ABS Sustainable Private Banking and Wealth Management Guidelines

14 October 2022

1. Aim

1.1 The Association of Banks in Singapore ("ABS") Sustainable Private Banking and Wealth Management Guidelines ("Guidelines") defines the minimum standards on private banking and wealth management practices to be integrated into member Banks' business models. Members of the ABS may adopt higher standards in line with their sustainability strategy. The examples featured in the Guidelines are meant to be illustrative and are neither prescriptive nor exhaustive.

1.2 Over time, the Guidelines will cultivate a common language among private bankers and their clients as they engage on sustainable investment approaches with increasing clarity and transparency.

1.3 Recognising that each bank may be at a different stage of their sustainability journey, private banks may implement these Guidelines in a way that is commensurate with the size and nature of their activities. Private banks may adopt a progressive approach towards implementation, starting with more well-established areas, and then enhancing their processes as generally accepted methodologies and practices emerge.

2. Background

2.1 Singapore and Asia are among the fastest growing hubs for wealth creation. Concurrently, there is a trend among next generation Asian High Net Worth Individual[1] to tackle societal issues through their investing choices. This presents opportunities for the private banking business to promote sustainable investing and develop solutions aligned with the sustainability aspirations of the next generation.

2.2 These aspirations are expected to heighten as the world responds to the challenges and opportunities arising from human-induced climate change. From delivering the Paris Climate Agreement to limiting global warming to two degrees Celsius or less by the end of the century to achieving the UN Sustainable Development Goals ("UN SDGs"), from ending deforestation and protecting biodiversity to deploying renewable energy, nature-based climate solutions and carbon capture technology, would require transformational change and redirection of capital flows.

[1] Findings from a survey by The Economist Intelligence Unit commissioned by RBC Wealth Management, Women and Millennials reshaping investing and legacy in Asia, 2018

2.3 Recognising the role of financial institutions in the transition towards a sustainable future, ABS issued a set of the Responsible Financing Guidelines in 2015 (revised in 2018) and MAS published its Guideline[2] and Information Papers[3] on Environmental Risk Management ("ENRM") in 2020 and 2022 respectively. The Green Finance Industry Taskforce has also published a Handbook on Implementing Environmental Risk Management. ABS continues to support its members by facilitating capacity building and sharing of best practices.

3. Scope of sustainable private banking and wealth management

3.1 The Guidelines intend to cover private banking activities holistically, whether these activities are conducted by a standalone business entity/brand or as part of a full-service banking group. These activities include wealth planning, investments and financing. The Guidelines should also guide client advisory and execution activities for investment allocation, where appropriate.

3.2 Private banks should consider their group level policies while conducting their sustainable practices. For example, lending and client onboarding policies relating to environmental and social factors.

3.3 Given their remit, private banks recognise that the integration of sustainability and Environmental, Social and Governance ("ESG") dimensions encompasses their discretionary portfolio management activities, as well as their investment advisory business and execution mandates.

3.4 When developing the client's wealth plan, with solutions such as estate and financial planning, family governance, trust services and philanthropy advisory, private banks should guide their client on the sustainability considerations of these solutions, alongside their client's financial situation, goals, and risk tolerance.

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[2] MAS issued the ENRM Guidelines for Banks, Asset Managers and Insurers in December 2020 setting out MAS' expectations on environmental risk management for financial institutions. As set out in Footnote 1 of the ENRM Guidelines for Banks, banks with material investment activities should refer to the ENRM Guidelines for Asset Managers, for sound practices on the management of environmental risk with respect to investments. The ENRM Guidelines for Asset Managers will generally be applicable where banks have discretionary authority over the investments.

[3] MAS published information papers on ENRM for Banks and Asset Managers in May 2022, highlighting emerging and good practices by financial institutions and identifying areas where further work is needed. Financial institutions should refer to the industry practices shared in the paper and assess the applicability of the practices to their efforts to bolster their resilience to environmental risk in a way that is commensurate to their size, nature of activities and risk profile.

3.5 Framing the sustainable investment approaches helps to cultivate a common language between private banks and their clients. The approaches are listed below, and details are available in the Appendix of the Guidelines.

a. Exclusion

Excluding and avoiding sectors, activities and/or companies from investment universe. Exclusions can be based on criteria such as norms and standards, business conduct or values/ethical principles.

Private banks should however take note of the impact of their sustainable investment decisions on companies that have robust and credible plans to reduce their emissions. Indiscriminate exclusion of sectors deemed to be of higher climate-related risks would impact companies with credible transition plans, increasing the risk of stranded assets and a disorderly transition.

b. Integration

Systematically and explicitly including ESG factors in investment analysis and decision making to optimise ESG risk management with return expectations.

c. Thematic

Investing to contribute to environmental or social factors with fundamental investment objectives considered.

d. Impact

Investing with the intention to generate positive, measurable social and environmental impact alongside a financial return.

4. <u>Principles of sustainable private banking and wealth management</u>

A. Purpose

4.1 Private banks recognise that in their investment advisory activities, they play an important role in directing financial flows towards the transition to a low-carbon sustainable economy and in bridging UN SDGs financing gaps.

4.2 These efforts require private banks to work together with other industry stakeholders to promote sustainability goals, especially by engaging their clients in Asia and globally. Private banks should communicate their sustainability objectives and commitments, developed in alignment with UN SDGs, the Paris Climate Agreement and relevant national and regional frameworks, with their stakeholders.

B. Policies

4.3 Private banks should periodically review and disclose their sustainability policies and indicate:

a. Activity coverage (discretionary and non-discretionary mandates, advisory and execution orders, etc.)

b. Link to group-level policies, where there are overlaps in financing activities or where appropriate:
   - asset class-specific or sector-specific guidelines on ESG in investment management
   - group-wide exclusion policies
   - engagement and proxy voting policies

4.4 These policies should cover both specific ESG factors and high-risk sectors, for example:

a. Factors: climate change, biodiversity loss, deforestation/conversion of ecosystems, water management, ocean sustainability, labour rights, human rights, and gender equality.

b. Sectors: agriculture and forestry / land use, construction / real estate, transportation and fuel, energy (including upstream), and industrial.

C. Processes

4.5 Private banks should disclose their approach to sustainability research and analysis processes that are incorporated into advisory activities and investment decision-making. They should:

a. Provide information on how they analyse, manage and monitor ESG risks and impacts, such as how they are developing capabilities in scenario analysis, and communicate them to clients.

b. Engage and provide insights to clients on sustainability topics regularly, and where appropriate, disclose to clients their actions taken in response to major sustainability issues.

c. Disclose the integration of ESG analysis into the due-diligence process for third-party asset managers and third-party products.

4.6 Besides integrating sustainability considerations into research and portfolio construction, private banks should seek to improve investee companies' sustainability performance through engagement and proxy voting, where appropriate.

D. People

4.7 The board and senior management of private banks should foster a culture of responsible private banking through effective governance mechanisms that support the implementation of their sustainability strategies, risk management, policies, and processes.

4.8 Effective implementation would include requiring private banks to allocate resources and conduct regular training of their senior management and employees as well as providing periodic insights on sustainability topics for their clients, where appropriate.

E. Product

4.9 Private banks should disclose their client sustainability engagement efforts and the applicable sustainable investment approaches (see Section 3) when advising or communicating on investment products or solutions. Where possible, investment products or solutions should indicate the sustainability objectives in relation to the investment goals of the product or solution and how ESG risks are managed.

4.10 In other areas such as financing, private banks should factor sustainability metrics in their client profiling/know your customer in lending decisions, where appropriate.

F. Portfolio Disclosure

4.11 Private banks should disclose to clients the material ESG risks and potential impacts of their portfolio, where appropriate, at the product and entity level. These disclosures should include climate-related risks and opportunities and are reported in line with well-regarded international reporting frameworks such as the TCFD recommendations and International Sustainability Standards Board ("ISSB").

4.12 At least on an annual basis, private banks, at the entity or at the group level, should disclose their sustainability activities. The disclosure should, where appropriate, include relevant metrics in line with international best practices.

Appendix

Sustainable investment approaches

The purpose of this classification is to establish a common language for sustainable investment strategies with recommended disclosures. Private banks can use this to further strengthen their sustainability practices and identify gaps for further growth and capacity building. It is recommended that disclosures and reporting are made available on a regular basis (i.e quarterly, annually).

1. Exclusion

1.1 Scope

- Excluding and avoiding sectors, activities and/or companies from the investment universe. Exclusions can be based on criteria such as norms and standards, business conduct or values/ethical principles.
- Private banks should however take note of the impact of their sustainable investment decisions on companies that have robust and credible plans to reduce their emissions. Indiscriminate exclusion of sectors deemed to be of higher climate-related risks would impact companies with credible transition plans, increasing the risk of stranded assets and a disorderly transition.

1.2 Client's objectives

- Avoid harmful investments and poor sustainability performers
- Align their ESG interests and values

1.3 Guidance and examples

1.3.1 Sector and activity exclusions:

- Private banks can implement **absolute exclusion** of activities / industries such as alcohol, tobacco, gambling, adult entertainment, military weapons, fossil fuels, and/or those linked to values/ethical principles.
- Private banks can implement **threshold exclusion** based on a percentage* of revenue exposure or business activity/operations to align to the transition towards a low-carbon economy.

* The PRI mentions setting "a materiality threshold (e.g. 10%) based on revenue exposure or business activity/operation".

Source: PRI, Guidance on Screening

1.3.2 Business performance and conduct exclusions:

- Private banks can implement **relative exclusion** of companies with poor sustainability performance compared to industry peers, or based on specific ESG criteria. For instance, excluding poor sustainability performers using third party data and metrics, as well as in-house ESG scoring methodologies.
- Private banks can screen out companies breaching minimum standards of business practice based on international norms. Useful frameworks such as UN treaties, Security Council sanctions, UN Global Compact, UN Human Rights Declaration, UN Convention Against Corruption, OECD guidelines, and International Labour Organisation standards.

Source: PRI, Guidance on Screening

1.4 Recommended disclosure practices

1.4.1 Exclusion coverage

- Private banks disclose, for each exclusion practice, the coverage of the exclusion and detail if the execution applies across the entire investment portfolio or for only certain activities or strategies (such as discretionary and non-discretionary mandates, advisory and execution orders).
- Private banks disclose how exclusion practices are applied for externally managed assets (such as requests and due-diligence for third-party asset managers and products).

1.4.2 Exclusion criteria

- Private banks disclose in their exclusion sustainable investment policies and for applicable products:
  - **Absolute exclusion:** name of sectors excluded, international norms considered for excluding companies in breach
  - **Threshold exclusion:** applied thresholds and planned evolution of thresholds over time
  - **Relative exclusion:** methodology applied to identify poor sustainability performers
- Private banks disclose the monitoring process in place and how it applies to their exclusion practices (including frequency of screening).

2. Integration

2.1 Scope

- Systematically and explicitly including ESG factors in investment analysis and decision making to optimise ESG risk management with return expectations.

2.2 Client's objectives

- Make better informed decisions through the integration of ESG factors

2.3 Guidance and examples

2.3.1 Steps of integration

- **Research:** identification of material ESG factors that impact asset valuation, alongside traditional financial factors. Collection of relevant ESG data and development of ESG ratings
- **Valuation:** integration of material ESG factors into financial analysis and valuation
- **Portfolio management:** inclusion of ESG analysis in decisions about portfolio construction

Source: PRI, Guidance on integration

2.3.2 Examples of ESG factors to be considered

- **Environment:** climate change, greenhouse gas (GHG) emissions, deforestation and forest degradation, loss of biodiversity and critical ecosystem services, water, air and soil pollution and containment, and resource efficiency
- **Social:** labour standards, community relations and stakeholder engagement, human rights, health and safety, food security and other necessities of local communities and indigenous people
- **Governance:** corporate ethics and integrity, reputation, management effectiveness, risk management and reporting

The ESG considerations that are material will vary by investment style, sector/industry and client objectives.

Source: ABS Guidelines on Responsible Finance

2.4 Recommended disclosure practices

2.4.1 ESG integration processes

- Private banks disclose their ESG risk identification and integration process and indicate how it applies across managed asset classes and activities
- Private banks explain how their ESG integration process applies for externally managed assets

2.4.2 Material ESG factors and performance

- Private banks disclose their processes in identifying material ESG risks, opportunities, and impacts of their portfolio

3. Thematic

3.1 Scope

- Investing to contribute to environmental or social factors with fundamental investment objectives considered.

3.2 Client's objectives

- Align with positive outcomes on environmental or social factors
- Direct capital to companies with a positive contribution to sustainability outcomes

3.3 Guidance and examples

3.3.1 Importance of company and asset selection

- Robust research, analysis and selection processes are developed to identify companies and assets which contribute significantly to one or more environmental or social factors

3.3.2 Examples of themes to be considered

- Renewable energy, waste and water management, sustainable forestry and agriculture, health products and inclusive finance
- Themes aligned to the UN SDGs

3.4 Recommended disclosure practices

3.4.1 Portfolio construction and management

- Private banks disclose their portfolio construction, management and sustainability performance.
- Please refer to Paragraphs 4.11 and 4.12 of the Guidelines for the disclosure guidance.

4. Impact

4.1 Scope

- Investing with the intention to generate positive, measurable social and environmental impact alongside a financial return.

4.2 Client's objectives

- Generate social and/or environmental impacts and pursing positive externalities
- Directing investment that contributes to UN SDGs
- Measure and monitor their investments' social and/or environmental impacts and outcomes

4.3 Guidance and examples

4.3.1 Key elements of impact investing

- **Intentionality:** an investor's intention to have a positive social or environmental impact through investments is essential to impact investing
- **Investment with return expectations:** impact investments are expected to generate a financial return on capital or, at minimum, a return of capital
- **Range of return expectations and asset classes:** impact investments target financial returns that range from below market (sometimes called concessionary) to risk-adjusted market rate, and can be made across asset classes, including but not limited to cash equivalents, fixed income, venture capital, and private equity
- **Impact measurement:** commitment of the investor to measure and report the social and environmental performance and progress of underlying investments, ensuring transparency and accountability while informing the practice of impact investing and building the field

Source: GIIN

4.4 Recommended disclosure practices

- Please refer to Paragraphs 4.11 and 4.12 of the Guidelines for the disclosure guidance.