CONSULTATION RESPONSE

PRI RESPONSE: THE HONG KONG SECURITIES AND FUTURES COMMISSION CONSULTATION ON THE MANAGEMENT AND DISCLOSURE OF CLIMATE-RELATED RISKS BY FUND MANAGERS

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An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

ABOUT THE PRI

The Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI is now a not-for-profit company with over 3,000 signatories (pension funds, insurers, investment managers and service providers) to the PRI's six principles with approximately US $100 trillion in assets under management.

The PRI supports its international network of signatories in implementing the Principles. As long-term investors acting in the best interests of their beneficiaries and clients, our signatories work to understand the contribution that environmental, social and governance (ESG) factors make to investment performance, the role that investment plays in broader financial markets and the impact that those investments have on the environment and society as a whole.

The PRI works to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

SUMMARY OF THE PRI'S POSITION

The PRI warmly welcomes the leadership shown by the Hong Kong Securities and Futures Commission (SFC) in bringing forward these proposals. Asset managers play a pivotal role in the allocation of capital. Making climate disclosure mandatory for Hong Kong regulated asset managers will accelerate investor awareness and action on climate change in the region, as well as setting an example to other financial centres to follow suit in the build-up to COP 26 this year.

PRI supports the SFC's proposal that climate-related reporting be made a requirement for SFC regulated asset managers, through amendments to the existing Fund Manager Code of Conduct (FMCC). This is consistent with regulatory trends in other markets such as the UK, the EU, New Zealand, Singapore, as well as to an extent in Japan, Canada and investor reporting to the PRI.

Whilst PRI does strongly support the consultation proposal, we also recommend / highlight:

- **The TCFD Taskforce is updating its technical guidance and recommendations**. One proposed change that is expected to be consulted on is to propose replacing Weighted Average Carbon Intensity (WACI) with the Partnership for Carbon Accounting Financials (PCAF) methodology for carbon foot printing. Given the importance of common methodology and limiting overall compliance costs, and prominence given to WACI in the SFC proposal, PRI recommends:

    - In the initial implementation period, provide the option to asset managers to choose either of these methodologies.
    - Update the guidance on carbon intensity metric after a two-year review to clarify which of these approaches is recommended.

- **Financed emissions**. The proposal recommends disclosure of scope "Large Fund Managers be required to make reasonable efforts to acquire or estimate the WACI of Scope 1 and Scope 2 GHG emissions for funds under management". Yet, for asset managers, the vast majority would be concentrated in scope 3 emissions in the portfolio. As the proposal is currently worded it is not clear as to whether the SFC intends for investors to disclose only direct and indirect emissions (i.e. from employee travel, office electricity use) or whether they would be looking for disclosures of emissions in firms' portfolios and financial investments.

  Our assumption is the latter and since it is possible to estimate scope 3 emissions by the product (compromised of scope 1 and 2) emissions of investee companies, plus scope 3 emissions where significant, there is risk of potential confusion as to what the purpose or the reporting boundary should be. To avoid this, PRI recommends clarifying:

  i) Large asset manager will need to disclose their financed emissions in their group wide portfolio.

ii) In line with GHG protocol corporate value chain accounting and reporting standard, referenced by the TCFD, asset managers should collect and disclose:

Financed (Scope 3) greenhouse gas emissions (comprised of scope 1 and 2 emissions of investee companies plus scope 3 emissions of investee companies where these are significant compared to other sources of emissions) in MtCO2e.

- **Company disclosures.** To assess, manage and disclose climate-related risks and opportunities investors rely primarily (albeit not exclusively on) comparable disclosures by corporates. Without this input, investors will need to use proxies, which whilst not without their uses, have limitations and increases the cost of implementing TCFD aligned recommendations. PRI recommends that the Hong Kong Stock Exchange ESG disclosure rules should be tightened to match the proposed revision to the FMCC on climate change.

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