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Update on ESG-Related Policy Developments in Hong Kong

[32128]

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ESG Task Force

ICI Global Pacific Chapter

ICI Global Regulated Funds Committee SUBJECTS: Compliance

Disclosure

Distribution

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Investment Advisers RE: Update on ESG-Related Policy Developments in Hong Kong

The Hong Kong Securities and Futures Commission (SFC) continues to implement its Strategic Framework for Green Finance, announced in September 2018.[\[1\]](#) We understand the SFC currently is focused on four areas related to environmental, social, and governance (ESG) issues:

1. Asset manager disclosure of ESG integration
2. Green financial products
3. Listed issuer disclosure
4. International engagement and cooperation

Asset manager disclosure of ESG integration: SFC releases ESG survey results

The SFC recently released findings from its “Survey on Integrating Environmental, Social and Governance (ESG) Factors and Climate Risks in Asset Management.”[\[2\]](#) The SFC launched the survey last March 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.[\[3\]](#) The survey also aimed to gauge asset managers’ expectations for listed companies’ ESG disclosures.

Of the 794 licensed asset management firms that responded to the survey, the SFC’s report finds that 660 (83%) considered at least one ESG factor when evaluating a company’s investment potential. Of these 660 firms, 68% saw ESG factors as a source of financial risk, although only 35% consistently integrated ESG factors into their investment and risk management processes.

More broadly, the SFC concluded that there is an expectation gap between asset managers and asset owners with respect to ESG investment. The SFC also found that only 23% of the 660 asset management firms which considered ESG factors have risk management processes in place to manage the financial impact of physical and transition risks arising from climate change. The SFC further noted that 68% of the 660 asset management firms indicated that information about their own ESG practices was not available.

The SFC intends to deliver three outcomes in the near term:

1. Set expectations for asset management firms in areas such as governance and oversight, investment management, risk management and disclosure, focusing on environmental risks with an emphasis on climate change;
2. Provide practical guidance, best practices and training to assist asset management firms in meeting the SFC's expectations; and
3. Establish an industry group to exchange views among the SFC and experts in environmental and climate risks, as well as sustainable finance.

We understand the SFC intends to engage in soft consultation with industry, followed by a public consultation with proposals.

Green financial products

The SFC released guidance last April on eligibility and disclosure requirements for SFC-authorized funds with an investment focus on climate, green, environmental, or sustainable development.[\[4\]](#) The SFC is working with funds in scope of the requirements and has published a list of green and ESG funds.[\[5\]](#)

Corporate disclosure: HKEX publishes ESG consultation findings

The SFC is working closely with the Stock Exchange of Hong Kong Limited (HKEX) on climate-related corporate disclosure. HKEX launched a consultation last May on proposed changes to its ESG Reporting Guide and related listing rules.[\[6\]](#) HKEX recently published a report[\[7\]](#) outlining its conclusions and implementing the following key changes:

- Introducing mandatory disclosure requirements to include: (a) a board statement setting out the board's consideration of ESG matters; (b) application of reporting principles such as materiality, quantitative, and consistency; and (c) explanation of reporting and identification boundaries in ESG reports;
- Requiring disclosure of significant climate-related issues which have impacted and may impact the issuer;
- Enhancing the disclosure requirements relating to environmental and social key performance indicators (KPIs); and
- Shortening the deadline for publication of ESG reports to within five months after the financial year-end.

The new amendments to the listing rules and ESG Reporting Guide will take effect for financial years commencing on or after 1 July 2020. HKEX also is launching director e-training on ESG reporting and will update its guidance on how to prepare an ESG report, including FAQs.

Separately, HKEX published the findings of its second review of listed issuers' reporting in accordance with the ESG Reporting Guide. The report recommends that issuers increase disclosures related to board-level engagement, materiality assessment, and other areas.

International engagement and cooperation

The SFC participates in the Sustainable Finance Network (SFN) of the International Organization of Securities Commissions (IOSCO). The SFN is intended to provide a platform for IOSCO's members to share their experiences and discuss sustainability-related issues.

The SFN has two workstreams. The Spanish securities regulator is leading the first workstream, which is a mapping exercise of regulatory initiatives on sustainable finance. The SFC is leading the second workstream, which is reviewing standard-setting bodies (e.g., GRI, SASB) with respect to corporate disclosure, ESG integration, and taxonomy. The SFN plans to report to the IOSCO board in early 2020 to further consider what role IOSCO and other securities regulators can play.

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endnotes

[1] See Hong Kong SFC website on Green and sustainable finance, *available at* <https://www.sfc.hk/web/EN/green-finance.html>.

[2] See *New SFC survey on ESG, climate change and asset management*, HK SFC (16 Dec 2019), *available at* <https://www.sfc.hk/edistributionWeb/gateway/EN/news-and-announcements/news/doc?refNo=19PR117>.

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

[4] See ICI Global memo no. 31740 (30 Apr 2019), *available at* <https://www.iciglobal.org/iciglobal/pubs/memos/memo31740>.

[5] See *List of green and environmental, social and governance (ESG) funds*, HK SFC, *available at* [https://www.sfc.hk/web/EN/regulatory-functions/products/list-of-environmental,-social-and-governance-\(esg\)-funds.html](https://www.sfc.hk/web/EN/regulatory-functions/products/list-of-environmental,-social-and-governance-(esg)-funds.html).

[6] See *Consultation Paper: Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules*, HKEX (May 2019), *available at* <https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Consultation-Paper/cp201905.pdf?la=en>.

[7] See *Consultation Conclusions: Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules*, HKEX (Dec 2019), *available at* [https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Conclusions-\(December-2019\)/cp201905cc.pdf?la=en](https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Conclusions-(December-2019)/cp201905cc.pdf?la=en).

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