

MEMO# 31740

April 30, 2019

Hong Kong SFC Guidance on ESG-Labeled Funds and Survey on ESG Integration

[31740]

April 30, 2019 TO: ICI Global Members

Global ESG Task Force

ICI Global Pacific Chapter

ICI Global Regulated Funds Committee SUBJECTS: Disclosure RE: Hong Kong SFC Guidance on ESG-Labeled Funds and Survey on ESG Integration

The Hong Kong Securities and Futures Commission (SFC) recently released guidance on eligibility and disclosure requirements for SFC-authorized funds with an investment focus on climate, green, environmental, or sustainable development.^[1] The requirements set forth in the guidance are similar to those discussed in the SFC's soft consultation meetings toward the end of 2018.^[2]

The guidance notes that most of these funds reference green or ESG factors in their investment objective or strategy, but that a majority of these funds do not specifically disclose how the asset manager incorporates green or ESG factors into the investment selection process.

To address this, the guidance sets out the SFC's expectation on how the existing Code on Unit Trusts and Mutual Funds (UT Code) and disclosure guidelines for SFC-authorized funds apply to green or ESG funds.

Eligibility criteria for green or ESG-labeled funds:

- A fund must meet the following criteria in order to be labeled as a "green" or "ESG" fund:
 - For a fund adopting screening strategies or thematic investment strategies, it should demonstrate that at least 70% of its total net asset value is invested in securities or other investments reflecting the stated green or ESG related investment focus.
 - For a fund adopting other strategies, such as ESG integration or impact investing, it should demonstrate to the SFC, on a case-by-case basis, how the fund could comply with this requirement.

Disclosure requirements for ESG-labeled funds:

- The fund must disclose the following information in the Key Fact Statement (KFS):
 - Key investment focus
 - Description of key investment strategies
 - Relevant green or ESG criteria or principles considered
 - Expected exposure to securities or other investments that reflect the stated green or ESG investment focus
 - Investment selection process and criteria, such as:
 - Assessment criteria (e.g., reference to any ESG ratings or third party certificates or labels, constituents of any green or ESG-related indices, the carbon footprint and environmental impact associated with companies, the proportion of revenue or profits generated from the relevant green or ESG activities of the issuer companies, etc.)
 - ESG analysis and evaluation methodology (e.g., proprietary tool with internal ESG ratings, research provided by third party agencies on ESG rating or certificates or labels, engagement with issuer companies, etc.)
 - Reference ESG benchmark being tracked and the characteristics and general composition of the benchmark
 - Description of any exclusion policy the fund has adopted
 - Description of risks associated with fund's investment theme (e.g., lack of standardized taxonomy, subjective judgment in investment selection, reliance on third party providers for environmental scoring / certification / labelling, style drift, concentration in investments with environmental or ESG focus, etc.)
 - Any other information which the fund manager deems relevant

Ongoing monitoring and confirmation of compliance

- The asset manager must regularly monitor and evaluate the fund's underlying investments to ensure the fund continues to meet the stated investment objective and guidance requirements.
- As initial confirmation of compliance with the guidance requirements, the asset manager of a new or existing green or ESG-labeled fund must provide the SFC with either:
 - A self-confirmation of compliance or;
 - Confirmation supported with independent third party certification or fund label to demonstrate compliance.[\[3\]](#)

The SFC also intends to launch a central database of green/ESG-labeled funds by end of 2019, accessible through the SFC's website. The database will list the names of all the funds that have fulfilled the eligibility criteria and the webpage will be updated regularly.

Separately, the SFC recently surveyed asset managers to gain a better understanding of whether and how asset managers integrate environmental and climate change-related factors into their investment and risk management processes, post-investment ownership practices and disclosures.[\[4\]](#) The survey also aims to gauge asset managers' expectations for listed companies' ESG disclosures.

The SFC expects the survey results, along with other engagement with the industry, will form the basis for the SFC to consider appropriate policies, codes and guidance. This survey is part of the SFC's Strategic Framework for Green Finance,[\[5\]](#) and the SFC is conducting a

similar survey of asset owners.

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endnotes

[1] See *Circular to management companies of SFC-authorized unit trusts and mutual funds - Green or ESG funds*, HK Securities and Futures Commission (11 Apr 2019), available at <https://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=19EC18>.

[2] See ICI Global Memorandum No. 31527, available at <https://www.iciglobal.org/iciglobal/pubs/memos/memo31527>.

[3] See Annex 2 to SFC Circular.

[4] See *Circular to Licensed Corporations Engaged in Asset Management - Survey on Integrating Environmental, Social and Governance Factors in Asset Management*, SFC (29 Mar 2019), available at <https://www.sfc.hk/edistributionWeb/gateway/EN/circular/intermediaries/supervision/doc?refNo=19EC20>.

[5] See ICI Global Memorandum No. 31401, available at <https://www.iciglobal.org/iciglobal/pubs/memos/memo31401>.

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