



Hong Kong
Women Professionals
& Entrepreneurs
Association Limited
香港女工商及專業人員聯會有限公司

By email 2020_Climate_Consultation@sfc.hk
The Securities and Futures Commission
54/F One Island East
18 Westlands Road
Quarry Bay
Hong Kong

15 January 2021

Dear Sirs,

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

We refer to the Consultation Paper and the proposals of the Securities and Futures Commission (“SFC”) to amend the Fund Manager Code of Conduct (FMCC) to require fund managers to take climate-related risks into consideration in their investment and risk management processes (“Proposals”). In response to the SFC’s invitation for comments, on behalf of the Hong Kong Women Professional and Entrepreneurs Association (“HKWPEA”), we set out our comments below to this consultation exercise (“Consultation”).

As a non-profit organization representing local women professionals and entrepreneurs, HKWPEA is aware of the importance of Hong Kong’s hard-earned position as an international financial centre. Over the last 23 years, HKWPEA strives to make timely responses to consultation by the HKSAR government and regulators. The views expressed in this submission are those of HKWPEA, based on consultation with our members, which include women professionals, business executives and entrepreneurs.

We note that the SFC’s proposals reflect its recognition that it is vital that Hong Kong be aligned with international developments in sustainable finance, and to this end it has taken steps to enhance capacity building and investor awareness of green finance and to engage with the asset management industry to formulate an appropriate regulatory response to climate change.

We agree that it is vital for Hong Kong as an international financial centre to be at the forefront of the push for green finance awareness and action. The 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 is critical to demonstrate the SFC’s strategy, vision and leadership in influencing the behaviour of those in charge of managing investments and assets.

HKWPEA set up a task force to discuss the Consultation Paper. Views expressed herein are in line with HKWPEA’s position on the relevant issues (though not necessarily that of each and every member).

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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 - We believe that broader spectrum of sustainable finance should always be considered in developing the requirements for fund managers and would like to see Hong Kong requirements being in line with international standards and regulations. If international markets are already putting ESG requirements in place then Hong Kong should not be left behind. In particular, we refer to Regulation (EU) 2019/2088 on sustainable Finance Disclosure regulation (SFDR) which aims to provide greater transparency on the degree of sustainability of financial products to channel private investment towards sustainable investments. The SFDR requires all financial market participants in the European Union to disclose on ESG issues. Whilst we understand that the environmental and climate-related aspects of the proposed regulations are critical and urgent, it is essential that there should also be a roadmap NOW as to how to address the broader ESG risks which are essential to facilitate sustainable finance and investment for the future overall ESG compliance for fund managers. Since Hong Kong is not a leader in this area, it would fall behind even further if a long period of time evolves before we start to consider this issue. This falling behind may have the consequence of our losing out on international investors who may choose to invest through fund managers who are held to more stringent standards.

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 - Given that The United Nations-supported Principles for Responsible Investment (PRI) prioritises the adoption of the TCFD Recommendations as a global framework for translating climate-related information into financial metrics, this should be a benchmark for fund managers regardless of whether the funds under management are discretionary or not. For disclosure and benchmarking purposes there should not be any difference between the two types of fund managers, particularly if Hong Kong aspires to be a green finance hub. If discretionary managers were not included in the initial stage, it would be helpful to provide a tentative timeline to indicate when they will be included 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.

In terms of reporting, it is suggested that carbon disclosure project (CDP) reporting could be an alternative form of reporting since it is also an accepted global environmental disclosure system. Other standard or framework developed or under development by CDP, CDSB, GRI, SASB, IIRC and IFRS could also be references. Given that this is an evolving area, it is suggested that there be some flexibility in the disclosure system. This will make it more flexible for fund managers whom are reporting using some prevailing standards in their regions for climate risk disclosure.

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 that the proposed basis for determining the threshold for Large Fund Managers, ie, HK\$4 billion, and the basis for reporting. We suggest that this be reviewed on a regular basis to ensure it is in line with practices in other 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, subject our comments in the other replies in this letter. 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 examples to illustrate how they implement their 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 manager should provide information on the climate-related considerations in its assessment, explain their rationale and state why it is irrelevant, what assumptions and metrics adopted to arrive at this conclusion, and update any changes regularly.

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 - Given that fund managers may manage funds which invest in different geographies where different strategies and mitigation methods exist, climate-related disclosures are most meaningful when disclosed at a fund level.



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Accordingly, whilst we agree that at a minimum, climate-related disclosures (except for the disclosure of WACI) to investors should be made at an entity level, differences in risk assessment, strategies and mitigation methods must be broken down and disclosed if these are obviously different. While we support that appropriate disclosures regarding governance and investment should be made at an entity level to reduce burden on fund manager, climate risk management strategy could be different for funds as the physical and transition risks would differ for different regions. As such, we support fund-level disclosures of climate risk management strategy at fund-level where climate-related risks are found to be material.

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 – Disclosures of quantitative climate-related data such as WACI should be applicable to all other fund managers when material climate-related risks are identified as they may pose further risks to investors.

Yes, we support that climate related data such as WACI disclosures should be made at fund level.

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 and the EU-based fund managers are more likely to use the EV calculation. To allow flexibility, please consider accepting calculation by using either revenues or EV and requiring the fund managers to disclose the carbon footprint calculation method.

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 time frames.

Should you have any questions, please feel free to contact .

, or our Secretariat at info@hkwpea.org.

Yours faithfully,

Hong Kong Women Professionals & Entrepreneurs Association

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