

MAS Issues Guidelines to Financial Institutions (“FIs”) on Transition Planning (“TPGs”)

The Monetary Authority of Singapore (MAS) issued their guidelines on "transition planning" to banks, asset managers, and insurers on March 5, 2026. The Guidelines will take effect from September 2027, after an 18-month transition period.

Context

Transition planning refers to the internal risk management process and strategic planning undertaken by an entity to prepare for climate-related risks and potential changes in business models associated with climate change.

The TPGs elaborate on MAS supervisory expectations for FIs to embed structured, forward-looking climate risk management into their internal processes and business strategies. They build on and should be read with MAS 2020 guidelines on environmental risk management (“ENRM Guidelines”), which established expectations that FIs would manage financially material environmental risk to enhance the financial industry's resilience, while keeping in mind FIs' critical role in the global transition to a sustainable economy by channelling capital through green financing and investment activities.

Integration of Transition Planning

MAS expects FIs to integrate sound transition planning into their overall risk management and strategy to adequately address their own climate-related risks while also supporting their customers and investees' own climate-related risk management, thereby supporting broader financial stability. Mechanisms such as performance measurement, remuneration policy, and incentive structures should be established to align internal behaviour to address climate-related risks. Where climate commitments are made and publicly communicated, internal processes should be put in place to address any potential legal and reputational risks due to deviation from these commitments.

It is important that FIs should not indiscriminately withdraw services (such as credit, investment, or insurance coverage) from customers or investees with higher climate-related risks. Instead, they are expected to engage these entities in a risk-proportionate manner, providing opportunities for them to identify and manage their own climate risks. The pace of transition will depend on local circumstances, including government policies around economic transition pathways and other domestic developments. This approach aims to reduce the risk of stranded assets and prevent a "disorderly transition" and the creation of stranded assets, which could be detrimental to both the individual institutions and the broader financial system.

General Requirements

Governance and Strategy

Boards and senior management of FIs should ensure that business strategy and risk appetite decisions take into consideration how the current and future changes in operating environment arising from climate change will impact the FIs' risk profile or their investment portfolios' risk profiles; embed their climate-related business strategy and risk appetite within the FIs' operations; and establish mechanisms to regularly refine their approach to and implementation of transition planning.

Risk Engagement

- *Portfolio management approach*

FIs should account for sectoral specificities and, where appropriate, take a differentiated approach for sectors posing higher climate-related risks in their transition planning. Likewise, they should factor in different characteristics of customers and take a differentiated approach, where appropriate, in their transition planning.

They should employ a range of forward-looking tools, such as scenario analysis and stress testing, in their transition planning process for risk discovery and quantification; and continue to develop and regularly refine these tools, referencing leading industry practices whenever possible.

They should also endeavour to address material data gaps to allow them to adequately capture and differentiate the level of climate-related risks that their customers face, recognising the inherent limitations of using proxy data to bridge data gaps; and use metrics to track their risk exposures and determine whether their risk exposures are in line with their risk appetite and associated targets, where relevant. The impact of any targets set or lack thereof on the FIs' business strategy and risk profile, with residual risks should be identified and addressed.

Implementation Strategy

FIs should equip their staff with adequate expertise to assess, manage and monitor climate-related risks in a rigorous, timely and efficient manner; regularly review their internal governance and processes to manage climate-related risks in a systematic manner; and should develop and implement a data strategy to build, maintain and analyse relevant climate-related data to support effective decision-making.

Sector-specific Application

Banks

The TPG for banks focuses on credit extension to corporate customers and capital underwriting activities, and other activities that expose banks to material environmental risk.

- *Customer Engagement*

Banks should have a structured process to engage customers on their climate-related risks arising from exposures to their customers and their response to such risks. Such engagement should be on a risk-appropriate basis. They should seek to collect sufficient climate-related risk data about the potential impact of climate change on customers' business and risk profiles, to inform their risk decisions and account management strategies, and the customer engagement process can be a means to collect such information.

Asset Managers

For asset managers that have discretionary authority over the investment portfolios they are managing, the TPG places particular emphasis on engagement and stewardship — requiring engagement and stewardship plans, proxy voting policies incorporating climate considerations, and collaborative engagement with investees and industry peers.

- *Engagement and Stewardship*

Asset managers should develop engagement and stewardship plans to support their overall strategy to address climate-related risks in their portfolios as active engagement and stewardship can facilitate the risk management measures taken by investees, thereby mitigating portfolios' exposure to climate-related risks. They should have a structured process to engage investees on a risk-proportionate basis on the climate-related risks that they

face and their response to such risks. They should also equip their staff to effectively engage investees by ensuring that they have a sufficient understanding of sectoral and jurisdictional specificities and developments.

They should also seek to collect sufficient climate-related risk data about the potential impact of climate change on investees' business and risk profiles, to inform their investment and risk decisions and portfolio management strategies. The engagement process can be a means to collect such information.

Insurers

Underwriting and investment decisions are emphasised in the TPG for insurers.

- *Underwriting*

As is the case for banks, insurers should have a structured process to engage customers on their climate-related risks arising from exposures to their customers and their response to such risks. Such engagement should be on a risk-appropriate basis.

- *Investment*

Insurers should also have a structured process to engage asset managers and investees. Insurers should encourage their asset managers to proactively manage climate-related risks in their investment portfolio on an ongoing basis.

Consultation Responses

MAS consulted on the TPGs in 2023. Responding to feedback on the consultation papers, MAS confirmed it would not mandate specific decarbonisation and/or specific quantitative targets or prescribe exact methodologies for scenario analysis or attribution to explain variances between FIs' espoused risk appetites or targets and actual trajectories. Neither is it MAS approach to specify high carbon-emitting sectors and/or higher-risk sectors.

MAS also clarified that banks and asset managers have the discretion to choose the level of risk they are willing to accept in pursuit of their business strategic objectives within their board-approved risk appetite. Asset managers too, are not prohibited from making divestments in line with the investment strategies, objectives and/or restrictions of the funds/mandates that they manage. Likewise, insurers are not mandated to provide insurance coverage or make investments to support climate-related transition. They should instead take a considered approach in their underwriting and investment decisions according to their business strategy and risk appetite and not adopt a broad-brush approach of avoiding entire sectors or classes of customers or investees altogether.

Any sector policy (where developed) should reflect how the sector fits into the FIs' business profile, strategies, plans, or risk appetites, considering the inherent risk posed by the sector. The presence of sector policies would not, in the first instance, be considered as indiscriminate withdrawal. Where individual customers or investees, or counterparties posing higher climate-related risks do not fall within such sector policies, FIs should consider their inherent risks and planned risk management actions in totality, rather than indiscriminately divesting in the first instance – this can include evaluation of the expected effectiveness of such actions and the residual risks against the FIs' portfolio risk limits or risk appetites.

MAS will not set additional expectations on disclosures. However, consistent with its principles-based approach to disclosure expectations as set out in the ENRM Guidelines, FIs should conduct their own materiality

assessments to determine the most appropriate disclosure approaches and the applicability of relevant well-regarded international reporting frameworks, such as the International Sustainability Standards Board standards.

Pragmatic and Iterative Implementation

All three TPGs reflect a pragmatic, iterative approach to implementation. MAS acknowledges that data and methodology constraints exist today and expects FIs to make continuous progress on a risk-proportionate basis. Over time, they are also expected to broaden their focus beyond climate-related risks to encompass wider environmental risks such as biodiversity loss, which MAS recognises as increasingly interconnected with climate risk and financially material in its own right. MAS expects FIs to actively build capacity in this area and iteratively include broader environmental risk considerations into their risk management practices over time as global practices develop and mature.

Implications for Businesses

With the issuance of the TPGs, businesses, particularly large corporates in high-risk sectors can expect to face more data requests and scrutiny from FIs regarding their climate risks and mitigation strategies. The focus of FIs on engagement rather than 'indiscriminate' withdrawal means that corporates will be able to work with their financial partners to demonstrate credible transition plans that align with the expectations of their financial partners, and be supported in their transition.

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