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Executive Summary



To conduct a survey of asset managers and asset owners participating in the Hong Kong market on their sustainable investment practices, to engage with the industry to formulate appropriate policies, codes and guidance, and to work towards obliging asset managers to disclose how and to what extent they consider ESG, especially environmental factors, in the investment and risk analysis process.

To facilitate the development of a wide range of green-related investments, including listed green products, as well as unlisted, exchange-traded and OTC green products. This would include providing disclosure guidance and harmonised criteria and frameworks to facilitate disclosure and reporting, and working with Hong Kong Exchanges and Clearing Ltd (HKEX) on how it can develop and promote the listing and trading of green financial products such as bonds, indices and derivatives.

To support investor awareness of and capacity building in green finance and investment-related matters by working with the Investor Education Centre, other financial regulators, industry associations and stakeholders.

To promote Hong Kong as an international green finance centre by participating in international initiatives, as well as exploring cooperation opportunities with environmental authorities.

8. Within the SFC, we have set up a cross-divisional working group to consider policies to develop Hong Kong as a green finance hub. We look forward to fostering cross-agency and public-private collaboration, and have started discussions with HKEX, other financial authorities, key stakeholders along the investment chain and the wider financial community.



Corporate Environmental and Climate Change-Related Disclosure

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governments, is piloting the TCFD recommendations.²⁴ This is the first TCFD pilot for China and will inform the direction



18. environmental information emphasising climate-related disclosure, taking into account the



Asset Managers and Sustainable Investing

20. Sustainable investing continues to gain momentum globally. More than 1700 asset owners, investment managers and service providers representing over US\$68 trillion in assets under management have clarified their commitment to ESG by signing up to the United Nations Principles for Responsible Investment (UN PRI).³⁷ Many have published their ESG policies, the names of staff responsible for ESG as well as their processes for considering ESG risks and opportunities throughout the asset management life cycle from investment selection to portfolio monitoring and the reporting of ESG performance.

21. The following factors have encouraged sustainable investing.

Better Risk Management and Return Potential: Investors seek to add value by considering ESG issues, which some believe could enhance risk analysis, identify investment opportunities and help generate competitive financial returns.

Rising Demand from ESG-oriented Investors: A 2018 report by Morgan Institute for Sustainable Investing found that 84% of asset owners are pursuing or considering pursuing ESG integration in their investment practices.³⁸ In Hong Kong, the Monetary Authority has incorporated ESG principles into its investment process.⁴⁰ Other asset owners such as AXA,³⁹ Strategic Investment Fund, church institutions and universities,⁴¹ have announced plans to increase ESG asset allocation and/or divest from fossil fuels. Many institutional

asking ESG-related questions as part of hiring or retaining asset managers.⁴²

22. Nevertheless, some challenges remain.

Lack of Quality and Comparability of ESG Data: One of the major challenges for sustainable investing is the quality and comparability of corporate ESG data due to the diversity of local disclosure requirements and international reporting frameworks. Hence,

reporting of environmental information, emphasising climate-related disclosure, taking cy direction to target mandatory environmental disclosure by 2020 and aiming to align with the TCFD recommendations.

Insufficient Disclosure on Whether and How Asset Managers Conduct Sustainable Investing: Many asset managers and institutional investors do not systematically consider sustainability factors and risks in the investment processes. It was found that they do not sufficiently disclose to their clients if and how they consider sustainability factors in their decision-making. Therefore, end-investors may not get all the information they need. As a result, investors do not sufficiently take into account the impact of sustainability risks when assessing the performance of their investments over time.⁴³

ESG Preferences Not Addressed in Client Suitability Assessments: When investment advisers and asset managers conduct suitability assessments with a view to



are not required to ask clients about their ESG preferences and take them into account when assessing the range of financial products to be recommended.⁴⁵

There is also a growing concern that a lack of regulatory sustainably may contribute to

regard, the UN PRI has recently highlighted free-rider issues with some of its signatories, and is taking a firmer stand with signatories who fail to demonstrate commitment.⁴⁶

23. These challenges are unlikely to be resolved by the market alone. Therefore, authorities in major jurisdictions are starting to provide regulatory support for the development of sustainable investing.

Principles of Responsible Ownership encourage investors to engage with investee companies on significant ESG is goodwill, reputation and performance.⁴⁷

Disclosure of Integrating ESG Factors in Asset Management and Financial Advice: Article 173 of the French Energy Transition for Green Growth Act requires certain asset

how they incorporate ESG factors, especially climate change considerations, into their
⁴⁸ Article

pension fund asked global asset managers in Boston to comply with Article 173 in executing their mandate.⁴⁹

In addition, the European Commission is working on disclosure obligations on how asset managers integrate ESG factors in their risk and investment processes as part of their duties towards beneficiaries and aims to include ESG considerations into the advice that investment firms offer to clients.⁵⁰

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Guidelines on Green Investment Practices: In the Mainland, increasing attention is being given to investor duties and ESG integration. The Asset Management Association of China recently consulted on its proposed voluntary guidelines on green investment practices, which will apply to n0Eb6a14(o)13(r)87 wilB(i)-5(IB(i)n(du)14(t)-4(i)5(es aaad)3(v5(es.37 365



25. As a first step, we will conduct a survey of asset managers and asset owners participating in the Hong Kong market on four major aspects of sustainable investing, namely their commitment, investment process, post-investment ownership practices and reporting of ESG performance, with an emphasis on the environmental aspect. The survey will cover asset managers of different types and sizes, as well as those using different investment strategies. Based on the survey outcome, we will consider appropriate policies, codes and guidance with a view to obligating asset managers to disclose how and to what extent ESG factors, and especially environmental factors, are integrated into investment decisions.
26. Second, to strengthen the leadership of Hong Kong financial regulators in supporting green-



for Britain and European companies which are expected to shape the future of the economy, including green companies, even though they may not be already listed.⁶⁸38 rg55.2 aEMC /P #MCID 12/Lang en



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- ¹ See Article 2 of the Paris Agreement, United Nations Framework Convention on Climate Change, November 2015: <https://unfccc.int/process/conferences/pastconferences/paris-climate-change-conference-november-2015/paris-agreement>
- ² Read more about the TCFD at <https://www.fsb-tcfd.org/>.
- ³ UK-China Climate and Environmental Information Disclosure Pilot Action Plan, China Green Finance Committee and the City of London Green Finance Initiative, September 2018: <http://greenfinanceinitiative.org/uk-china-climate-and-environmental-information-disclosure-pilot/>
- ⁴ Read more about the China-UK TCFD Pilot Group at <http://greenfinanceinitiative.org/china-uk-tcfd-pilot-group/>.
- ⁵ Complete upgrade of li February 2018: <http://finance.irj.com.cn/2018/02/09073024091121.shtml>
- ⁶ Notice regarding the Public Consultation on the Draft Green Investment Guidelines (for Trial Implementation), the Asset Management Association of China, July 2018: <http://www.amac.org.cn/xhdt/zxdt/393245.shtml?>; [China launches its first green investing consultation](#), Ignites Asia, July 2018: http://ignitesasia.com/c/2033513/238673/china_launches_first_green_investing_consultation?referrer_module=emailMorningNews&module_order=0&code=WjJ0amQyOXVaMEJ6Wm1NdWFHc3NJRFkyTkRvd01UTXNJREV3T0RneE1EZzFPUT09
- ⁷ Implementing the action plan: Commission legislative proposals, the European Commission, May 2018: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en#implementing-the-action-plan-commission-legislative-proposals
- ⁸ Guidelines for Establishing the Green Financial System Development and Reform Commission, Ministry of Environmental Protection, China Banking Regulatory Commission, China Securities Regulatory Commission and the China Insurance Regulatory Commission, August 2016: <http://www.pbc.gov.cn/english/130721/3133045/index.html>. For the Chinese version, see: http://www.mee.gov.cn/gkml/hbb/gwy/201611/t20161124_368163.htm.
- ⁹ , UN Environment and the International Institute of Green Finance, November 2017: http://unepinquiry.org/wp-content/uploads/2017/11/China_Green_Finance_Progress_Report_2017_Summary.pdf
- ¹⁰ See Paragraph 3.15 of Connecting for Consensus and A Better Future, Manifesto of Carrie Lam, Chief Executive Election 2017, February 2017: https://www.ceo.gov.hk/eng/pdf/Manifesto_E_revised.pdf
- ¹¹ See page 74 of Annex: Implementing the Recommendations of the TCFD, TCFD, June 2017: <https://www.fsb-tcfd.org/publications/>, and Long-term investors: Are you aware of your climate change risk exposure?, Mercer, 2015: <https://www.mercer.com/content/dam/mercer/attachments/global/investments/long-term-investors-are-you-aware-of-your-climate-change-risk-exposure-mercer-2015.pdf>
- ¹² See letters to companies by BlackRock: <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>, Vanguard: <https://about.vanguard.com/investment-stewardship/governance-letter-to-companies.pdf> and State Street Global Advisors: <https://www.ssga.com/investment-topics/environmental-social-governance/2017/Letter-and-ESG-Guidelines.pdf>.
- ¹³ Read more about Climate Action 100+ at <http://www.climateaction100.org/>.
- ¹⁴ The ESG journey begins: 2017 ESG reporting survey of Hong Kong listed issuers, KPMG, November 2017: <https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2017/11/the>



²³ See endnote 5. .



⁴⁹ Will France's corporate climate reporting model go global?, GreenBiz, July 2016: <https://www.greenbiz.com/article/will-frances-corporate-climate-reporting-model-go-global>