

Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers (“Consultation Paper”)

A. Introduction

Sustainability is the defining challenge of our times; we must invest in the future that we want to create. We believe that it is vital for Hong Kong, as an international financial centre, to accelerate the mainstreaming of environmental and social considerations in the wealth management and green investing context. We fully support the SFC proposal for fund managers to take climate-related risks into consideration in their investment and risk management processes as well as to make appropriate disclosures to meet investors’ growing demand for climate risk information and to combat greenwashing. In addition, the SFC wants asset managers to apply appropriate tools and metrics to assess and quantify climate risks during the risk management process. However, professionals of this sector may not be well-conversant with such requirements. To this end, we suggest taking steps to enhance the capacity building of fund managers and to engage the asset management industry in formulating appropriate actions to combat climate change and develop good practices in ESG as a whole.

B. Response to the Consultation

Question 1 - Do you have 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.

Reply - There are some inherent uncertainties associated with the science of climate change, including those related to the crystallization and severity of climate risks, such as water pollution, wildfire, and sea level rise. Hence, we believe that a broader spectrum of sustainable finance should always be considered in developing the requirements for fund managers. In any case, we should go in line with international standards and regulations which have been widely tested and accepted.

Question 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?

Reply - We agree that at the initial stage, the SFC's proposed requirements should apply to the management of CISs but not discretionary accounts. Looking forward, we hope to develop benchmark for fund managers so that they may apply the requirements to funds under their management in the future.

Question 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?

Reply - We agree that the SFC should make reference to the TCFD Recommendations in developing the proposed requirements for compliance and risk assessment, so as to minimise fund managers' compliance burden and foster the development of a more consistent disclosure framework. Having said that, we should allow flexibility for fund managers who may use other standards prevailing in their countries of operation. TCFD recommendations are a solid basis for climate risk reporting. However, efforts are being made around the world to turn TCFD recommendations into practical standards. We suggest reviewing and examine what this might look like in reporting requirements at a later stage.

Question 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.

Reply - We agree with the proposed basis for determining the threshold for Large Fund Managers, ie, HK\$4 billion, and the basis for reporting. However, we should take into consideration of the standard prevailing in other countries as fund managers may operate across different countries.

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

Reply - We agree with the proposed amendments to the FMCC requirements, baseline requirements and enhanced standards. However, fund managers should be given flexibility in their disclosures as long as they could demonstrate good governance, investment and risk management policies and procedures.

Question 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?

Reply – We 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. The fund managers, however, should state why it is irrelevant.

Question 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?

Reply – We agree that climate-related disclosures to investors should be made at an entity level at a minimum and supplemented with disclosures at a fund level to reduce burden on fund managers.

Question 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, disclosure of WACI should be made at fund level instead of entity level?

Reply – We agree that at the initial stage, disclosures of quantitative climate-related data such as WACI should only be applicable to Large Fund Managers. However, we suggest reviewing it at a later stage.”

Question 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.

Reply – We agree with these transition periods.