

# Green and sustainable finance

Supporting the development of green and sustainable finance is a key focus for us. In keeping with the Government's pledge to achieve carbon neutrality before 2050, we are spearheading efforts to advance Hong Kong's position as a green and sustainable finance hub in the Asia-Pacific Region, including in the Guangdong-Hong Kong-Macao Greater Bay Area, and have made progress in achieving the priorities set out in our *Strategic Framework for Green Finance* published in September 2018.

We integrate green and sustainable finance into our policies and operations. Our Investment Committee enquires into how and to what extent external fund managers incorporate environmental, social and governance (ESG) principles into their investment and risk analysis processes to ensure that they discharge their obligations in accordance with the SFC's Principles of Responsible Ownership.

## Asset managers

Our Climate Change Technical Expert Group is chaired by Ms Julia Leung, Deputy Chief Executive Officer and Executive Director of Intermediaries, and includes industry representatives and other stakeholders. It provides views and support to the SFC in formulating regulatory policies and providing practical industry guidance. During the year, we met with the group to obtain insights into our proposed requirements for fund managers to incorporate climate-related risks into their investment and risk management processes and make appropriate disclosures.

We subsequently launched a consultation in October 2020 where we proposed amendments to the Fund Manager Code of Conduct to provide high-level principles along with guidance setting out the expected baseline requirements and enhanced standards to facilitate fund managers' compliance. To align with global green and sustainable finance trends, we made reference to the widely endorsed framework set out by the Task Force on Climate-related Financial Disclosures (TCFD) in developing the proposals. We plan to publish the consultation conclusions later this year.



Announcing the launch of the Green and Sustainable Finance Cross-Agency Steering Group's strategic plan

## Green and ESG funds

We keep in view local and global market and regulatory developments concerning green and ESG investment products, and may provide further guidance or impose additional requirements for green and ESG funds where appropriate. We maintain a central database on our website of all SFC-authorized green and ESG funds which comply with the requirements set out in our April 2019 circular on enhanced disclosures by the management companies of these funds. There are now more than 40 SFC-authorized green or ESG funds.

## Listed companies

We work closely with the Stock Exchange of Hong Kong Limited (SEHK) to enhance the ESG reporting framework for listed companies. Following our approval, amendments to the Listing Rules which include a new disclosure requirement for significant climate-related issues and mandatory disclosure of ESG governance structures came into effect for financial years commencing on or after 1 July 2020. We also support SEHK's efforts to educate the market, including its updated guidance letter for initial public offering applicants published on 24 July 2020, which highlighted the importance of incorporating corporate governance and ESG mechanisms into the listing process.

## Regulatory collaboration

We collaborate with local and overseas counterparts<sup>1</sup> to drive efforts to reorient capital flows towards green and sustainable activities and embed sustainability practices in Hong Kong's financial sector.

In a major step in advancing the sustainable finance agenda for Hong Kong, we initiated the establishment of a Green and Sustainable Finance Cross-Agency Steering Group in May 2020 to coordinate the management of climate and environmental risks in the financial sector and support the Government's broader climate strategies. The steering group is co-chaired by our Chief Executive Officer Mr Ashley Alder and Mr Eddie Yue, Chief Executive of the Hong Kong Monetary Authority (HKMA), and comprises representatives from the Government and other regulators<sup>2</sup>.

In December 2020, the steering group jointly announced a long-term strategic plan with six focus areas and five near-term action points (see sidebar on page 62) to strengthen Hong Kong's financial ecosystem to support a greener and more sustainable future.

The SFC plays a key role in global efforts to address sustainability and climate change issues through our active involvement in the International Organization of Securities Commissions (IOSCO). During the year, Mr Ashley Alder participated in a roundtable with international regulators on climate reporting chaired by Mr Mark Carney, UN Special Envoy on Climate Action and Finance, to discuss IOSCO's global standard-setting efforts.

Ms Julia Leung serves as Vice Chair of the IOSCO Sustainable Finance Task Force and co-leads a

workstream on greenwashing and disclosures by asset managers. We also lead the IOSCO Asia-Pacific Regional Committee's green and sustainable finance working group to coordinate the regulation of sustainability and climate-related disclosures in the region.

In December 2020, we and the HKMA became members of the European Commission's International Platform on Sustainable Finance (IPSF) representing Hong Kong to encourage private capital to make environmentally sustainable investments. We actively participate in the Network of Central Banks and Supervisors for Greening the Financial System and the United Nations Sustainable Stock Exchanges Initiative Advisory Group.

## Raising investor awareness

We also work with other public bodies and industry associations to raise awareness. In collaboration with the Investor and Financial Education Council (IFEC)<sup>3</sup>, we launched initiatives to help investors understand green and sustainable finance and related investment topics. This year, the IFEC coordinated efforts by regulators and industry practitioners to promote wider green awareness amongst retail investors.

Our senior management spoke at local and international events to promote Hong Kong as a regional and global green and sustainable finance hub. In a keynote speech at Hong Kong's UN75 Dialogue<sup>4</sup> in May 2020, our Chairman Mr Tim Lui discussed financial sector initiatives to manage climate change and promote sustainability. During the year, Mr Alder participated in climate-related discussions and shared his views on green finance at industry conferences and other global fora. We also used our new Facebook page to inform the public about our work in this area.

1 See Regulatory engagement on pages 78-81.

2 The Financial Services and the Treasury Bureau, Environment Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and the Mandatory Provident Fund Schemes Authority.

3 The IFEC is an SFC subsidiary which is dedicated to improving financial literacy in Hong Kong.

4 A global conversation initiated by the United Nations to mark its 75th anniversary.

## Hong Kong's strategy for green and sustainable finance

In December 2020, the Green and Sustainable Finance Cross-Agency Steering Group announced its six focus areas and five near-term action points to strengthen Hong Kong's financial ecosystem to support a greener and more sustainable future.

### Focus areas

Strengthening climate-related financial risk management

Promoting the flow of climate-related information at all levels to facilitate risk management, capital allocation and investor protection

Enhancing capacity building for the financial services industry and raising public awareness

Encouraging innovation and exploring initiatives to facilitate capital flows towards green and sustainable causes

Capitalising on Mainland opportunities to develop Hong Kong into a green finance centre in the Greater Bay Area

Strengthening regional and international collaboration

### Action points

Make climate disclosures aligned with the TCFD recommendations<sup>a</sup> mandatory by 2025

Adopt a Common Ground Taxonomy to be developed by the IPSF Working Group on Taxonomies<sup>b</sup>

Support the IFRS Foundation's proposal to establish a new Sustainability Standards Board to develop a global, uniform set of sustainability reporting standards and other efforts to converge standards globally

Promote climate-focused scenario analysis to assess the impact on financial institutions under different climate pathways

Establish a platform for financial regulators, government agencies, industry stakeholders and academia to coordinate cross-sectoral capacity building



a The Financial Stability Board created the TCFD to improve the reporting of climate-related financial information. The TCFD recommendations are structured around four thematic areas: governance, strategy, risk management, and metrics and targets.

b The taxonomy will provide a common reference point for the definition of investments which are considered as environmentally sustainable across IPSF jurisdictions.