

Asset Management

SFC's Consultation on Management and Disclosure of Climate-related Risks



On 20 August 2021, the Hong Kong Securities and Futures Commission (“SFC”) issued the Consultation Conclusions on the Management and Disclosure of Climate-related Risks by Fund Managers. The resultant conclusion is a two-tiered approach; a baseline set of requirements which will apply to all fund managers; and a set of “enhanced requirements” that will apply to fund managers with assets under management that are equal to or in excess of HK\$ 8 billion.

The SFC proposed that the Fund Manager Code of Conduct should be amended to reflect the new requirements. Consequently, this new regulation will materially impact governance, risk management, conduct, and reporting for the 1,800-plus Hong Kong-based asset management firms.

The asset management industry has been under pressure to manage its climate risk exposure. The consultation conclusion is a sign of convergence between institutional investor demands and the regulatory agenda.

When will the rules come into effect?

Manager Profile (assuming 31 Dec year-ends)	Large Fund Managers 	All Other Managers 
Baseline Requirements	20 August 2022	20 November 2022
Enhanced Requirements	20 November 2022; quantitative disclosures due in 2023	Not applicable

Practical questions for asset managers

Does your firm have a process in place to identify transitional risk exposure? For example, do the funds have exposure to sectors conventionally associated with high carbon emissions?

- Energy
- Utilities
- Metals & mining
- Manufacturing
- Property development
- Construction
- Transportation
- Etc.



Does your firm have a process in place to identify material physical risks that may have a fundamental impact on an investee company?



Does your firm have access to the data that is necessary to identify, monitor and manage climate risk?



Does your firm have a process in place to monitor transition risk related to macro trends? For example:

- Change in global energy mix
- Change in carbon price and how it may impact intrinsic and fair values?
- Impact to the global economy (measured in GDP) in shifting to low-carbon emission energy sources and products
- Jurisdictional carbon neutral commitments and timelines?



Have your investors or consultants asked about climate risk in the context of your investment process and risk management process? Are you able to address these questions with a strong conviction?



Regulatory Requirements



1. Governance - Board of Directors:

Oversight of climate risk issues and setting tone at the top



2. Governance - Management:

Supervision and integration monitoring of climate risk into investment and risk management processes



3. Investment Process:

- (1) Identification of material physical and transitional risk
- (2) Factor in material climate-related risks into the investment process
- (3) Assess impact on performance



4. Portfolio Risk, Management and Operations:

- (1) Incorporate climate-related risks into portfolio risk management
- (2) Process to identify, assess, manage and monitor material climate related risks
- (3) Develop tools and metrics to assess and quantify climate-related risks
- (4) Engagement policy and disclosure of such policy*
- (5) Scenario analysis (recommended)*



5. Investors Reporting and Disclosures:

- (1) Incorporate climate-related risks into portfolio risk management
- (2) Process to identify, assess, manage and monitor material climate-related risks
- (3) Develop tools and metrics to assess and quantify climate-related risks
- (4) Portfolio carbon footprint of scope 1, 2, and 3 (optional) GHG emission for each fund*

**Enhanced requirements for fund managers with more than HK\$ 8 billion in AUM*

How KPMG Can Help

From impact assessment, development and review of governance structure and risk management framework to quantitative analysis and reporting, KPMG can help you navigate the complexity that is climate risk:



Applicability study, and gap analysis of governance and risk management framework, internal controls review



Climate risk scenario modelling, fund / strategy level quantitative analysis to help assess and quantify climate-related risks



Reporting, disclosures and attestation



Provide support through recommending remedial actions required. Assessing the adequacy and effectiveness of remedial actions designed or implemented by fund managers to close the identified gaps

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