

**MEMO# 31527**

December 20, 2018

## **Hong Kong SFC Soft Consultation on ESG-Labeled Funds**

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December 20, 2018 TO: ICI Global Members

Global ESG Task Force

ICI Global Pacific Chapter

ICI Global Regulated Funds Committee SUBJECTS: Disclosure

Distribution

International/Global RE: Hong Kong SFC Soft Consultation on ESG-Labeled Funds

ICI Global attended a soft consultation meeting with the Hong Kong Securities and Futures Commission (SFC) last Thursday on potential eligibility and disclosure requirements for SFC-authorized funds with an investment focus on “green,” “ESG,” or “sustainability.” The meeting was chaired by Karen Lau, Director, Investment Products and three of her team members. During the meeting, the SFC shared its thinking on requirements that it is contemplating for ESG-labeled funds.

In terms of next steps, the SFC will not be issuing an official public consultation. They are gathering comments via soft consultation meetings with various industry stakeholders with the goal of issuing a circular (*i.e.*, guidance) in March 2019, laying out detailed eligibility and disclosure requirements for ESG-labeled funds. According to the SFC, there are around 20+ SFC-authorized thematic retail funds with an investment focus on “green,” “ESG,” or “sustainability.”

It would be very helpful if you could let us know if you have had any meetings with the SFC on this, or if your firm would like assistance facilitating a meeting. Please also let us know if you have any questions, thoughts, or concerns.

Below is a short summary of the draft requirements that the SFC outlined during the meeting:

### **Eligibility criteria for ESG-labeled funds:**

- The fund must meet the following criteria in order to be labeled as a “green” or “ESG” fund:
  - At least 70% of the fund’s NAV must primarily be in investments that fulfill the stated investment objective and/or strategy (Note: SFC clarifies that the 70% is consistent with the existing UT Code requirement. For example, a Japan equity

- fund must have at least 70% of its NAV invested in Japanese equities.)
- The fund must not invest in ESG controversy investments (Note: SFC will consider on a case-by-case basis if an investment is controversial.)
- The fund's investments must be consistent with globally recognized green/ESG criteria or benchmarks such as UNGC, UNSGD, etc. This criteria can be fulfilled by either self-declaration by the fund manager or by appointing an independent third party to ascertain the fund's underlying investments.
- The fund manager must carry out ongoing monitoring of the underlying investment.

### **Disclosure requirements for ESG-labeled funds:**

- The fund must disclose the following information in the Key Fact Statement (KFS):
  - Key investment focus
  - Description of the key investment process
  - Investment selection process/criteria (such as whether the manager is adopting a positive or negative screening approach)
  - Risks
  - Any other information which the fund manager deems relevant
- The fund must also make ongoing disclosure in the annual report.

The SFC also plans to have a dedicated webpage for green/ESG-labeled funds. The SFC will list the names of all the funds that have fulfilled the eligibility criteria and the webpage will be updated regularly.

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