SFC-authorized ESG Funds Periodic Assessment



SFC circular requirements on ESG Funds and sustainability claims

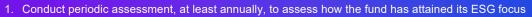
Growth in sustainable investment is accelerating. As of the end of March 2022, the total assets under management (AUM) of SFC-authorized ESG funds in Hong Kong reached US\$143 billion. The Hong Kong's Securities and Futures Commission (SFC) will continue to monitor ESG funds' compliance with the requirements set out in its June 2021 circular.

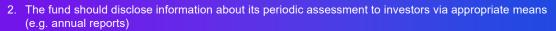
KPMG firms can offer a range of services across your ESG journey to help you to assess regulatory expectations, close gaps and enhance ESG integration and engagement into your business models and strategies.

Regulatory requirement highlights

- In 2019, the SFC issued a circular to management companies of SFC-authorized unit trusts and mutual funds, aiming to enhance the disclosure standards of ESG funds.
- In 2021, the circular was enhanced with further naming and disclosure requirements, as well as a requirement to carry out periodic assessment and reporting.

Part G.para. 18-19. Periodic assessment and reporting







Naming Requirements



Disclosure Requirements



Others

Possible compliance pitfalls



Governance

 Failing to have appropriate governance structures in place to mitigate risk or provide suitable oversight



Investment and Engagement activities

 Inappropriately investing in securities misaligned with ESG mandates



Use of Data

 Failing to track and keep records of ESG integration activities and decision-making processes



Product disclosure

 Misrepresenting the extent of ESG integration in investment decision-making, and misleading risk, return and correlation metrics in portfolio sustainability disclosures

Determining your compliance needs Assessment Framework KPMG provides a tailor-made disclosure checklist to help asset managers ensure that the minimum requirements of the guidance are met, and identify estimations and limitations. **AnnualAssessment Report** The checklist will include, but is not necessarily limited to, the following sections: **Annual Assessment Report Governance Structure & Operational Matters Annual Disclosure Statement** ESG investment approach ESG screening and rating Enhanced ESG due diligence Do you have an existing Engagement and stewardship assessment Deliverable: framework in Tailor-made checklist for periodic assessment line with the latest SFC requirements? **Limited Assurance of Client's Self-Assessment Annual Limited Assurance Report** We provide assurance services to your Internal Annual Assessment Report and Disclosure Statement Deliverables: **Annual Limited Assurance Certificate** Yes

Traceability, Verification, Assessment

ESG Funds Enhancement Service



Develop a framework to prepare for periodic assessment and reporting

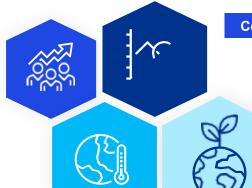


Review of other regulations and instruments to match or go beyond SFC requirements



Benchmark best practices and develop a roadmap to enhance the fund ESG performance

How KPMG can help



Compliance: ESG Fund periodic assessment or limited assurance

Compliance: FMCC climate-related risk disclosure

Fund-level TCFD: target setting, and financed emissions disclosure

Framework: ESG investment framework (best-in-class, thematic, impact, etc.)

Due Diligence: ESG screening and enhanced due diligence

Stewardship: Issuer's engagement on transitional planning

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