

Sustainability

This year, we continue to structure our sustainability section around the Task Force on Climate-Related Financial Disclosures (TCFD)¹ Recommendations. The table below summarises our regulatory and operational efforts to advance our sustainability agenda² and promote the incorporation of climate and sustainability considerations across the financial sector.



Governance

Board and management's role

We put in place a well-defined management structure for corporate governance relating to climate and sustainability. Our Chief Executive Officer (CEO) Ms Julia Leung chairs the cross-divisional Sustainable Finance Working Group, which reports regularly to the Board and senior management on developing regulatory policies, coordinating local and international engagement, and implementing internal decarbonisation efforts.



Strategy

The risks and opportunities we identified and their impact on our regulatory initiatives and operational activities

Climate change poses physical and transition risks to both the real economy and the financial system, and escalates the risk of greenwashing. Regulators play a key role in supporting the management of such risks and facilitating effective capital allocation for transition.

Leading financial market transformation through technology and environmental, social and governance (ESG) is one of the SFC's strategic priorities for 2024-26. We adopt a comprehensive sustainable finance policy framework with a climate-first approach. In addition to developing regulatory policies in line with our *Agenda for Green and Sustainable Finance*³ to promote transparent markets and ensure investor protection, we take active steps to decarbonise our operations and conduct scenario analysis to access the resilience of our operations.

Climate and sustainability-related issues are cross-border and cross-sectoral. The SFC participates actively in international regulatory discussions to develop best practices and recommendations on sustainable finance, which will have implications for our policy development in Hong Kong. We also spearhead local initiatives to contribute to the development of a sustainable finance ecosystem to bolster Hong Kong's position as a leading sustainable finance hub. Key focus areas include alignment with global standards through the adoption of the IFRS⁴ Sustainability Disclosure Standards, and the promotion of Green Fintech, capacity building and talent development to scale sustainable finance.



Risk management

Our processes on identifying, assessing and managing risks

Our cross-divisional Risk Review Group identifies and monitors potential and emerging risks faced by the SFC, including those relating to climate and sustainability, and reports to the Board and senior management.

To ensure that we effectively identify, assess and manage climate and sustainability-related risks, we monitor and take steps to reduce our greenhouse gas emissions, and participate in local and international stakeholder engagement activities. Additionally, we implement regulatory measures to enhance investor protection through combatting greenwashing risk, promote capacity building within the financial services sector and raise awareness amongst investors.



Metrics and targets

Our emissions, metrics for assessing risks, and targets

We have committed to achieving carbon neutrality before 2050, with an interim target of reducing 50% of our total carbon emissions by 2030. We are closely monitoring our carbon footprint, and have reduced our total carbon emissions by 48.6% against the baseline. Our Scope 1, 2, and 3 emissions, and decarbonisation initiatives are disclosed to the public.

¹ The TCFD was established in 2015 to help identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities. The final TCFD Recommendations, issued in June 2017, cover four core areas: governance, strategy, risk management, and metrics and targets. Under these four core areas are 11 recommended disclosures.

² See Strategic Priorities on pages 12-23.

³ We published the *Agenda for Green and Sustainable Finance* in August 2022 to set out further steps to support Hong Kong as a regional sustainable finance centre, having achieved the goals set out in our *2018 Strategic Framework for Green Finance*.

⁴ International Financial Reporting Standards.

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This section outlines how we incorporate climate and sustainability considerations in developing our regulatory initiatives and our organisation's activities. It is structured around the TCFD Recommendations.

We take the lead in advancing Hong Kong's position as an international sustainable finance hub and developing an effective regulatory framework to support the financial system's transition to a low-carbon future. We introduce regulatory initiatives to combat greenwashing and build industry capacity and awareness through our information and guidance, with a view to maintaining the transparency and orderliness of our financial markets and enhancing investor protection.

Within the organisation, we actively integrate climate and sustainability into our internal policies and take steps to manage relevant risks in our day-to-day operations. We support the HKSAR Government's climate strategies and are taking steps to meet our target of 50% reduction in total carbon emissions by 2030.

Governance: Comprehensive framework for sustainability

As a statutory financial regulator, we have established a robust framework for corporate governance around climate and sustainability-related risks and opportunities⁵. Our cross-divisional Sustainable Finance Working Group, which is led by our CEO Ms Julia Leung, comprises members from across the organisation. It meets regularly to coordinate our policy initiatives and organisational activities in line with our overall strategy for sustainable finance. Members of this group report to and seek guidance from the Board and the Executive Committee (ExCo) periodically and at least on a semi-annual basis.



Our International Affairs and Sustainable Finance team⁶ is responsible for coordinating our sustainable finance efforts at the local, regional and global levels. The team advises the Board, ExCo and senior management on our sustainability strategy and coordinates with the HKSAR Government, other local and international regulatory agencies and industry bodies to formulate and implement sustainable finance initiatives.

The SFC's Investment Committee enquires into how and to what extent our external fund managers incorporate environmental principles into their investment and risk analysis processes. To ensure their compliance with the SFC's Principles of Responsible Ownership, we regularly communicate with our external fund managers and have engaged an independent consultant to oversee and assess their commitments and practices.

⁵ The Board is responsible for setting the overall direction and providing strategic guidance on policymaking, whilst the Executive Committee is responsible for considering policy and operational proposals. See Corporate Governance on pages 99-114.

⁶ This team within the CEO's Office reports directly to our CEO Ms Julia Leung.

Strategy: Maintain transparent markets and protect investors

Leading financial market transformation through technology and ESG is one of our strategic priorities for 2024-26. We aim to bolster Hong Kong's position as a sustainable finance hub both internationally and in Asia-Pacific, including the Guangdong-Hong Kong-Macao Greater Bay Area. In addition, we introduce measures which enhance financial market transparency and protect investor interests.

Adopting a climate-first approach

Climate change presents risks related to its physical impact and the transition to a lower-carbon economy, which affect both the real economy and the financial system. Addressing these risks will require significant financial resources. As Hong Kong is uniquely positioned to bridge capital flows between international investors and Asia including Mainland China, local regulators including the SFC have been contributing to the development of an ecosystem to support capital allocation for a low-carbon transition in the region and the world.

Climate-related risks affect the operations of not only the firms we regulate but also the SFC. To better understand the resilience of our operations against climate-related risks, we conducted a physical and transition risk assessment with reference to scenarios developed by the Intergovernmental Panel on Climate Change and Network of Central Banks and Supervisors for Greening the Financial System.

As a growing concern accompanying the continual growth of sustainable finance, greenwashing may weaken investors' confidence in an orderly and effective green and sustainable finance market, dilute sustainability efforts and pose investor protection risks. Gatekeeping against greenwashing is our top priority. We closely monitor the latest market and regulatory developments and implementation of existing measures.

Implementing a comprehensive strategy for sustainable finance

The *Agenda for Green and Sustainable Finance* details our strategy to develop a robust regulatory framework, which covers listed companies, asset managers, ESG funds, investor protection, technology and innovation,

A comprehensive strategy for sustainable finance



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and carbon markets. Under this framework, we work collaboratively to build the local sustainable finance ecosystem and actively contribute to international standard setting by taking a lead at the International Organization of Securities Commissions (IOSCO).

Building an enabling local ecosystem

Sustainability considerations are not only cross-border but also cross-sectoral in nature. Recognising the need to strengthen local coordination, we initiated and co-lead Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group (Steering Group)⁷, which aims to coordinate the management of climate and environmental risks, accelerate the growth of green and sustainable finance and support the HKSAR Government's climate strategies.

During the year, the Steering Group progressed in advancing its 2023-25 priorities of world-class regulation, data and technology for transition, market opportunities and product innovation, and communication, capacity building and collaboration with the Mainland, regional and global markets. It launched:

- ◆ new workstreams on Hong Kong's adoption of the IFRS Sustainability Disclosure Standards published by the International Sustainability Standards Board (ISSB) as appropriate, and on policy and market development initiatives to support transition planning and finance;
- ◆ the Prototype Hong Kong Green Fintech Map to help corporates and financial firms identify Green Fintech solutions to meet business needs (see sidebar on page 119);

- ◆ greenhouse gas emissions calculation and estimation tools to facilitate sustainability reporting by corporates and financial institutions (see sidebar on page 119);
- ◆ the Guangdong-Hong Kong-Macao Greater Bay Area Green Finance Cooperation Meeting and an industry roundtable to exchange views on regional collaboration, sustainability disclosures, transition finance, as well as data and Green Fintech; and
- ◆ a revamped website which serves as a centralised hub for sustainability-related data, regulation, news and events, training and internship opportunities. It also contains an e-portal to facilitate entities in digital sustainability reporting⁸.

In addition, the Steering Group continues to administer the HKSAR Government's Pilot Green and Sustainable Finance Capacity Building Support Scheme and supports the Sustainable Finance Internship Initiative.

Developing a comprehensive regulatory framework

Corporate sustainability disclosures

We continue to take steps to enhance sustainability disclosures in Hong Kong. Disclosures aligned with international standards are integral to meeting investors' needs for comparable and consistent information to inform decisions, and also to reinforcing Hong Kong's position in intermediating capital flows.

⁷ Established in May 2020, the Steering Group is co-chaired by the SFC and the Hong Kong Monetary Authority, and also includes the Financial Services and the Treasury Bureau, Environment and Ecology Bureau, Insurance Authority, Mandatory Provident Fund Schemes Authority, Accounting and Financial Reporting Council and Hong Kong Exchanges and Clearing Limited.

⁸ The sustainability disclosure e-portal facilitates reporting against the Climate and Environmental Risk Questionnaire for Non-listed companies, which was developed and launched in 2022 by the Steering Group and CDP, a global non-profit body that runs the world's environmental disclosure system for companies, cities, states and regions.

Data and technology to support growth of sustainable capital markets

The availability and quality of sustainability-related data in the real economy are crucial to market transparency and to investors in making informed decisions, thereby channeling capital flows into sustainable projects.

To facilitate sustainability reporting by corporates and financial institutions in Hong Kong, the Steering Group and the Hong Kong University of Science and Technology launched two tools to calculate and estimate greenhouse gas emissions in February 2024.

The tools, which are available for free public access on the Steering Group's website, feature clearly disclosed methodologies and incorporate Hong Kong and the Mainland's elements data in the calculation and estimation modelling while referencing widely adopted international standards.

Additionally, during the Hong Kong Green Week, the Steering Group, Cyberport and Invest Hong Kong launched the Prototype Hong Kong Green Fintech Map, a directory of over 50 Green Fintech firms operating in Hong Kong as of February 2024. The Green Fintech solutions offered by these firms include ESG data and analytics, ESG disclosures and regulatory reporting, climate risk modelling and assessment, green digital finance and investments, and carbon credit trading and analytics.

Green Fintech has potential to facilitate the flow of sustainability-related information and support financial institutions in ways such as meeting regulatory requirements and informing investment decisions and developing new financial products. The map aims to help corporates and financial firms identify Green Fintech solutions which meet their business needs.



Launch ceremony of greenhouse gas emissions calculation and estimation tools



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We co-lead a working group on sustainability disclosures with the Financial Services and the Treasury Bureau under the Steering Group. This working group is developing a roadmap on Hong Kong's appropriate adoption of the IFRS Sustainability Disclosure Standards, which will comprise four key areas of sustainability reporting, assurance, data and technology, and capacity building. During the year, we contributed to the working group's desktop research and stakeholder engagement activities, which informed the HKSAR Government's vision statement on developing a sustainability disclosure ecosystem in Hong Kong issued in March 2024.

To build Hong Kong listed companies' capabilities and preparedness, we have been working closely with the Stock Exchange of Hong Kong Limited (SEHK) to develop enhanced climate-related reporting requirements. In

April 2023, SEHK consulted the market on proposals to enhance climate-related disclosures under its ESG framework, which were informed by the exposure draft IFRS S2 Climate-related Disclosures. The finalised Listing Rule requirements were announced in April 2024 and will take effect on 1 January 2025. This is an important first step towards achieving Hong Kong's ambition of becoming one of the first jurisdictions to align local sustainability disclosure requirements with the IFRS Sustainability Disclosure Standards.

Many companies listed on SEHK have businesses with sizable Mainland operations and value chain exposures. We have been engaging with the China Securities Regulatory Commission to ensure that our approach considers the pace of regulatory developments on the Mainland.

Promoting sustainability disclosures in Hong Kong

The SFC takes active steps to prepare the industry and raise its awareness of sustainability reporting against international standards, including the IFRS Sustainability Disclosure Standards, to bolster Hong Kong's position as a leading sustainable finance hub.

In November 2023, we held our inaugural Forum on Sustainability Disclosures where more than 200 leaders from the financial industry, listed companies and industry associations, as well as policymakers from Hong Kong, the Mainland and Asia-Pacific attended. Discussions focused on the benefits and challenges of adopting international sustainability reporting and assurance standards locally, including the enormous fund-raising opportunities associated with comparable high-quality disclosures as well as the need for increased public-private partnerships and use of technology to address data gaps.



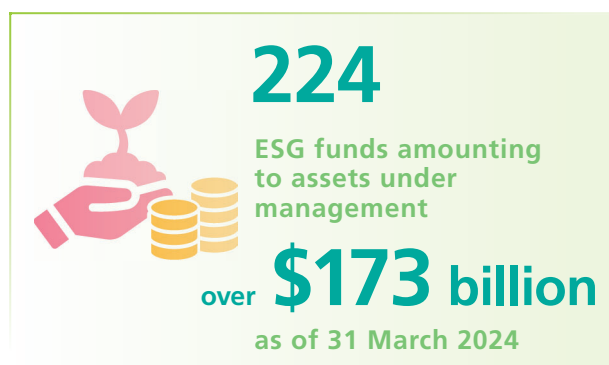
SFC Forum on Sustainability Disclosures

In March 2024, we hosted an industry roundtable organised by the Steering Group and the ISSB to discuss and promote sustainability disclosures by companies and financial institutions in Hong Kong. Participants exchanged views on their experiences in and the unique circumstances for entities making sustainability disclosures in Hong Kong and Asia. Following this event, the Steering Group and the ISSB agreed to maintain dialogues and strengthen collaboration on developing comprehensive capacity building programmes.

Intermediaries

We continue to closely monitor the implementation of our climate-related requirements for fund managers⁹, which aim to help investors make informed investment decisions and understand the impact of climate change on their investments.

With investors' increasing demand for ESG-related products, the use of ESG ratings and data products by asset managers and funds has grown considerably. Our fact-finding exercise and industry outreach found that surveyed asset managers had concerns about data quality, transparency, and conflicts of interest management of these product providers. In October 2023, we supported and sponsored the development of a voluntary code of conduct for ESG ratings and data products providers via an industry-led working group. When this code is finalised, we will consider providing principles-based guidance to our licensed corporations on leveraging it to conduct due diligence and ongoing assessment.



ESG funds

We closely monitor ESG funds' compliance with our enhanced requirements for disclosures and annual assessments, which aim to help investors understand the features of these funds and determine whether they meet their investment needs. During the year, we maintained dialogue with fund managers of new ESG funds with novel strategies and kept abreast of latest market developments in this area.

Public outreach

We work with the Investor and Financial Education Council (IFEC), an SFC subsidiary dedicated to improving financial literacy in Hong Kong, to raise public awareness and understanding of sustainable finance through mass communication and public outreach initiatives.

Our Senior Director and Head of International Affairs and Sustainable Finance Ms Christine Kung spoke at an event as part of Hong Kong Federation of Youth Groups' *Stepping Forward with Commitment to Hong Kong* campaign. She also acted as a judge of the Hong Kong Securities and Investment Institute's competition on sustainability projects for university students in promoting Hong Kong's sustainable finance initiatives and supporting young talent development.

Sustainable finance initiatives launched by the IFEC during the year included:

- ◆ holding a talk to discuss financial return and ESG benefits of sustainable investing with support from Hong Kong Exchanges and Clearing Limited (HKEX), the CFA Institute and CFA Society Hong Kong during IOSCO's World Investor Week 2023;
- ◆ publishing a series of articles on its website and blog explaining financial return and ESG benefits of sustainable investing, how ESG adds value to shareholders, ESG indexes and ratings, and greenwashing; and
- ◆ raising public awareness and understanding of green and sustainable finance through social media channels and newspaper columns.

IFEC also gauged retail investors' awareness and perception of sustainable finance through its flagship research *Retail Investor Study 2023*. The findings of this study helped to inform IFEC's continuing effort on educating the investing public on the topic.

⁹ Fully effective in November 2022, the SFC's new conduct of conduct for fund managers requires them to systematically assess climate-related risks associated with their investment strategies and portfolios and to provide investors with appropriate disclosures.

Being a leading voice in the international regulatory community

As climate change and other sustainability concerns are global in nature, a coordinated approach is crucial to effectively promote understanding of sustainability, address related risks, harness its opportunities, and mitigate any potential risks of regulatory fragmentation and arbitrage. International standards and policy recommendations have significant importance in informing our domestic policy agenda, which we seek to align with international best practices with a view to showcasing a clear pathway for the region.

Our international priority is to ensure that global regulatory approaches and requirements are interoperable and adopted across jurisdictions. Through our leading role within IOSCO's Sustainable Finance Task Force (STF) and Asia-Pacific Regional Committee, we promote regulatory alignment, knowledge sharing and capacity building in the region on sustainable finance topics including sustainability disclosures and carbon markets.

In addition, we are a supporter of the TCFD Recommendations, a member of the International Platform on Sustainable Finance, and a member of the Consultative Group of the United Nations Sustainable Stock Exchanges Initiative (SSE). We also participate in the SSE's Advisory Group on Carbon Markets.

Risk management: Monitoring and addressing sustainability challenges

We proactively identify, assess and manage climate and sustainability-related risks to our regulatees and ourselves. Our cross-divisional Risk Review Group takes active steps to identify and monitor potential and emerging risks facing the SFC in a comprehensive manner, including macro financial risks and operational risks relating to climate and sustainability. The group reports to the Board and ExCo regularly.

Risks to regulatory initiatives

Our local and international engagements help us identify and assess climate and sustainability-related risks. We are a member of the IOSCO Committee on Emerging Risks, which focuses on the identification and assessment of regulatory issues across securities markets and informs the IOSCO Board in determining key priorities. We also actively engage with regulatory bodies and the industry on the latest developments and risks associated with climate and sustainable finance.

We facilitate the financial sector's consideration and management of climate and sustainability risks by introducing a number of regulatory requirements and guidance. We also worked with local and international regulators and stakeholders to promote the adoption of global standards.

Risks to operational activities

In late 2023, we made an important strategic decision to acquire the floors we already occupied in One Island East, which were previously leased. This minimises disruptions to our operations while ensuring cost-effectiveness and environmental sustainability¹⁰.

Swire Properties, as the co-owner and property manager of the building, has taken proactive steps to address climate change. It has established 1.5°C-aligned science-based targets, which aim for net-zero emissions by 2050. To further strengthen resilience and mitigate risks, short and medium-term measures have been identified, such as enhancing flood protection measures and alert systems, improving chiller efficiency, conducting regular inspections of the glass facade, and implementing smart monitoring systems.

¹⁰ See Corporate Developments on pages 137-143.

With a commitment to address climate-related risks while ensuring business continuity, we have incorporated comprehensive measures into our business resumption plan. This plan not only covers our office premises, but also encompasses our communications and computer services. We actively mitigate various risks associated with climate-related physical hazards, technical issues, fires, and other emergencies. Furthermore, we conduct routine simulation exercises and have established emergency response teams to effectively manage critical crises and maintain operational capabilities during major incidents. To promote energy efficiency and minimise environmental impact, we prioritise regular maintenance of our electrical and audio-visual equipment, as well as our air conditioning systems.

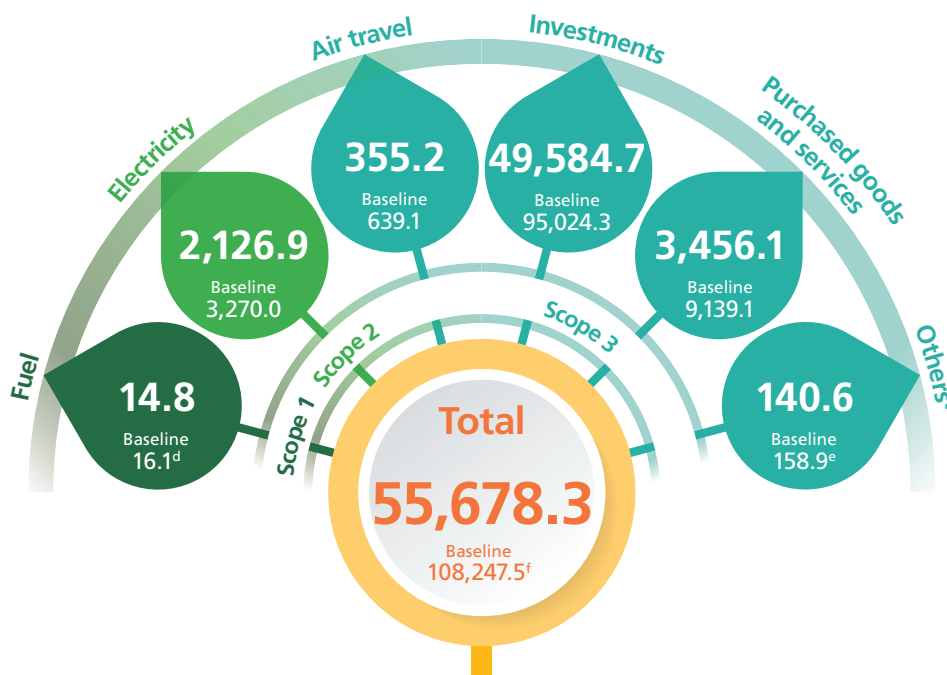
By ensuring optimal efficiency, we save energy and reduce our carbon footprint. We have also engaged an external consultant to assess our corporate emissions footprint and have been monitoring our emissions on a regular basis.

Metric and targets: Taking stock of our climate impact

As a responsible organisation, our commitment extends to addressing the full range of risks arising from climate change and sustainability. We have pledged to achieve carbon neutrality before 2050, in line with the HKSAR Government's *Hong Kong's Climate Action Plan 2050*, with an interim target of reducing 50% of our total carbon emissions by 2030.

An external consultant assesses our organisation's emissions footprint covering Scope 1 (direct emissions), 2 (indirect emissions), and 3 (value chain and investments) emissions under the Greenhouse Gas Protocol. We reduced 48.6% of our total carbon emissions against our baseline. The table below shows the Scope 1, 2 and 3 emissions for our baseline and the 2023-24 financial year.

The SFC's Scope 1, 2, and 3 emissions^a in 2023/24 (tCO₂e^b)



^a The emission figures were computed by the SFC's consultant based on available data, and in some cases are subject to estimation.
^b Tonnes of carbon dioxide equivalent.
^c Including electricity transmission and distribution, hotel accommodations, car rentals and waste.
^d Restated to reflect updates in emission factors including CH₄ and N₂O.
^e Restated to include estimated carbon emissions from solid waste.
^f Restated to reflect changes in fuel and others categories.

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The SFC receives the Green Performance Pledge Award (Platinum)

Our office premises in Quarry Bay take green factors into consideration and have received a Building Environment Assessment Method rating of Platinum, the highest rating available. During the year, we achieved significant improvements in energy savings, water efficiency, and waste diversion rates by undertaking a range of reduction efforts detailed below and our corporate green initiatives focused on waste reduction and recycling¹¹.

We are one of the four organisations to receive the highest platinum rating of Swire Properties' Green Performance Pledge, an action-oriented programme that provides tools and support for tenants to improve their performance on energy, water and waste reduction. During the year, we conducted energy audits, water flow tests, and retrofitted flow restrictors to reduce energy and water usage. In addition, we replaced approximately 360 fluorescent tubes with LED light strips in all floor corridors. We will continue to collaborate with Swire Properties under the programme to further reduce our resources consumption and environmental impact.

To meet our carbon neutrality goals, we work towards reducing our portfolio's financed emissions. We closely monitor and review the allocation of assets in our investment portfolio and engage with our fund managers to communicate our targets, understand our financed emissions, request disclosures of emissions metrics as appropriate, and consider green investment options.

To support talent development in sustainable finance, we offer the Sustainable Finance Internship Programme to provide university students with exposure to setting and implementing sustainable finance policies. Apart from introducing initiatives to raise staff awareness of the need to decarbonise and reduce our carbon footprint¹¹, we have enhanced our internal staff training curriculum to support our sustainable finance regulatory initiatives.

Understanding practical use case of carbon credits

During the year, representatives of the Steering Group visited the Organic Resources Recovery Centre Phase 2 (O · PARK2) located in Sha Ling to learn about emissions computation, new technologies to reduce emissions, and how carbon credits were applied to offset emissions.

O · PARK2 is a HKSAR Government project focusing on converting food waste into biogas, which would then be used for electricity generation to support the operations of the facility and provide energy to the power grid. Apart from adopting sustainable business practices, the project operator purchased voluntary carbon credits from CORE Climate, HKEX's trading platform for verified carbon credits, to offset carbon emissions from the project.



Visit to O · PARK2 in Sha Ling

¹¹ See Corporate Social Responsibility on pages 125-133.