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

Agenda for Green and Sustainable Finance

August 2022

Contents

Overview

1. In recent years, jurisdictions worldwide have sought to respond to the urgent need to address the impact of climate change. Environmental issues have become a key focus for governments and it is recognised that private sector investment is vital to help fund the move towards a greener global economy. There is a clear consensus that regulators should ensure green finance initiatives are properly regulated and market integrity and investor protection are maintained.

2. Hong Kong has a critical role to play as an international and regional green finance centre. It has long served as a bridge for capital flows between international investors and mainland China – the extremely large footprint and international significance of Hong Kong's HK$39.1 trillion capital markets[1] means that it will play a critical role in overall global efforts to reach net-zero goals.

3. In November 2020, the Government announced its goal to achieve carbon neutrality by 2050[2]. This was followed in October 2021 by Hong Kong's Climate Action Plan 2050, which sets out a vision of "Zero-carbon Emissions・Liveable City・Sustainable Development" and outlines the strategies and targets for combating climate change and achieving carbon neutrality, including the opportunities provided by the growth of green finance[3].

4. The Securities and Futures Commission (SFC) has been at the forefront of efforts to develop an effective regulatory framework for green finance in Hong Kong. In September 2018, the SFC published its Strategic Framework for Green Finance (2018 Strategic Framework), which included enhancing climate-related corporate disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), developing policies and guidance for asset managers' disclosures and combating greenwashing, facilitating the development of green-related investments, supporting investor awareness of and capacity building in green finance, and participating in international sustainability initiatives with a view to promoting Hong Kong as an international green finance centre. More details of the work done by the SFC are set out in Appendix A.

5. In addition to the 2018 Strategic Framework and recognising the need to coordinate amongst the authorities responsible for financial regulation in Hong Kong, the SFC initiated the establishment of the Green and Sustainable Finance Cross-Agency Steering Group (CASG) in May 2020. The purpose of the CASG is to accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategies. It is co-chaired by the SFC and the Hong Kong Monetary Authority (HKMA) and comprises the Financial Services and the Treasury Bureau (FSTB), the Environment and Ecology Bureau, Hong Kong Exchanges and Clearing Limited (HKEX), the Insurance Authority, and the Mandatory Provident Fund Schemes Authority[4].

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[1] Market capitalisation was HK$39.1 trillion at the end of June 2022. HKEX Monthly Market Highlights, June 2022.

[2] The Chief Executive's 2020 Policy Address, paragraph 126.

[3] Hong Kong's Climate Action Plan 2050, paragraphs 6.3 and 6.4.

[4] Joint statement on the establishment of the Green and Sustainable Finance Cross-Agency Steering Group, 5 May 2020.

6. Following on from the announcement of Hong Kong's carbon neutrality goal, the CASG published its Strategic Plan to Strengthen Hong Kong's Financial Ecosystem to Support a Greener and More Sustainable Future (CASG Strategic Plan) in December 2020. The CASG Strategic Plan covers six key focus areas[5], with five near-term action points to be implemented, including mandating climate-related disclosures aligned with the TCFD recommendations[6] across relevant sectors no later than 2025, and supporting the IFRS Foundation's[7] establishment of the International Sustainability Standards Board (ISSB) for developing and maintaining a global, uniform set of sustainability reporting standards, as well as complementary efforts by other standard-setting organisations[8] to converge sustainability reporting standards globally. More details of the CASG's work are set out in Appendix B.

[5] The six focus areas are (i) strengthening climate-related financial risk management, (ii) promoting the flow of climate-related information at all levels to facilitate risk management, capital allocation and investor protection, (iii) enhancing capacity building for the financial services industry and raising public awareness, (iv) encouraging innovation and exploring initiatives to facilitate capital flows towards green and sustainable causes, (v) capitalising on Mainland opportunities to develop Hong Kong into a green finance centre in the Guangdong-Hong Kong-Macao Greater Bay Area, and (vi) strengthening regional and international collaboration.

[6] The TCFD recommendations cover four core areas, being (i) governance – the organisation's governance around climate-related risks and opportunities, (ii) strategy – the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning, (iii) risk management – the processes used by the organisation to identify, assess, and manage climate-related risks, and (iv) metrics and targets – these are used to assess and manage relevant climate-related risks and opportunities. Under these four core areas are eleven recommended disclosures. For ease of reference, the recommendations and recommended disclosures will be referred to as the TCFD Recommendations. The TCFD has also issued further guidance on the application of the TCFD Recommendations.

[7] The IFRS Foundation is a not-for-profit, public interest international organisation established to develop a single set of high-quality, understandable, enforceable and globally accepted accounting disclosure standards and to promote and facilitate the adoption of these standards.

[8] These standard-setting organisations comprise the CDP, the Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB).

Recent developments

7. Within mainland China, there has also been significant political impetus to combat environmental degradation. In an address to the 75th UN General Assembly in September 2020, President Xi Jinping announced the Mainland's "Dual Carbon" goals of peak carbon emissions by 2030 and achieving carbon neutrality by 2060[9]. The Outline of the 14th Five-Year Plan for the National Economic and Social Development and the Long-Range Objectives Through the Year 2035 released in March 2021 reiterated these goals and set out actions to achieve green growth, including accelerating the development of non-fossil energy resources.

8. In October and November 2021, the 26th UN Climate Change Conference of the Parties (COP26) highlighted the importance attributed by all stakeholders, including governments, regulators, non-government organisations, and the private sector, to combat the effects of climate change.

9. Of particular significance was the IFRS Foundation's announcement at COP26 of developments to establish the groundwork and necessary arrangements for a global sustainability disclosure standard setter for the financial markets, including the formation of the ISSB and publication of prototype climate and general disclosure requirements[10].

10. More recently, in March 2022, the ISSB launched a consultation on its first two proposed standards (Exposure Drafts), which are intended to form a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. One standard sets out general sustainability-related disclosure requirements and the other standard specifies climate-related disclosure requirements.

11. The International Organization of Securities Commissions (IOSCO) was closely involved in the work of the IFRS Foundation to establish the ISSB and remains committed to engaging with the ISSB, with a view towards potential endorsement by IOSCO of the final disclosure standards that will be based on the Exposure Drafts[11]. IOSCO's Sustainable Finance Task Force (STF)[12] has also carried out sustainability-related work on issuer disclosures[13], asset management[14], and environmental, social and governance (ESG) ratings and data product providers[15].

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[9] China - President Addresses General Debate, 75th Session.

[10] In addition, the IFRS Foundation also announced a commitment by investor-focused sustainability disclosure organisations to consolidate into the ISSB, including the CDSB (an initiative of CDP) and the Value Reporting Foundation (VRF, which houses the Integrated Reporting Framework and SASB Standards). The consolidations with the CDSB and VRF were effected in January and July 2022 respectively.

[11] IFRS Foundation's International Sustainability Standards Board on the Right Track, Says IOSCO, 3 November 2021; IOSCO welcomes ISSB's publication of sustainability standards exposure drafts, 31 March 2022; and IOSCO welcomes the strong stakeholder engagement on proposals for a comprehensive global baseline of sustainability disclosures for capital markets, 27 July 2022.

[12] The STF is chaired by Erik Thedéen, Director General of the Swedish Financial Supervisory Authority, and the STF Vice-Chairs are Julia Leung, Deputy Chief Executive Officer and Executive Director, Intermediaries, of the SFC and Rodrigo Buenaventura, Chairman of the Spanish National Securities Market Commission.

[13] IOSCO Report on Sustainability-related Issuer Disclosures, June 2021.

[14] IOSCO Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management, November 2021.

[15] IOSCO Report on ESG Ratings and Data Products Providers, November 2021.

12. IOSCO's 2022 sustainable finance work plan[16] focuses on mitigating greenwashing and supporting the creation of reliable information on sustainability impacts for investors. Its projects will include a review of the Exposure Drafts, as well as the final standards when produced, with a view to endorsing them for its members. In parallel, IOSCO will also push forward work to develop assurance standards, given that independent assurance of the quality of corporate reporting of sustainability information is key to building trust in sustainability reporting.

13. IOSCO will carry out a review of carbon markets to identify the vulnerabilities in voluntary carbon markets, as well as the transparency and integrity in the functioning of carbon markets from the perspective of financial regulation. It will also engage with national regulators and market participants to encourage the implementation of its recommendations for asset managers and ESG ratings and data providers.

[16] IOSCO's 2022 Sustainable Finance work plan strengthens the organization's commitment to increasing transparency and mitigating greenwashing, March 2022.

The way forward for the SFC

14. Against this background of local, regional and global initiatives, there is an important role for regulators to support capital allocation that takes into account material climate and sustainability related risks. Robust, relevant and appropriate regulation can enhance the quality of information available, increase transparency and build trust for investors, thereby supporting investment flows into sustainable projects that will drive forward net zero targets.

15. In particular, because Hong Kong intermediates capital between global investors and the Mainland, regulatory development by the SFC needs to balance global ambition with pragmatism in implementation to reflect both the urgency of the climate crisis and the challenge of transitioning emerging economies. It is essential that the SFC continues to lead and influence global regulatory development, while ensuring that local implementation is sound, efficient, and high impact so as to demonstrate a pathway for implementation in the region. Sustainable finance-related regulation across Asia and in emerging markets is still at a nascent stage. As such, there are significant opportunities for cooperation and convergence of approaches, thereby minimising fragmentation.

16. Although the goals set out in the 2018 Strategic Framework have largely been achieved, there are still further steps for the SFC to take to support the transition towards a greener economy. The main areas of focus are:
    - Corporate disclosures;
    - Monitoring the implementation of and enhancing existing measures; and
    - A regulatory framework for carbon markets.

17. In addition to its regulatory efforts to support the development of green finance, the SFC has also embarked on a decarbonisation project with the aim of aligning its emissions footprint with Hong Kong's commitment to carbon neutrality by 2050.

Corporate disclosures

18. Integral to the growth of green finance is the availability of sufficient, relevant and reliable information from financial and non-financial companies on the impact of climate-related risks and opportunities for business operations and strategies. Consistency and comparability of such information are necessary for informed pricing and can lead to increased investment in sustainable products and activities.

19. There is a plethora of sustainability disclosure initiatives and frameworks worldwide, all with the intention of providing information needed by investors. However, this has resulted in a fragmented landscape where sustainability reporting is incomplete and inconsistent across jurisdictions, industries and companies. Concerns have been raised about the mispricing of assets, misallocation of capital, and the risk of greenwashing.

20. Climate change and other ESG risks are global issues and a globally coordinated response is required. In relation to disclosures, as set out above, IOSCO has sought to chart the way forward by working closely with the IFRS Foundation and supporting the launch of the ISSB at COP26 and publication of the Exposure Drafts.

21. The SFC is strongly aligned with the approach adopted by IOSCO and recognises how the ISSB can set out a path, with its proposed climate standard, which is built on the TCFD framework, forming a comprehensive global baseline for climate-related disclosures that will provide decision-useful information for investors.

22. Key aspects include:

    - The credibility of the standard-setting process is vital to ensure confidence from the public interest perspective. The ISSB is established under the IFRS Foundation in accordance with a tried-and-tested architecture that was used with the International Accounting Standards Board. This approach is underpinned by a robust and transparent governance structure incorporating several layers, including the technical expertise of the independent board, which is overseen by the IFRS Foundation Trustees who have a mandate to operate in the public interest. Ultimately, there is accountability to the Monitoring Board (chaired by IOSCO), the members of which comprise various global public sector authorities. There are also intensive private and public sector engagements throughout the standards development process.
    - Sustainability reporting standards must ensure that the information to be disclosed is comprehensive and fit for purpose. The Exposure Drafts are based on best practices and proven content sourced from the most widely adopted frameworks and standards now in use, and their development has been and will continue to be informed by discussions with stakeholders, including IOSCO. The final standards should be interoperable with the sustainability disclosure requirements for individual jurisdictions.

23. The existence of a global baseline climate disclosure standard can support jurisdictions' adoption of a mandatory standard if they choose to take that route. Compulsory reporting requirements are vital for proper accountability of any green or sustainable claims by companies. The baseline standard provides flexibility as jurisdictions can build on it to accommodate their own sustainability needs and circumstances. At the same time, jurisdictions can be confident that having the same foundation as other jurisdictions will ensure commonalities for consistency and clarity, helping to develop greener and more sustainable financial markets.

24. IOSCO's involvement in the work of the ISSB will help increase the potential for international consistency in sustainability reporting. If IOSCO's expectations for the ISSB standards are met, the IOSCO Board will endorse the new standards for over 130 market regulators, covering both developed and emerging economies.

25. Hong Kong, and therefore the SFC, also has a significant role to play. The relevance of disclosures relating to emerging markets is critical given the volume of emissions generated and the need for transition. Hong Kong is in a unique position as its market connects vast amounts of global capital with a very large number of leading Mainland China businesses. Embedding the ISSB climate standard into Hong Kong reporting requirements would have a significant impact globally, far more so than in jurisdictions with developed markets, and would also serve as an example for emerging markets both within and outside the Asian region.

ISSB standards[17]

26. The SFC will continue to support the work of the new ISSB and sustainability disclosures more generally, including:

   - Continuing to work with the Stock Exchange of Hong Kong Limited (SEHK)[18] on a proportionate approach to corporate disclosure requirements that are aligned with global baseline standards (potentially the ISSB climate standard when it is issued). This would include the scaling and the phasing in of such standards;
   - Working with other CASG members to consider how the requirements in the new ISSB climate standard Exposure Drafts could be adopted as part of Hong Kong's domestic reporting framework[19];
   - Engaging with the China Securities Regulatory Commission (CSRC) on the use of the ISSB climate standard to enhance cross-border consistency; and
   - Continuing to participate in the work of IOSCO on corporate sustainability disclosures.

27. In particular, a SFC-SEHK joint working group will continue to examine the readiness of listed companies to report under the proposed ISSB climate standard and the challenges faced by them, and to consider a framework aligned with the ISSB climate standard for Hong Kong, including how issuers are phased in to make disclosures and the content of such disclosures, as well as assessing listed issuers' readiness, capabilities, and data needs and gaps. Other longer-term considerations include the digitalisation of climate reporting information, capacity building needs, and the development of an assurance framework in Hong Kong. The aim is to take a proportionate, phased approach to support effective and meaningful implementation.

28. Additionally, the SFC will continue to monitor further global developments in sustainability disclosures more broadly, including the TCFD recommendations, with a view to considering whether other measures could be taken to enhance disclosures and help further the sustainability goals put forward by the Hong Kong Government and the CASG.

29. The SFC will also continue its work on addressing data gaps and talent development, both in domestic and international fora. In Hong Kong, as a member of the CASG's Centre for Green and Sustainable Finance (GSF Centre) and of the CASG's data and capacity building working group, the SFC will contribute to efforts in capacity building and addressing data concerns, in line with its regulatory initiatives.

30. Internationally, the SFC will continue to participate in IOSCO's work on reviewing the ISSB Exposure Drafts and considering assurance issues, as well as monitoring the work being done by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) Workstream on bridging the data gaps[20].

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[17] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures (referred to in this document as "ISSB climate standard")。

[18] SEHK is a subsidiary of HKEX, a member of the CASG.

[19] The Green and Sustainable Finance Cross-Agency Steering Group welcomes the publication of the International Sustainability Standards Board proposed standards for public consultation, 31 March 2022.

[20] NGFS Progress report on bridging data gaps, May 2021.

Monitoring the implementation of and enhancing existing measures

Asset management

31. The SFC has implemented measures to require fund managers to take climate-related risks into consideration in their investment and risk management processes as well as to make appropriate disclosures to meet investors' demand for climate risk information and to combat greenwashing.

32. While these measures constitute significant steps forward, concerns remain with regard to the availability and quality of data for asset managers to fulfil their disclosure requirements. The work being done domestically and internationally on corporate disclosures will help address these concerns, reflecting the need for a holistic approach in light of the interconnections between different parts of green and sustainable finance.

33. Going forward, the SFC will continue to monitor the implementation of the measures and seek to enhance regulatory supervision in order to align with international regulatory development trends, including:

    - Continuing to consider the issues concerning the data underpinning asset manager disclosures, including how to address concerns about data availability, coverage, reliability, verifiability, comparability and standardisation; and

    - Maintaining regular dialogues with the industry to monitor the progress of licensed fund managers' incorporation of new climate-related risks conduct and disclosure requirements, and provide the necessary clarification and guidance to the fund managers, such as guidance on the engagement of ESG ratings and data products providers.

ESG funds

34. In recent years, ESG funds in Hong Kong have continued to grow, with assets under management of US$143 billion as of the end of March 2022. Gatekeeping against greenwashing remains the key challenge for the SFC.

35. The SFC will continue to monitor ESG funds' compliance with the requirements set out in its June 2021 circular. It will also continue its engagement with stakeholders, including hosting industry workshops to provide guidance, as well as working with the Investor and Financial Education Council (IFEC) to enhance investors' awareness of ESG funds. The SFC will also continue to monitor global developments in this space, including the development and implementation of the ESG fund-related requirements in other jurisdictions, the growing trend of using third-party ESG ratings and data products by ESG funds, and the ways of adopting the Common Ground Taxonomy (CGT) in the context of ESG funds.

Taxonomy

36. Green and sustainable finance taxonomies are becoming increasingly important in facilitating the scaling up of sustainable finance. These refer to the systemic classification and definition of items that qualify as being sustainable or green and may be used as a reference by authorities and market participants in determining whether their activities or products are truly sustainable or green.

37. There are potential significant benefits to adopting a taxonomy and one of the CASG's action points is to aim for the adoption of the CGT in Hong Kong. As a member of both the International Platform on Sustainable Finance (IPSF)[21] and its Working Group on Taxonomies, the SFC will continue to monitor developments in this area, with a view to considering how the adoption of the CGT could complement the SFC's existing regulatory and supervisory measures.

38. The SFC will work with CASG members and other stakeholders to consider how the CGT could be used in the context of financial sectors in Hong Kong, especially to ensure consistency between green activities. The CASG is working towards proposing the structure and core elements of a local green classification framework for consultation.

Education and training

39. There is still significant work to do in relation to proper training in Hong Kong for authorities and industry professionals to understand the fundamentals and keep abreast of new developments. At the same time, effective investor protection must include measures to educate investors. This remains at the forefront of the SFC's priorities. The SFC will continue to work with the IFEC to support investor education in this field, through regular updates via online and social media platforms, publicity campaigns, press events, public talks and stakeholder collaborations.

40. The SFC will also continue to support the CASG's efforts in relation to the GSF Centre, particularly its Capacity Building Working Group, such as the launch of the Pilot GSF Capacity Building Support Scheme funded by the FSTB which will provide subsidies for ESG-related training courses going forward. In addition, the SFC will contribute to IOSCO's capacity building work, both through the IOSCO STF workstream on promoting good practices and the IOSCO Asia-Pacific Regional Committee (APRC).

Technology and innovation

41. Given the comparative novelty of green and sustainable finance, there are opportunities to build and enhance innovative digital solutions to support the transition to a net zero economy. In particular, given the cross-border nature of sustainability and the substantive amounts of data involved, technology is likely to play a key role in enhancing the transparency and integrity of a green and sustainable eco-system.

42. The SFC will continue to work with other CASG members and stakeholders to facilitate the development of technologies to support green and sustainable finance initiatives locally, regionally and internationally. In particular, there is a plan to create a free and publicly accessible greenhouse gas (GHG) emissions estimation tool, with clearly-disclosed methodologies, that companies can use as an alternative source of information.

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[21] The IPSF is a forum for dialogue amongst policymakers, with the overall aim of increasing the amount of private capital being invested in environmentally sustainable investments. Through the IPSF, members can exchange and disseminate information to promote best practices, compare their different initiatives and identify barriers and opportunities of sustainable finance, while respecting national and regional contexts.

Regulatory framework for carbon markets

43. As jurisdictions worldwide work on transitioning to a green, low-emission and climate-resilient economy, global and regional carbon markets are expected to grow significantly. In particular, there is significant potential in the expansion of China's carbon markets, given its commitments to carbon neutrality. Hong Kong has a strategic role in adding value to carbon market development given its unique position as an international finance and risk management centre, a regulatory leader in adopting international standards, a mobiliser of capital to the Mainland and a regional certification hub

44. There are two key types of carbon markets – voluntary and compliance.

    - Voluntary carbon markets (VCMs) comprise buyers (usually corporates) that voluntarily purchase carbon credits generated by projects that avoid or remove GHG emissions to neutralise or compensate for their emissions. Each carbon credit is usually issued by self-regulated organisations and represents a tonne of emissions avoidance or removal.

    - Compliance markets or emissions trading schemes (ETS) provide a regulated mechanism for market participants to trade allowances, each representing a permit issued by regulators to emit a tonne of carbon emissions. Decreases in allowance supply enable emissions reduction as market participants seek to lower their emissions to minimise the cost of purchasing allowances[22].

45. At present, ETS only cover a small part (around 16%) of total global emissions. For corporates that do not fall under ETS, VCMs may enable them to neutralise their emissions as they work on emissions reduction, and help channel capital to underlying projects to generate carbon credits[23]. Further, there is a role for carbon derivatives in hedging emissions costs and enhancing market transparency[24].

46. In July 2021, the CASG set up the Carbon Market Work Stream (CMWS), co-chaired by the SFC and HKEX. The CMWS has completed a preliminary feasibility assessment of carbon market opportunities for Hong Kong, concluding that the CMWS will take further steps to consider appropriate market and regulatory models. The CMWS will prepare a detailed roadmap, implementation plan and an indicative timeline after consulting with market experts and relevant authorities. The SFC will focus on identifying the appropriate regulatory framework for the proposed business models.

47. In addition, the SFC will continue to participate in the IOSCO STF's carbon market workstream, with a view to supporting international developments in the transition to a greener global economy and considering the relevance of such developments to Hong Kong.

[22] Unlocking the Potential of Carbon Markets to Achieve Global Net Zero, Global Financial Markets Association-Boston Consulting Group publication, October 2021.
[23] Ibid.
[24] Role of Derivatives in Carbon Markets, ISDA, September 2021.

Appendix A

The SFC's progress under the 2018 Strategic Framework

The SFC has been at the forefront of efforts to develop an effective regulatory framework for green finance in Hong Kong. In September 2018, the SFC published the 2018 Strategic Framework. The goals set out there have largely been completed and, in some cases, further expanded by the SFC.

- *Enhancing listed companies' reporting of environmental information with an emphasis on climate-related disclosure, taking into account the Mainland's policy direction towards mandatory environmental disclosures and aiming to align with the recommendations of the TCFD.*

Changes to HKEX's Listing Rules were introduced in 2019 to impose certain mandatory ESG disclosure requirements[1], as well as other non-mandatory ESG disclosure requirements[2]. In November 2021, HKEX published a Guidance on Climate Disclosures and an Analysis of IPO Applicants' Corporate Governance and ESG Practice Disclosure in 2020/2021. The guidance helps companies assess their response to climate-related risks and assists issuers in preparing TCFD-aligned climate change reporting. The analysis, with regard to ESG matters, found that most initial public offering (IPO) applicants made such disclosures at the IPO, but nonetheless, IPO applicants should conduct a thorough analysis and assessment to identify material ESG risks, and consider making appropriate disclosures on climate-related issues and initiatives to reduce carbon emissions.

- *Conducting a survey of asset managers and asset owners participating in the Hong Kong market on their sustainable investment practices, engaging with the industry to form appropriate policies, codes and guidance, and working towards requiring asset managers to disclose how and to what extent they consider ESG factors in their investment and risk analysis processes*

In the survey results published in December 2019, it was found that most asset managers surveyed generally considered ESG factors, but there was no consistent approach to disclosures and integration of these risks into their investment decisions. Only a limited number of asset managers had processes in place to manage the financial impact of climate-related risks.

To address this, in August 2021, the SFC amended its Fund Manager Code of Conduct to require fund managers to take climate-related risks into consideration in their investment and risk management processes as well as to make appropriate disclosures to meet investors' growing demand for climate-related risk information and to combat greenwashing. These measures are aimed at improving the comparability of information across different fund managers to help investors make more informed decisions.

A circular was issued together with the amendments, setting out baseline requirements for all fund managers (covering governance, investment management, risk management, and disclosure), as well as enhanced standards for larger fund managers.

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[1] These include (i) a board statement setting out the governance structure in relation to the board's oversight and management of ESG matters, (ii) a description of the application of the reporting principles of "materiality", "quantitative" and "consistency" in the ESG report, and (iii) an explanation of the reporting boundaries of the ESG report.

[2] For example, disclosures of (i) significant climate-related issues which have impacted or may impact the issuer, and (ii) relevant targets as set out in the "environmental" key performance indicators.

- *Facilitating the development of green-related investments, including providing disclosure guidance and harmonised criteria and frameworks to facilitate disclosure and reporting*

With regard to ESG funds, the first circular was issued in 2019 to set out the SFC's expectations on disclosure. In view of the rapid growth of ESG funds and international regulatory developments, the SFC issued a circular in June 2021 which includes further disclosure expectations on fund managers (such as how the ESG focus of the fund is being measured and monitored and the methodologies used to measure the fund's attainment of the ESG focus), as well as a requirement for periodic assessments and reporting on the extent to which the fund has attained its stated ESG focus.

A database of SFC-authorised ESG funds is available on the SFC website. To enhance the transparency of these funds, their key features are also listed in the database.

- *Supporting investor awareness of and capacity building in green finance*

In June 2021, the SFC released its consultation conclusions on proposals to update its ongoing competency standards for corporations and individual practitioners, including that ESG would be included as a relevant topic for training under the Guidelines for Continuous Professional Training. The amended guidelines became effective in January 2022.

Green finance is a core area of work of the IFEC, which enhances capacity building and raises public awareness through its investor education, outreach activities and research initiatives. In March 2019, the IFEC published a dedicated ESG and sustainable finance webpage to provide retail investors with product, market and regulatory information, presenting both the opportunities and risks to raise awareness and support better-informed decision making. ESG and sustainable finance educational messages are disseminated through the IFEC's online and social media channels, publicity campaigns, talks and press events. The IFEC Retail Investor Study is conducted periodically and includes questions to gauge investor interest, knowledge levels and participation in green finance and ESG investing.

- *Promoting Hong Kong as an international green finance centre by participating in international initiatives and exploring cooperation opportunities with environmental authorities*

The SFC has been an active participant in various international initiatives relating to sustainable finance, particularly that of IOSCO where the SFC has taken leadership roles in the STF and its workstreams on corporate reporting and asset management[3]. The SFC is also a member of other STF workstreams on promoting good practices for asset managers and ESG ratings and data products providers, and carbon markets. The SFC also chairs the Sustainable Finance Working Group of the APRC.

In addition, the SFC represents IOSCO in the Financial Stability Board's Working Group on Climate Risk, is an observer in the NGFS and the Climate Disclosure Advisory Group of the United Nations Sustainable Stock Exchanges Initiative. It is also a supporter of the TCFD Recommendations and a member of the IPSF.

[3] In addition to being a Vice-Chair of the IOSCO STF, Ms Julia Leung co-chairs the STF's Corporate Reporting Workstream with Sheldon Mills, Executive Director, Consumer and Competition, of the UK Financial Conduct Authority). She was also the Co-Chair of the previous STF workstream on asset management with D. Grant Vingoe, Chair and Chief Executive Officer of the Ontario Securities Commission.

Appendix B

Work of the Cross-Agency Steering Group

Recognising the necessity of coordination amongst the authorities responsible for financial regulation in Hong Kong, the SFC initiated the establishment of the CASG in May 2020. The purpose of the CASG is to accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategies. It is co-chaired by the SFC and the HKMA and comprises the FSTB, the Environment and Ecology Bureau, HKEX, the Insurance Authority, and the Mandatory Provident Fund Schemes Authority.

Following on from the announcement of Hong Kong's carbon neutrality goal, the CASG published the CASG Strategic Plan in December 2020. The CASG Strategic Plan covers six key focus areas, including:

- 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 Guangdong-Hong Kong-Macao Greater Bay Area (GBA); and
- Strengthening regional and international collaboration.

There are also five near-term action points to be implemented, including:

- Climate-related disclosures aligned with the TCFD recommendations will be mandatory across relevant sectors no later than 2025;
- Supporting the establishment of the ISSB for developing and maintaining a global, uniform set of sustainability reporting standards and complementary efforts by other standard-setting organisations;
- Aiming to adopt the CGT;
- Promoting climate-focused scenario analysis to assess the impacts on financial institutions under different climate pathways, such as through the pilot climate risk stress testing exercise for banks and insurers, and the use of scenario analysis by large asset managers; and
- Establishing a platform to act as a focal point for financial regulators, Government agencies, industry stakeholders and the academia to coordinate cross-sectoral capacity building, thought leadership and as a cross-sectoral repository of green and sustainable finance resources.

In July 2021, the CASG launched the GSF Centre to help the financial industry manage the risks and capture the opportunities presented by climate change. The GSF Centre will continue its work in relation to capacity building (including launching the GSF Training Repository, the GSF Internship Opportunities Repository, and working with the Government on the preparation work for the new Pilot Green and Sustainable Finance Capacity Building Support Scheme) and ESG data (including launching the GSF Data

Source Repository and a plan to create a free and publicly accessible GHG emissions estimation tool).

Following the publication of the Common Ground Taxonomy report by the IPSF in December 2021, the CASG announced further work to explore developing a green classification framework for adoption in the local market which would facilitate easy navigation amongst the CGT, China and EU taxonomies. The work will be guided by the principles of interoperability, comparability and inclusiveness, taking into account other definitions of green, transitional activities, and local considerations.

The CASG also announced the continuation of work on disclosures, including the SFC and HKEX's continuing engagement with stakeholders with a view to evaluating and adopting in Hong Kong the sustainability disclosure standards to be issued by the ISSB.

In addition, the CMWS, co-chaired by the SFC and HKEX, has completed a preliminary feasibility assessment of carbon market opportunities for Hong Kong. The CMWS will further explore how Hong Kong may develop into a regional carbon trading centre, including the development of a global high-quality voluntary carbon market. As part of this effort, it will work with relevant authorities on carbon market opportunities as part of the GBA cooperation.