



## CRECCHKI and AEC's joint response to the SFC Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers

### **1. Do you have any comments on the SFC's proposal to focus on climate change or should a broader spectrum of sustainable finance should be considered in developing the requirements? Please explain your view.**

- Agreed that the SFC's proposal should focus on climate change as the first step.
- Globally, the climate-specific TCFD Recommendations is being recognised as the de facto reporting disclosure framework for financial institutions, as climate risk have material financial impacts.
- In due course, SFC should integrate other aspects of sustainable finance e. g. ESG performance, SDG impact.

### **2. Do you agree that at the initial stage, the SFC's proposed requirements should apply to the management of CISs but not discretionary accounts?**

- Agreed that the SFC's proposed requirements should apply to the management of CISs but not discretionary accounts, at the initial stage.
- As mentioned by the Consultation Paper (p.14), CISs account for a significant proportion of the total AUM by licensed corporations.
- It also suffices at the initial stage that the proposed Paragraph stipulates disclosure requirements are not mandatory for a Discretionary Account Manager, 'except in cases where the client has requested the Discretionary Account Manager to take climate-related risk into consideration in the investment mandate'.



**3. Do you agree that the SFC should make reference to the TCFD Recommendations in developing the proposed requirements so as to minimise fund managers' compliance burden and foster the development of a more consistent disclosure framework? Other than the TCFD reporting framework, is there any other standard or framework which in your opinion would be appropriate for the SFC to refer to in developing the proposed requirements?**

- Agreed that the SFC should make reference to the TCFD Recommendations in developing the proposed requirements, given the framework has a primary focus on the financial impacts of climate-related risk.
- Other than the TCFD reporting framework, we recommend the following frameworks for the SFC to refer to in developing the proposed requirements. The recommended frameworks are even more tailored to the needs of fund managers.
  - Cambridge Institute for Sustainability Leadership (CISL). (2019). *Physical risk framework: Understanding the impacts of climate change on real estate lending and investment portfolios*: the Cambridge Institute for Sustainability Leadership
  - Cambridge Institute for Sustainability Leadership (CISL) (2019). *Transition risk framework: Managing the impacts of the low carbon transition on infrastructure investments UK*: the Cambridge Institute for Sustainability Leadership
- Also, flexibility for fund managers reporting using prevailing standards in their regions for climate risk disclosure should be allowed.

**4. Do you have any comments on the proposed basis for determining the threshold for Large Fund Managers, ie, HK\$4 billion, and the basis for reporting? Please explain your view.**

- Agreed, the proposed basis for determining the threshold for Large Fund



Managers is appropriate.

**5. Do you have any comments on the proposed amendment to the FMCC requirements, baseline requirements and enhanced standards? Please explain your view.**

- To facilitate investors' understanding and encourage peer learning, it is recommended that SFC stipulates explicitly in the Proposed baseline requirements and enhanced standards (ie Appendix 2) that although fund managers would not be expected to disclose all the details of their investment strategies, they are expected to provide concrete examples to illustrate how they implement their governance, investment and risk management policies and procedures.

**6. To provide a clear picture to investors on whether a fund manager has integrated climate-related considerations into its investment strategies or funds, do you agree that if the fund manager considers that climate-related risks are irrelevant to certain investment strategies or funds, it should make disclosures and maintain appropriate records to explain the rationale for its assessment?**

- Agreed, the fund manager should provide information on the climate-related considerations its assessment, explain why climate-related risks are irrelevant and the assumptions adopted to arrive at this conclusion. The fund manager should also be required to update any changes to the climate-related considerations integrated into its investment strategies and funds.

**7. Do you agree that climate-related disclosures (except for the disclosure of WACI) to investors should be made at an entity level at a minimum and supplemented with disclosures at a strategy or fund level to reduce burden on fund managers?**



- Agreed that climate-related disclosures (except for the disclosure of WACI) to investors should be made at an entity level at a minimum and supplemented with disclosure at a strategy or fund level
- To deter against misleading disclosures, it is important for SFC to stipulate explicitly in the Proposed baseline requirements and enhanced standards (i.e. Appendix 2) that fund managers are required to 'supplement with disclosures at a strategy or fund level' if their approaches (in governance, investment management, risk management) differ significantly across various investment strategies and funds.

**8. Do you agree that disclosures of quantitative climate-related data such as WACI should only be applicable to Large Fund Managers having regard to the resources required and the size of assets covered? Do you agree that at the initial stage the disclosure of the WACI should be made at the fund level instead of the entity level?**

- Agreed that the disclosures of quantitative climate-related data such as WACI should only be applicable to Large Fund Managers having regard to the resources required and the size of assets covered.
- Agreed that at the initial stage the disclosure of the WACI should be made at the fund level instead of the entity level, as reporting the WACI on an aggregate basis at an entity level may not provide meaningful information to investors.
- About the calculation of WACI, revenues was used as recommended by the TCFD. However, enterprise value (EV) is used as the basis for calculation of carbon footprint in the EU which is more commonly used by the EU-based fund managers. To allow flexibility, please consider accepting calculation by using either revenues or EV and requiring the fund managers to specify the carbon footprint calculation method.
- The usefulness of the WACI metric highly depends on the quality of the investee companies' carbon footprint data disclosed. In any future guidance material SFC is to release, we recommend SFC to advise fund managers to take into account the reporting scope of the carbon footprint data of investee companies.



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nies in particular, as it may not be representative of its entire operations.

**9. Do you think the following transition periods are appropriate?**

- a nine-month and a 12-month transition period for Large Fund Managers to comply with the baseline requirements and enhanced standards respectively; and
- a 12-month transition period for other fund managers to comply with the baseline requirements. If not, what do you think would be an appropriate transition period? Please set out your reasons.

- Agreed, the transition periods are appropriate.