



15 January 2021

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

Dear Sirs,

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

Friends of the Earth (HK) has considered the above-referenced consultation paper, which seeks comments on proposals to address market concerns relating to the management and disclosure of climate-related risks by fund managers.

Comments from Friends of the Earth (HK) on the issues raised in the consultation paper are set out in the Appendix to this letter.

We hope that you find our comments to be helpful. If you have any questions on our submission or wish to discuss it further, please do not hesitate to contact me at

Yours Sincerely,

Friends of the Earth (HK)

Friends of the Earth (HK) Charity Limited

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## Appendix

### **Comments from Friends of the Earth (HK) in response to the Consultation Paper on the Management and Disclosure of Climate-related risks by Fund Managers**

#### **THE STANCE OF FRIENDS OF THE EARTH (HK)**

As a pioneering promoter of Green Finance in Hong Kong, Friends of Earth (HK) (FoE (HK)) is delighted to see Hong Kong financial regulators being more proactive in accelerating the city's development of green and sustainable finance in 2020. The latest paper, "Consultation on the Management and Disclosure of Climate-related Risks by Fund Managers" (the Consultation paper), published in October 2020 is one of the many critical steps to transform Hong Kong into a leading Green Finance Centre in Asia. Climate change is not just an environmental risk but a financial risk that could result in billions of dollars in losses to asset owners, including but not limited to pensioners.

Climate-related risks are undoubtedly overlooked by financial institutions in Hong Kong. With more data available from companies, accessing climate risks is no longer as difficult as it used to be. We see that now is the time for funds and fund managers to disclose their climate-related risks. With better disclosure, investors can understand more about the potential financial risks they are taking. Investors can make better informed investment decisions as a result.

Overall, FoE(HK) and its Green Finance Advisors support the arguments in the Consultation paper and the disclosure requirements proposed by SFC. We are looking forward to the implementation of these proposed requirements within the year of 2021.

#### **CLIMATE CHANGE**

**Question 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.*

Friends of the Earth (HK) believe that having a focus on climate change is the right approach for improving the management and disclosure of sustainability-related risks for asset managers. Among all of the sustainability-related risks, we see climate change as the front and center issue that needs to be addressed by every stakeholder in all countries. We see asset managers, those investing in Hong Kong and the Greater China markets



in particular, falling behind their peers in the understanding and assessment of climate risks. To avoid financial and general economic loss due to negligence or inaction, SFC should help lift the standard of management and disclosure of climate-related risks by fund managers, which should in turn drive management and disclosure of the public companies they invest.

Friends of the Earth (HK) also suggest that the management of climate-related financial risks should be integrated into both the regulatory frameworks and supervisory expectations of financial institutions and listed companies. For example, HKEx started requiring companies under IPO vetting process to demonstrate board competence on ESG issues in July 2020. Both HKEx Listing Committee and SFC (HKEC Listing) Committee should also recruit experts and actively build their capacity on ESG, climate risks, and sustainability governance to further improve the robustness of the listing process. Another example would be the SFC Climate Change industry group that formed in 2020. The group should also consider adding representatives with sustainable finance expertise from green groups or academia to enhance the depth of discussions.

**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?*

Friends of the Earth (HK) agree that at this stage the proposed requirements should be mandatory for CISs and on a voluntary basis for discretionary accounts, which have barriers of disclosure due to different preferences of their underlying clients. But to exercise investment stewardship, fund managers should advise their clients under discretionary accounts about the impact of climate change on companies and their investment portfolios and encourage them to disclose climate-related risks.

**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?*

Friends of the Earth (HK) support the adoption of TCFD framework for climate disclosure. While there are many ESG disclosure standards and initiatives, TCFD framework is among the most widely supported by financial markets globally for climate-specific disclosure. This is due to the ease of understanding and adoption of the framework. In

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addition to TCFD, we suggest SFC to include CDSB in their recommendation for disclosure of climate-related risks. Noticeably, CDSB is another well-established framework which has clear reporting requirements and can be structurally implemented. In fact, CDSB can serve as building blocks for implementation TCFD recommendations.

**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.*

Climate-related risk assessment and reporting is not a straightforward exercise that could be easily understood by all fund managers. To meet the demand of climate reporting as required, additional costs and time are required which will certainly affect operations of fund managers. While it is certainly the responsibility of every fund manager, large and small, to act responsibly for our environment and to do good for the world, larger fund managers, which generally have stronger financial resources, should adopt stricter reporting standards than their smaller peers. However, we believe that fund managers with AUM of HK\$8 billion (~US\$1 billion) would be the threshold for Large Fund Managers, asset manager with such scale would have no excuse of inadequate resources to develop their reporting capability.

## **DISCLOSURE**

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

**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?*

**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?*

**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 the disclosure of the WACI should be made at the fund level instead of the entity level?*



Friends of the Earth (HK) see the amendment to the FMCC requirements, baseline requirements and enhanced standards appropriate. We agree that even if climate-related risks are irrelevant to certain investment strategies or fund, the rationale should be explained by the fund managers. We generally agree with the arguments and proposal under Section 4. Disclosure.

### **SEEKING COMMENTS**

**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.*

Friends of the Earth (HK) see the transition periods for both the Large Fund Managers and for other fund managers appropriate. Reminders should be sent out by SFC to fund managers when they are getting near the end of the transition period (e.g. three months before the period ends). SFC should state clearly the consequences of failure to meet the requirements within the transition period. SFC should disclose the list of fund managers and their funds which fail to meet the requirements for public access.

In the meantime, the regulator should enhance the capabilities of market participants and raise awareness among the SFC license representatives of climate risks and ESG investing. As climate risks, ESG and sustainable finance education and training is still in its early stage, it is primed for greenwashing. Friends of the Earth (HK) is collaborating with the European Federation of Financial Analysts Societies (EFFAS) to offer the Certified ESG Analyst (CESGA) program - an internationally recognised qualification and "gold standard" for ESG investing education in Hong Kong. The IFEC should walk the talk and consider funding and supporting the SFC licensed representatives who would like to be trained by CESGA program.

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