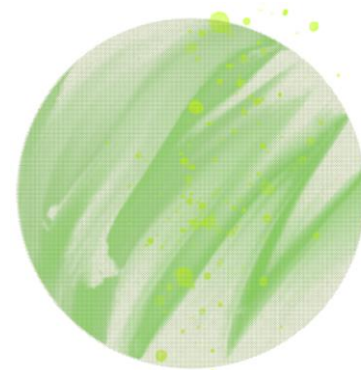


Responsible investing

SFC's disclosure requirements – ESG Funds

The Hong Kong Securities and Futures Commission ("SFC") has released a new circular to management companies of SFC-authorized unit trusts and mutual funds in June 2021 (the "Circular"), to provide guidance on the enhanced disclosure standard of Environment, Social & Governance ("ESG") funds.



This Circular will take effect on **1 January 2022** and will supersede the 2019 version. The requirements stated below set out the SFC's expectation on the disclosures and management practices by ESG funds.

Disclosure in offering documents

The ESG Focus of the Fund

- Description of the fund's ESG focus
- List of ESG Criteria (i.e. ratings/certificates)

Asset Allocation

- The expected or minimum proportion of securities that are commensurate with the fund's ESG focus

Reference Benchmark

- The fund is tracking an ESG benchmark – Provide details of the benchmark
- The fund is measuring its ESG focus against a designated reference benchmark – Provide an explanation of how the designated reference benchmark is relevant to the fund

Additional information reference

- Indication of where investors may find additional information about an ESG fund

Risks

- Description of risks or limitations (e.g. limitation of methodology and data, reliance on third party sources, subjective judgement, etc.)

The ESG Investment strategy

- Description of the investment strategies (i.e. binding elements and implementation)
- Process in considering ESG criteria (i.e. methodologies and ESG criteria considered)
- Description of whether exclusion policy is adopted by the ESG fund and its type

ESG Fund Assessment & Reporting through appropriate means such as annual reporting

Description of how the ESG focus is measured and monitored throughout the lifecycle of the ESG fund and related internal or external control mechanisms

Description of due diligence on the ESG-related attributes of the fund's underlying assets

Description of the engagement (including proxy voting) policies

Description of the methodologies adopted to measure the ESG focus and the fund's attainment of the ESG focus

Description of the sources and processing of ESG data, or any assumptions made where relevant data is not available

ESG Fund Assessment & Reporting through appropriate means such as annual reporting

Conduct periodic assessment, at least annually, to assess how the fund has attained its ESG focus

Description of the basis of the assessment performed, including any estimations and limitations

Comparison between the current and at least the previous assessment period

Disclosure of attainment of ESG focus during the assessment period

- Proportion of underlying investments that are commensurate with the fund's ESG focus
- Proportion of the investment universe that was eliminated or selected as a result of the fund's ESG-related screening
- Comparison of the performance of the fund's ESG factors against the designated reference
- Actions taken by the fund to attain the fund's ESG focus (e.g. shareholder engagement activities, proxy voting, etc.)
- Any information considered necessary by the fund manager should also be disclosed

UCITS ESG funds which meet the disclosure and reporting requirements for Article 8 or Article 9 funds under the SFDR will be deemed to have generally complied in substance with the disclosure requirements of this circular.

We actively provide integrated market research and analysis related to climate change through qualitative and quantitative studies. One of our latest research reports - **China's turning point: How climate action can drive our economic future**, models to show the economic costs of climate inaction and gains of deploying rapid decarbonization in China.

<https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/about-deloitte/cn-dtt-turningpoint-report-en-210823.pdf>

How Deloitte could support you

- **Advise on the establishment of green or ESG funds**, with reference to global standards and in accordance with SFC requirements.
- **Perform gap analysis** against SFC's requirements as set out in the Code on Unit Trusts and Mutual Funds ("UT Code") and the Circular issued by the SFC, and provide recommendations for enhancement.
- **Conduct regular reviews** - ongoing monitoring and evaluation of the underlying investments to ensure the Green or ESG fund continues to meet the stated investment objective and requirements.
- **Assist in compiling relevant disclosures** in accordance with the SFC's requirements.
- **Provide a compliance statement** for submission to the SFC to support the application, as required by the Circular.

Contact



Mohit Grover
Partner
Email: moitgrover@deloitte.com.hk
Phone: +852 28525606



Tony Wood
Partner
Email: tonywood@deloitte.com.hk
Phone: +852 28526602



Melissa Fung
Partner
Email: melfung@deloitte.com.hk
Phone: +852 28525815

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