

HKIQEP'S Response to SFC Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers



Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers

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HKIQEP
香港環專會

Hong Kong Institute of
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Professionals (HKIQEP)

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The Hong Kong Institution of Qualified Environmental Professionals (HKIQEP) welcomes SFC's proposal to require fund managers to take climate-related risks into consideration in their investment and risk management & disclosure processes

As a leading local environmental professional institute, the Hong Kong Institute of Qualified Environmental Professionals Limited (HKIQEP) welcomes SFC's proposal to require fund managers to take climate-related risks into consideration in their investment and risk management processes as well as to make appropriate disclosures to meet investors' growing demand for climate risk information and to combat greenwashing. This is a good starting point and we hope to see continual improvement and evolution over time, such as to include broader environmental risk analysis, since the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) has already provided guidance on this issue: <https://www.ngfs.net/en/communique-de-presse/ngfs-promotes-environmental-risk-analysis-financial-industry>.

To ensure accurate and reliable disclosure for the benefits of the investors, the HKIQEP considers that there is an urgent need for capacity building and the role of professional evaluation, monitoring and verification required in the process of climate risk assessment and management. The HKIQEP would be glad to provide any professional assistance whenever necessary and appropriate.

The HKIQEP would like to provide its responses on the "SFC Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers", as follows.

1. Do you have any comments on the SFC's proposal to focus on climate change or should a broader spectrum of sustainable finance should be considered in developing the requirements? Please explain your view.

It is beyond doubt that climate change is an urgent global environmental threat that can pose serious risks to health, livelihoods, the supply of food, water and energy, security, and the sustainable economic growth of society. The HKIQEP considers that the SFC's proposal should, as the first step, give priority to climate change in developing the requirements. The HKIQEP considers it appropriate for the SFC to make reference to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which are being recognised as the de facto reporting disclosure framework for financial institutions. As other aspects of sustainable finance are also very important in achieving sustainable development, the SFC should over time further extend this to cover the environmental, social and governance (ESG) performance and the impacts on the sustainable development goals (SDG), once the requirements on climate change are successfully developed and implemented.

2. Do you agree that at the initial stage, the SFC's proposed requirements should apply to the management of CISs but not discretionary accounts?

As mentioned in page 14 of the Consultation Paper, CISs account for a significant proportion of the total AUM by licensed corporations. The HKIQEP agrees that the SFC's proposed requirements could apply to the management of CISs, but not discretionary accounts, at the initial stage. It has no objection to the addition of the proposed new paragraph to Appendix 1 of the FMCC under "Particular requirements in the Code which are not applicable to Discretionary Account Managers" to clarify that the proposed requirements are not mandatory for a Discretionary Account Manager, except in cases where the client has requested the Discretionary Account Manager to take climate-related risk into consideration in the investment mandate.

3. Do you agree that the SFC should make reference to the TCFD Recommendations in developing the proposed requirements so as to minimise fund managers' compliance burden and foster the development of a more consistent disclosure framework? Other than the TCFD reporting framework, is there any other standard or framework which in your opinion would be appropriate for the SFC to refer to in developing the proposed requirements?

The HKIQEP agrees that the SFC should make reference to the TCFD Recommendations in developing the proposed requirements, given the framework has a primary focus on the financial impacts of climate-related risk. The SFC may also like to consider making reference to other sustainability and/or ESG-related frameworks tailored to the needs of fund managers, as they develop and progress, such as those developed by the Cambridge Institute for Sustainability Leadership as just one example.

4. Do you have any comments on the proposed basis for determining the threshold for Large Fund Managers, ie, HK\$4 billion, and the basis for reporting? Please explain your view.

The HKIQEP has no objection to the proposed basis for determining the threshold for Large Fund Managers. It is expected that this parameter would be reviewed on a regular basis in light of future developments and the changing business environment. Future new emerging business models and even new sectors will appear and so it is critical that the relevance of thresholds, as well as the threshold levels themselves, be reviewed on a regular basis.

5. Do you have any comments on the proposed amendment to the FMCC requirements, baseline requirements and enhanced standards? Please explain your view.

The HKIQEP considers that the SFC should require the fund managers to provide adequate information to demonstrate how they implement their governance, investment and risk management policies and procedures. Explicitly stating the need for baseline requirements and providing enhanced standards helps information users to gauge the level of robustness of the relevant risk management processes.

6. To provide a clear picture to investors on whether a fund manager has integrated climate-related considerations into its investment strategies or funds, do you agree that if the fund manager considers that climate-related risks are irrelevant to certain investment strategies or funds, it should make disclosures and maintain appropriate records to explain the rationale for its assessment?

The HKIQEP agrees that the fund manager should disclose the assumptions made and all other relevant information on the climate-related considerations of its assessment to explain why climate-related risks are irrelevant. It is also appropriate to require the fund manager to maintain appropriate records and update any changes to the climate-related considerations in the investment strategies and funds.

7. Do you agree that climate-related disclosures (except for the disclosure of WACI) to investors should be made at an entity level at a minimum and supplemented with disclosures at a strategy or fund level to reduce burden on fund managers?

The HKIQEP agrees that climate-related disclosures (except for the disclosure of WACI) to investors should be made at an entity level at a minimum and supplemented with disclosure at a strategy or fund level. It is expected that the SFC would clearly require the fund managers to supplement with disclosures at a strategy or fund level if their approaches in governance, investment management and risk management differ significantly across their investment strategies and funds.

8. Do you agree that disclosures of quantitative climate-related data such as WACI should only be applicable to Large Fund Managers having regard to the resources required and the size of assets covered? Do you agree that at the initial stage the disclosure of the WACI should be made at the fund level instead of the entity level?

The HKIQEP considers that the disclosures of quantitative climate-related data such as WACI should be as extensive as possible but accepts that it could first be applicable only to Large Fund Managers having regard to the resources required and the size of assets covered. At the initial stage, it would also be agreeable that the disclosure of the WACI should be made at the fund level instead of the entity level, as reporting the WACI on an aggregate basis at an entity level may not provide meaningful information to investors.

9. Do you think the following transition periods are appropriate?

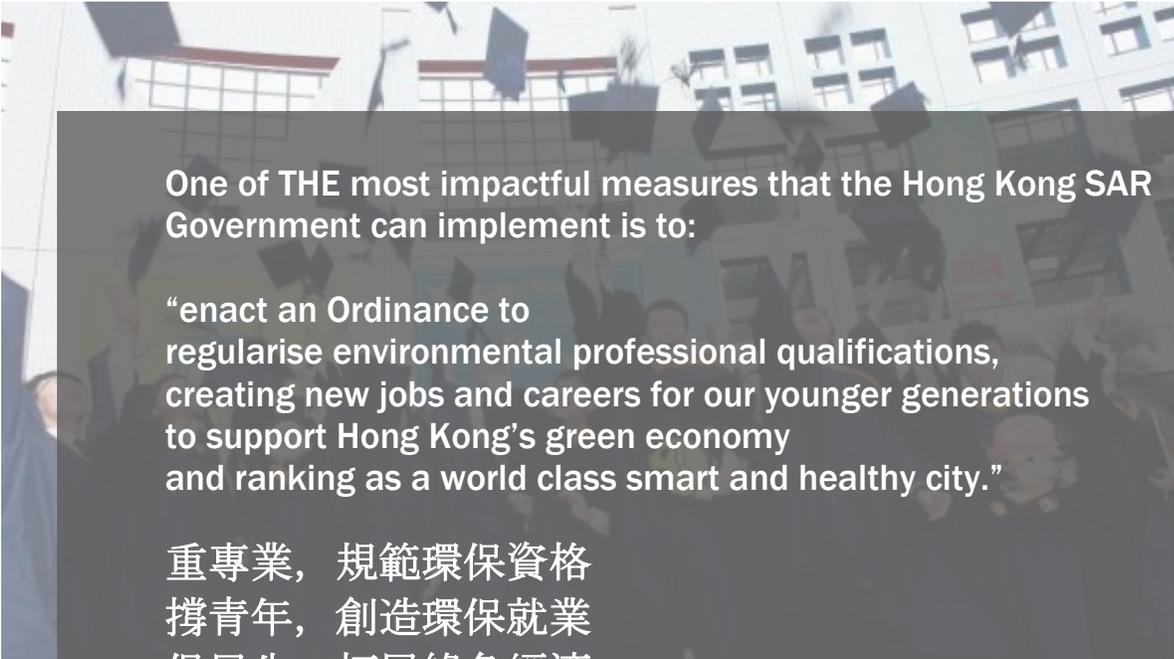
- a nine-month and a 12-month transition period for Large Fund Managers to comply with the baseline requirements and enhanced standards respectively; and*
- a 12-month transition period for other fund managers to comply with the baseline requirements. If not, what do you think would be an appropriate transition period? Please set out your reasons.*

The HKIQEP considers the proposed transition periods are appropriate.

As mentioned above, the HKIQEP considers that there is an urgent need for capacity building as well as a critical role for professional evaluation, monitoring and verification required in the process of climate risk assessment and management to facilitate smooth implementation of the requirements.

The HKIQEP considers that we should not carry on with the misperception that having no or less regulation equates to a free economy. In many cases, creating new regulations and standards that are appropriate and reasonable, will create new business and job opportunities, as well as deliver on the desired policy objective, such as reduction of carbon, greenhouse gases or any other form of environmental pollution. This can also help position and create for Hong Kong, new market opportunities within the Greater Bay Area.

For Hong Kong to assume green, visionary and ethical leadership to ensure sustainable living and economic development in Hong Kong, we must be able to systematically monitor, disclose and manage our environmental-related risks and performance and starting with a focus on climate-related areas is a good entry point. The HKIQEP appeals to the community to support SFC's proposal to require fund managers to take climate-related risks into consideration in their investment and risk management & disclosure processes, which is in line with a world class city.



One of THE most impactful measures that the Hong Kong SAR Government can implement is to:

“enact an Ordinance to regularise environmental professional qualifications, creating new jobs and careers for our younger generations to support Hong Kong's green economy and ranking as a world class smart and healthy city.”

重專業， 規範環保資格
撐青年， 創造環保就業
保民生， 拓展綠色經濟
共構建， 健康智慧都會

Source of background image: <http://www.ust.hk/news/news/hkust-holds-its-19th-congregation-conferring-honorary-doctorates-four-distinguished>, Hong Kong University of Science & Technology, 2011

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