singapore's Sustainable and Green Finance Institute with NUS board of trustees chairman Hsieh Fu Hua (extreme left), NUS president Tan Eng Chye (second from right), and the institute's managing director, Sumit Agarwal.

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of its net-zero financing plans by including transition finance.

In fact, Anton Ruddenklau, partner and head of financial services at KPMG in Singapore, said that transition finance is now understood to be equal in scale to that of green finance, and is at the heart of driving decarbonisation in Asia.

UOB's chief sustainability officer Eric Lim pointed out that this regulatory clarity could position Singapore as the transition finance hub in the region; it could also connect the financing needs of developing economies with investors in the developed capital markets.

Yulanda Chung, head of sustainability at DBS Bank's institutional banking group, said that MAS' plan sends a strong signal that Singapore is serious about enabling a credible transition in Asia.

"Its emphasis on an ecosystem

approach – working with public-private sector partners, together with financiers – will be key to ensuring a thoughtful and pragmatic way forward, while optimising trade-offs," she added.

In the area of sustainable debt, MAS will expand the scope of its sustainable bonds and loans grant schemes to include transition bonds and loans. It will also set aside S\$15 million in grants to help companies lower their costs when issuing sustainable bonds or loans.

These grant schemes will be extended by another five years – till end-2028 – to support more brown-to-green projects in the region.

Wong, who is also finance minister and deputy chairman of MAS, said that as these transition instruments will focus on supporting "brown" companies in becoming green, they can have a greater im-

pact on climate transition than just issuing green bonds and loans alone.

He said that to mitigate the risk of "transition-washing", all transition instruments must be aligned with an internationally recognised taxonomy and transition finance principles; they must also be accompanied by companies' disclosure of their transition plans.

To promote transparency, MAS will offer incentives to promote the early adoption of company-level sustainability disclosures by issuers or borrowers.

The central bank will also top up another S\$15 million to the insurance-linked securities grant scheme, which will be extended for three years (till end-2025). This is aimed at supporting the growth of catastrophe bonds and other climate risk-financing instruments.

This will enable additional financing to be raised from the capital markets for protection against disaster risks, said MAS.

To ensure credible transition plans are being adopted by financial institutions, MAS will engage with international experts such as the International Energy Agency to support the development of regional and sectoral pathways to decarbonisation that are appropriate for Asia.

MAS said in a statement on Thursday: "Financial institutions can reference these pathways when they set emissions-reduction targets, and when they engage with their clients on initiatives to decarbonise their businesses."

It will also review how financial institutions are responding to climate-change risks by incorporating evolving international best practices in its supervisory approach.

Kelvin Tan, head of sustainable finance and investments for Asean at HSBC, said that the development of regional and sectoral decarbonisation pathways and the expansion of the grant schemes to transition bonds and loans could encourage more companies to raise financing for their transition.

"At the same time, it could also help increase the confidence of banks and investors in providing transition financing, as issuers and borrowers under the grant schemes would have to abide by the eligibility criteria set out for the scheme," he added.

To improve the quality of ESG data and disclosures, MAS, with the industry, is developing a code of conduct that will require ESG ratings and data-product providers to

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disclose how transition risks are factored into their products. It will carry out a public consultation on this code of conduct later this year.

The central bank will also work with the Singapore Exchange to come up with a road map for financial institutions and listed companies to align their climate disclosures with a global baseline of standards, which is to be finalised by the International Sustainability Standards Board in the middle of this year.

Chng Bee Leng, head of OCBC Bank's group ESG risk and sustainability, said that a robust and interoperable set of standards, data and disclosure – including the development and alignment of global and regional sustainable taxonomies – is essential to bring about an effective low-carbon transition, and would guide decision-making by industry stakeholders.

"This will provide clarity on eligible transitional activities as well as the key attributes of credible transition plans, while taking regional circumstances into account," she added.

One obstacle laying in the way of financial institutions' providing more transition financing is the significant reputational risk they may expose themselves to, given that many standards and taxonomies do not consider brown-to-green projects eligible for sustainable financing.

Financial institutions often need to assess multiple industries amid a lack of a standardised industry model on how to embed climate risk into risk management. Aloysius Fua, Asean sustainable finance lead at professional services firm EY, said that MAS' action plan would protect financial institutions from greenwashing risks,

with its emphasis on consistent, comparable, and reliable climate data and disclosures.

DBS' Chung said the bank already evaluates its sustainable financing deals by assessing both company-level and asset-level transition credentials. She added that the explicit requirement by MAS to align with international transition finance principles is a suitable benchmark.

UOB's Lim said that the bank's transition finance framework is aligned with the climate-transition finance handbook by the International Capital Market Association. The solutions offered in that handbook can support the bank's clients in energy-intensive and hard-to-abate sectors, so they can tap transition finance to help them along their decarbonisation journey, he added.

Beyond transition financing, MAS' action plan will support the development of carbon services and carbon credit markets in Singapore to channel financing towards carbon abatement and removal projects in Asia.

Given the lack of sustainable finance professionals because this area is still new, MAS will partner the Institute of Banking and Finance Singapore to develop a jobs transformation map for sustainable finance. The aim of this is to deepen understanding of how the climate transition will shape future job trends, and guide new initiatives to reskill and upskill Singapore's existing workforce.

A reskilled workforce, along with sectoral decarbonisation, will be hugely important in financing climate-change adaptation, said KPMG's Ruddenklau. This is because there is a need to ensure economic resilience across Asia as the net-zero 2050 targets are increasingly harder to meet.