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Hong Kong SFC Announces Green Finance Agenda

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TO: ICI Members

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Global ESG Task Force

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ICI Global Regulated Funds Committee SUBJECTS: Disclosure

International/Global

Investment Advisers RE: Hong Kong SFC Announces Green Finance Agenda

The Hong Kong Securities and Futures Commission (SFC) last week issued a report outlining its strategic framework to facilitate development of green finance in Hong Kong and complement mainland China's green development ambitions.[\[1\]](#) The report outlines the SFC's agenda as follows:

1. **Corporate disclosure.** Enhance listed companies' climate-related disclosure, aiming to align with the recommendations of the Task Force on Climate-related Disclosures (TCFD).
2. **Asset managers and sustainable investing.** Survey asset managers and asset owners on their sustainable investment practices; engage with the industry to formulate appropriate policies, codes and guidance; and work towards obliging asset managers to disclose how and to what extent they consider ESG, especially environmental factors, in the investment and risk analysis process.
3. **Labeling of green investment products.** Facilitate the development of a wide range of green-related investments, including a focus on product disclosure and reporting for ESG-labeled funds.
4. **Investor awareness.** Support investor awareness of and capacity building in green finance and investment.
5. **International participation.** Promote Hong Kong as an international green finance centre by participating in international initiatives.

The report makes clear that the SFC is closely following global policy developments in green finance, such as uptake of the TCFD recommendations and various sustainable finance initiatives in the European Union. We summarize below the aspects of the SFC's green finance agenda that are most relevant to asset managers.

1. Corporate Disclosure

The SFC's top priority is enhancing corporate disclosure of environmental information, particularly climate-related disclosure. In a recent speech, SFC CEO Ashley Alder noted that asset managers have told the SFC that they need quality, comparable ESG data from companies in order to make better investment decisions.[\[2\]](#)

The SFC has signed up as a supporter of the TCFD recommendations and is working with Hong Kong Exchanges and Clearing Ltd (HKEX) to consider enhancing listed companies' disclosure in line with the TCFD recommendations. The SFC is aiming to be in step with mainland China's move toward mandating that listed companies make environmental disclosures in 2020.

The report notes that the SFC intends to benchmark any policy actions against the environmental reporting requirements in other leading markets. As examples, the report points to a number of different jurisdictions that are undertaking initiatives to support the TCFD recommendations, including in mainland China, the EU, Canada, Australia, and Singapore.

2. Asset Managers and Sustainable Investing

According to Alder's recent speech, the SFC's second priority is examining asset managers' integration of ESG factors, particularly the "E," into their own investment processes. He stated that "[i]t is no longer enough for asset managers to simply make the claim that they take ESG factors into account, without disclosing a robust methodology to investors."

The report describes the growing global momentum around asset managers and sustainable investing, including policymaking activity in other jurisdictions, such as France's Article 173. The report then outlines five challenges facing sustainable investing, many of which mirror themes from the EU's recent sustainable finance proposals:

- **Lack of quality and comparability of ESG data.** The SFC aims to address this with its corporate disclosure initiative.
- **Insufficient disclosure on whether and how asset managers conduct sustainable investing.** The SFC believes that many asset managers and institutional investors do not systematically consider sustainability factors and risks in the investment processes, and that they do not sufficiently disclose to their clients if and how they consider sustainability factors in their decision-making.
- **ESG preferences not addressed in client suitability assessments.** The SFC notes that suitability assessments generally focus on the client's financial objectives, while ESG preferences are usually not addressed.
- **Lack of clarity on the duty of asset managers.** The SFC questions whether the duty of asset managers and institutional investors to act in the best interest of clients is sufficiently clear with respect to the consideration of sustainability factors and risks in the investment decision process.
- **Risk of "greenwashing."** The SFC highlights concerns that asset managers may market themselves as "green" or "sustainable" but not fully integrate these factors into the investment process.

As a first step, the SFC plans to conduct a survey of asset managers and asset owners on four major aspects of sustainable investing, namely their commitment, investment process, post-investment ownership practices and reporting of ESG performance, with an emphasis

on the environmental aspect of ESG. Based on the survey outcome, the SFC will consider appropriate policies, codes, and guidance with a view to obligating asset managers to disclose how and to what extent ESG factors, and especially environmental factors, are integrated into investment decisions.

The SFC expects regulatory initiatives in other major markets to increasingly have an impact on Hong Kong's markets. Aligning its regulatory framework with those in mainland China and leading overseas markets is therefore part of Hong Kong's plan to remain competitive in sustainable investing.

3. Labeling of green investment products

The SFC is considering providing internationally-compatible disclosure guidance, harmonised criteria, and frameworks to facilitate product disclosure and reporting, with the goal of raising the credibility of green product offerings in Hong Kong.

Of particular note, the SFC is planning to pay increased attention to the quality of ESG-labeled funds' disclosure. The SFC's preliminary review shows that a majority of these funds do not specifically disclose how investment managers integrate ESG factors into the criteria used in the investment selection process for the fund portfolio.

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endnotes

[1] SFC Strategic Framework for Green Finance (21 September 2018), *available at* [https://www.sfc.hk/web/EN/files/ER/PDF/SFCs%20Strategic%20Framework%20for%20Green%20Finance%20-%20Final%20Report%20\(21%20Sept%202018....pdf](https://www.sfc.hk/web/EN/files/ER/PDF/SFCs%20Strategic%20Framework%20for%20Green%20Finance%20-%20Final%20Report%20(21%20Sept%202018....pdf).

[2] Remarks by Ashley Alder, SFC CEO, Update on the SFC's Asset Management Strategy for Hong Kong at HKIFA Luncheon (19 September 2018), *available at* https://www.sfc.hk/web/EN/files/ER/PDF/Speeches/Ashley_20180919.pdf.