

MEMO# 33665

July 7, 2021

Asia ESG: Hong Kong SFC Issues New Guidance on ESG Fund Disclosures

[33665]

July 7, 2021

TO: ESG Task Force

ICI Global Regulated Funds Committee

ICI Global Regulated Funds Committee - Asia RE: Asia ESG: Hong Kong SFC Issues New Guidance on ESG Fund Disclosures

On 29 June 2021, the Hong Kong Securities and Futures Commission (SFC) issued the Circular to management companies of SFC-authorized unit trusts and mutual funds - ESG funds^[1] (Circular). The Circular supersedes the 2019 Circular on Green or ESG funds^[2] and enhances the scope and disclosure requirements on ESG funds.

The provisions set out in the Circular are consistent with the proposals included in the SFC's May 2021 soft consultation.^[3] This memorandum briefly summarizes the disclosure requirements under the Circular.

1. Scope of ESG Funds

The Circular will apply to SFC-authorized funds that incorporate ESG factors as their key investment focus and reflect this in the investment objective and/or strategy (ESG funds). The SFC would generally not expect a fund that does not fall under the scope of ESG funds as defined in the Circular to name or market itself as an ESG fund but may permit exceptions on a case-by-case basis.

2. Requirements on Disclosure and Periodic Assessment

The Circular sets out expectations for an ESG fund to provide a description of the fund's ESG focus and a list of ESG criteria, such as filters, indicators, ratings and third-party certificates or labels, used to measure the attainment of the fund's ESG focus. An ESG fund should also disclose the investment strategies adopted by the fund and the methodologies used to measure the ESG criteria. In addition, an ESG fund should disclose the expected or minimum allocation of assets that are commensurate with the fund's ESG focus, the reference benchmarks used if any, and a description of risks or limitations associated with the fund's ESG focus and investment strategies. The Circular also sets out additional guidance for ESG funds with a climate-related focus.

An ESG fund is required to conduct, at least annually, a periodic assessment of how it has attained its ESG focus, such as through shareholder engagement and proxy voting, and disclose this information to investors through appropriate means (e.g. annual reports).

3. Application of the Circular on UCITS Funds

A UCITS fund will be an ESG fund in Hong Kong if it incorporates ESG factors as its key investment focus and reflect such in its investment objective and/or strategy (UCITS ESG funds). Furthermore, a UCITS ESG fund that meets the disclosure and reporting requirements under the EU Sustainable Finance Disclosure Regulation (SFDR) for Article 8 or 9 funds^[4] will be deemed to have generally complied in substance with the disclosure and reporting requirements set out under paragraphs 14 to 19 of the Circular.

4. Effective Date and Implementation

The Circular will take effect and will supersede the 2019 Circular on Green or ESG funds on 1 January 2022.

For an existing SFC-authorized ESG fund that is on the SFC's dedicated ESG funds webpage, fund managers should review the fund's current disclosures in relation to the requirements in the Circular and make necessary updates and revisions by 1 January 2022. Applications for new ESG funds submitted on or after 1 January 2022 are required to submit a self-confirmation of compliance, or a confirmation supported with independent third-party certification or fund label agency to demonstrate compliance.

Irene Leung
Regional Lead, Member Relations and Research, Asia Pacific
ICI Global

Lisa Cheng
Research Analyst
ICI Global

endnotes

^[1] The Circular is available at <https://apps.sfc.hk/edistributionWeb/gateway/EN/circular/products/product-authorization/doc?refNo=21EC27>.

^[2] See Circular to management companies of SFC-authorized unit trusts and mutual funds - Green or ESG funds, HK Securities and Futures Commission (11 April 2019), available at <https://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=19EC18>. See also ICI Memorandum No. 31740 (30 April 2019), available at <https://www.ici.org/memo31740>.

^[3] See ICI Memorandum No. 33538 (18 May 2021), available at <https://www.ici.org/memo33538>.

^[4] Article 8 funds are funds that promote, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the

companies in which the investments are made follow good governance practices. Article 9 funds refer to funds that have sustainable investment as their objective. See REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability-related disclosures in the financial services sector, Article 8 and Article 9, available at <https://eur-lex.europa.eu/eli/reg/2019/2088/oj>.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.