

20 November 2020

The Securities and Futures Commission  
54/F One Island East  
18 Westlands Road  
Quarry Bay, Hong Kong

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

Dear Sirs

I write in response to the SFC’s 29 October 2020 request for submission of comments on the proposed amendments to the FMCC that would require fund managers to take climate-related risks into consideration in their investment and risk management processes.

In nearly 20 active years of participation in the fund management industry in Hong Kong I have never been inspired to write directly to the SFC about any consultation. Broadly, I have understood and agreed in the past, with the SFC’s desired direction of regulatory travel and its intended outcomes. These have largely been for the betterment of governance in our industry.

On this occasion I decidedly do not believe this to be true. I disagree that the SFC should impose only on fund managers a need to undertake ill-formed, broadly stated climate risk assessments at not only the strategy but the manager level, just because the SFC can get away with back-door legislation that doesn’t require the Legislative Council’s scrutiny in any meaningful way. This allows even more amendments to the already ballooning FMCC, with perfunctory regard to regulated participants’ feedback.

Over time this is also tantamount to the SFC directing fund managers as to the kinds of underlying investments that are “acceptable”.

I also disagree that going down this path, at this juncture, will achieve anything at all towards a more sustainable Hong Kong, unless other industries are similarly required by the HK Government and their regulating bodies to assess and disclose their climate related footprints, risks and mitigating steps for the future. (For example, what is contemporaneously being asked of power/ utilities, the shipping industry, transport, construction and real estate, just to name a few.)

In short the SFC should re-cast its Consultation to provide, at a minimum:

- More specific requirements for the kinds of pertinent strategies to which the detailed climate risk analyses should apply. The Consultation is vague and laden with statements that cannot be interpreted for proper compliance at all, such as, “appropriate and proportionate” and “more robust and systematic”
- Recast the definition of Large Fund Manager to avoid capturing small boutique fund managers in the scope of the wide-ranging proposals set out here. The risk reward to the SFC society and Hong Kong from the very wide net cast in the Consultation is in the wrong direction. US\$2b AUM and above would be a more appropriate proposal;

- Remove the requirement for fund managers to compulsorily establish and maintain climate related risk processes, policies and systems identifying risks for funds where the SFC does not regulate those products and funds (i.e. funds are not authorised in Hong Kong and/or are private funds with only professional investors – especially where the bulk of those investors are not HK sourced);
- Make clear that if, after an initial basic assessment of risks, a fund manager expressly disclaims the application of climate related risks to strategies that it manages, then other than disclosure to investors and (perhaps) an annual or bi-annual refresh, no further action should be required; and
- Make clear that the Consultation proposals apply to the investment strategies and funds operated, and not to the day to day conduct of the fund manager’s business and operations itself. This is very unclear throughout as currently drafted.

Additional specific feedback to the Consultation:

- **Paragraph 44. (C) Proposed requirements, Figure 2**

It is wholly unclear what this figure is meant to represent. What are 1, 2 and 3 supposed to tell the reader? How do the chevron steps in green apply to each of them? How do you end up from there at B+E 4?

- **Paragraph 48 Examples of action plans and goals**

All examples given in this section are of the kind very large organisations with large global footprints and significant governance structures might implement. For example, “A fund manager has established four committees” [?]; “A fund manager has a dedicated team to oversee the firm’s sustainable investment efforts globally”.

Examples should be given that would be suitable for, and provide genuine guidance to, the smaller end of the fund manager community.

What would be the result (again, unclear in the Consultation’s drafting) if a firm undertakes a review of its fund(s)’ investment strategy and goes on to expressly conclude, and advise investors and other stakeholders in a fully transparent manner, that climate risks are not pertinent or materially relevant to its funds or the fund manager’s operations? This is a much different notion than the ill-drafted concept expressed in paragraph 52 that a fund manager might conclude that climate considerations are “irrelevant” to it. Of course climate considerations on a motherhood, global level, are not irrelevant. But they will most likely not, for most strategies, form a meaningful and active consideration for investment decision making. Requiring otherwise will result in undue weight, time, paper trails and nonsensical summary information being kept and monitored, distracting managers from doing the job they’ve been hired to do. Materiality, and how the SFC views it, should be fleshed out, rather than irrelevancy being the trigger concept.

A further risk for many investment strategies is that they will over time be hamstrung from finding sufficient investment opportunities that fit the assessment. Including an inability to find liquidity in relevant investments having been forced to consider climate impact. Asia remains an EM growth market, and the corollary is that a significant amount of liquidity and availability of investments

exists in traditional industries (real estate, commodities, infrastructure, transport, metals & mining, coal etc) that fuel that growth. This proposal has the potential to significantly hamper investment possibilities and is an ill-advised way to approach the SFC's objectives.

How the Consultation actually applies at an "entity" (i.e. fund manager) level is very unclear. Does this mean that a fund manager should assess climate risks related to running its own business and operations? How then would (for example) a US\$500m boutique asset manager that rents office space from a significantly more powerful HK based landlord, possibly track, measure or even begin to consider its climate related footprint? I highly doubt any landlord would be willing to share information that allows any kind of meaningful assessment. If this is the SFC's intention (or not) then this ought to be made clear in the eventual FMCC wording.

What level of data and from what kinds of sources does the SFC expect smaller fund managers who lack any in-house resources and expertise to rely on to make the necessary detailed risk assessments proposed? The net result of these broad brush proposals will be to force smaller fund managers to buy consultancy services and/or buy market data (as haphazard as that data remains from the sell side and boutique providers in this area for the moment) increasing costs, for no sound regulatory purpose. In future, if companies exposed to material climate related financial and economic risks become apparent, price discovery will ensure anyway that a fund manager either sells out and avoids those companies or simply doesn't buy them. The reservations (see paragraph 76) expressed by market participants during the soft consultation a valid and real.

To this end, the table in **paragraph 51** simply provides an example that extreme weather will cause reduced revenue because of the associated costs to companies. This is precisely the kind of motherhood statement that fund managers who do not expressly run ESG related investment strategies will not possibly be able to act upon as part of an investment strategy. It will become a meaningless disclosure exercise.

- **Paragraph 65**

"Large Fund Managers are expected to adopt a more robust and systematic approach" to climate-related risks management. This includes using commonly adopted quantitative metrics to identify and assess the impact of climate-related risks on the underlying investments." The SFC does not make clear what robust and systematic, relatively speaking versus other managers in scope for the Consultation, means here for Large Fund Managers. Specific examples for LFM's of what would satisfy the SFC's expectations in this regard would be helpful.

Yours sincerely,