

Green and sustainable finance

Market participants have begun to recognise that climate change and other environmental factors are a potential source of financial risk. Hong Kong is well positioned to play a leading role in the change needed to create a greener, more sustainable future, and we drive and coordinate efforts to bolster Hong Kong as a hub for green and sustainable finance in the region. During the year, we made progress in our initiatives to contribute to the development of more sustainable markets as set out in our *Strategic Framework for Green Finance* published in September 2018. To manage these initiatives and our engagement with counterparts, we now have a dedicated International Affairs and Sustainable Finance team¹.



Chairman Mr Tim Lui addresses a sustainable investing conference in Hong Kong

Asset managers

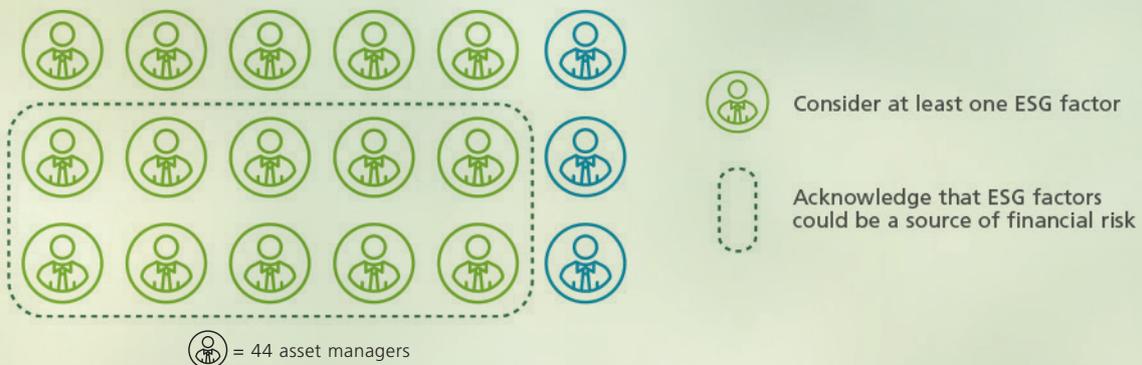
We issued a circular in April 2019 to provide guidance on enhanced disclosures by management companies of SFC-authorized green and environmental, social and governance (ESG) funds as part of our efforts to improve comparability. We also provided a central database on our website to improve the visibility of these funds.

In December 2019, we published a report on our survey on integrating ESG factors and climate risks in asset management. The majority of the active asset management firms surveyed saw ESG factors as a source of financial risk (see graphic below). However, only some consistently integrated these factors in their investment and risk management processes, and few

had measures in place to manage financial risks arising from climate change. The report also set out policy initiatives to align our regulatory regime with global standards in this area.

We established a Climate Change Technical Expert Group comprising representatives from the asset management sector, information providers, standard-setting bodies and industry associations. Members will provide technical support to help us formulate our regulatory response to manage climate change risks and provide practical guidance to the asset management industry. The group's inaugural meeting, held in March 2020, was chaired by Ms Julia Leung, our Deputy Chief Executive Officer and Executive Director, Intermediaries.

Consideration of ESG factors by active asset managers



Source: Survey on Integrating Environmental, Social and Governance Factors and Climate Risks in Asset Management

¹ Formerly the International Affairs Team.



Chief Executive Officer Mr Ashley Alder at the Green Finance Regulatory Meeting hosted by the SFC

Listed companies

We work closely with The Stock Exchange of Hong Kong Limited (SEHK) to enhance listed companies' environmental disclosure and risk management governance, with an emphasis on climate-related risks and opportunities. In May 2019, SEHK published a consultation paper on proposed changes to the ESG rules, including a new disclosure requirement for significant climate-related issues as well as mandatory disclosure of ESG governance structures. Following our approval, the rule amendments were published in December 2019 and will come into effect for financial years commencing on or after 1 July 2020.

Regulatory collaboration

In May 2019, we hosted a meeting for senior regulators and officials from Hong Kong, the Mainland and European Union to discuss global developments in green and sustainable finance. Our Chairman Mr Tim Lui was a keynote speaker at the October 2019 Climate Finance and Sustainable Investing Conference organised by the United Nations (UN) Economic and Social Commission for Asia and the Pacific and our Chief Executive Officer Mr Ashley Alder addressed climate-related financial risks at the December 2019 UN Climate Change Summit. Other senior executives also spoke on sustainability and green finance at international and regional conferences.

We collaborate with local and overseas counterparts to support Hong Kong's role in driving efforts to reorient capital flows towards green and sustainable uses and embed sustainability in the financial sector. Ms Julia Leung leads as Vice Chair of the International Organization of Securities Commissions (IOSCO) Task Force on Sustainable Finance and sits as the IOSCO representative in the Network of Central Banks and Supervisors for Greening the Financial System.

We lead the IOSCO Asia-Pacific Regional Committee's green and sustainable finance working group which focuses on making regulation in this area more consistent as well as on ESG and climate-related disclosures and the integration of these issues in asset management. We will also join the European Commission's International Platform on Sustainable Finance.

We initiated the establishment of the Green and Sustainable Finance Cross-Agency Steering Group comprising local regulators and other authorities. Co-chaired by the SFC and the Hong Kong Monetary Authority, the group coordinates policies to develop a comprehensive green finance strategy for Hong Kong.

Raising awareness

We work with other public bodies and industry associations to raise awareness of green and sustainable finance in the finance community. We also collaborate with the Investor and Financial Education Council (IFEC) to raise investor awareness of green finance and related investment topics through multiple channels. This year, IFEC conducted a study to assess retail investors' understanding of green finance.

Practising sustainability

Inside the organisation, we put our commitment to a more sustainable economy into practice. Our Investment Committee monitors and enquires into how and to what extent the external managers of our financial reserves are incorporating ESG principles into their investment and risk analysis processes.

