BlackRock

15 January 2021

The Securities and Futures Commission
54/F One Island East
18 Westlands Road
Quarry Bay, Hong Kong

Submitted online and via email: 2020_Climate_Consultation@sfc.hk

RE: Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers (the "Consultation Paper")

Dear Sirs,

BlackRock, Inc. (BlackRock)[1] is pleased to have the opportunity to respond to the Consultation Paper, issued by the Securities and Futures Commission (SFC).

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We support the SFC's initiative to require fund managers to take climate-related risks into consideration in their investment and risk management processes as well as to make appropriate disclosures. This is consistent with BlackRock's investment conviction that sustainability- and climate-integrated portfolios provide better risk-adjusted returns to investors over the long-term and that sustainability-related data provides an increasingly important set of tools to identify unpriced risk and opportunities within portfolios.

We welcome the opportunity to comment on the issues raised by this response and will continue to contribute to the thinking of the SFC on any issues that may assist in the final outcome.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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1 BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Introduction

As an asset manager, BlackRock has a fiduciary responsibility to protect and enhance the value of assets clients have entrusted to us. Sustainability factors, including climate change, pose risks and opportunities that may impact the long-term financial sustainability of the companies in which we invest on behalf of our clients.

In January 2020, we announced a series of initiatives to accelerate our sustainability efforts and make sustainable investing our standard.[2] At the center of these commitments is our investment view that sustainability-integrated portfolios can provide clients with better long-term risk-adjusted returns. These initiatives fall into three broad areas: (1) building sustainable, resilient and transparent portfolios; (2) enhancing engagement, voting and transparency in stewardship; and (3) increasing access to sustainable investing. We note that the first two of the aforementioned areas are of direct relevance to the Consultation Paper; in particular, ESG integration is a core pillar to our commitment to building sustainable, resilient and transparent portfolios.

BlackRock's ESG Integration Statement[3] details our firm-wide commitment to integrate ESG information into investment processes across all portfolios. For BlackRock, ESG integration is the practice of incorporating material ESG information into investment decisions with the objective of improving the long-term financial outcomes of our clients' portfolios. We are doing this across all our active portfolios in both public and private markets seeking to enhance risk-adjusted returns. In index portfolios, we engage with companies on ESG issues to enhance long-term value for our clients.

In December 2020, we issued an update[4] on our various sustainability commitments, which includes delivering on our goal of having 100% of our approximately 5,600 active and advisory BlackRock strategies ESG integrated. Also in December 2020, we published a white paper[5] (the "BLK Integration Paper") describing BlackRock's detailed approach to integrating sustainability related factors into portfolio management, as well as presenting the progress we have made and lessons learned so far. We hope that by providing more transparency into how we approach integration, we can not only meet our clients' needs but contribute to learning, knowledge and advancement across our industry.

Finally, we are pleased to share with the SFC the results of BlackRock's first Global Client Sustainable Investing Survey[6] (the "BLK Survey"). The opinions of 425 investors in 27 countries representing an estimated USD 25 trillion of AUM were canvassed. Respondents included corporate and public pension plans, sovereign wealth funds, insurers, asset managers, endowments, foundations and global wealth managers. Importantly, the voice of retail investors was represented via the survey of global wealth managers. One of the key findings of the survey was that 75% of global respondents currently use, or would consider using, ESG integration to incorporate sustainability into their portfolios. This reinforces the importance of ESG integration and we appreciate the SFC's initiative to enhance integration efforts across the industry.

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2 BlackRock client letter, "Sustainability as BlackRock's New Standard for Investing", January 2020 and an update on commitments dated May 2020.

3 BlackRock's ESG Integration Statement, last revised December 2020.

4 BlackRock's update, "Our 2020 sustainability actions", December 2020

5 BlackRock white paper, "Making Sustainability Our Standard", December 2020

6 BlackRock 2020 Global Sustainable Investing Survey, December 2020

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Responses to questions

1. Do you have any comments on the SFC's proposal to focus on climate change or should a broader spectrum of sustainable finance should be considered in developing the requirements? Please explain your view.

Whilst BlackRock believes that all material sustainability factors can impact a client's portfolio, we agree with the SFC that the most significant of those factors today relates to climate change. As Larry Fink wrote in his 2020 letter to CEOs,[7] the investment risks presented by climate change are set to accelerate a significant reallocation of capital, which will in turn have a profound impact on the pricing of risk and assets around the world.

Referring once again to the BLK Survey, another key finding was that climate change is perceived as the most urgent issue that investors wish to address, with 88% of global respondents ranking environment as the priority most in focus today. This finding was not surprising, but we would also highlight that the results indicated that over the next 3-5 years, while climate remains centre stage, there will also be a growing emphasis on social issues. Respondents are also increasingly looking to express their environmental investment objective through the lens of the Sustainable Development Goals.

We are therefore supportive of the SFC's proposal to start by tackling climate risk as a priority, especially given that metrics are generally more developed in this area to date. That said, we strongly encourage the SFC to keep abreast of global developments in sustainability and take an iterative approach with relevant requirements. In particular we note that in the EU there are now various regulatory obligations being imposed (or proposed) upon in-scope asset managers relating to the integration of sustainability risks in the manager's investment decision-making process,[8] and we would strongly urge the SFC to maintain a principles-based approach to the Consultation Paper's proposals to reduce the risk of conflicting or duplicative regulatory requirements.

Looking ahead to the implementation stage, we appreciate the SFC taking on board previous comments to confirm that the proposed requirements are not intended to single out climate-related risks from other investment risks, that the focus is on managing the climate-related risks of client portfolios rather than on the manager's own operational and financial risks posed by climate change, and that global managers can make reference to their group practices (including group-level governance) to satisfy the SFC's requirements. However we urge the SFC to endorse this approach in the revised FMCC and/or the circular, and to explicitly recognise that for global fund managers, climate risk related issues may be subject to oversight at the group/parent entity level rather than at the level of the Board or senior management of the local manager entity.

2. Do you agree that at the initial stage, the SFC's proposed requirements should apply to the management of CISs but not discretionary accounts?

As a matter of principle we believe that high-level, principles-based requirements on climate-risk integration[9] should apply across the board to asset managers of all sizes and irrespective of whether they manage CISs or discretionary accounts, or whether their AUM is above or below a certain threshold. This is because, in our view, sustainability risk is investment risk and as such

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7 BlackRock's letter to CEOs, "A Fundamental Reshaping of Finance", January 2020

8 Such regulatory obligations (or proposals) include those set out in the EU's Sustainable Finance Disclosure Regulation (the "SFDR") together with draft regulatory technical standards for the SFDR and draft amendments to the MiFID II, AIFMD and UCITS regimes

9 We are, however, of the view that the requirements set out in the proposed circular may be too prescriptive and thus not appropriate for discretionary accounts, given that discretionary account clients are generally sophisticated investors who often stipulate their own requirements as to ESG considerations and related disclosure and reporting.

incorporating climate-related risks into investment decisions is part and parcel of an asset manager's fiduciary duty. In addition, uniformity of disclosure across the industry would aid reader comparison of reported data and create a more fulsome picture of practices across the asset management industry, as well as speed development and adoption of best practices in climate risk management.

Nonetheless we acknowledge the SFC's concerns around the potential compliance burden on smaller managers. While we do not consider it necessary to entirely scope out discretionary accounts or have differing standards for smaller/larger managers, should the SFC proceed as proposed, we would urge the SFC to consider the current scope as a first step only, with a view to creating a level playing field in due course.

3. Do you agree that the SFC should make reference to the TCFD Recommendations in developing the proposed requirements so as to minimise fund managers' compliance burden and foster the development of a more consistent disclosure framework? Other than the TCFD reporting framework, is there any other standard or framework which in your opinion would be appropriate for the SFC to refer to in developing the proposed requirements?

We agree that the recommendations of the Task Force on Climate Related Financial Disclosures ("TCFD") (the "TCFD Recommendations")[10] should be a backbone to a climate risk reporting framework.

Specifically in relation to disclosing how climate-related risks and opportunities are managed within client portfolios (which is the focus of the Consultation Paper), we note that the annex to the TCFD Recommendations seeks to provide supplemental guidance to asset managers for this exact purpose. Furthermore, asset managers who are investor signatories to the Principles for Responsible Investment ("PRI") are already committed to reporting against the TCFD-based governance and strategy indicators from 2020 (although disclosure of such report is still voluntary). Thus, the SFC using the TCFD as a starting point seems to us to be a sensible approach, which we agree could help reduce compliance burden and foster the development of a more consistent disclosure framework amongst asset managers. At this stage, we do not suggest referring to any other standard in developing the proposed requirements.[11]

We are pleased to share with the SFC BlackRock's 2020 TCFD Report.[12] TCFD reporting is an expectation set forth by BlackRock's Investment Stewardship team for the companies we invest in on behalf of our clients. As a publicly traded company ourselves, we have an important responsibility to lead by example through our own corporate sustainability disclosures. BlackRock's report responds to all 11 TCFD recommendations and the supplemental guidance for asset managers. We anticipate relying on our TCFD report to satisfy the bulk of the entity-level disclosure obligations proposed under the Consultation Paper.

[10] TCFD, Recommendations of the Task Force on Climate-related Financial Disclosures together with Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017.

[11] We wish to highlight the fact that the Consultation Paper deals specifically with climate-related risks of portfolios managed by asset managers on behalf of clients, as opposed to climate-related risks at the asset manager enterprise level. For the former, we suggest referring only to TCFD at this stage. In respect of the latter, however, BlackRock is a strong advocate for global convergence on comprehensive sustainability reporting by corporates, which we consider to be reporting aligned with the TCFD Recommendations and metrics identified by the Sustainability Accounting Standards Board.

[12] BlackRock's 2020 TCFD Report, December 2020.

4. Do you have any comments on the proposed basis for determining the threshold for Large Fund Managers, ie, HK$4 billion, and the basis for reporting? Please explain your view.

Please refer to our response to Question 2.

5. Do you have any comments on the proposed amendment to the FMCC requirements, baseline requirements and enhanced standards? Please explain your view.

We are generally supportive of the proposed changes to the FMCC, baseline requirements and enhanced standards, but would make the following suggestions/observations:

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- Paragraph 27: We consider climate-related liability risks as a potential consequence of physical and/or transition risks, rather than a standalone risk. We suggest aligning with the TCFD Recommendations and removing liability risks as a separate category (see table in Paragraph 51 of the Consultation Paper). This would also be better aligned with the SFC's proposed wording for the new paragraph E1 of Appendix 2 of the FMCC.
- Paragraph 38: As mentioned in our response to Question 1, we strongly urge the SFC to make it explicit in the revised FMCC and/or circular that local licensed entities can rely on their group practices, in particular recognising that for global fund managers, climate risk related issues may be subject to oversight at the group/parent entity level rather than at the level of the Board or senior management of the local manager entity.
- Paragraph 54: Please see separate discussion below.
- Paragraph 57: We are concerned that this paragraph seems to conflate climate risk integration (i.e. factoring material climate-related risks into the investment process of portfolios generally) with common sustainable investing strategies which are employed in sustainable products. The references to "exclusionary screening, best-in-class screening, norms-based screening and impact investing" seem to suggest that climate risk integration is required only in respect of sustainable products. As mentioned above, BlackRock views climate risk as investment risk and accordingly, for us, climate risk integration is part and parcel of an asset manager's fiduciary duty in the management of all client portfolios. We would appreciate if the SFC can clarify this paragraph.
- Paragraph 64: For relevant and material climate risks, we agree that ongoing monitoring is necessary. However, for relevant but immaterial climate risks, a periodic review should be sufficient to assess if it becomes material. We suggest clarifying that periodic reassessments should be carried out as part of ongoing risk management activities to determine if additional material climate risks exist.

Appendix 1 – Proposed changes to the FMCC

- Proposed new Paragraph E under Appendix 2 of the FMCC: Paragraph E2 should be amended as follows: "*A Fund Manager should establish and maintain effective systems, policies and procedures to: (i) identify relevant and material climate-related risks…"* This would better align with wording of Paragraph 3.11.1 of the FMCC, which refers to risks which are both relevant and material.

Appendix 2 – Proposed baseline requirements and enhanced standards

- Governance – Baseline – Board's and management's roles and responsibilities, 3rd bullet: Given that the SFC is minded to primarily make reference to the TCFD Recommendations, we suggest amending as follows for better alignment with the wording of the TCFD Recommendations: "*determine how the board or the board committee executes this role,* *including the process and frequency by which the board or the board committee is informed ~~of the status of incorporating climate-related considerations into the investment and risk management processes through appropriate reporting and escalation~~* about climate-related issues"

- Risk Management – Enhanced – Tools and metrics, 1st bullet: We suggest amending as follows: "*Assess the relevance and utility of scenario analysis in evaluating the resilience of investment strategies to climate-related risks under different pathways. If the assessment result is deemed to be relevant, ~~and~~ useful and feasible, fund managers are required to develop a plan to implement scenario analysis within a reasonable timeframe*". We consider that feasibility of implementation is an important prerequisite to this requirement.

- Disclosure – Baseline – Governance, 2nd bullet: Similar to our comment above on the corresponding requirement under the Governance section, we suggest amending this requirement to better align with the wording of the TCFD Recommendations: "*the process and frequency by which the board or the board committee is informed ~~of the status of incorporating climate-related considerations into the investment and risk management processes~~ about climate-related issues*"

- Disclosure – Baseline – Manner and frequency of disclosures, 3rd bullet: Whilst we agree that an annual review of the disclosures may be appropriate, any updates to the disclosures should only be required when the asset manager considers that material changes need to be made. We are also opposed to the requirement to inform investors of any material changes made. With the exception of fund-level WACI, the proposed disclosure obligations are primarily in relation to entity- and group-level policies and procedures. Sustainability-related processes are expected to continue to evolve, not least due to regulatory requirements and continued improvements in the availability, quality, consistency and comparability of data and methodologies. Notifying fund investors each time there are material changes to such policies and procedures (e.g. internal reorganisation of governance structure, procurement of additional sources of ESG data, amended engagement policy to enhance focus on ESG-related matters) would be disproportionate. We also opine that such information would generally not be decision-useful. We urge the SFC to adopt a less prescriptive approach and instead allow asset managers to make a professional judgement of what information would be decision-useful and hence need to be notified to investors. We therefore recommend amending the requirement to "*review ~~and update~~ disclosures at least annually and update disclosures where considered appropriate ~~inform fund investors of any material changes made as soon as practicable~~.*

- Disclosure – Enhanced – Fund level disclosures: We acknowledge that the TCFD Recommendations also call for WACI to be disclosed for each fund product or investment strategy where data are available or can be reasonably estimated. Indeed, BlackRock supports transparency and as of the end of 2020, all of BlackRock's approximately 1,700 mutual funds and ETFs in Europe, the Americas and Asia Pacific now disclose ESG metrics covering distinct MSCI sustainability characteristics including (subject to data availability) WACI. That said, we note that recently there are increasingly debates about the value of GHG emissions as a useful metric.[13] Thus while we do not have objections per se over the SFC's WACI proposal, we would encourage the SFC to consider taking a more flexible approach – rather than making fund level WACI mandatory, there is merit to enabling managers to decide, taking into account data availability/integrity and the relevant investment strategy, the metrics it considers most appropriate and decision-useful to disclose to investors.

  We also suggest amending this requirement to better align with the recommended disclosure in the Annex to the TCFD Recommendations in relation to GHG emissions: "*and indicate the calculation methodology~~, underlying assumptions and limitations,~~ and the proportion of investments (eg, in terms of the net asset value of funds) which are assessed or covered."* Better alignment with TCFD wording would help relieve compliance burden for fund

[13] See for example, TCFD's consultation on "Forward-Looking Financial Sector Metrics", October 2020.

managers as data providers providing WACI metrics also align their methodologies and associated disclosures with TCFD requirements.

Specific discussion on Paragraph 54 of the Consultation Paper

We agree with the SFC's view that funds adopting a passive investment strategy should not automatically be carved out from the proposed requirements. As explained in the BLK Integration Paper,[14] while ESG integration broadly focuses on how portfolio managers use sustainability-related information to enhance investment research and decision-making, BlackRock's position is that ESG integration is relevant for all asset classes and styles of portfolio management, including index strategies. What differentiates index portfolios from other investment strategies is that they are managed with a focus on minimising the performance tracking difference versus an underlying index. The composition of the index is the responsibility of the index provider, and the portfolio manager seeks to provide clients with exposure to the constituents of that index.

We are, however, concerned by the reference in Paragraph 54 of the Consultation Paper that "*for partial replication methodologies and enhanced passive strategies, the PRI suggests that passive fund managers identify investee companies with high sustainability risks or poor ESG ratings and adjust the weights of portfolio constituents accordingly, or else exclude them from the portfolio within an acceptable tracking error range*."[15]

We start by noting that it may be misleading to refer to "partial replication" and "enhanced passive" (as defined by the PRI[16]) together in the manner as appears in Paragraph 54, as we view the two categories as being fundamentally different. Even in the PRI paper, the two are described separately: partial replication is presented as being one form of the wider category of passive investments, where the objective is to seek to match the performance of an index, whereas enhanced passive is distinct as it in fact incorporates active elements with an aim to reduce downside risk or beat an index (and enhanced passive funds often have an express tracking error target).

Notwithstanding this nuance, it is critical to bear in mind that passive managers have a fiduciary responsibility to be faithful to the stated investment objective of the fund and do their best to minimise tracking error within the parameters of the stated investment strategy, both as disclosed in their offering documents because this is the basis on which investors have chosen invest into that particular product. Even for partial replication or enhanced passive strategies, unless the fund's disclosures clearly indicate that ESG factors will be taken into account to mis-weight or exclude benchmark constituents, it would in our view be entirely inappropriate to suggest that passive managers should unilaterally decide to do so. Not only is this misleading (as investors in such circumstances would simply not expect these funds to behave this way) but any resulting incremental tracking error can potentially be detrimental, for example for institutional investors who use passive index funds for hedging purposes.

By contrast, increasingly, passive managers are managing index mandates (i.e. discretionary accounts) where the client has expressed a desire to embed ESG considerations into the portfolio construction process (assuming the mandate is not already tracking an ESG index). In such a circumstance, the client mandates an ESG tilt to the replication strategy and will typically agree to provide a tracking error allowance for the manager to do so.

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[14] See page 24 of the BLK Integration Paper.

[15] See page 50 of the PRI's "A Practical Guide to ESG Integration for Equity Investing", 2016.

[16] Ibid. According to the PRI, "partial replication" is where the investment manager invests in a sample set of constituents of an index and adjusts their weights so that the fund matches the index on characteristics such as market capitalisation and industry weightings (we note that this includes "representative sampling" strategies referred to in the SFC's Code on Unit Trusts and Mutual Funds). An "enhanced passive" strategy is where the investment manager engages in restricted active strategies (including divesting certain securities, adjusting the weights of constituents and trading derivatives) with the objective to either reduce the downside risk relative to a capitalisation-weighted index or beat its performance.

The point to highlight here is that, in the example of the ESG-tilted index mandate, the passive manager is still adhering to the client's instructions, whereas asking passive managers to implement an ESG tilt to an index product that does not have an ESG-related objective or any disclosed ESG-related feature would be contrary to the manager's fiduciary duty. We therefore strongly urge the SFC to refrain from suggesting along such lines.

Having said all of the above, from BlackRock's perspective, sustainability can and should feature in passive investing in two important ways. The first is by developing products that have explicit sustainability objectives or features, where sustainability considerations are embedded in the index methodology (for example, as part of BlackRock's commitment toward making sustainability our standard, we continue to develop a sustainable alternative for all flagship index products where these alternatives do not already exist). Secondly, ESG integration for passive strategies can be addressed at the platform level through (a) investment stewardship activities seeking to manage material sustainability risks; (b) engagement with index providers on index design and broader industry participation on ESG principles; and (c) enhancing transparency and reporting of sustainability characteristics of products to investors. We note that the SFC's views on stewardship and engagement with index providers are very much aligned with our thinking in these specific areas, and we are thus supportive.

Suggested addition to proposed SFC circular

As we stated above, we agree that passive funds should not automatically be carved out from the proposed requirements but only where climate-related risks are considered irrelevant. In our view there can be circumstances where climate-related risks are considered relevant and material to passive funds.

As illustrated by the discussion in the preceding section, passive funds that do not have explicit ESG objectives or features have limited scope to factor ESG considerations into their portfolio construction process; nevertheless, investment stewardship can, where considered by the manager to be appropriate, be used to engage companies on relevant and material ESG considerations. In such a scenario, the manager would not seek a blanket carve-out from the baseline and enhanced standards, but we are nevertheless concerned that the prescriptive nature of the SFC's requirements, particularly in relation to investment management and risk management, makes it challenging for passive managers to demonstrate compliance. We therefore strongly suggest for the SFC to include a note in the proposed circular, similar to the approach adopted by the Singapore regulator[17]:

> *Note: Fund managers' approach to managing climate-related risk could be influenced by the investment objective and strategy (active versus passive) of the fund that they manage. Passive managers have limited leeway in their research and portfolio construction process beyond benchmark selection and engagement of index providers on universe of sustainable indexes. Similarly, active managers may be constrained in the extent to which they can deviate from a reference benchmark or index. Where such constraints exist, fund managers are expected to implement the requirements under the Investment Management and Risk Management sections (and corresponding requirements in the Disclosure section) of this circular in a way that is appropriate to and commensurate with the fund's strategy.*

Including such a note in the circular, in our view, strikes a balance between making sure that relevant and material climate-related risks can be taken into consideration by passive funds, and providing some level of flexibility to passive managers to implement the requirements in a way that is most appropriate to the fund's strategy.

[17] See paragraph 4.6 of the Environmental Risk Management Guidelines for Asset Managers issued by the Monetary Authority of Singapore ("EnRM Guidelines), Dec 2020.

6. ***To provide a clear picture to investors on whether a fund manager has integrated climate-related considerations into its investment strategies or funds, do you agree that if the fund manager considers that climate-related risks are irrelevant to certain investment strategies or funds, it should make disclosures and maintain appropriate records to explain the rationale for its assessment?***

We have no comments to this proposal, but would ask that the SFC makes it clear that such disclosure can be made at the entity level or fund level as deemed appropriate by the manager

7. ***Do you agree that climate-related disclosures (except for the disclosure of WACI) to investors should be made at an entity level at a minimum and supplemented with disclosures at a strategy or fund level to reduce burden on fund managers?***

We agree that climate-related disclosures (except fund-level WACI) should be made at an entity level at a minimum and supplemented with disclosures at strategy or fund level as appropriate. As mentioned above, we welcome the SFC's approach of allowing managers to adopt group-based policies and practices to demonstrate compliance with the SFC's expectations.

8. ***Do you agree that disclosures of quantitative climate-related data such as WACI should only be applicable to Large Fund Managers having regard to the resources required and the size of assets covered? Do you agree that at the initial stage the disclosure of the WACI should be made at the fund level instead of the entity level?***

Referring to our response to Question 2, we do not believe it is necessary or desirable to impose differing standards on asset managers based on AUM. Should the SFC move forward with this proposal, however, we are strongly of the opinion that disclosure of WACI should only be made at the fund level (and not just at the initial stage), and not at the entity level.

Our concern with entity level WACI disclosure, as it relates to the underlying assets of client portfolios, is that it is simply not decision useful. For any asset manager with more than a handful of portfolios under management, a metric aggregated across a number of unrelated portfolios does not provide meaningful information on any individual product. It also says very little about what the asset manager is actually doing in terms of managing climate risk. Furthermore, as mentioned in our response to Question 5, there are increasingly debates about the value of GHG emissions as a useful metric at all. Thus we would encourage the SFC to avoid focusing narrowly on a single metric.

9. ***Do you think the following transition periods are appropriate?***
   - ***a nine-month and a 12-month transition period for Large Fund Managers to comply with the baseline requirements and enhanced standards respectively; and***
   - ***a 12-month transition period for other fund managers to comply with the baseline requirements.***

   If not, what do you think would be an appropriate transition period? Please set out your reasons.

In terms of timing, we note that in the EU, whilst relevant requirements of the SFDR will begin to come into effect from March 2021, technical details have yet to be finalised. Moreover the proposed amendments to MIFID II, AIFMD and UCITS Directive in relation to ESG integration are still in draft form. In view of the large number of HK asset managers which are also subject to such EU regulations, we strongly urge the SFC to delay implementation of its final rules until after further clarity is available from the EU side.

As for the transition period, we suggest a longer timeframe, again in hopes of benefitting from further clarity on overseas developments to allow global asset managers to implement various requirements in a meaningful and coordinated fashion. We also recognise that, as an industry, asset managers are at differing stages in the ESG integration journey, and a longer transition period would facilitate all firms to take measured steps in this important initiative. We consider 18 months to be a reasonable transition period.[18] We do not see merit in imposing staggered transition periods for larger/other fund managers or in respect of baseline/enhanced standards – this approach would be confusing and does not facilitate comparability for investors. We therefore suggest 18 months for fully implementing all requirements.

Conclusion

We appreciate the opportunity to address and comment on the issues raised by the Consultation Paper and will continue to work with the SFC on any specific issues which may assist in the discussion of climate risk or ESG integration.

[18] We note that the Monetary Authority of Singapore in its recently finalised EnRM Guidelines has extended the transition period from 12 to 18 months.