

# Sustainability



## Sustainability at the SFC

The table below summarises the SFC’s sustainability efforts, structured around the Task Force on Climate-Related Financial Disclosures (TCFD)<sup>1</sup> Recommendations, and details how we incorporate climate and sustainability considerations in developing our regulatory initiatives and managing our organisation’s activities.

<p><b>Governance</b></p>  <p>Board and management’s role</p>	<p>We have a well-defined management structure for corporate governance relating to climate and sustainability. Our Board and senior management regularly receive reports from and provide guidance to staff on developing regulatory policies, coordinating local and international engagement on sustainable finance, and implementing internal decarbonisation efforts.</p>
<p><b>Strategy</b></p>  <p>The risks and opportunities we identified and their impact on our regulatory initiatives and operational activities</p>	<p>Climate change presents multiple risks affecting both the real economy and the entire financial ecosystem, including physical, transition and greenwashing risks. Regulators play a major role in supporting the management of such risks and facilitating capital allocation for a low-carbon transition.</p> <p>We adopt a comprehensive sustainable finance policy framework with a climate-first approach to promote transparent markets and ensure investor protection by developing regulatory policies which are in line with our <i>Agenda for Green and Sustainable Finance</i>. Our focus areas include corporate disclosures, enhancing existing measures, and carbon markets.</p> <p>Climate and sustainability are cross-border and cross-sectoral in nature. We contribute to local initiatives on building a sustainable finance ecosystem, including capacity building and talent development. We also lead international standard-setting work, particularly in the development of standards for corporate sustainability disclosures, which will have implications for Hong Kong’s policy development.</p>
<p><b>Risk management</b></p>  <p>Our processes for identifying, assessing and managing risks</p>	<p>Our cross-divisional Risk Review Group identifies and monitors potential and emerging risks faced by the SFC, including those relating to climate and sustainability, and reports to the Board and senior management periodically.</p> <p>To inform our identification, assessment, and management of climate and sustainability-related risks, we monitor our carbon emissions footprint and adopt measures to decarbonise our operations, participate in local and international stakeholder engagement activities, and implement regulatory measures to combat greenwashing and build capacity and awareness.</p>
<p><b>Metrics and targets</b></p>  <p>Our emissions, metrics for assessing risks, and targets</p>	<p>We support the HKSAR Government’s climate strategies and have committed to achieving carbon neutrality before 2050. We are closely monitoring our carbon footprint to meet an interim target of reducing 50% of our total carbon emissions by 2030. Our Scope 1, 2, and 3 emissions, and decarbonisation strategies are disclosed in this report.</p>

<sup>1</sup> The TCFD was established in 2015 to help identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities. The final TCFD Recommendations, issued in June 2017, cover four core areas: governance, strategy, risk management, and metrics and targets. Under these four core areas are 11 recommended disclosures.

**This section outlines how we incorporate climate and sustainability considerations in developing our regulatory initiatives and our organisation’s activities. It also provides details about our emissions footprint and carbon reduction measures, and is structured around the TCFD Recommendations.**

We take the lead in advancing Hong Kong’s position as an international sustainable finance hub and developing an effective regulatory framework to transition the financial system to carbon neutrality.

We actively integrate climate and sustainability into our internal policies and take steps to manage sustainability-related risks in our day-to-day operations. We support the HKSAR Government’s climate strategies and have committed to achieving carbon neutrality before 2050, with an interim target of a 50% reduction in our total carbon emissions by 2030.

## Governance: Comprehensive framework for sustainability

As a statutory financial regulator, we have a sound framework for corporate governance around climate and sustainability-related risks and opportunities<sup>2</sup>.

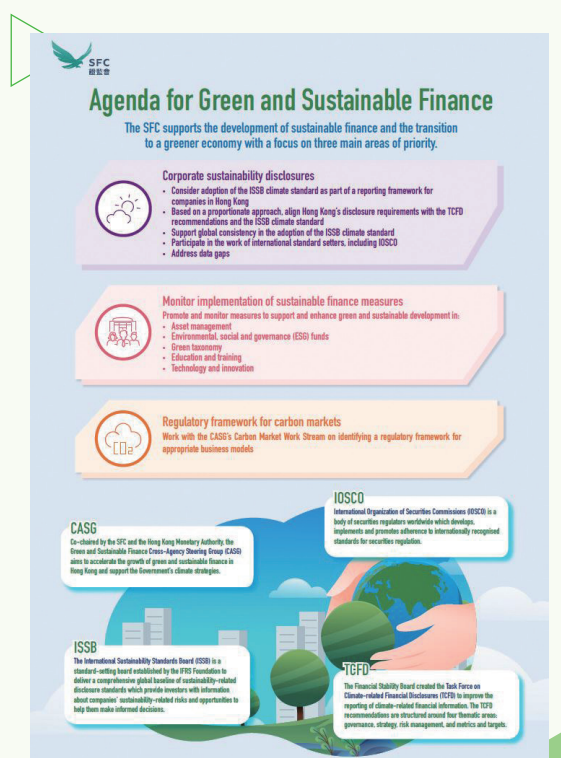
During the year, our Board and Executive Committee (ExCo) reviewed and agreed on our strategy to achieve carbon neutrality before 2050. They also provided guidance on the SFC’s *Agenda for Green and Sustainable Finance*, international standard setting and alignment with international and domestic standards, as well as the development of a carbon market in Hong Kong.

The SFC’s Investment Committee enquires into how and to what extent our external fund managers incorporate environmental, social and governance (ESG) principles into their investment and risk analysis processes. To ensure that they comply with the SFC’s

Principles of Responsible Ownership, we regularly communicate with them and engaged an independent consultant to oversee and assess their ESG commitments and practices.

Our International Affairs and Sustainable Finance team<sup>3</sup> is responsible for coordinating our sustainable finance efforts at the local, regional and global levels. The team advises the Board, ExCo and senior management on strategies to promote sustainable finance and coordinates with the HKSAR Government, other regulatory agencies and industry bodies to formulate and implement related initiatives.

Our cross-divisional Sustainable Finance Working Group, comprising members from across the organisation, coordinates policy initiatives and our organisation’s activities in line with our overall strategy for sustainable finance and reports to the Board and ExCo periodically.



The SFC’s *Agenda for Green and Sustainable Finance*

2 The Board is responsible for setting the overall direction and providing strategic guidance on policymaking, whilst the Executive Committee is responsible for considering policy and operational proposals. See Corporate Governance on pages 77-90.  
3 Ms Christine Kung, Head of International Affairs and Sustainable Finance, reports directly to our Chief Executive Officer, Ms Julia Leung.

## Strategy: Maintain transparent markets and protect investors

Our key priorities are to advance Hong Kong's position as a sustainable finance hub internationally and within the Asia-Pacific region, including in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), and to implement measures which enhance financial market transparency and ensure investor protection.

### A climate-first approach

Climate change presents multiple risks affecting both the real economy and the entire financial system. These include risks related to the physical impact of climate change and the transition to a lower-carbon economy, which could affect the operations of not only the firms we regulate but also the SFC.

Addressing the risks arising from climate change will require significant financial resources. As an international financial centre, Hong Kong has long served as a bridge for capital flows between international investors and Mainland China. It has a sound legal and regulatory system, deep and liquid capital markets and a diverse product mix. Building on these unique strengths, local regulators including the SFC have been developing an ecosystem to support capital allocation for a low-carbon transition.

### Our key sustainability initiatives



Greenwashing is a growing concern given the exponential growth of sustainable finance. This may weaken confidence in and dilute efforts towards an orderly and effective green transition and pose investor protection risks. Gatekeeping against greenwashing remains a top priority, and we are monitoring the latest developments and have taken measures to combat greenwashing.

### A comprehensive regulatory framework

Under our comprehensive sustainable finance policy framework, we support building the local sustainable finance ecosystem and actively contribute to international standard setting by taking a lead at the International Organization of Securities Commissions (IOSCO).

We have achieved the goals set out in our 2018 *Strategic Framework for Green Finance*<sup>4</sup> and published in August 2022 our strategic roadmap, *Agenda for Green and Sustainable Finance*, to set out the next steps. We will focus on corporate sustainability disclosures, enhancing sustainable finance measures<sup>5</sup> and developing a regulatory framework for carbon markets (see sidebar on page 97). In October 2022, we launched a dedicated sustainable finance section on our website containing information about these initiatives.

4 The goals set out in the *Strategic Framework for Green Finance* included: (i) enhancing climate-related corporate disclosures in line with the TCFD recommendations; (ii) developing policies and guidance for asset managers' disclosures and combating greenwashing; (iii) facilitating the development of green-related investments; (iv) supporting investor awareness of and capacity building in green finance; and (v) participating in international sustainability initiatives with a view to promoting Hong Kong as an international green finance centre. These goals have been largely completed and, in some cases, further expanded.

5 Including measures for ESG funds, asset managers, green taxonomies, education and training, technology and innovation.

## Sustainability

Our robust regulatory framework cover listed companies, asset managers and ESG funds. We also provide information and guidance to the industry and enhance investor awareness about how climate and sustainability may affect investments.

### Listed companies

We have been working closely with the Stock Exchange of Hong Kong Limited to develop draft climate-related reporting requirements for listed companies in Hong Kong referencing the expected International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards to be issued by the International Sustainability Standards Board (ISSB)<sup>6</sup>, and to assess these companies' capabilities and readiness to keep pace with emerging international standards, with a view to enhancing the quality of climate-related disclosures in Hong Kong<sup>7</sup>.

As Hong Kong's financial markets host many businesses with sizable Mainland operations and value chain exposures, we have been engaging with the China Securities Regulatory Commission to ensure that our approach considers the pace of regulatory developments on the Mainland.

### Asset managers

Fully effective on 20 November 2022, the SFC's new code of conduct for fund managers requires them to systematically assess climate-related risks associated with their investment strategies and portfolios and to provide investors with appropriate disclosures. We are closely monitoring the implementation of the new requirements, which aim to meet investors' growing need for consistent and comparable climate-related information to make informed investment decisions and help them understand the impact of climate change on their investments.

The use of ESG ratings and data products by asset managers and funds has increased considerably owing to investors' increasing demand for ESG products. We are conducting a fact-finding exercise and focus group meetings to help us analyse the business models of ESG ratings and data products providers and how their products are used in the fund management industry<sup>8</sup>.

### ESG funds

We manage a central database for all SFC-authorized ESG funds on our website. To enhance transparency, the database lists these funds' main features, including their key investment themes and strategies. There were more than 180 SFC-authorized ESG funds as of 31 March 2023.

We closely monitor ESG funds' compliance with our enhanced requirements for disclosures and annual assessments<sup>9</sup>, which aim to help investors understand the features of these funds and determine whether they meet their investment needs.

We also keep abreast of global developments in this area, including regulatory requirements in other jurisdictions, the use of third-party ESG ratings and data products as well as the adoption of the Common Ground Taxonomy. We will develop additional policies to align with international market and regulatory developments.

### Enhancing investor education

We work with the Investor and Financial Education Council (IFEC), an SFC subsidiary dedicated to improving financial literacy in Hong Kong, to raise public awareness and understanding of sustainable finance through mass communication and public outreach initiatives.

6 The ISSB was formed by the Trustees of the IFRS Foundation in November 2021. The ISSB is developing—in the public interest—standards that will result in a high-quality, comprehensive global baseline of sustainability disclosures focused on the needs of investors and the financial markets.

7 Currently, the Listing Rules require listed companies to disclose certain ESG information on a mandatory basis, including their governance structure, reporting principles and reporting boundary, and other ESG information such as environmental key performance indicators or metrics on a comply-or-explain basis.

8 See Strategic Priorities on pages 7-13.

9 See our 29 June 2021 Circular to management companies of SFC-authorized unit trusts and mutual funds - ESG funds.





Speaking in an episode of RTHK's Hong Kong Connection

Ms Christine Kung, Senior Director and Head of International Affairs and Sustainable Finance, introduced to the public local and international initiatives to promote global standards and combat greenwashing in an episode of Hong Kong Connection, a Radio Television Hong Kong (RTHK) programme.

The IFEC launched a number of sustainable finance initiatives during the year:

- IFEC General Manager Ms Dora Li discussed ESG investment opportunities in Hong Kong in an interview with the *Hong Kong Economic Times* published in June 2022.
- An IFEC blog article and social media posts explained the Government Green Bond Programme, including the inaugural retail green bond, in April 2022.
- A media alert in April 2022 promoted awareness of sustainable finance and investment products through the findings of the IFEC's *Retail Investor Study 2021* and introduced additional education resources.

The IFEC also published blog articles and social media posts about green bonds and carbon neutrality to support World Investor Week 2022, which featured sustainable finance as a key theme.



IFEC initiatives to promote investors' awareness and understanding of green and sustainable investment

## A leading voice in the international regulatory community

Climate change and other sustainability concerns are global in nature. A coordinated approach is essential to effectively understand and address climate and sustainability-related risks and opportunities, and mitigate any potential risks of regulatory fragmentation and arbitrage. International standards and policy recommendations play an important role in informing our domestic policy agenda, which we seek to align with international best practices with a view to demonstrating a pathway for developing sustainable finance regulations in the region.

We keep in view both the urgency of the climate crisis and the challenges faced by emerging economies. Our international priority is to ensure global regulatory approaches and requirements are interoperable and adopted across jurisdictions. In particular, we exert a positive influence on the development of international sustainability reporting standards through our leading role in IOSCO's Sustainable Finance Task Force (STF) which our Chief Executive Officer (CEO), Ms Julia Leung, is Vice Chair and Co-Chair of its Corporate Reporting Workstream (see sidebar on page 96).

We also contributed to the work of two other IOSCO STF workstreams on promoting good practices for asset management and ESG ratings and data products providers, and carbon markets.

Ms Christine Kung leads the Sustainable Finance Working Group of the IOSCO Asia Pacific Regional Committee (APRC). To drive consistent sustainable finance regulation across the region, this group surveyed its members on their latest regulatory developments during the year to inform its 2023-24 workplan.

In addition, we represent IOSCO in the Financial Stability Board's Working Group on Climate Risk, and are an observer in the Network of Central Banks and Supervisors for Greening the Financial System and the Climate Disclosure Advisory Group of the United Nations Sustainable Stock Exchanges Initiative. We are also a supporter of the TCFD Recommendations and a member of the International Platform on Sustainable Finance.

### Support for global sustainability standards

The availability of consistent and comparable corporate information about the impact of climate- and sustainability-related risks and opportunities on business operations and strategies is essential for informed pricing of assets. It can also drive increased investment in sustainable products and activities and help investors make more informed decisions.

The SFC was an early supporter of the ISSB's efforts to develop global baseline sustainability standards, which seek to meet investors' information needs by facilitating high-quality disclosures. Through our

involvement in IOSCO, we play an active part in developing these standards, which are expected to be finalised by mid-2023.

The IOSCO STF Corporate Reporting Workstream spearheads IOSCO's review of the IFRS Sustainability Disclosure Standards to be issued by the ISSB, with an eye to its potential endorsement which would pave the way for potential global adoption by more than 130 IOSCO member jurisdictions. During the year, the workstream regularly engaged with the ISSB to provide detailed feedback on its proposed standards, considered issues relating to the digital reporting of sustainability information, and carried out work to support the development of a sustainability-related assurance framework.

### An enabling local ecosystem

Sustainability considerations are not only cross-border but also cross-sectoral in nature. Recognising the need to strengthen local coordination, we initiated and co-lead Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group<sup>10</sup>, which aims to coordinate the management of climate and environmental risks, accelerate the growth of green and sustainable finance and support the HKSAR Government's climate strategies.

During the year, the Steering Group made progress towards implementing its 2020 *Strategic Plan to Strengthen Hong Kong's Financial Ecosystem to Support a Greener and More Sustainable Future*. It launched:

- the Green and Sustainable Finance Training Information Repository, which facilitates access to information about local and international training and qualifications;
- the Green and Sustainable Finance Internship Opportunities Repository, an information platform for university students seeking to gain related work experience;

- the Green and Sustainable Finance Data Source Repository, which helps the financial sector locate data sources for climate risk management as well as analysis and research; and
- the Sustainable Finance Internship Initiative, which we and other financial regulators encouraged our regulatees to join via a joint letter.

The Steering Group also works with the Government on administering the Pilot Green and Sustainable Finance Capacity Building Support Scheme, which was announced by the Financial Secretary of the HKSAR in the 2022-23 Budget and launched in December 2022.

To enhance data availability and promote capacity building, we are leading the Steering Group's efforts to create a free and publicly accessible greenhouse gas emissions estimation tool, with clearly-disclosed methodologies, for companies to use as an alternative source of information.

<sup>10</sup> Established in May 2020, the Steering Group is co-chaired by the SFC and the Hong Kong Monetary Authority, and also includes the Financial Services and the Treasury Bureau, Environment and Ecology Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and the Mandatory Provident Fund Schemes Authority.

The Steering Group also launched a new website to promote Hong Kong's strengths as a sustainable finance hub and outline its 2023-25 priorities for world-class regulation, data and technology for

transition, market opportunities and product innovation as well as communication, capacity building and collaboration with the Mainland, regional and global markets.

## Carbon market opportunities for Hong Kong

Carbon trading is a key tool to mobilise finance for the transition to a low carbon economy. Hong Kong can add value to global carbon markets by leveraging its close links with Mainland China and facilitating global capital flows into the Mainland's carbon markets.

In March 2022, the Steering Group's Carbon Market Workstream, which we co-chair with Hong Kong Exchanges and Clearing Limited (HKEX), published its *Preliminary Feasibility Assessment of Carbon Market Opportunities for Hong Kong*. The report outlines the next steps to develop Hong Kong into a global, high-quality voluntary carbon market in cooperation with the GBA and other Mainland authorities, and it paved the way for HKEX's October 2022 launch of Core Climate, a new international carbon marketplace for the trading of voluntary carbon credits and instruments.

In line with the report's recommendations, HKEX will continue to work with relevant authorities on carbon market opportunities as part of its cooperation with the Mainland, including the GBA. We will focus on identifying the appropriate regulatory framework for the proposed business models, taking into account ongoing global initiatives in standard setting with respect to product integrity and the legitimate use of carbon credits.

As a member of the Carbon Markets Workstream under the IOSCO STF, we contributed to IOSCO's consultative documents on compliance and voluntary carbon markets, which were published during the 27th United Nations Climate Change Conference of the Parties in November 2022.



*Preliminary Feasibility Assessment of Carbon Market Opportunities for Hong Kong*

### Nurturing sustainable finance talent

To familiarise young people with regulatory and market developments in sustainable finance, we organised a training module, *Hong Kong's Global Approach to Sustainable Finance*, for more than 100 university students in January 2023. The training introduced participants to local and global regulatory initiatives for asset management, corporate disclosures, investment products, stress testing and taxonomies, and featured keynote addresses from Professor Elvis Au, former Deputy Director at the Environmental Protection Department, and Ms Teresa Ko, Vice Chair of the Trustees of the IFRS Foundation.

In December 2022, we introduced our Sustainable Finance Internship Programme to contribute towards Hong Kong's overall ESG capacity building and professional skills development efforts. This

structured programme provides university students with exposure to setting and implementing sustainable finance policies during a 3-8 week internship.



*Hong Kong's Global Approach to Sustainable Finance* training module

### Risk management: Monitoring sustainability risks

We take active steps to identify, assess and manage climate and sustainability-related risks to our regulatees and the SFC. Our cross-divisional Risk Review Group identifies and monitors potential and emerging risks facing the SFC in a comprehensive manner, including macro financial risks and operational risks relating to climate and sustainability. The group reports to the Board and ExCo regularly.

#### Risks to regulatory initiatives

Our local and international engagements inform our identification and assessment of climate and sustainability-related risks. We are a member of the IOSCO Committee on Emerging Risks, which focuses on the identification and assessment of regulatory issues across securities markets and informs the IOSCO Board in determining key priorities. Addressing new risks in sustainability is a key priority area for IOSCO for 2023-24. We also held meetings and calls with regulatory bodies and the industry<sup>11</sup> on the latest developments and risks associated with climate and sustainable finance.

To support the financial sector's consideration and management of climate and sustainability risks, we have introduced a number of regulatory requirements and guidance, and worked with regulators and stakeholders to promote the adoption of global standards.

#### Risks to operational activities

To assess the impact of climate on our operations, we engaged an external consultant to conduct a corporate emissions footprint assessment and monitor our emissions on a regular basis (see the next section for details).

We manage climate-related risks to our operations and office premises in our business resumption plan, which we regularly update to mitigate business continuity risks. The plan covers our office premises, communications and computer services, and considers risks including climate-related physical risks, technical problems, fires, natural disasters and other emergencies. We also conduct regular simulation exercises and have established emergency response teams for critical crisis management to ensure that we maintain operational capabilities in the event of major incidents.

<sup>11</sup> Including with overseas regulators and other authorities, local and international industry associations, professional bodies and other market participants.



## Metrics and targets: Taking stock of our climate impact

As a responsible organisation, we are committed to addressing the full range of risks arising from climate change and sustainability. In April 2023, we announced our commitment and strategy towards achieving carbon neutrality before 2050, in line with the HKSAR Government's *Hong Kong's Climate Action Plan 2050*. We set an interim target of reducing 50% of our total carbon emissions by 2030, and will periodically disclose the status of our carbon reduction efforts.

### Our carbon emissions footprint

We engaged an external consultant to assess our organisation's emissions footprint covering categories under scopes 1 (direct emissions), 2 (indirect emissions), and 3 (value chain and investments)

emissions under the Greenhouse Gas Protocol. The assessment found that our main sources of emissions were electricity (scope 2), purchased goods and services (scope 3), and investments (scope 3).

Based on this assessment and the consultant's recommendations, we adopted the 2021-22 financial year as the base year for our carbon neutrality commitment for investments, and the 2018-19 financial year as the base year for other categories, taking into account the availability of relevant data and the factors which contributed to significant variations in our total emissions during these years, such as the prolonged periods when staff worked from home during the COVID-19 pandemic.

The table below shows the Scope 1, 2 and 3 emissions for our baseline and the 2022-23 financial year.

### The SFC's Scope 1, 2 and 3 emissions<sup>a</sup>

(tCO <sub>2</sub> e <sup>b</sup> )	2022/23	Baseline
<b>Scope 1</b>		
Fuel	14.6	14.1
<b>Scope 2</b>		
Electricity	2,118.6	3,270
<b>Scope 3</b>		
Air travel	149.6	639.1
Investments	59,904.8 <sup>c</sup>	95,024.3
Purchased goods and services	8,319.6	9,139.1
Others <sup>d</sup>	88.9	157.5
<b>Total</b>	<b>70,596.1</b>	<b>108,244.1</b>

a The emission figures listed in the table were computed by the SFC's consultant based on available data, and in some cases are subject to estimation.

b Tonnes of carbon dioxide equivalent.

c The decrease in financed emissions was mainly attributable to certain bond maturities being repositioned into greener sectors, underlying reductions in the carbon footprint of existing holdings and corporate activity of investee companies. Estimates were applied by the consultant where appropriate.

d Including electricity transmission and distribution, hotel accommodation, car rentals and waste.

## Sustainability



Electricity and waste management are the main sources of our operational emissions. Our landlord, Swire Properties, has established 1.5°C-aligned Science-Based Targets to pave the way towards net-zero emissions by 2050. We were the first cohort of companies to participate in its Green Performance Pledge, an action-oriented programme that provides tools and support for tenants to improve their performance on energy, water and waste reduction. In 2022, our premises received an energy audit to identify potential energy saving opportunities and we were awarded the Silver rating overall. We will continue working with Swire Properties under the programme with a view to reducing our consumption further.

To meet our carbon neutrality targets, we will need to reduce our portfolio's financed emissions. We closely monitor our investment portfolio and engage with our fund managers to relay our targets, understand our financed emissions, request disclosures of emissions metrics as appropriate and consider greener investment options.

We will review the allocation of assets in our investment portfolio in the coming financial year and develop a more holistic investment strategy which considers the external consultant's assessment and recommendations. This review will consider our internal investment guidelines and procedures for climate-related risks, and take into account industry best practices and emerging regulatory requirements.

To achieve our sustainability goals, building a culture of sustainability within our organisation is essential. In selecting our current office premises in Quarry Bay, we took into consideration green factors such as the quality of the energy-efficient, low-carbon building, which received a Building Environment Assessment Method rating of Platinum, the highest rating available. We also considered the building management's environmental-friendly measures—from energy efficiency and water conservation to indoor air quality and waste management.

We have also introduced initiatives to increase staff awareness of the need to decarbonise and reduce our carbon footprint<sup>12</sup> and enhanced our internal staff training curriculum to support the development of our sustainable finance regulatory initiatives.

12 See Corporate Social Responsibility on pages 101-107.