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By Electronic Submission:

MOODY'S ESG SOLUTIONS GROUP RESPONSE TO THE SECURITIES AND FUTURES COMMISSION'S CONSULTATION PAPER ON THE MANAGEMENT AND DISCLOSURE OF CLIMATE-RELATED RISKS BY FUND MANAGERS.

Moody's ESG Solutions Group¹ with the support of Moody's affiliates Vigeo Eiris (V.E) and Four Twenty Seven appreciate the opportunity to provide comments to the Securities and Futures Commission (SFC) in response to its Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers.

We welcome the focus on climate change in regulations for governance, investment management, risk management and disclosure. The Principles for Responsible Investment (PRI) and World Economic Forum (WEF) have consistently identified climate change as a top priority for investors, and the TCFD recommendations are supported by over 1,600 organisations. We have seen in recent years sovereigns put forward proposals to make the Task Force on Climate related Financial Disclosures (TCFD) disclosures mandatory in the coming years (the United Kingdom and New Zealand). We have also observed growing investor interest in climate risk specifically, and in ESG considerations more generally. We now see increased demand for our ESG products and services, including those focused on climate risk, from "mainstream" investors and across all regions - clear evidence of a significant, and potentially permanent, shift in investor attitudes.

Consistent with these trends, we welcome SFC's efforts to ensure that climate risks are properly reflected in asset management decisions and that fund managers' disclosures meet investors' growing demand for climate-related information that is more robust, consistent and comprehensible.

Our detailed responses follow.

We thank you for your consideration and would appreciate the opportunity for a follow up discussion.

Yours sincerely,

¹ Moody's ESG Solutions Group is a business unit of Moody's Corporation. In conjunction with V.E and Four Twenty Seven, the ESG Solutions Group provides climate risk solutions and ESG scores, analytics, Sustainability Ratings and Sustainable Finance Reviewer/certifier services.

Art 36- Page 13:

Q1: Do you have any comments on the SFC's proposal to focus on climate change or should a broader spectrum of sustainable finance be considered in developing the requirements? Please explain your view.

We welcome the focus on climate change in regulations for governance, investment management, risk management and disclosure, as proposed. The Principles for Responsible Investment (PRI) and World Economic Forum (WEF) have consistently identified climate change as a top priority for investors, and the TCFD recommendations are supported by over 1,600 organisations. We have also seen in recent years sovereigns put forward proposals to make TCFD disclosures mandatory in the coming years (the United Kingdom and New Zealand). Considering this market focus, an initial emphasis on climate related financial disclosures is both pertinent and pragmatic.

However, in developing these requirements, it will be important to recognise the true complexity of climate risks and their connection to the broader eco-system and social factors. There are important intersections between climate and biodiversity, climate and the workforce and climate and racial justice. These intersections are outlined in the United Nations' Sustainable Development Goals as well as in the Paris Climate Agreement. For example, the protection of biodiversity in the oceans and forests is an important aspect of nature-based solutions to climate change. In addition, the reduction of waste produced by economic activity reduces the cost and climate impact of waste disposal.

Should SFC choose to retain a very narrow focus on climate risks in the early stages of the regulation, it may be helpful to also develop a roadmap for how and when other related environmental, social and governance factors may be incorporated into the requirements.

Art 36- Page 15:

Q2. Do you agree that at the initial stage, the SFC's proposed requirements should apply to the management of CISs but not discretionary accounts?

We believe that it would be helpful if account managers were to disclose whether their funds are, or are not, managed in the way envisaged for the CIS market. Secondly, if a discretionary manager is making claims about climate-related considerations, they could then be required to align with the same standards as those applicable to CISs.

For example, The European Commission's Sustainable Finance Disclosure Regulation (SFDR) sets out requirements for fund managers who have voluntarily chosen to make sustainability a factor they consider or whose products claim to deliver a particular sustainability objective. In this regard we are broadly in favour of regulatory alignment. This could be facilitated by the work of the International Platform for Sustainable Finance (IPSF).

As the investment services for CIS and discretionary accounts for clients are similar, the application of requirements to both categories could promote market progress towards more transparency with respect to climate risk. In addition, this approach might act as a deterrent for green washing in the time horizon that we would expect investments to align with climate related disclosures.

Art 44- Page 17:

Q3. 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?

We agree that the SFC should make reference to the TCFD recommendations. We support efforts to harmonize ESG data across different jurisdictions, and reference to TCFD recommendations would help in this regard.

We are increasingly seeing some jurisdictions utilise the TCFD framework as a basis for reporting on climate related risks. For example, New Zealand and the United Kingdom have both disclosed plans to phase this in for financial actors over the coming years.

Q4. Do you have any comments on the proposed basis for determining the threshold for Large Fund Managers, i.e., HK\$4 billion, and the basis for reporting? Please explain your view.

We believe that HK\$4 billion is a reasonable threshold. We believe that the new standard should apply to large fund managers and to any smaller managers who wish to make climate-related claims about their products. That would avoid any confusion arising between smaller fund managers and larger ones.

Art 80- Page 31:

Q5. Do you have any comments on the proposed amendment to the FMCC requirements, baseline requirements and enhanced standards? Please explain your view.

The proposed amendments to the FMCC requirements are clear. In order to avoid the risk of green washing, it would be helpful to clarify how the disclosures are to be certified by each firm. For example, the UN-PRI has always made it clear that their practice is that the commitment to their six principles is made by the CEO of the relevant firm. Furthermore, the UN-PRI is now looking for regular (annual) C-suite statements as part of the governance of responsible investment policies.

The success of the SFC's proposals depends upon robust disclosure by the companies of the data required by investors and their advisers. The expectations of investors towards companies are an important consideration for necessary company-level disclosure. Hence, we propose that the SFC, as an independent body, encourages investors to communicate *their need* for climate related disclosures to investee companies, including the value they would put upon assurance or independent assessments.

Q6. 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?

Yes, where climate-related risks are considered to be immaterial, our view is that providing rationales would support transparency. We believe that the SFC should be cautious about suggesting or identifying areas of investment management approaches where climate related considerations may be irrelevant. While climate-related risks traditionally were considered to be ones that arise over a very long period, extreme weather events and transition risks for different sectors can be much more immediate and should not be disregarded for short/long active/passive investors.

Q7. 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?

We believe that climate-related disclosure metrics, both quantitative and qualitative, would be beneficial at the entity and fund level, to the extent the fund markets itself as aligned with climate-related objectives. It's worth noting that the EU SFDR proposals have asked for the disclosure of climate data at both product and entity levels. The SFC might consider adopting similar approach.

Q8. 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?

As noted in Q7, we believe that climate-related disclosure metrics, both quantitative and qualitative, would be beneficial at the entity and fund level, to the extent the fund markets itself as aligned with climate-related objectives. It's worth noting that the EU SFDR proposals have asked for the disclosure of climate data at both product and entity levels. The SFC might consider adopting similar approach.

Specifically, with respect to quantitative metrics, it will be helpful to investors to see this information disclosed at the fund or strategy level by larger fund managers. Also, if a smaller manager chooses to promote any fund or strategy as being climate sensitive, it would be useful to require disclosure of this data to ensure a level playing field between potentially competing products.