

October 2022

Climate-related risks: 20 November 2022 deadline - Have you checked the boxes?



By 20 November 2022, qualifying fund managers in Hong Kong ("**Fund Managers**") will need to comply with the Securities and Futures Commission's ("**SFC**") Circular on Management and Disclosure of Climate-related Risks by Fund Managers ("**SFC Circular**"), issued 20 August 2021, as well as the underlying Consultation Conclusions on the Management and Disclosure of Climate-related Risks by Fund Managers.

This follows the 20 August 2022 deadline for large Fund Managers with at least HK\$8 billion (approximately US\$1 billion) in assets under management across any three months in the past reporting year. For details, please refer to our earlier client alert - [client-alert---deadlines-looming-for-sfc-esg-and-climate-related-requirements.pdf \(shlegal.com\)](#).

Climate-related risks referred to in the SFC Circular comprise both physical and transitional risks, as largely adopted by the SFC from the Recommendations of the Task Force on Climate-related Financial Disclosures dated June 2017:

- (a) transitional risks: risks related to the transition to a lower-carbon economy; and
- (b) physical risks: risks related to the physical impact from climate change.

In a nutshell, transitional risks entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transitional risks may pose varying levels of financial and reputational risks to organizations, while

physical risks resulting from climate change can be event-driven (acute) or a consequence of longer-term shifts (chronic) in climate patterns.

Physical risks may also affect companies financially through, for instance, direct damage to assets and indirect impact from supply chain disruption. These may influence factors such as water availability, sourcing, material quality, food security, and extreme temperature changes that would affect operations, transport needs, and employee safety. Examples of these risks are detailed in Appendix 2 of the SFC Circular.

Still while all these sound intimidating, it need not be difficult to start assessing the relevance and materiality of potentially applicable climate-related risks in time to meet the November 20 deadline. As an added resource, we also suggest that Fund Managers refer to the SFC's presentation dated October 2021 – [PowerPoint Presentation \(sfc.hk\)](#).

The global ESG movement will continue to develop and feature strongly on regulatory mindsets. There is no better time than now for companies to take full stock of their ESG blueprint and ensure that they stay ahead of the curve.

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