

COMMENT LETTER

August 13, 2020

ICI Global Response to HK SFC Soft Consultation on Climate Risk Requirements for Asset Managers (pdf)

13 August 2020 1 ICI Global1 Response to the HK Securities and Futures Commission's Soft Consultation on Proposed Regulatory Responses to Climate Change 1. Do you have any comments on the SFC's proposed baseline requirements applicable to all fund managers to be introduced in FMCC? We generally note that it is essential for global managers to have the flexibility to implement global processes, where relevant, including the SFC's requirements. Integration of material climate-related risk should not be a separate process, but rather part of a manager's existing processes and related governance/oversight structures used to manage investment risks more broadly. Our members support the SFC's verbal indication that the proposed requirements would apply only where the fund manager is responsible for overall operation of a fund (ROOF) and recommend clarifying this in the public consultation. We also request clarification on how proposed new Paragraph 3.1A in the FMCC (page 27) would apply to passive strategies. It is not clear how the manager should ensure that climate-related risks are taken into account in the investment management process in the case of a passive strategy where the fund manager has limited scope in portfolio construction beyond following the benchmark. We strongly recommend that the SFC provide managers with the flexibility to apply the requirements in ways that are appropriate for different types of strategies. We recommend adding the word "material" in the proposed FMCC language on pages 27-34. Materiality is key in managing climate-related risks to investments. The fact that a particular risk is conventionally classified as a climate-related risk will not be conclusive as to whether it is financially material or not to a specific investment, and/or to one sector or strategy and not another. A particular climate-related risk may be material to one portfolio investment but not material to another depending on various factors. We also recommend removing the required disclaimer from the baseline entity-level disclosures on page 33 (i.e., "If climate-related risks are considered to be irrelevant for a particular strategy or fund after assessment, indicate and explain why climate-related risks are considered to be irrelevant and have not been taken into account in the investment and risk management processes"). This approach would require the manager to call out one specific type of risk that is irrelevant to the strategy of the fund. Managers are not required to provide this type of negative disclosure for other risks that are 1 ICI Global carries out the international work of the Investment Company Institute, the leading association representing regulated funds globally. ICI's membership includes regulated funds publicly offered to investors in jurisdictions worldwide, with total assets of US\$31.7 trillion. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of regulated investment funds,

their managers, and investors. ICI Global has offices in London, Hong Kong, and Washington, DC. 13 August 2020 2 considered to be irrelevant for a particular strategy (e.g., credit risk for an equity strategy). This type of disclosure is likely to confuse investors. We instead suggest that the SFC emphasize that any fund- or strategy-level disclosure of climate-related risk should be made to the extent it is relevant to the particular strategy or fund. 2. Do you agree that “large” fund managers should be subject to enhanced standards? Do you have any comments on the proposed enhanced standards? We do not agree that subjecting “large” fund managers to enhanced standards will meaningfully improve those managers’ climate risk management. Rather than imposing more prescriptive requirements on larger managers, we urge the SFC to take a principles-based, proportional approach that provides a manager with the flexibility to implement governance, investment and risk management, and disclosure of material climate risk in a manner best suited to the size, nature, and complexity of its business. We are particularly concerned about the proposed aggregate entity-level disclosure requirements for “large” fund managers of the weighted average carbon intensity of Scope 1 and Scope 2 GHG emissions associated with the underlying investments of the funds managed by the fund manager. Aggregate entity-level disclosure of quantitative metrics will not provide a fund investor with any meaningful information about the materiality of climate risk to their particular fund investments. The proposed disclosure instead indicates only the investments of clients and funds a manager serves and the spectrum of investment strategies that it manages. For example, an asset manager with a significant focus on broad index strategies or emerging markets is likely to disclose a higher weighted average carbon intensity than a manager that focuses on tech sector strategies. We also note that discrepancies in data coverage and service provider methodologies even further diminish any meaningfulness of this disclosure. We urge the SFC to reconsider this disclosure requirement so that it is useful for end investors. Institutional clients already request and receive extensive and tailored reporting, while retail end investors may be best served with qualitative disclosure about how the manager addresses material sustainability risk to their particular fund investments. If the SFC determines to subject “large” fund managers to enhanced standards, our members would like more clarity on how to calculate the AUM for the HK\$4 billion over which an asset manager is subject to enhanced requirements—for example, whether only the AUM of ROOF funds is to be counted. 3. Do you think that there are other aspects that should be covered under the proposed requirements? We urge the SFC to ensure that the requirements under the Guidelines do not conflict with those introduced in other jurisdictions, in particular the EU. We note that Singapore is also proposing guidelines. Avoiding conflicts between different jurisdictions is particularly important for firms with global footprints that will need to comply with multiple requirements. 13 August 2020 3 4. Do you agree that disclosures should be at entity level as minimum and supplemented by strategy or fund level as appropriate? We do not agree that entity-level disclosures are useful or meaningful to end investors, as discussed in our response to Question 2. We believe that it is sufficient to impose general disclosure requirements on funds with a climate-related focus. 5. What is your view on the application of product disclosure requirements to climate/themed funds that are not authorized by the SFC? Retail investors’ informational needs differ significantly from those of professional investors. We do not believe that product disclosure requirements tailored for retail investors will necessarily be useful or appropriate for products aimed at professional investors.

should not be considered a substitute for, legal advice.