

Allianz Global Investors Asia Pacific Limited

13 January 2021

By Post and Email

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
(Consultation Paper on Climate Risk)**

We would like to express our appreciation for the opportunity to provide comments in response to the Consultation Paper on Climate Risk published in October 2020 by the Securities and Futures Commission (the "SFC").

Overall, we are supportive of the proposal which climate change is a risk to the world. Allianz Global Investors (AllianzGI) is committed to integrate ESG factors into investment decisions and across asset classes. ESG factors are crucial investment performance drivers from a return and risk perspective. We would like to share our comments in the Appendix enclosed. If you have any comments, we are more than happy to have a meeting with the SFC to further discuss it. Should you have any questions, please feel free to contact

Yours sincerely,

For and on behalf of

Allianz Global Investors Asia Pacific Limited

Appendix

Proposed area of focus

1. Do you have any comments on the SFC proposal to focus on climate change or should a broader spectrum of sustainable finance should be considered in developing the requirements. Please explain your views.

AllianzGI: AllianzGI has no comments on this point.

Proposed scope of requirements for climate related risk

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?

AllianzGI: AllianzGI does not disagree with an initial limiting of the scope of the SFC's proposed requirements to the management of CISs and not to discretionary accounts.

We however wish to emphasize that in situations in which one asset management company manages multiple investment funds (including CISs) as well as discretionary accounts, aspects of governance, investment management and risk management will in many case be applied by such asset management company across most if not all of its activities. On the one hand, this reduces the relevance of the distinction between the management of CISs and discretionary accounts for the purpose of the proposed requirements but on the other hand raises a concern about the scope of certain requirements and the legal entity by which these requirements will have to be implemented.

In light of the above, we also wish to highlight the notion that in asset management companies being part of a multi-jurisdictional or even global group of asset management companies, many of the abovementioned aspects will be aligned and applied identically between the various group entities. This notion entails that relevant processes and policies be allocated at group level and are adhered to in the operations of the individual local asset management companies.

Proposed Approach

3. Do you agree that the SFC should make reference to the TCFD Recommendations in developing the proposed requirements?

AllianzGI: AllianzGI is supportive of the proposed reference to the Task Force on Climate related Financial Disclosure (TCFD) Recommendations, which are principles-based.

AllianzGI became an official supporter of the TCFD recommendations in 2019 following our parent company Allianz SE. TCFD provides overviews on metrics, however, since no

market standard has yet evolved, we emphasize the discretion allowed under the TCFD Recommendations for supporters to decide and to disclose which metrics they apply. This allows supporters of TCFD to implement the Recommendations at a pace commensurate with their relevant activities.

We recommend that the SFC confirms that its reference to the TCFD Recommendations includes this character of the Recommendations in order to maintain proportionality in an asset management environment in which different firms have vastly different investment styles across many asset classes.

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

AllianzGI: AllianzGI has no comments the threshold as such but wishes to comment on the proposed transition period of nine months, and a twelve-month implementation period for Large Fund Managers, to comply with the baseline requirements and enhanced standards. The amount of work required is significant. In particular the assessment of the investment management processes and procedures of different strategies may subsequently entail prospectus changes, regulators' approval and client notifications in order to be compliant with all applicable rules and regulations. All of these assessments, changes, approvals and notifications would have to be performed across the entire fund spectrum and across multiple jurisdictions. Finally, changes to fund prospectuses of globally distributed funds (such as Luxembourg UCITS funds) often require multiple approvals from different regulatory authorities and are to be obtained in a certain timely order, further requiring more lead time for such changes to take effect in all jurisdictions.

We would therefore recommend that an 18 to 24 month implementation period should be reasonable to allow asset management companies to fully comply with the proposed requirements.

In addition to an extension of the implementation period, we would welcome clarification from the SFC whether compliance with material TCFD Recommendations under the proposed requirements would also be permissible at a "best effort" or a "comply or explain" basis, at least for a certain transition period. This would allow asset management companies much needed reassurance and certainty that implementation of the proposed requirements would not necessitate a rescheduling or reprioritization of any work currently undertaken and planned within their organizations in respect of TCFD implementation and integration.

Proposed Requirements

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

AllianzGI:

Governance : In the proposed baseline requirements, the SFC requires the board or the board committee's role in overseeing the incorporation of climate-related considerations into the investment and risk management process. We agree that the firm should set the tone from the top in overseeing it, however the SFC should ideally explicitly allow more flexibility for the global/multinational firms which rely on the headquarter to implement the climate-related or other ESG requirements. We appreciate that the SFC allows outsourcing or delegation to other affiliates, but the licensed asset management company cannot outsource the responsibility. However, climate-related and other ESG matters are best dealt with in a globally coordinated fashion at group level, part or most of which may take place outside the direct sphere of the local board's supervision role. It makes therefore sense to rely on the headquarters legal entity of the group to implement these governance requirements. This does not contradict to the TCFD Recommendations.

We suggest that the SFC does not mandatorily require the local board to oversee the implementation of climate-related risk but shall allow for such oversight to take place at group (headquarters) level.

Investment Management : We refer to our comments and observations on the nature of the TCFD Recommendations under question 3 and emphasize that at AllianzGI investment management is performed at both global and local levels, as determined by the nature of the various asset classes and investment strategies. For the ESG aspects of investment management the global, coordinated nature of our management is even more pronounced. This means that climate relevant investment data are analyzed and produced at a global level while local investment decisions adhere to globally harmonized processes.

We therefore welcome the principle based nature of the SFC's proposed requirements, which in our view allows for such harmonized, all encompassing approach to continue to deliver an efficient investment management approach for our funds and discretionary mandates.

Risk Management : Similar to our considerations in respect of governance and the role of the board within global/multinational firms, we recommend the notion that risk management often is a centralized function too, coordinating the entire complexity of the risk management functions out of the headquarters legal entity of the group. The effectiveness of the risk management function depends heavily on its ability to aggregate information and coordinate its actions globally, based on uniform, globally applicable risk management procedures and policies.

We suggest that the SFC does not mandatorily require risk management requirements to be implemented locally but shall allow for such requirements to be implemented into policies at group (headquarters) level.

Disclosures : In view of the abovementioned global nature of the requirements in respect of governance, investment and risk management, relevant disclosures will reflect this and have a global nature. This means that data shall generally only be

available at the global level where relevant climate and ESG data is processed and not always be available in respect of local legal entities. Disclosure per fund should always be consistent with rules applicable to those funds but a meaningful breakdown or allocation of disclosure data per fund may not always be feasible.

We recommend that the SFC allow for disclosures to be made commensurate with the organizational setup of the asset management company. Where relevant functions are global functions and process disclosure relevant data at a global level only, disclosures should not mandatorily be required to be made for a local legal entity or at fund level.

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?

AllianzGI: AllianzGI agrees that this is consistent with the nature of the TCFD Requirements.

We would appreciate if the SFC would indicate whether or not it would expect asset management companies to implement TCFD Recommendations all at once for all of their asset classes. We would welcome an explicit mention of the permissibility of a phased approach, allowing asset management companies to initially apply relevant TCFD Recommendations to selected asset classes only. This phased approach is also reflected in client preferences as well as in global initiatives such as the Net Zero Asset Owner Alliance. Generally speaking, equity and corporate fixed income will be the first asset classes to report certain more sophisticated climate assessments, while other asset classes are expected to follow in due course.

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?

AllianzGI: We refer to our observations in connection with the global nature of many asset management companies in general and of AllianzGI in particular made in response to your questions 2 and 5. Most if not all aspects relating to the proposed requirements will generally apply to both fund and discretionary mandate activities of an asset management company, and asset management companies which are part of a global/multijurisdictional group generally define and implement relevant policies and procedures at group (headquarters) level. These notions impact the ability of an individual asset manager to disclose certain information, generally precluding individual disclosures and favoring global, aggregated disclosures. We also believe that such aggregate disclosures often provide more meaningful insight to investors than individual disclosures could achieve.

We recommend to the SFC to allow that relevant disclosures be made at the level of the asset management company for all of its relevant, climate-related activities, and not be mandatorily limited to disclosures at fund level. Furthermore, we recommend that disclosures may also be made aggregated at group level and need not be broken down for individual local legal entities.

- 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?**

AllianzGI: We refer to our observations in connection herewith made in response to your questions 2 and 7 and reiterate that fund level disclosures may not always be realistic or feasible.

We therefore recommend that relevant disclosures be made at the level of the asset management company for all of its activities, not mandatorily at fund level and need not mandatorily be broken down for individual legal entities.