Speech

54/F, One Island East, 18 Westlands Road, Quarry Bay, Hong Kong



resulted in sustainability disclosures that can be inconsistent, and at times misleading. It can also lead to greenwashing.

At the moment, an effort is underway to establish a global sustainability reporting system that would resolve some of these issues. The IFRS Foundation has agreed to establish a sustainability standards board which will develop international standards for sustainability-related financial reporting. This is a very promising pathway to global convergence, given that 144 jurisdictions already use the IFRS accounting standards.

In a parallel development, there is now a lot of momentum for securities regulators to move forward with a phased approach to setting supervisory expectations for asset managers to integrate sustainability into their investment decisions. More investors now want to know to what extent their portfolios are financing emissions and how much their portfolios are exposed to climate risks.

We took a big step in this direction last October when we consulted on proposals to require fund managers to factor climate-related risks into their investment and risk management processes and make appropriate disclosures. Of course, we know full well that many fund managers are constrained by a lack of resources. So our proposed requirements give due consideration to the size of firms as well as the principle of proportionality.

## D. Wealth Management Connect and Hong Kong-domiciled funds

Another priority for the SFC over the past year has been working closely with the Hong Kong Monetary Authority and Mainland authorities to prepare for the launch of the long-awaited Wealth Management Connect scheme. This promises to greatly expand sales of investment products to the Greater Bay Area (GBA).

I am happy to report that we are now in the home stretch. As a full-service asset management centre, Hong Kong has always been a distribution hub for funds domiciled in Cayman Islands, Luxembourg and elsewhere. Hong Kong can ride on this opportunity to expand as a fund platform, particularly now that fund managers have the option to set up open-ended fund companies (OFCs). There has been a strong pickup in interest in OFC applications for exchange-traded funds and other public as well as private funds, particularly after we announced the grant scheme<sup>3</sup>.

The long-awaited Wealth Management Connect Scheme opens up tremendous opportunities, but cross-border distribution to GBA residents will pose serious challenges for banks in Hong Kong. Banks here rely heavily on face-to-face means to solicit sales, but under this scheme, the mode would change to execution-only online platform and mobile apps. The Mainland's tech-savvy retail investors are used to a level of service that is very mobile, cost-effective and provides up-to-date fund information, and that would probably need to be matched to entice them to invest in authorised funds and products offered in Hong Kong.

54

<sup>&</sup>lt;sup>3</sup> The <u>Grant Scheme</u> for Open-ended Fund Companies and Real Estate Investment Trusts announced by the SFC on 10 May 2021 offers to reimburse 70% of eligible expenses paid, capped at HK\$1 million, for OFCs successfully incorporated in or re-domiciled to Hong Kong.