

Green and Sustainable Finance

The SFC has been at the forefront of the global effort to green the financial system and one of our key priorities is to contribute to advancing 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 (GBA). We have made significant progress in achieving the objectives set out in our *Strategic Framework for Green Finance* published in September 2018.

We collaborate with local and overseas counterparts to drive efforts to retool the financial system to support capital allocation decisions which take climate and sustainability risks into consideration by embedding sustainability practices in Hong Kong's financial sector.

We work closely with the Government and other financial regulators via the Green and Sustainable Finance Cross-Agency Steering Group (CASG)¹, which our Chief Executive Officer (CEO) Mr Ashley Alder co-chairs with Mr Eddie Yue, the Chief Executive of the Hong Kong Monetary Authority (HKMA). In December 2021, the CASG announced the progress made in efforts to advance Hong Kong's position as a leader in green and sustainable finance and the way forward to help the financial ecosystem's transition towards carbon neutrality (see sidebar on page 39).

Carbon market opportunities

Carbon markets are expected to significantly scale and grow in importance in the transition to a green, low-emission and climate-resilient economy. As an international financial centre, Hong Kong is in a unique position to play a strategic role as China's international gateway and mobiliser of capital to facilitate the national carbon neutrality goal.

The SFC recognises the strategic value Hong Kong can add in the development of carbon markets both regionally and globally. We co-chair the CASG's Carbon Market Workstream², which during the year engaged with Mainland financial and environmental authorities as well as market stakeholders to assess carbon market opportunities for Hong Kong. In March 2022, the CASG announced its next steps to



CEO Mr Ashley Alder at the HKEX Green Asia Summit (Photo: HKEX)

support the development of Hong Kong as a regional carbon trading centre following the release of a preliminary feasibility assessment. These steps include developing a global, high-quality voluntary carbon market in Hong Kong and working with regional authorities on carbon market opportunities as part of GBA cooperation.

Regulatory collaboration

The SFC plays a key role in global regulatory efforts to address sustainability and climate change. In speeches and events throughout the year, including at the 26th United Nations Climate Change Conference of the Parties (COP26) in Glasgow, Scotland in November 2021, Mr Alder shared his views on the importance of sustainability disclosures and urged support for the establishment of the International Sustainability Standards Board (ISSB) (see sidebar on page 37).

We actively participate in key international initiatives to enhance the regulatory development of green and sustainable finance, particularly within the International Organization of Securities Commissions' (IOSCO) Sustainable Finance Task Force (STF), where we contribute to its initiatives for sustainability-related disclosures, carbon markets and promotion of good practices. Ms Julia Leung, our Deputy CEO and Executive Director of Intermediaries, serves as STF Vice Chair and Co-Chair of the STF Workstream on Corporate Reporting.

¹ CASG members include the Environment Bureau, Financial Services and the Treasury Bureau, Hong Kong Exchanges and Clearing Limited (HKEX), HKMA, Insurance Authority, Mandatory Provident Fund Schemes Authority and the SFC.

² The Carbon Market Workstream is co-chaired by the SFC and HKEX, and its members include the Environment Bureau, Financial Services and the Treasury Bureau and the HKMA.

Global action to address climate change

In November 2021, Mr Ashley Alder, our CEO and Chair of the Board of IOSCO, joined leaders from more than 200 countries at COP26 in Glasgow, Scotland. He also took part in the Green Horizon Summit held in conjunction with the conference.

Mr Alder shared with COP26 participants the important role IOSCO and securities regulators play in building investors' trust in the markets. He stressed that, whilst dealing with the climate emergency is mainly a matter for governments, the development of global baseline standards for corporate sustainability disclosures can make a significant difference in combating climate change.

Investors need reliable data to make informed investment decisions and channel private financing into greening the international economy, but the current corporate reporting landscape is fragmented, incomplete and inconsistent across jurisdictions, industries and companies, with many competing standards, Mr Alder told the conference. However, the global standards developed by the ISSB will address fundamental challenges which lead to concerns around mispricing of assets, misallocation of capital and the risk of greenwashing. They will also help build investor

a International Financial Reporting Standards.



Mr Ashley Alder at COP26

trust, encourage essential financial flows into sustainable investments and hold companies accountable for their net zero claims.

IOSCO considers that the IFRS^a Foundation is the organisation best suited to launch an international standard-setting board because it can provide quality governance and due process with public oversight, Mr Alder emphasised. The new board will focus on enterprise value creation and a "climate first" approach to the development of sustainability disclosure standards. IOSCO will review the ISSB's proposed standards with a view to endorsing them for use by its members before the end of 2022.

Hong Kong's potential adoption of these standards has global significance, as Hong Kong is uniquely positioned to connect vast amounts of global capital with leading mainland China businesses, Mr Alder added.

Listed companies

As a member of IOSCO's STF Technical Experts Group, we provided comments on the Climate-related Disclosures Prototype published in November 2021 by the IFRS Foundation's Technical Readiness Working Group. The ISSB used the prototype as the basis for developing its climate standards, which will serve as a global baseline for companies to report consistent and comparable information about climate-related risks and opportunities. We also work closely with the Stock Exchange of Hong Kong to develop a framework for climate-related reporting by listed companies in Hong Kong.

We also lead the Sustainable Finance Working Group of the IOSCO Asia-Pacific Regional Committee and represent IOSCO in the Financial Stability Board's Working Group on Climate Risk. In addition, we participate in the International Platform on Sustainable Finance, the Network of Central Banks and Supervisors for Greening the Financial System and the Sustainable Stock Exchanges Initiative.

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Ms Julia Leung, Deputy CEO and Executive Director, Intermediaries at the European Chamber of Commerce's Green Forum

Asset managers

In August 2021, we concluded a consultation on amendments to the Fund Manager Code of Conduct to require fund managers managing collective investment schemes to take climate-related risks into consideration in their investment and risk management processes and provide investors with appropriate disclosures. To assist fund managers in complying with the new requirements, we also issued a circular to set out the expected standards and provide examples of industry practices for the management of climate-related risks. The new requirements will be effective from 20 August 2022.

In setting these requirements, we took into account international regulatory developments and initiatives such as the approach adopted by the European Union and the Task Force on Climate-related Financial Disclosures. We also took on board recommendations that the requirements align with global green and sustainable finance trends and reduce licensed corporations' compliance burden.

To provide further guidance to the industry, we held two webinars via the SFC official Facebook page and explained the new requirements at the events of local associations during the year.

ESG funds

In view of the rapid growth of environmental, social and governance (ESG) funds and international regulatory developments, we published a circular in June 2021³ setting out enhanced requirements for

disclosures and annual assessments for ESG funds, especially those with a climate-related focus. We also hosted industry briefings to explain the requirements.

We maintain a central database on our website of all SFC-authorized ESG funds. Since 1 January 2022, the database has also included the key features of these funds to enhance their transparency. There were more than 120 SFC-authorized ESG funds as of 31 March 2022.

Raising investor awareness

We work with the Investor and Financial Education Council (IFEC)⁴ to raise public awareness and understanding of green and sustainable finance through its mass communication and stakeholder collaboration initiatives. Sustainable finance education was featured during the IOSCO-led World Investor Week 2021, a global campaign held in Hong Kong. The IFEC also integrated ESG information into its mass media campaign "What You Need to Know about Investing", which included short videos and blogs.

During the year, our senior executives spoke to local and international audiences about the development of green and sustainable finance. Our Chairman Mr Tim Lui discussed Hong Kong's unique position to emerge as the regional green finance hub in keynote speeches delivered in November 2021 at a summit co-hosted by the World Green Organisation and the United Nations Economic and Social Commission for Asia and the Pacific and an industry conference on ESG technology and data.

Practising sustainability

Internally, 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 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.

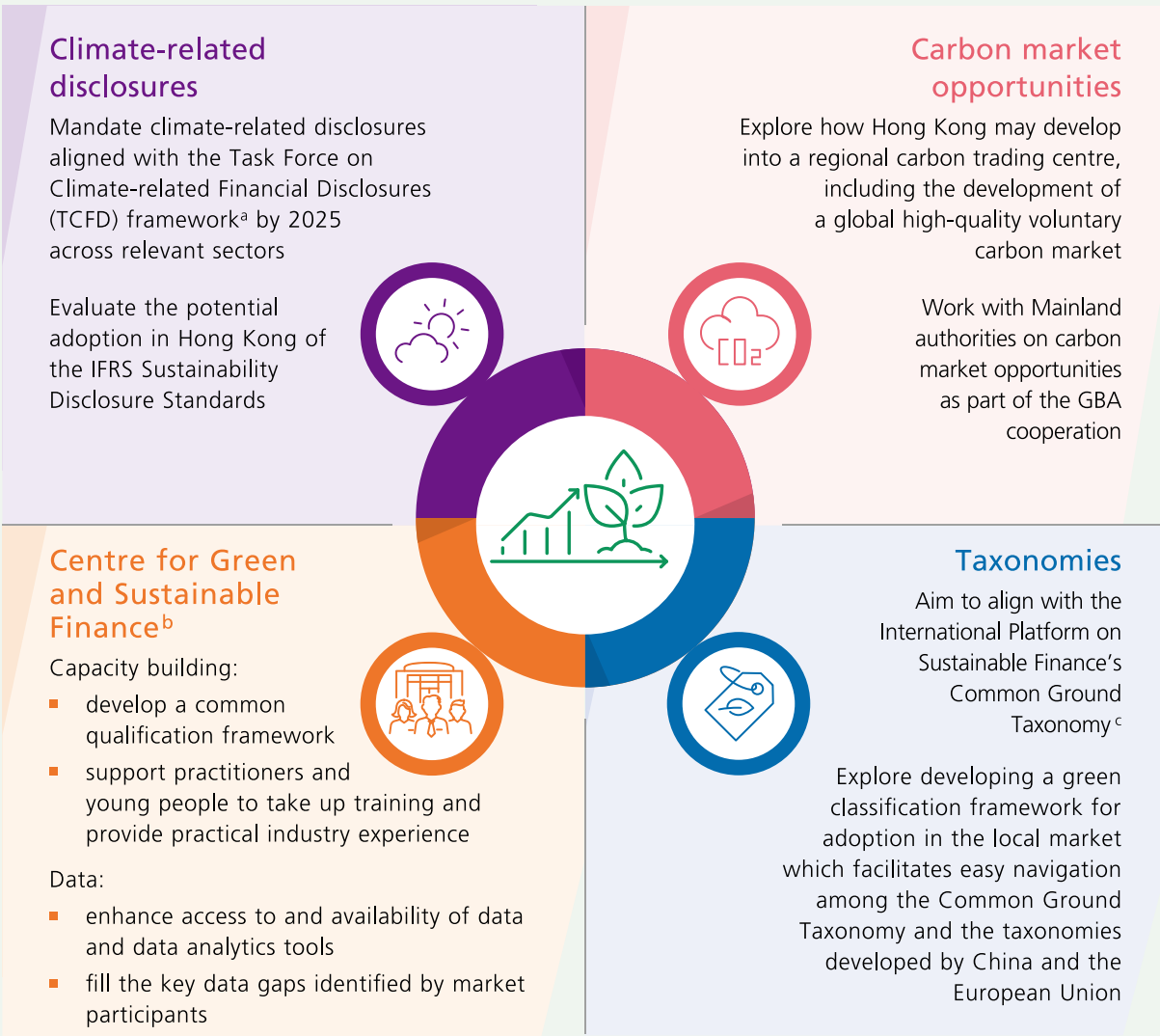
We joined a landlord-tenant sustainable development programme where there will be an energy audit of the SFC premises to understand our energy usage for air conditioning, water and electricity. Suggestions for energy reduction will be provided.

³ This circular supersedes a previous version issued in April 2019.

⁴ The IFEC is an SFC subsidiary which is dedicated to improving financial literacy in Hong Kong.

Advancing Hong Kong's green and sustainable finance development

In December 2021, the CASG announced the progress it had made and the way forward to advance Hong Kong's position as a leader in green and sustainable finance and help the financial ecosystem's transition towards carbon neutrality. The CASG will focus on four areas.



a The TCFD framework is structured around four thematic areas: governance, strategy, risk management, and metrics and targets.

b Launched by the CASG, the Centre for Green and Sustainable Finance is a cross-sector platform which coordinates the efforts of financial regulators, government agencies, industry stakeholders and academia in capacity building, thought leadership and policy development.

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