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Good morning. As you start this event in Hong Kong, I will be in Brussels taking part in a conference organised by the European Commission to look at how countries might put together a more coordinated approach to sustainable finance.

The goal is to get governments and the private sector to work more closely together on "greening the financial system".

This is a matter of some urgency.

We are seeing the prospect of even more extreme weather events which are already disrupting supply chains, impacting production capacity and increasing business costs.

And global warming will also have profound consequences for the pricing of financial assets in our capital markets. And this, in turn, will have serious knock-on effects for the real economy.

I need not remind you that, with only a few exceptions, there is now a broad consensus that urgent action is needed to address the threat of climate change.

As you know, the Paris Agreement sets out a plan for transitioning to a low-carbon future and limiting global warming to below 2°C compared to pre-industrial levels.

This ambition looks to be increasingly under threat. Carbon dioxide emissions reached an all-time high in 2018. Massive green investments are needed in energy, transport, buildings and water infrastructure. The Organisation for Economic Co-operation and Development (OECD) estimates that this will require $6.9 trillion per year over the next 15 years – and that is just to hit the 2°C scenario.

It is also clear that public funds cannot possibly meet these needs. Much will depend on the ability of private investment to finance sustainable projects on a global scale, and because of this, the financial sector will also have a critical role to play.

That is why financial regulators are now assessing how they can better enable private capital to be channelled into sustainable investment.

Note: This is the text of the speech as drafted, which may differ from the delivered version.

To be credible we need to do this in a manner which is consistent with our legal mandates to supervise prudential risks at banks and other financial sector firms, and also to regulate public disclosures of material risks throughout the investment chain. None of this is easy because climate change poses a whole new set of challenges for regulators.

Hong Kong

Let me first touch on what the SFC has been doing to promote a greener financial system through Hong Kong's capital markets.

There is no doubt that more institutional investors want to invest sustainably, not least because of pressure from so-called millennium clients.

At the same time, more countries and regions are pursuing serious, detailed green finance agendas. And mainland China and the EU are now leading the pack.

We certainly need to contribute, especially given the sheer size and reach of Hong Kong's capital market, one of the largest in the world.

So, six months ago, the SFC announced a strategy for developing Hong Kong as a leading centre for green finance beyond its undoubted success in green bonds.

Our strategy recognises that Hong Kong is ideally positioned to align with the Mainland's green finance initiatives and to connect green finance flows between the Mainland and the rest of the world.

So what are the main areas we are looking at?

Listed companies

First, we have made it a priority to work with the Stock Exchange to enhance listed companies' environmental and climate-related disclosures.

This is absolutely critical. There is not much point in regulators discussing any expectations they may have for asset managers and asset owners to take environmental and climate risks seriously if they cannot access consistent, comparable corporate information to properly price risks.

So the main objective is to ensure that companies not only disclose how their own operations directly affect the environment but also to disclose scenarios illustrating how their own financial position might be affected by risks and opportunities arising from climate change.

The important recommendations of the Task Force on Climate Change Disclosure led by Michael Bloomberg and Mary Schapiro are the foundation for this work.

It is important not to confuse this type of disclosure with other environmental, social and governance (ESG) – or corporate social responsibility (CSR) – disclosure.

We need to recognise that climate change is a special, potentially existential source of financial risk for businesses. Investors must have the best information on these risks in order to allocate capital efficiently.

The Mainland is moving towards requiring listed companies to make environmental disclosures. We should ideally keep in step or even be ahead of this, not least because the majority of companies listed in Hong Kong are Mainland businesses.

So another key issue for us is whether, and to what extent, such disclosures should be compulsory, rather than voluntary or made on a “comply or explain” basis. Regulators are now actively considering this difficult question, which I will come back to.

Asset managers

Turning to the asset management industry, we will soon carry out a survey to find out more about how asset managers integrate ESG factors into their investment processes.

Asset owners increasingly recognise that these factors are a proxy for overall management quality and long-term sustainability. A preponderance of studies have found that they actually boost risk-adjusted returns, and at worst have only a neutral impact.

So it is no longer enough for asset managers to simply make the claim that they take ESG factors into account, without making clear to investors how they do this.

Some authorities have already taken steps to regulate in this area, with Europe at the more advanced stage.

A number of countries are also developing more consistent disclosure or labelling guidelines for green investment products. The SFC has seen an increase in applications from funds with a green or sustainability focus. So we now evaluate ESG disclosures more closely, and we will continue our efforts in this area to minimise the possibility of “greenwashing”.

Conclusion

In short, our hope is that if policy makers, regulators and industry participants can pull together, we will see the emergence of compelling, market-driven solutions to critical climate risks.

Hopefully, this will take place side by side with, and assist, the emergence of a more convincing global political consensus.

In my view, effective market-based solutions will depend on our ability to answer three difficult questions – even setting aside issues such as greenwashing.

The first is global regulatory harmonisation – the scope for meaningful investor action will be small if disclosures of climate change risks are inconsistent across different sectors and geographies.

The second is to achieve a consensus that the issue is not about fuzzy green branding or green credentials, but disclosure standards centred on the tremendous financial risks arising from climate change.

Some of our fellow prudential regulators are quite advanced in this area – notably the Bank of England, to do with the implications of climate change for the riskiness of assets on the balance sheets of banks and insurers.

But much more needs to be done in relation to consistent, decision-useful corporate and asset management disclosures.

And finally, how to embed climate change disclosures into enforceable rules when scenarios mainly describe long-term financial risks. In other words, what would a disclosure breach look like and what should the response of market regulators be to any breach?

So at the SFC we will double down on these challenges so that Hong Kong joins with the EU and mainland China as world leaders in this area.

Thank you.