Aurexia

ASIA PACIFIC REGULATORY WATCH

Strengthening AML/CFT Practices for External Asset Managers in Singapore

New Guidelines for ESG funds in Singapore

Singapore’s ecosystem for digital assets

Hong Kong SFC sets out next steps for Green and Sustainable Finance

Aurexia Institute

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Foreword

We are pleased to release this latest issue of Aurexia's Asia Pacific Regulatory Watch newsletter, covering the latest regulatory developments in Singapore and Hong Kong:

1) MAS information paper on Strengthening AML/CFT Practices for External Asset Managers
External asset managers face the risk of being used, intentionally or unintentionally, for money laundering and criminal activities. The Monetary Authority of Singapore issued an information paper, providing guidance on effective AML/CFT frameworks and controls, including good practices and examples.

2) MAS disclosure and reporting guidelines for ESG funds
The demand for green investments and the number of ESG investment funds have been growing significantly over the years. The Monetary Authority of Singapore launched a new circular to clarify the requirements for ESG-labeled funds, aiming to prevent greenwashing and increase transparency for investors. The circular will take effect on 1st January 2023.

3) Singapore's ecosystem for digital assets
Digital assets have gained a lot of attention lately, illustrating the need for a robust regulatory framework. The MAS has been active in promoting Singapore as an innovation hub which included exploring Distributed Ledger Technology (DLT) and digital asset use cases in the city state. In a conference called "Yes to Digital Asset Innovation, No to Cryptocurrency Speculation", MAS clarified its stance towards digital assets and shared the roadmap for upcoming regulatory developments.

4) SFC released new Green and Sustainable Finance Agenda
Four years ago, Hong Kong's Securities and Futures Commission (SFC) unveiled its Green Finance Policy Framework (2018 Strategy Framework) with the objective of turning the financial hub into a leader in green and sustainable finance and promoting a transition to a greener economy. The SFC has since developed policies, designed regulatory frameworks and formed task forces to deliver on the goals set out in the 2018 Strategic Framework. In its latest publication, the SFC reflects on the actions taken and sets out further steps for strengthening Green and Sustainable Finance in the territory.

If you would like to discuss any of these or other regulatory topics with us, please do not hesitate to contact us!

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Strengthening AML/CFT Practices for External Asset Managers

Observations, good practices and supervisory expectations

In 2021, MAS conducted thematic inspections to assess the AML/CFT frameworks and controls of External Asset Managers (EAMs). The observations were then published in an information paper in August 2022.

This report covers 5 areas, where key findings, areas for improvement as well as areas where EAMs had performed well are listed. It also provided specific recommendations/measures on how to meet their AML/CFT obligations and ensure they commensurate with the scale, nature and complexity of their business.

	WEAKNESSES		RECOMMENDATIONS
Governance			
-	• Poor risk awareness and failure to set the right tone from the top • Inadequate compliance and/or internal audit arrangements	+	• Be aware of the regulatory requirements and expectations • Ensure that the 3 lines of defense meet their AML/CFT responsibilities
Risk Assessment Frameworks			
-	• Lack of clarity in the risk assessment methodology/ errors in enterprise-wide risk Assessment (EWRA) • Failure to consider relevant risk factors • No proper measures implemented to mitigate risks	+	• Consider all relevant risk factors • Review and update EWRA on a regular basis • Ensure consistency in the risk assessment framework • Be cognizant of regulatory guidance
Customer Due Diligence (CDD)			
-	• Inadequacies in the identification of customer and their relevant parties • Inadequacies in the screening process • Lack of assessment in retaining customers suspected to be connected with ML/TF	+	• Ensure that customers and all relevant parties of the customers are properly identified • Consider pertinent and credible information to assess the ML/TF risks posed by customers • Perform a robust assessment on the risk mitigation measures
Enhanced CDD			
-	• Failure to promptly identify and conduct enhanced monitoring on higher risk customers • Lack of corroboration of customers' source of wealth (SOW) and source of funds (SOF)	+	• Ensure that customers/beneficial owner posing higher ML/TF risks are promptly identified • Perform adequate independent verification of customer/beneficiaries' SOW and SOF to assess the legitimacy of the funds/assets managed
Suspicious Transactions Reporting (STR)			
-	• Lack of awareness to file STRs (Suspicious Transaction Report) on customers with adverse information or conduct that suggested linkage to financial crime	+	• File an STR on a customer as long as they know or have reasonable grounds to suspect any property of the customer could be connected to ML/TF

Review and adopt best practices

MAS' thematic inspections and engagements of EAMs showed that there was room for EAMs to improve the design and effectiveness of their AML/CFT frameworks and controls to detect and mitigate ML/TF risks. EAMs should assess their frameworks and processes against the best practices, remediate potential gaps and implement the MAS recommendations set out in the paper.

New Guidelines for ESG funds

Introduction

[Click here to see the CFC 02/2022 Disclosure and Reporting Guidelines for Retail ESG Funds]

Background

Since the adoption of the Paris Agreement in 2015 with its global commitment to limiting global warming and aligning financial flows accordingly, the financial sector has been increasingly embracing its key role in facilitating the transition toward a more sustainable world.

In the investment and asset management industry, demand for investments with environmental, social and governance (ESG) focus and sustainable financial products has been on the rise, and the sector has been adapting to their clients' expectations. However, the spread of retail funds specializing in ESG investment might result in an increasing risk of greenwashing (the act of making false or misleading claims that products or investments are greener that they actually are), as seen in precedence cases around the world.

To mitigate this risk for retail investors in Singapore, the MAS issued a circular, setting out the expectation on the funds' compliance with existing requirements in the context of ESG-related investments:

- **Code on Collective Investment Schemes (CIS Code)**
- **Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations (SF(CIS)R)**

This circular details the disclosure and reporting expectations for retail ESG funds, aiming to improve the comparability of disclosures and allowing individual investors to better understand the ESG funds they invest in.

Scope of the Circular

This circular applies to authorized or recognized schemes ("ESG funds") which claim to consider ESG factors in their investments and label themselves as ESG-focused schemes.

The circular does not apply to funds that are only using negative screening (applying a set of filters to determine which companies, sectors or activities are ineligible to be included in a portfolio) or do not consider ESG factors at all.

Requirements

CIS Code

ESG Fund Naming Requirements

MAS requires that the fund's name should not be undesirable or misleading:

- If a fund is labelled as ESG, sustainable or "green", this should be reflected in its investment portfolio and/or strategy, i.e. the scheme's holdings should be primarily (at least two-thirds of the net asset value) in line with its investment strategy.
- In certain cases where the ESG-aligned proportion of the net asset value is not quantifiable or practicable, MAS expects the manager to set out in the offerings documents in which way the scheme adopted and ensures a substantial ESG-focus in its investments.

SF(CIS)R

Disclosure Requirements – Prospectus

The disclosure requirements set out in the Third Schedule of the SF(CIS)R also apply to ESG-related information:

Investment focus:

- The scheme's ESG focus (i.e., climate change, low carbon, reduction of greenhouse gas (GHG)) and related criteria and metrics.

Investment strategy:

- Description of the sustainable investing strategy and its ESG focus.
- ESG criteria, metrics or principles used when selecting investments.
- Minimum allocation of investments into asset aligned with the scheme's ESG focus.

Reference benchmark:

- If a benchmark index is used for managing the ESG focus: explanation on its relevance and consistency; otherwise: statement that the index does not reflect ESG considerations.

Risks:

- Risks related to the ESG focus and investment strategy (incl. e.g. ESG data limitations).

Definitions:

- Clear definition of ESG-related terms used in the prospectus.

SF(CIS)R

Disclosure Requirements – Enhanced reporting and disclosures

Annual reports:

ESG considerations should be reflected by adding:

- Explanation on the fund's consistency with its ESG focus during a financial period, including a comparison with the previous period.
- Actual share of investments aligned with its ESG focus (if applicable).
- Activities performed to manage and meet the fund's ESG focus (e.g. stakeholder engagement activities).

Additional information:

Additional information are to be disclosed if appropriate:

- Measurement and monitoring of the ESG focus, incl. related internal or external control mechanisms.
- ESG data sources, data usage and proxies/ assumptions used for data gaps.
- Due diligence on ESG-related aspects.
- Stakeholder engagement policies (incl. proxy voting).

Application and implementation of MAS' expectations

Application for investment funds overseas

For recognized schemes resident outside Singapore, MAS will consider the schemes' adherence to their home jurisdiction's requirements.

European UCITS funds (Undertakings for the Collective Investment in Transferable Securities) with ESG focus that comply with articles 8 or 9 of the EU's SFDR are deemed to meet the disclosure requirements in Singapore as well. They will nevertheless have to comply with MAS' ESG fund naming requirements.

About the SFDR

The Sustainable Finance Disclosure Regulation (SFDR) is an EU regulation requiring certain ESG disclosures for investment products to increase transparency and prevent greenwashing.

The SFDR classifies financial products by their sustainability approach into three categories:

- Products which promote environmental or social characteristics (Article 8, a.k.a. "light green products")
- Products which have sustainable investment objective, such as reduction of CO2 emissions (Article 9, a.k.a. "dark green").
- Other products without ESG characteristics.

Implementation

The effective date for the expectations and requirements set out in this circular is 1 January 2023 and will apply to prospectuses an annual reports of ESG funds issued on or after the effective date.

Challenges for ESG funds

- Clearly defined and presented ESG investment strategy and ESG focus.
- Reliable approach to managing data and metrics (incl. a solid justification for assumptions and proxies).
- ESG-related controls and a well-documented due diligence process.
- Enhancements of existing documents and disclosures to meet all requirements of the circular.
- For overseas' ESG funds: Assessment of home country's requirements' comparability with those in Singapore.

Recommended next steps

- Gap analysis to identify deficiencies in existing processes and procedures and determine the actions necessary to meet all requirements.
- This should include in particular: reviewing existing disclosures and ensuring that policies and procedures are in line with MAS's requirements.
- Assessment of the quality of ESG data (i.e. GHG emissions of investee companies). This might include engaging with data providers and investees to collect relevant data.
- Monitoring and control systems should be reviewed to ensure ESG-related considerations are sufficiently reflected.
- Prompt action (and possibly tactical interim solutions) might be necessary to be ready by January 2023.

Singapore's ecosystem for digital assets

Introduction

Background

Supranational regulators and an increasing number of countries are developing regulatory frameworks for digital assets. While the EU's Market in Crypto-assets (MICA) framework is moving through the legislative process, Switzerland has passed a DLT law that permits and regulates a wide spectrum of cryptocurrency and blockchain-based corporate activities. The Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC), among other US regulators, have issued (and announced further) supervisory guidance on cryptocurrency and -asset services offered by federally chartered banks.

Singapore, one of the world's most relevant financial centres with the ambition to become a global hub for digital assets, is developing a thorough framework for regulating digital assets. The Monetary Authority of Singapore (MAS) has adopted a balanced approach to managing crypto-related systemic risks while aiming to promote homegrown blockchain and digital asset innovation and to draw global crypto businesses to its territory. This is also reflected in the high standard of the licencing procedure for companies who wish to provide crypto-related services in Singapore.

While MAS acknowledges the risks and embraces the opportunities of a local digital asset ecosystem, it is taking a tough stance on cryptocurrencies, such as Bitcoin. Besides adopting more stringent measures to limit retail access to cryptocurrencies, MAS has also been cautioning retail against investments in cryptocurrencies.

How is Singapore perceived as a leading location in the digital asset sector?

The 2019 Payment Services Act (PSA), which governs traditional payment services and many crypto-related activities, became effective in January 2021. The purpose was to set out the regulatory framework for payment services under one piece of law and to establish requirements that are also applicable for the licencing of digital asset-related businesses. In its licensing approach for such companies, MAS aims to strike a balance between managing risks, leveraging opportunities, and strengthening Singapore as a Fintech hub.

About Digital Assets

Anything that has or provides value and is created and stored digitally is considered a digital asset. More specifically, it is an asset that is issued and transferred using distributed ledger technologies. Tokenization is the process of converting ownership rights of a physical or digital asset into digital tokens. Each token represents a part or fraction of the asset.

Types of asset that can be tokenized (non-exhaustive):

Financial assets	Physical assets	Intangible assets
Equity, funds, debt…	Real estate, fine art, cars…	Carbon credits, trademarks, patents…

MAS’ 4 pillars to facilitate and grow a balanced ecosystem

1 Promising distributed ledger use cases	Distributed ledgers are deemed to have the potential to enhance or even disrupt financial services with promising use cases in numerous areas: cross-border payments, settlement, trade finance, pre- and post-trade capital market activities, etc.
	Examples ▸ **Partior**: reducing settlement times for cross-border payments and settlements ▸ **Contour**: automating document verification ▸ **Marketnode**: reducing clearing and settlement time for securities transactions
2 Encourage the tokenization of assets in the real economy and financial sector	MAS states that “the concept of asset tokenization has transformative potential”, like the adoption securitization 50 years ago. Key drivers are: • Any asset, tangible or intangible, may be made profitable through tokenization; • Facilitation of divided ownership (i.e. owning fractions of an indivisible asset).
	Examples ▸ **UOB** uses Marketnode's service platform to test the issuance of a S$600 million digital bond ▸ **OCBC** provides green finance solutions that use tokenized carbon credits to assist businesses to offset their carbon emissions
3 Provide connectivity for digital currency	There are 3 common choices for a digital asset ecosystem's medium of exchange and MAS’ takes a differentiated stance on each of those options: • **Cryptocurrencies** are viewed by MAS as being inappropriate for use as a money-equivalent and being very risky, particularly for individual investors; • MAS sees significant potential in **stablecoins** if they are firmly backed with high-grade assets and subject to strict regulation; • For wholesale **central bank digital currencies** (CBDCs), the MAS sees great potential for wholesale use cases, particularly for international payments and settlements
	Examples ▸ **Binance**: withdrew the licence application as regulators were increasingly concerned about the lack of robust consumer protections in relation to cryptocurrencies ▸ **Mastercard**: USDC stablecoin is used by the company as a bridge asset for cardholders that want to use cryptocurrency to buy goods ▸ **Project Dunbar**: initiative for a shared multi-CBDC platform for cross-border payments
4 Pillar players with solid risk management and value offerings	Apart from regulating the industry, the MAS aims to establish relationships with crypto players that contribute to the local ecosystem for digital assets and demonstrate good risk management skills.
	Examples ▸ **Contour:** worldwide trade finance network of banks, corporations, and trading partners, is now located in Singapore to create cutting-edge and digitally native trade finance solutions ▸ **Nansen**: Singaporean company that offers information about the operations of the blockchain network and visibility on the parties involved in transactions, enhancing transparency throughout the world's digital asset ecosystems

Singapore's regulatory approach to managing digital asset risks

Digital asset operations come with systemic and idiosyncratic risks. Regulators worldwide, including MAS, identified the misuse for money laundering and terrorist financing as one of the main areas of concern when digital asset operations first gained traction. Cryptocurrencies have made it simpler to carry out illegal activities since users of them operate through wallet addresses and aliases, typically without being subjected to any KYC procedures.

In 2020, MAS clarified that providers of digital asset services are subject to the same anti-money laundering regulations as other financial institutions. Earlier this year, these regulations were also made applicable to Singapore-incorporated companies offering services related to digital assets abroad. Other concerns have emerged as a result of the broadening scope and increasing complexity of digital asset activities (e.g. technology and cyber risks, harm to retail investors, financial stability).

MAS and other regulators are further enhancing their regulatory frameworks for digital assets. MAS, for instance, announced that they will publish a consultation paper on its regulatory approach for stable coins in October 2022 for public comments.

Conclusion

The thriving innovation culture in Singapore, which has been both a challenge and a growth opportunity for the country's incumbent financial services industry, is a good basis for a growing digital asset industry and market.

However, both financial institutions moving into crypto-related activities and digital asset companies looking for a new home should be aware of the requirements and challenges of the Singaporean digital asset market:

- Incumbent financial institutions should continue exploring and adopting blockchain technology to benefit from opportunities in that area, e.g. through internal development and partnerships. At the same time, they will need to follow global and local developments around prudential requirements for exposures to digital assets;
- Digital assets will offer significant benefits in the long run. In the short run, however, they may add an additional layer of complexity as they coexist with traditional assets. Startups and FS players will need to handle both asset types concurrently during a period of evolving and regionally divergent regulations;
- Lastly: Following MAS' statements, it becomes clear that Singapore will not be an ideal market for retail-focused cryptocurrencies actors. Those businesses may want to look elsewhere for a more favorable regulatory environment.

Hong Kong SFC sets out next steps for Green and Sustainable Finance

SFC's sustainable finance agenda at a time of increasing ESG demand

Background

Investors' demand for green and sustainable finance products and related information is on the rise in Hong Kong (HK): more than 50% of retail investors surveyed by the HK University of Science and Technology and Pictet Asset Management intend to invest in ESG products for the first time, while only 5% have already done so (source). According to Schroder's Global Investor Study (source), obstacles faced by retail investors in HK include lack of transparency and data (51%), lack of clear definitions (45%) followed by performance concerns (37%). Actions and initiatives taken by regulators, including the Securities and Futures Commission (SFC), are addressing these obstacles and paving the way for a broader adoption of ESG investing practices in the territory.

The SFC has been working on a sustainable finance framework for several years with the objective of enabling and encouraging the firms it supervises as well as professional and individual investors to move towards a greener financial system. With the "Agenda for Green and Sustainable Finance", published in August 2022, the SFC sets out its future focus areas in sustainable finance and reviews the progress made under its 2018 strategic framework.

The Strategic Framework for Green Finance

The latest paper assesses the actions taken and the progress made towards the goals set out in the Strategic Framework for Green Finance issued in 2018 (2018 Strategic Framework) with the objective to facilitate the development of green finance in HK and ***adopt*** international standards on ESG reporting.

The strategic framework's goals are:

- Improving the adoption and quality of listed corporates' sustainability and climate-related disclosure by aligning requirements with the recommendations developed by the international Task Force on Climate-Related Financial Disclosures (TCFD);
- Engaging with the industry (namely asset owners and managers) on ESG consideration and disclosure during policymaking processes;
- Growing the market for green financial products, including guidance and harmonized criteria and frameworks on disclosure;
- Raising awareness among investors through capacity building; and
- Promoting Hong Kong as a hub for sustainable finance.

In its latest review, SFC states that these goals have been largely met.

About the TCFD and its recommendations

In June 2017, TCFD published a framework for climate-related disclosures, which aligns with existing financial reporting frameworks. The TCFD framework aims to facilitate companies' disclosure of the financial impact of climate change-related risks and opportunities across the following four areas:

- Governance related to climate change risks and opportunities;
- Strategy - the actual and potential risks and opportunities that climate change may bring for the company's business, strategy and financial planning (TCFD recommends the use of qualitative and/or quantitative scenario analysis to assess the resilience of companies' strategies and financial plans to different climate change scenarios);
- Risk management - the identification, assessment and management of climate-related risks; and
- Metrics and targets – assessing, measuring and managing climate-related risks and opportunities.

Joining forces with other agencies to strengthen sustainable finance

Recap: cross-agency efforts to develop and grow sustainable finance

Recognizing the need to coordinate amongst the local financial regulators, agencies and the exchange, the SFC initiated the establishment of the Green and Sustainable Finance **Cross-Agency Steering Group (CASG)** in May 2020 to accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategy, incl. its goal of carbon neutrality by 2050.

CASG (Cross-Agency Steering Group): The group facilitates and promotes climate and environmental risk management and sustainable finance in Hong Kong.

It is co-chaired by the SFC and the Hong Kong Monetary Authority (HKMA) and comprises 7 members: the Financial Services and the Treasury Bureau (FSTB), the Environment and Ecology Bureau, Hong Kong Exchanges and Clearing Limited (HKEX), the Insurance Authority, and the Mandatory Provident Fund Schemes Authority.

CASG's focus areas:

Risk management: strengthening climate-related financial risk management

Disclosure : promoting the flow of climate-related information at all levels to facilitate risk management, capital allocation and investor protection

Capacity building: enhancing capacity building for the financial services industry and raising public awareness

Innovation: encouraging innovation and exploring initiatives to facilitate capital flows towards green and sustainable causes

Mainland opportunities: capitalizing on Chinese mainland opportunities to develop Hong Kong into a green finance center in the Greater Bay Area

Collaboration: strengthening regional and international collaboration

These key areas were supplemented by 5 immediate action points:

- launch compulsory climate disclosure requirements for financial institutions before 2025;
- promote scenario analysis and assessment of different climate effects on financial institutions;
- contributing to the development of globally unified sustainability reporting standards;
- local adoption of the Common Ground Taxonomy (CGT), developed by the International Platform on Sustainable Finance (IPSF); and
- setting up a coordination platform among regulators, government agencies, academia, etc. and for green and sustainable finance resources.

In addition, the CASG launched the Centre for Green and Sustainable Finance (GSF Centre) in July 2021 to help the financial industry manage the risks and capture the opportunities presented by climate change.

The way forward: SFC's Agenda for Green and Sustainable Finance

The SFC will continue supporting the development of green and sustainable finance in Hong Kong and the transition to a greener economy through improved quality of information available, aiming to increase transparency for and build trust among investors.

The "Agenda for Green and Sustainable Finance", published in August 2022, focuses on three key areas:

- Enhancing corporate disclosures;
- Monitoring the implementation of existing measures; and
- Advancing on a regulatory framework for carbon markets.

> At a glance
>
> **IOSCO (International Organization of Securities Commissions)** is a global association of regulatory agencies in securities and future markets. The association aims to establish and maintain worldwide standards for efficient, orderly and fair markets.
>
> **ISSB (International Sustainability Standards Board)** was established on 3 November 2021 by the IFRS Foundation to deliver a comprehensive global baseline for sustainability-related disclosure standards that provide investors and other capital market participants with useful, consistent and reliable information about companies' sustainability-related risks and opportunities to help them make informed decisions.

Corporate disclosures

On corporate disclosures, the SFC noted that there is a plethora of sustainability disclosure initiatives and frameworks worldwide, all with the intention of providing information needed by investors. This has resulted in a fragmented landscape where sustainability reporting is often incomplete and inconsistent across jurisdictions, industries and companies, raising concerns about mispricing of assets, misallocation of capital, and the risk of greenwashing.

In order to address this, the SFC supports the **IOSCO**'s stance and acknowledges how the **ISSB** could set out a path, with its proposed climate standard, which is built on TCFD framework, forming a comprehensive global baseline for climate-related disclosures. The SFC will investigate together with the Stock Exchange of Hong Kong and other CASG members how the ISSB standards could be included into Hong Kong's local reporting requirements. There will be a particular focus on assessing whether reporting standard aligned with those of the ISSB would work for Hong Kong's listed companies. The SFC will also continue its work in addressing data gaps and talent development issues as well as monitoring global developments in sustainability disclosures.

The way forward: Taxonomy adoption and improved disclosures

Further, other longer-term climate disclosure considerations in the agenda include:

- The digitalization of climate reporting information;
- Capacity building needs; and
- The development of an assurance framework in Hong Kong.

Monitoring existing measures

The SFC has taken measures in areas including asset management, ESG funds, taxonomy, education and training as well as technology and innovation. Going forward, the SFC will continue monitoring the implementation of the measures.

The SFC will continue to consider the issues concerning asset manager disclosures in climate-related risks and plans to enhance supervision, address data-related issues, and provide further clarification and guidance to fund managers. It will continue to monitor ESG funds' compliance with the applicable requirements and engaging with stakeholders to provide guidance to investors in order to enhance their awareness of ESG funds (*please refer to RegWatch published in May 2022*).

It is also exploring ways to adopt a taxonomy in Hong Kong with the aim of aligning with the Common Ground Taxonomy (CGT) in the context of ESG funds and in the context of Hong Kong's financial sectors, to ensure consistency between green activities and which could complement the SFC's existing regulatory and supervisory measures.

The SFC will also continue to support:

- Investor education in this area through regular updates, publicity campaigns, press events, public talks and stakeholder collaborations;
- Contribute to capacity building work; and
- Facilitate the development of technologies to support green and sustainable finance initiatives locally, regionally and internationally.

The way forward: carbon market opportunities

Regulatory framework for carbon markets

There are two key types of carbon markets:

- Voluntary markets where buyers voluntarily purchase carbon credits generated by projects that avoid or remove greenhouse gas (GHG) emissions to neutralize or compensate for their emissions; and
- Compliance markets or Emissions Trading Schemes (ETS) which provide a regulated mechanism for market participants to trade allowances for carbon emissions.

The SFC highlights the potential in the expansion of China's carbon markets and pointed to efforts by the Carbon Market Work Stream (CMWS) which published its preliminary feasibility assessment in March 2022 in respect of carbon market opportunities for Hong Kong. In this assessment, a carbon market in Hong Kong was deemed "preliminarily feasible" and the development of a voluntary carbon market with close ties to the Mainland and the Greater Bay Area was recommended (source).

Following this assessment, the SFC will focus on the development of an appropriate regulatory framework for a carbon market in Hong Kong. In addition, the SFC will continue to participate in the IOSCO Sustainable Finance Taskforce's (STF) carbon market workstream, aiming to support international developments in the transition to a greener global economy and considering the relevance of such developments to Hong Kong.

Conclusion

SFC's Agenda for Green and Sustainable Finance aims to support Hong Kong's overall transition to carbon neutrality and facilitate the sustainable finance environment by enhancing the quality of information available, increasing transparency and building trust among investors, thus facilitating investments into sustainable finance products, companies, projects and initiatives.

One of the key areas SFC has been focusing on is the adoption and enhancement of climate-related disclosure requirements. For instance, the SFC will put a particular focus on assessing whether a sustainability disclosure standard aligned with those of the ISSB will work for companies listed in HK. **Listed companies and their shareholders should therefore observe ISSB-related developments and reflect them in their ESG disclosure strategy**.

With respect to existing requirements, asset managers and firms subject to sustainability disclosure requirements are well advised to review **the availability and quality of the ESG-related data** gathered and used to fulfil their disclosure and risk management requirements. The SFC intends to enhance supervision in this area, to address such data-related issues, and to provide further clarification and guidance to the industry.

As jurisdictions worldwide transition to greener, low-emission and climate-resilient economies, **global and regional carbon markets** are expected to grow significantly. The SFC will develop a regulatory framework for a carbon market in Hong Kong – an opportunity for financial services and Fintechs in the city.

How companies can address sustainability-related challenges

Strategic response & regulatory divergence
• Adapt to the changing regulatory environment and adjust their strategies to capture the evolving opportunities in green and sustainable finance while preventing strategic threats from missing the boat • Anticipate more comprehensive regulations and increasing supervisory expectations • Expect different regulatory approaches and developments across jurisdictions – a global baseline implementation in international companies will need to be supplemented locally • Ensure coherence of sustainability strategy, risk management approaches, processes and disclosure
Methodological challenges
• Improve approaches to measure, manage and quantify climate risk • Look beyond climate risk, explore approaches to managing other types of environmental and social risk • Develop and implement strategies and metrics to enhance the environmental, social and governance (ESG) performance • Manage underlying assumptions and model risks and adopt evolving best practices
ESG data
• Identify and address gaps in data availability and quality • Review and continuously improve the approach to using ESG data from external sources such as data providers and rating agencies • Use advanced data and analytics tools to approximate missing data points and develop forward-looking scenarios

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