



SECURITIES AND  
FUTURES COMMISSION  
證券及期貨事務監察委員會

# **The Management and Disclosure of Climate-related Risks by Fund Managers**

**October 2021**

## Disclaimer and Reminder

*Where this presentation refers to certain aspects of the Fund Manager Code of Conduct and the Circular to licensed corporations on the management and disclosure of climate-related risks by fund managers published by the Securities and Futures Commission (“SFC”), it provides information of a general nature that is not based on a consideration of specific circumstances. Furthermore, it is not intended to cover all requirements that are applicable to you and your firm. Accordingly, it should not be regarded as a substitute for seeking detailed advice on any specific case from your own professional adviser.*

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# Outline

**A. Overview**

**B. Applicability of the Requirements**

**C. Implementation Timeline**

**D. Relevance and Materiality**

**E. Requirements under the Fund Manager Code of Conduct (FMCC)**

**F. Baseline Requirements and Enhanced Standards**

**G. Q&A**

# Overview

The FMCC: To provide high-level principle requirements

The Circular: To set out expected standards for complying with the FMCC

At initial stage, (i) focus on climate-related risks; (ii) cover CISs\*;  
 (iii) make reference to TCFD; and (iv) adopt a two-tier approach:

ALL fund managers

Large Fund Managers (LFM,  $\geq$  AUM HK\$8 billion)

## Baseline Requirements

<b>Governance</b>	<b>Investment Management</b>
<b>Risk Management</b>	<b>Disclosures (if ROOF**)</b>

## Enhanced Standards

### **Risk Management**

- Implementation plan on scenario analysis
- Assess portfolio carbon footprint

### **Disclosures (if ROOF\*\*)**

- Engagement policy
- Portfolio carbon footprint

\* CISs – Collective Investment Schemes

\*\* ROOF – Responsible for overall operation of the fund

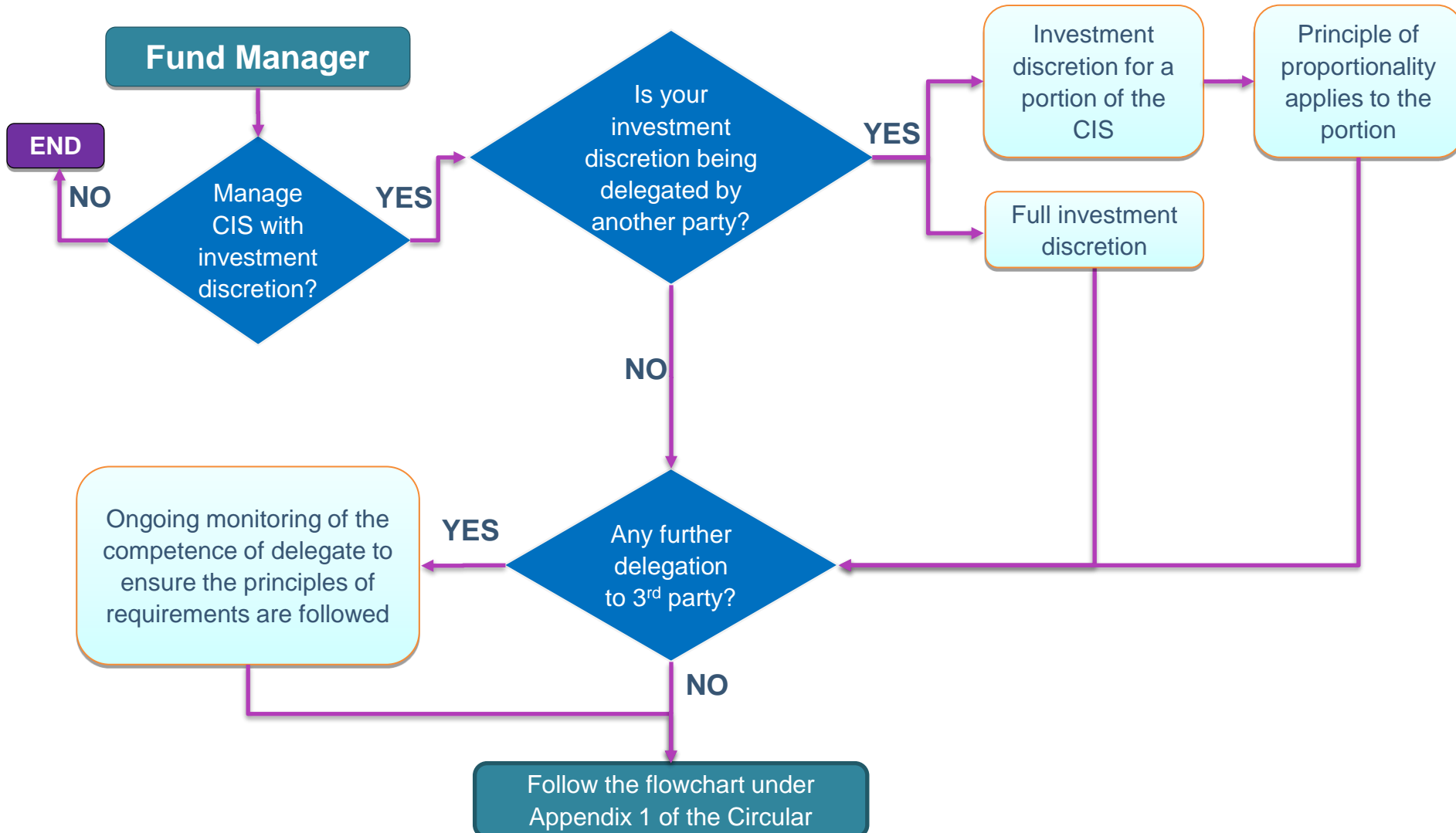
# Applicability of the requirements

## 4 key questions to ask:

- Am I managing collective investment schemes (CIS) with investment discretion?
- Are climate-related risks relevant and material to the fund?
- (*IF climate-related risks are relevant and material*)  
Am I a Large Fund Manager (i.e.  $\geq$  AUM HK\$8 billion)?
- Am I responsible for overall operation of the fund (ROOF)?

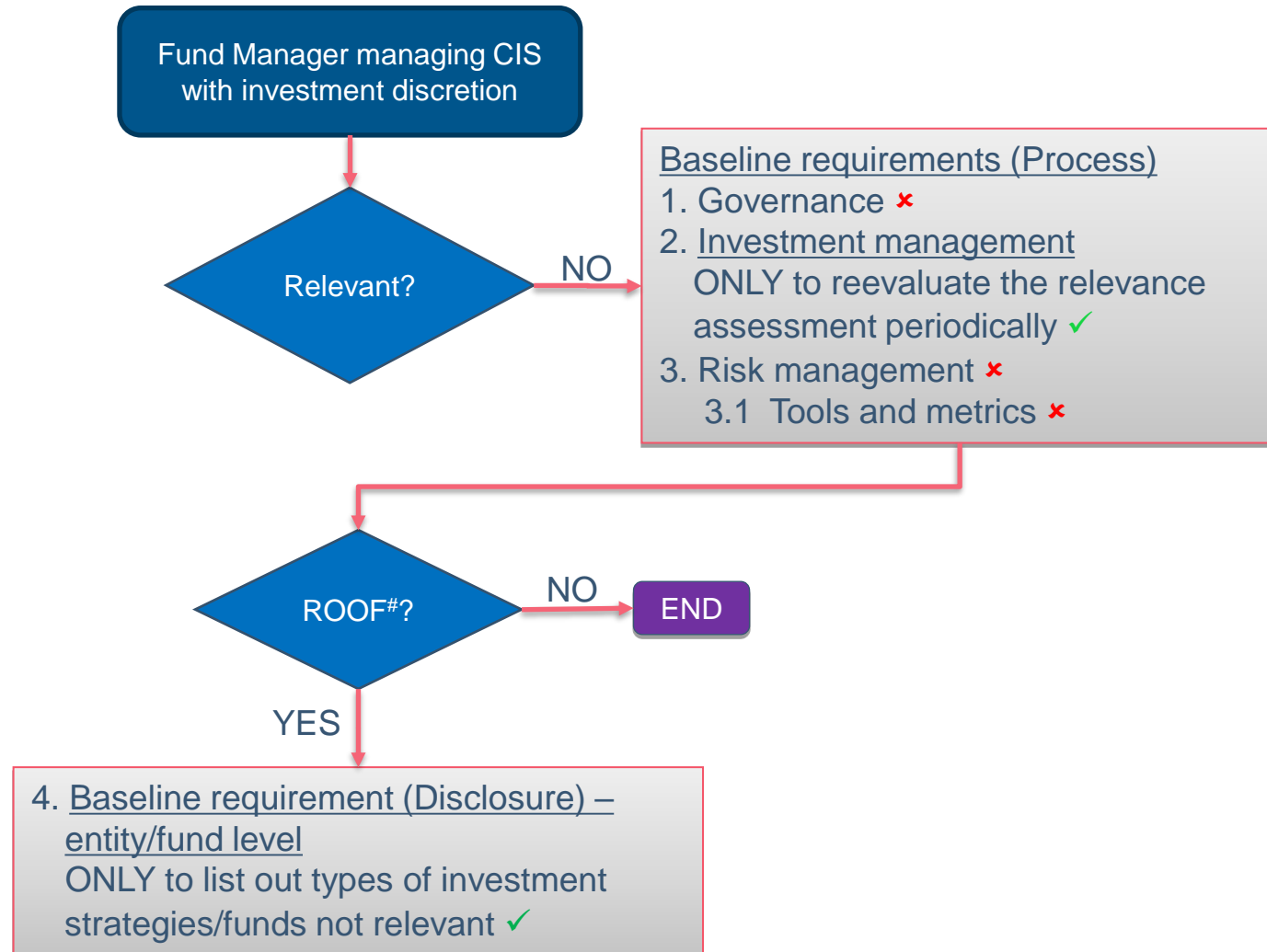
# Applicability of the requirements (con't)

## Determining the scope



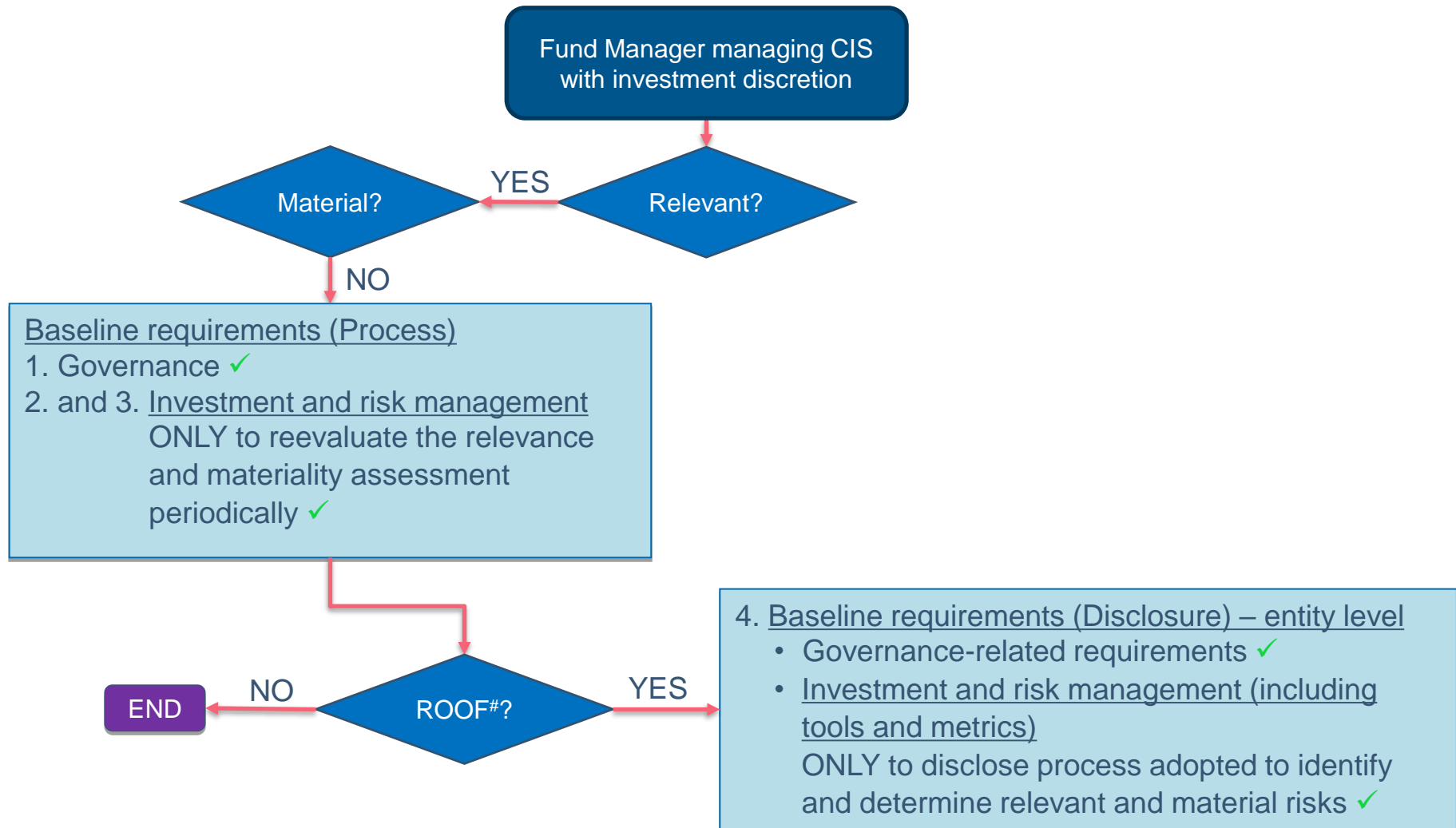
# Applicability of the requirements (con't)

(Not relevant)



# Applicability of the requirements (con't)

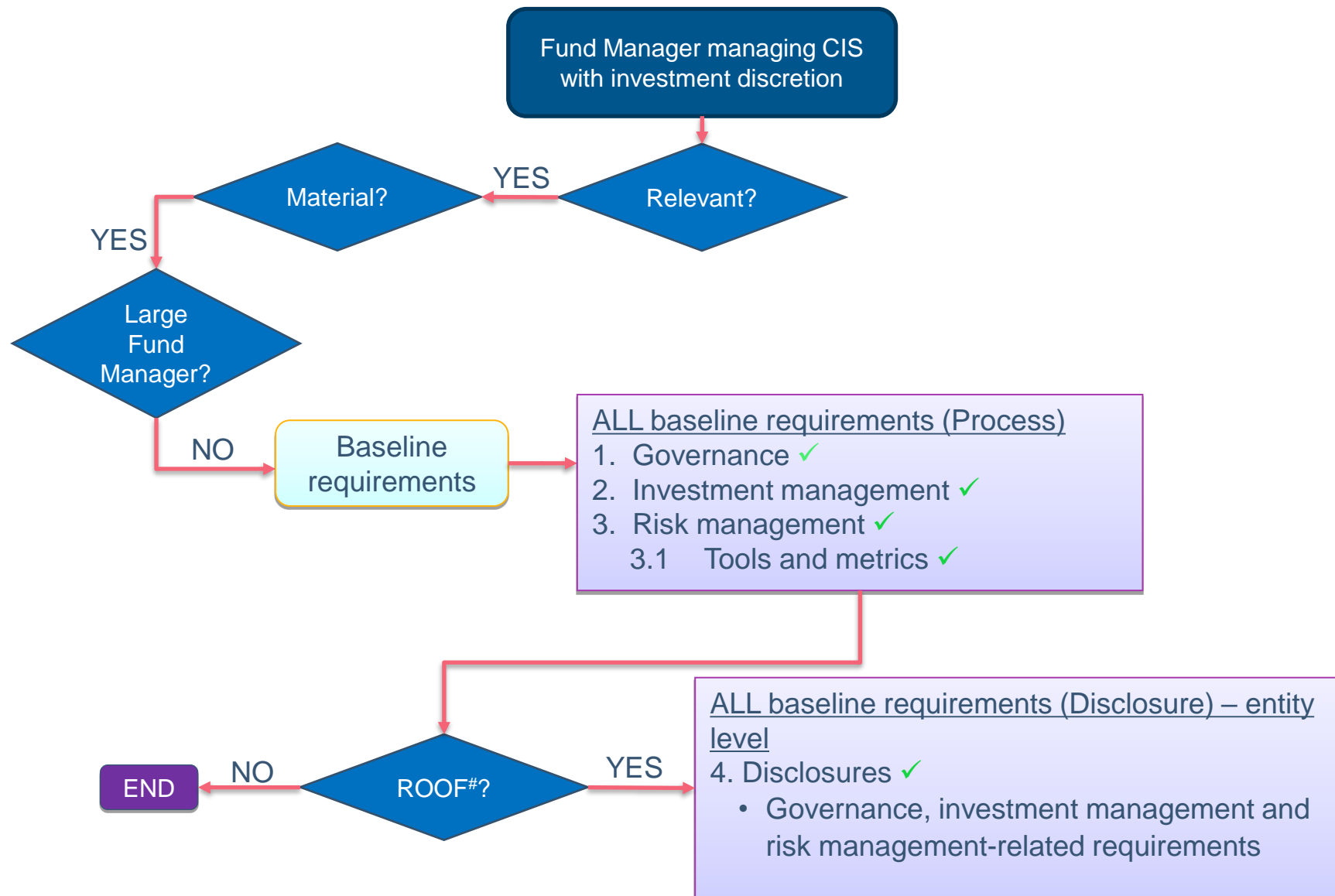
(Relevant but not material)





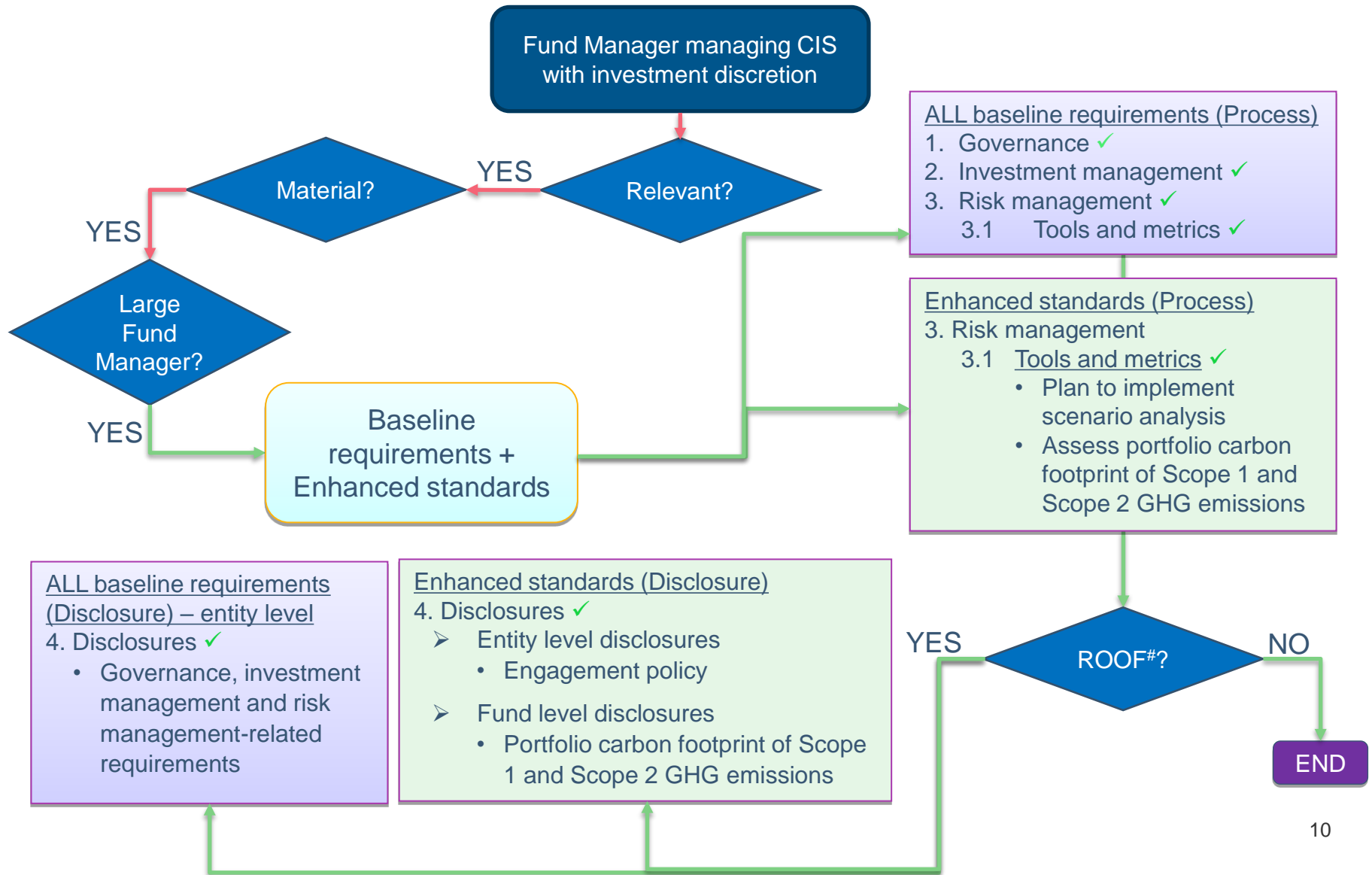
# Applicability of the requirements (con't)

(Relevant and material, not a large fund manager)

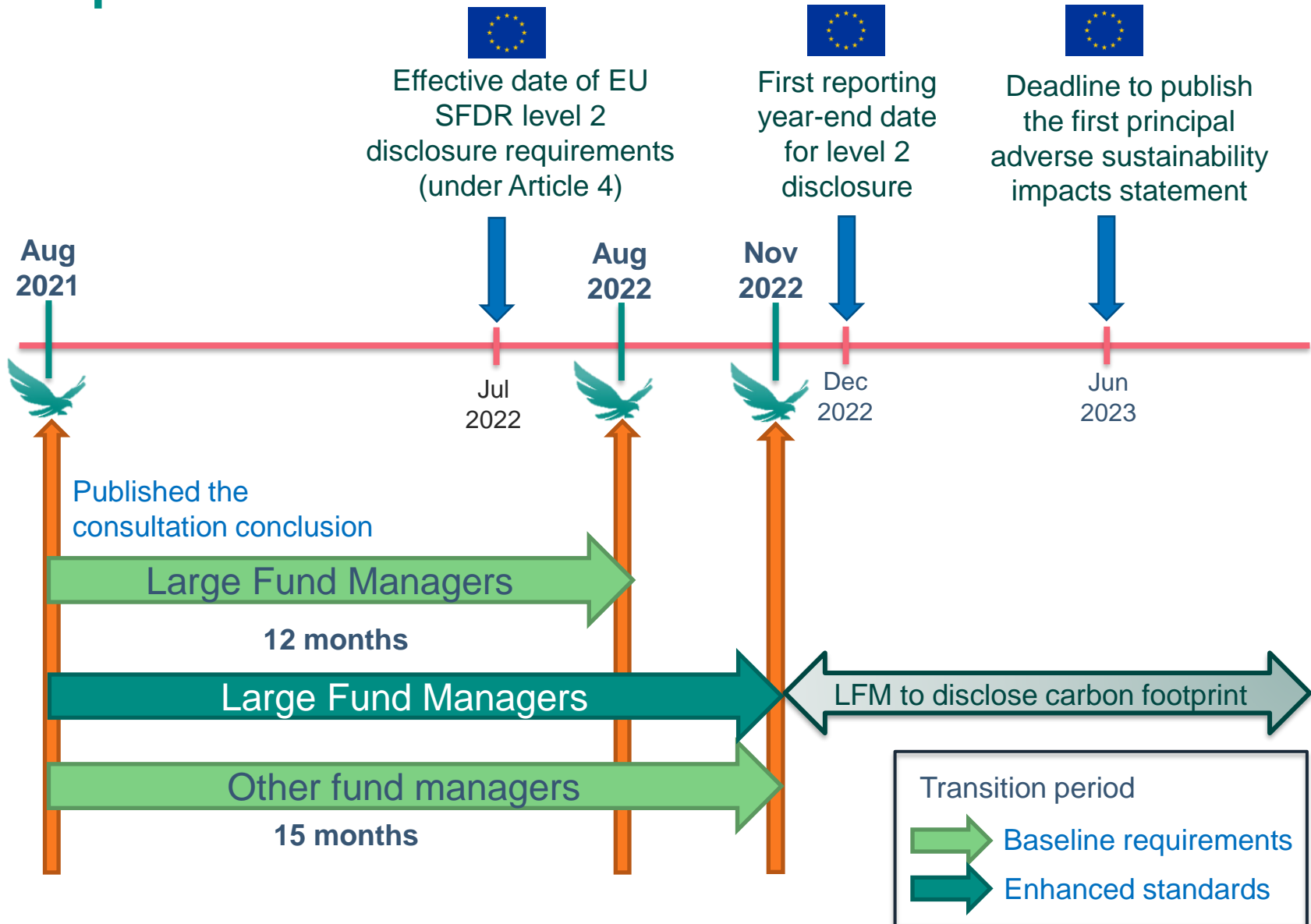


# Applicability of the requirements (con't)

(Relevant and material, a large fund manager)



# Implementation timeline



# Relevance and Materiality

## Physical risks



# Relevance and Materiality (con't)

## Transition risks

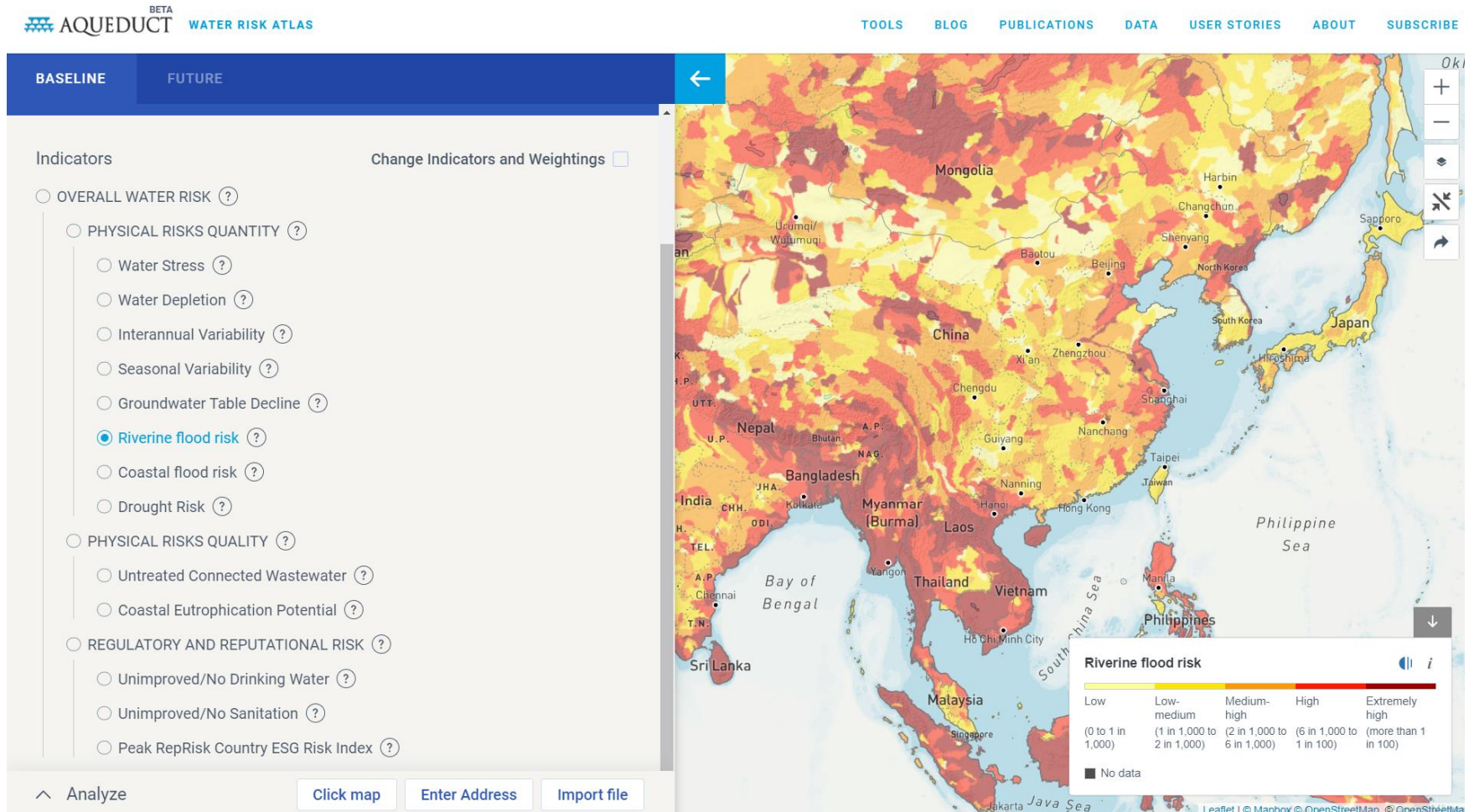




## Relevance and Materiality (con't)

- Disclose and maintain appropriate records of why climate-related risks are irrelevant
- The approach can be qualitative, quantitative or a combination of both (eg, Sustainability Accounting Standards Board, Network for Greening the Financial System, World Resources Institute)
- Reevaluate the relevance and materiality assessment periodically

# Relevance and Materiality (con't)



Source: [World Resources Institute](#)

# Relevance and Materiality (con't)

		Extractives & Minerals Processing							
Dimension	General Issue Category <sup>①</sup>	Coal Operations	Construction Materials	Iron & Steel Producers	Metals & Mining	Oil & Gas – Exploration & Production	Oil & Gas – Midstream	Oil & Gas – Refining & Marketing	Oil & Gas – Services
Environment	GHG Emissions								
	Air Quality								
	Energy Management								
	Water & Wastewater Management								
	Waste & Hazardous Materials Management								
	Ecological Impacts								

		Food & Beverage							
Dimension	General Issue Category <sup>①</sup>	Agricultural Products	Alcoholic Beverages	Food Retailers & Distributors	Meat, Poultry & Dairy	Non-Alcoholic Beverages	Processed Foods	Restaurants	Tobacco
Environment	GHG Emissions								
	Air Quality								
	Energy Management								
	Water & Wastewater Management								
	Waste & Hazardous Materials Management								
	Ecological Impacts								

Source: [Sustainability Accounting Standards Board](#)

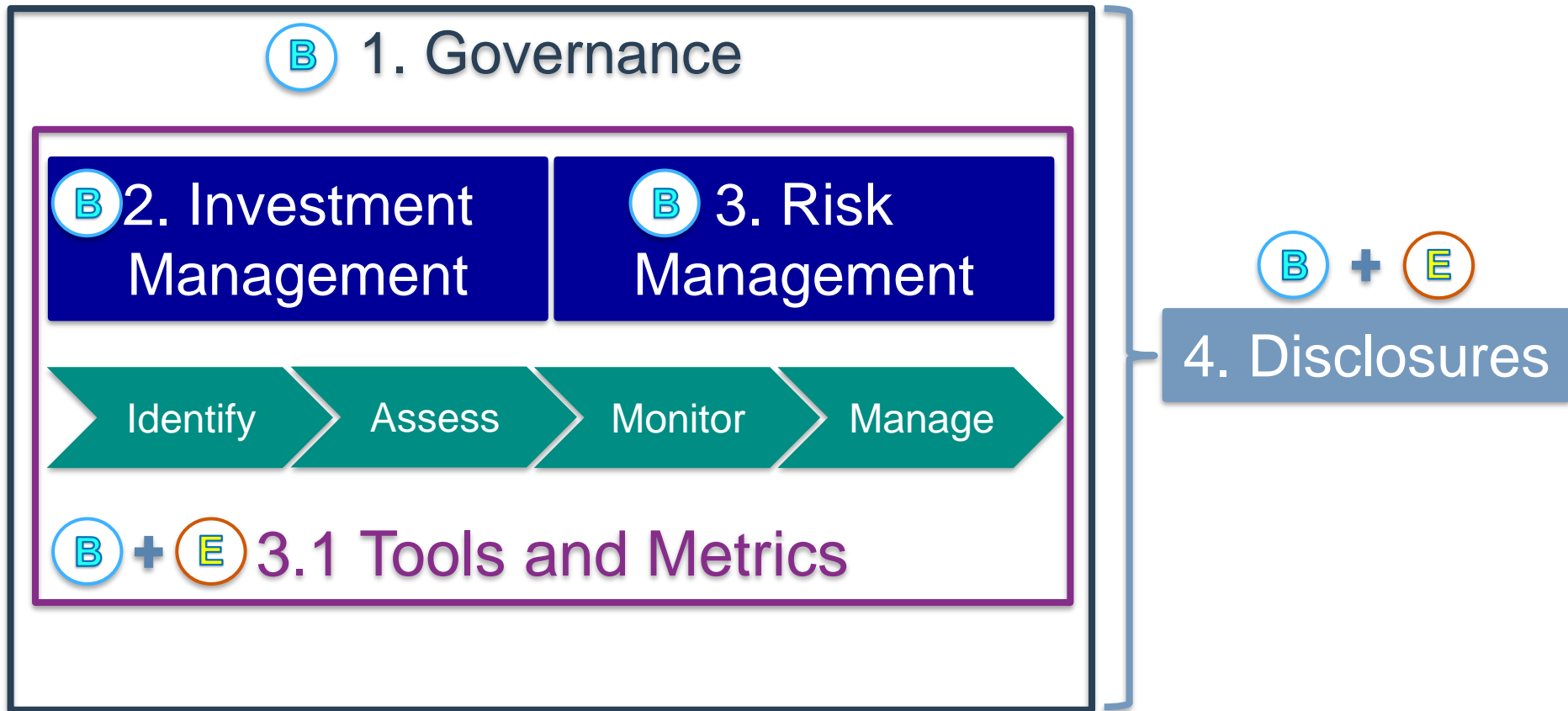


# Requirements under the FMCC

Governance	
Existing	<ul style="list-style-type: none"> <li>Responsibilities of senior management - Paragraph 1.6 of the FMCC</li> <li>Organisation and resources - Paragraphs 1.2(a), (b) and (d) of the FMCC</li> <li>Compliance - Paragraphs 1.2(c) and 1.8 of the FMCC</li> </ul>
Investment management	
New	Paragraph 3.1A of the FMCC
Risk management	
Existing	Risk management - Paragraph 1.7.1 of the FMCC
Amendment	Paragraph 3.11.1(b) of the FMCC
New	Paragraph F under Appendix 2 to the FMCC – Suggested risk-management control techniques and procedures for funds
Disclosure requirements	
New	Paragraph 6.2A of the FMCC
Scope of application	
New	Paragraph in Appendix 1 to the FMCC under “Particular requirements in the Code which are not applicable to Discretionary Account Managers”

For details of the amendments to the FMCC, please refer to our [consultation conclusions document](#).

# Framework for the Baseline Requirements and Enhanced Standards



 – Baseline Requirements

 – Enhanced Standards (Large Fund Managers with AUM ≥ HK\$8 billion)

# Requirements – Governance

<b>Baseline requirements</b>	<b>Board and management's roles and responsibilities</b>  <b>Board</b> <ul style="list-style-type: none"> <li>▪ Define the board's or the board committee's role in overseeing the incorporation of climate-related considerations into the investment and risk management processes;</li> <li>▪ oversee progress against goals for addressing climate-related issues; and</li> <li>▪ determine how the board or the board committee executes this role, including the process and frequency by which the board or the board committee is informed about climate-related issues.</li> </ul>
	<b>Management</b> <ul style="list-style-type: none"> <li>▪ Assign roles and responsibilities for managing climate-related risks to management-level positions or management committees which report to the board or the board committee, and determine the appropriate management structure;</li> <li>▪ determine how the management (through specific positions or management committees) will monitor the status and progress of efforts to manage climate-related risks;</li> <li>▪ establish a process for the management to be regularly informed about the status and progress of efforts to manage climate-related risks;</li> <li>▪ devote sufficient human and technical resources for the proper performance of the duty to manage climate-related risks (eg, provide training to staff, engage subject experts and acquire climate-related data from external sources);</li> <li>▪ establish satisfactory internal controls and written procedures to ensure compliance with internal policies and procedures as well as regulatory requirements related to the management of climate-related risks; and</li> <li>▪ set goals for addressing climate-related issues and develop action plans for managing climate-related risks.</li> </ul>

# Requirements – Investment Management

## Baseline requirements

- Identify relevant and material physical and transition climate-related risks for each investment strategy and fund it manages;
- where relevant, factor the material climate-related risks into the investment management process. For example, include climate-related risks in the investment philosophy and investment strategies and incorporate climate-related data into the research and analysis process; and
- take reasonable steps to assess the impact of these risks on the performance of underlying investments.

Note: Where a fund manager assesses that climate-related risks are irrelevant to certain types of investment strategies or funds under its management, the fund manager should disclose these exceptions when it discloses how it incorporates climate-related risks into its investment and risk management processes. It should also maintain appropriate records which explain why climate-related risks are irrelevant.

For the avoidance of doubt, the above requirements shall not prohibit or restrict a fund manager from complying with applicable laws and discharging their fiduciary duties.

# Requirements – Risk Management

<b>Baseline requirements</b>	<p><b>Risk Management</b></p> <ul style="list-style-type: none"> <li>Take climate-related risks into consideration in risk management procedures and ensure that appropriate steps have been taken to identify, assess, manage and monitor the relevant and material climate-related risks for each investment strategy and fund it manages.</li> </ul> <p><b>Tools and metrics</b></p> <ul style="list-style-type: none"> <li>Apply appropriate tools and metrics to assess and quantify climate-related risks.</li> </ul>
<b>Enhanced standards</b>	<p><b>Tools and metrics</b></p> <p>Large Fund Managers, to the extent climate-related risks are assessed to be relevant and material to an investment strategy or a fund they manage, are also required to follow the standards below:</p> <ul style="list-style-type: none"> <li>Assess the relevance and utility of scenario analysis in evaluating the resilience of investment strategies to climate-related risks under different pathways. If the assessment result is deemed to be relevant and useful, fund managers are required to develop a plan to implement scenario analysis within a reasonable timeframe; and</li> <li>if climate-related risks are assessed to be relevant and material, take reasonable steps to identify the portfolio carbon footprints of the Scope 1 and Scope 2 GHG emissions associated with the funds' underlying investments, where data is available or can be reasonably estimated, and define the calculation methodology and underlying assumptions.</li> </ul> <p>Large Fund Managers refer to licensed corporations with CISs under management equalling or exceeding \$8 billion in terms of fund assets for any three months in the previous reporting year.</p>

# Requirements – Risk Management (con't)

Scenario analysis: Can make use of different resources and reference materials available in the market



Scenarios Portal

Introduction

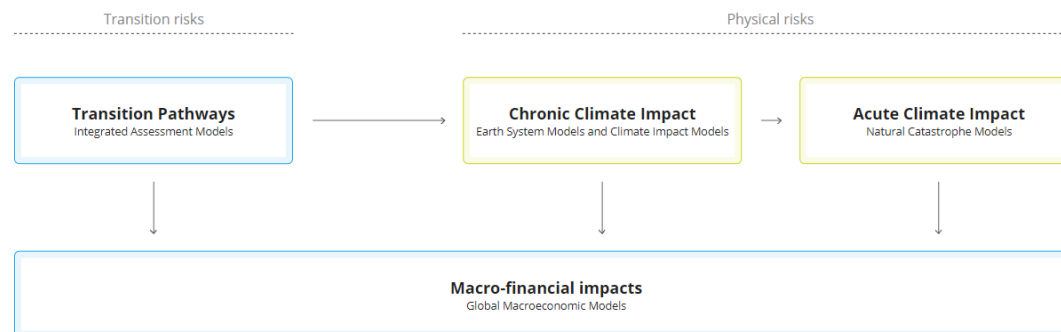
Explore scenarios

Use scenarios

Data & Resources

## The NGFS has provided a **comprehensive set of data and resources**

The NGFS Climate Scenarios bring together a global, harmonised set of transition pathways, physical climate change impacts and economic indicators. The strength of the NGFS suite of models is in their **global coverage and integrated assessment of risks**. While significant research advances have been made recently, care should be taken in using the results, particularly at the most granular levels. Where possible, multiple models have been used for each scenario and warming level to represent uncertainty.



Source: [Network for Greening the Financial System](#)

# Requirements – Disclosure

## Baseline requirements

### Entity level disclosures

#### Governance

- Describe the governance structure;
- describe the board's roles and oversight, including:
  - whether the board or the board committee will review the risk management framework covering climate-related risks; and
  - the process and frequency by which the board or the board committee is informed about climate-related issues; and
- describe the management's roles and responsibilities, including:
  - how the management will monitor the status and progress of efforts to manage climate-related risks; and
  - the process for the management to be regularly informed about the status and progress of efforts to manage climate-related risks

#### Investment management and risk management

- Disclose the steps taken to incorporate relevant and material climate-related risks into the investment management process; and
- describe the processes for identifying, assessing, managing and monitoring climate-related risks, including the key tools and metrics used.

### Entity level or fund level disclosures

- If climate-related risks have been assessed to be irrelevant to certain types of investment strategies or funds under its management, disclose such exceptions at the entity or fund level.

# Requirements – Disclosure (con't)

<b>Baseline requirements</b>	<b>Manner and frequency of disclosures</b> <ul style="list-style-type: none"> <li>▪ Adopt a proportionate approach, ie, the information disclosed should be proportionate to the degree climate-related risks are considered in the investment and risk management processes;</li> <li>▪ make adequate disclosures of information in writing and communicate to fund investors through electronic or other means (eg, on the company website); and</li> <li>▪ review disclosures at least annually, update disclosures where considered appropriate and inform fund investors of any material changes as soon as practicable.</li> </ul>
<b>Enhanced standards</b>	<p>Large Fund Managers are also required to follow the standards below:</p> <p><b>Entity level disclosures</b></p> <ul style="list-style-type: none"> <li>▪ Describe the engagement policy and preferably provide examples to illustrate how material climate-related risks are managed in practice, including how the engagement policy is implemented.</li> </ul> <p><b>Fund level disclosures</b></p> <ul style="list-style-type: none"> <li>▪ At a minimum, provide the portfolio carbon footprints of the Scope 1 and Scope 2 GHG emissions associated with the funds' underlying investments at the fund level, where data is available or can be reasonably estimated, and indicate the calculation methodology, underlying assumptions and limitations, and the proportion of investments (eg, in terms of the net asset value of funds) which are assessed or covered.</li> </ul>

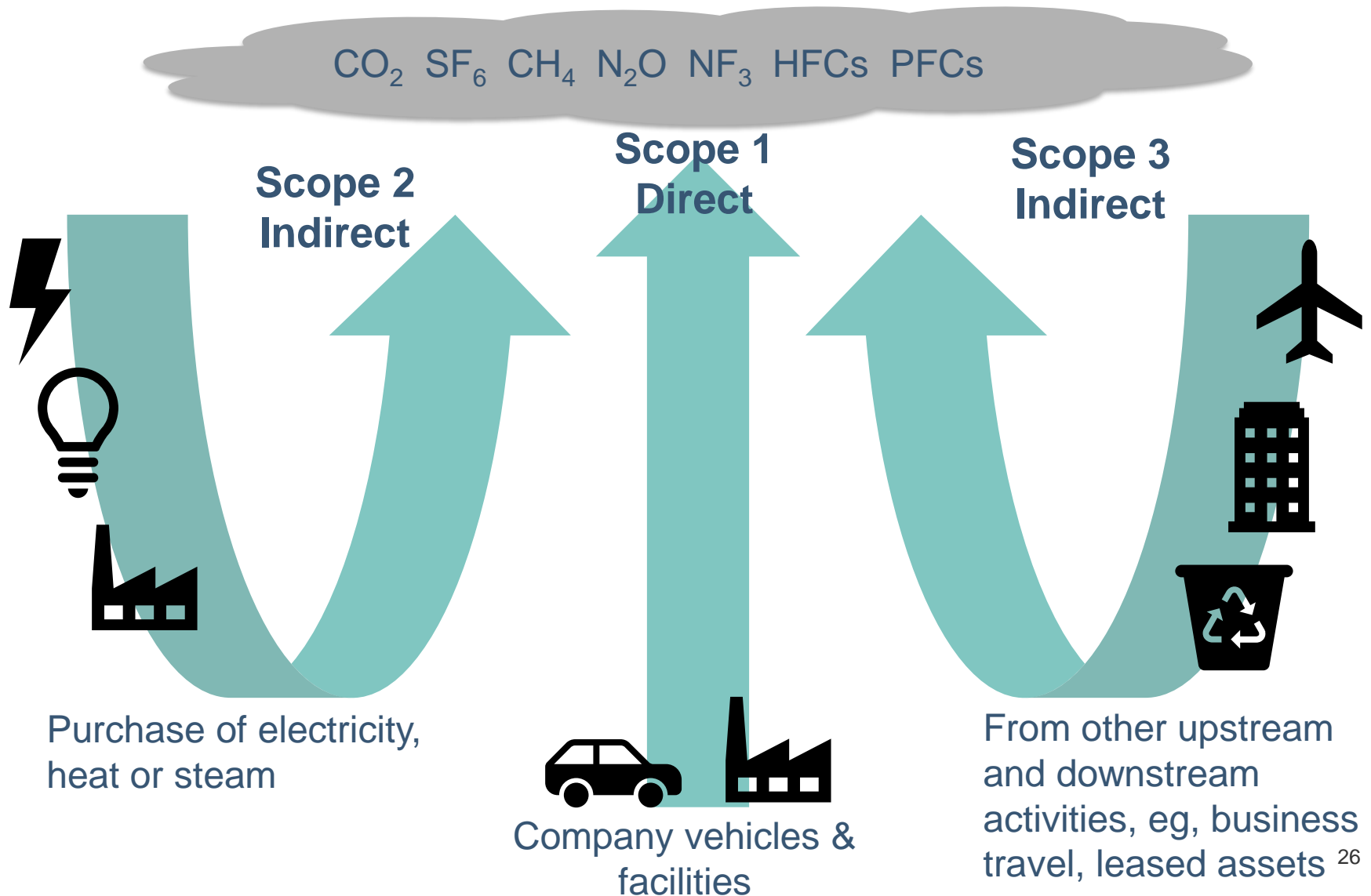


# Portfolio carbon footprint (投資組合的碳足跡)

Portfolio carbon footprint	
Formula	$\sum_N^i \left( \frac{\text{Current value of investment}_i}{\text{Investee company's enterprise value}_i} \times \frac{\text{Investee company's Scope 1 and Scope 2 GHG emissions}_i}{\text{Current portfolio value (\$ million)}} \right)$

投資組合的碳足跡	
公式	$\sum_N^i \left( \frac{\text{投資現值}_i}{\text{被投資公司的企業價值}_i} \times \frac{\text{被投資公司的範圍1及範圍2溫室氣體排放量}_i}{\text{投資組合現值(百萬元)}} \right)$

# Scope 1, 2 and 3 GHG emissions



# Case study – carbon footprint

## Company A

Company A is a metal extraction and production company which consumes a lot of energy during its production process and mainly uses fossil fuel as its energy source. Its Scope 1 and Scope 2 GHG emissions are around 90 million tons per year.

It has a market capitalization of HK\$70 billion and total debt of HK\$150 billion, representing an enterprise value of HK\$220 billion.

Therefore, for each HK\$1 million invested in Company A, the carbon footprint is 409 tons CO<sub>2</sub>e.

$$\begin{aligned} & \text{Emissions} \div \text{enterprise value} \\ &= 90,000,000 \text{ tons CO}_2\text{e} / \text{HK\$220,000 million} \\ &= 409 \text{ tons CO}_2\text{e} / \text{HK\$1 million} \end{aligned}$$

## Company B

Company B is a retail cosmetic company which the main source of GHG emissions is electricity used by its retail stores. Its Scope 1 and Scope 2 GHG emissions are around 12,000 tons per year.

It has a market capitalization of HK\$4 billion and total debt of HK\$1 billion, representing an enterprise value of HK\$5 billion. Therefore, for each HK\$1 million invested in Company B, the carbon footprint is 2.4 tons CO<sub>2</sub>e.

$$\begin{aligned} & \text{Emissions} \div \text{enterprise value} \\ &= 12,000 \text{ tons CO}_2\text{e} / \text{HK\$5,000 million} \\ &= 2.4 \text{ tons CO}_2\text{e} / \text{HK\$1 million} \end{aligned}$$

# Q&A

A large, stylized teal bird, possibly a phoenix, is depicted in flight, facing right. Its wings are spread wide, and its tail feathers are visible. The bird is rendered in a solid teal color against a white background.

**Thank you.**

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