Submitted via email

August 20, 2021

Hong Kong Monetary Authority (HKMA)
55th Floor, Two International Finance Centre
8 Finance Street
Central Hong Kong

Dear Sir/Madam,

Supervisory Policy Manual, Climate Risk Management Consultation ("Consultation Paper")

We welcome the opportunity to comment on the Consultation Paper and the collaboration and consultation between the Hong Kong Monetary Authority ("HKMA") and industry participants in enhancing the response capacity to climate-related risks and associated disclosure standards.

MSCI's ESG origins date back to 1972 and we have been assigning ESG ratings based on industry material ESG risks for over 20 years. For the purposes of our response to the Consultation Paper, we have analysed how listed Hong Kong, SAR ("Hong Kong") based banks compare to the global sector average on climate-risk management practice from our Financing Environmental Impact Key Issue ratings methodology for banks/lenders[1]. The research shows that the relevant banks lag the rest of the global banking sector on selected indicators related to ESG/climate risk management practices addressed in the proposed HKMA supervisory manual. This lag is more pronounced when compared to the best performing banks and jurisdictions on climate risk. Please refer to Annexure 1 for the detailed findings.

In order to assess companies' ESG and climate risks and opportunities, MSCI uses public disclosures from the rated entities as well as information from other sources. We therefore have an interest in the proposals on disclosure set out in the Consultation Paper and have the following general comments:

1. **Global alignment matters**: We observe an emergence of diverging regional integration, reporting and disclosure obligations related to climate and ESG matters. We therefore welcome an alignment of the proposed HKMA guidance with an international framework such as the TCFD as a minimum standard for disclosure. MSCI does not have a view on a preferred international standard but we note the March 8, 2021 announcement by the IFRS Foundation to create a new Sustainability Standards Board ("SSB") to accelerate convergence on reporting standards and the supportive statements from IOSCO and the Financial Stability Board. We support the efforts of the IFRS Foundation to propose standardization of the ESG disclosures that aim to capture issues that could be material to companies' enterprise value, starting initially with climate-related disclosures that align with the guidance of the TCFD.

[1] Please refer to the MSCI ESG Ratings Methodology

2. **TCFD's proposed guidance on Climate-related metrics, Targets, and Transition Plans and Measuring portfolio Alignments-Technical Supplement:** MSCI has responded to the consultation on the TCFD's proposed guidance on climate-related metrics and financial impacts and would welcome some clarification as to how HKMA will integrate those in its guideline, once final.

3. **Evolution of disclosure standards:** It is further important that disclosure standards should be subject to regular updates. Climate-related and ESG data and analytics are improving rapidly, enabling companies and investors to develop improved methodologies and metrics to better capture and analyze material developments. Disclosure standards that remain static could lose relevance by failing to capture major ESG and climate related risks and opportunities related to sustainability practice by asset managers.

4. **Assessment of impacts at portfolio and counterparty levels:** The level for assessing climate-related impacts aligns with our approach. MSCI collects loan exposures to different industries and weighs these exposures by the respective industries' environmental impact to see which banks are most exposed to highly environmentally intensive industries. We support the reporting of geographical exposure data at industry level. Currently, most banks report geographic and industry split separately, if at all, which provides for limited interpretation.[2]

5. **Assessment of impacts at operational level**: Due to the high exposure of Hong Kong to extreme weather events, the recommendations for assessing operational impacts is particularly relevant. MSCI's physical climate Value at Risk metrics captures eight extreme weather hazards based on both probabilistic and re-analysis modelling at high resolution; risk values are calculated for individual company facilities.

6. **Scenario analysis and forward-looking disclosure**: Stress testing will set the broad principles for forward-looking climate risk assessment and we support the proposal in the Consultation Paper. Scenarios developed by the Network for Greening the Financial System (NGFS) are increasingly referenced by national regulators. In response, MSCI will be adding five NGFS scenarios to our current suite of scenarios for the calculation of the Climate Value at Risk metric[3]. We will also launch a new version of our temperature metric that will be aligned with the proposed TCFD principles for measuring portfolio alignment which will assist banks to track the exposure of their loan and investment portfolios.[4]

We trust you will find our response helpful in finalizing the amendments to the Supervisory Policy Manual. Please do not hesitate to contact us to discuss our submission.

Yours sincerely,

/s/ Linda-Eling Lee
Global Head of ESG Research
MSCI ESG Research LLC

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[2]e.g. we cannot distinguish whether a bank is financing the "energy" sector in Austria or China.

[3]The Climate VaR provides insights into the potential stressed market valuation of investment portfolios and downside risks, translating climate-related costs into potential valuation impacts. It covers policy and physical risks/opportunities.

[4] Our model allocates an emissions budget to companies under a 2°C warming scenario. Future emissions trajectories are then projected based on publicly disclosed targets by companies. Emissions over/undershoot is benchmarked against a 2°C scenario, and ultimately converted into a temperature measure.

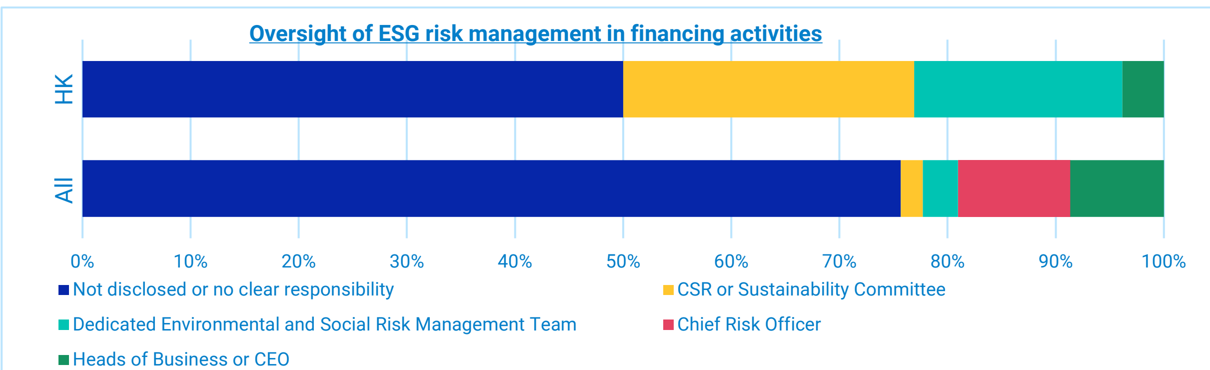
Annexure 1: Research perspective on Hong-Kong based listed banks' current approach to climate-related risk management

As per our cover letter, MSCI has prepared an analysis on how listed Hong-Kong based banks compare to the global sector average on climate-risk management practice.

In the charts below, we display performance among the **26 Hong-Kong and Mainland China based** banks in the MSCI ACWI index (proxy for those listed on HKEX) versus the rest of the banks in **MSCI's ESG Rating coverage** with available data (ca. 600 banks). The graphical representation compares the banks based on the following pillars stated in the supervisory manual , namely, Governance, Strategy and Risk Management. We also address the allocation of climate risks across the three lines of defence highlighted in 5.1.3 of the Consultation Paper.

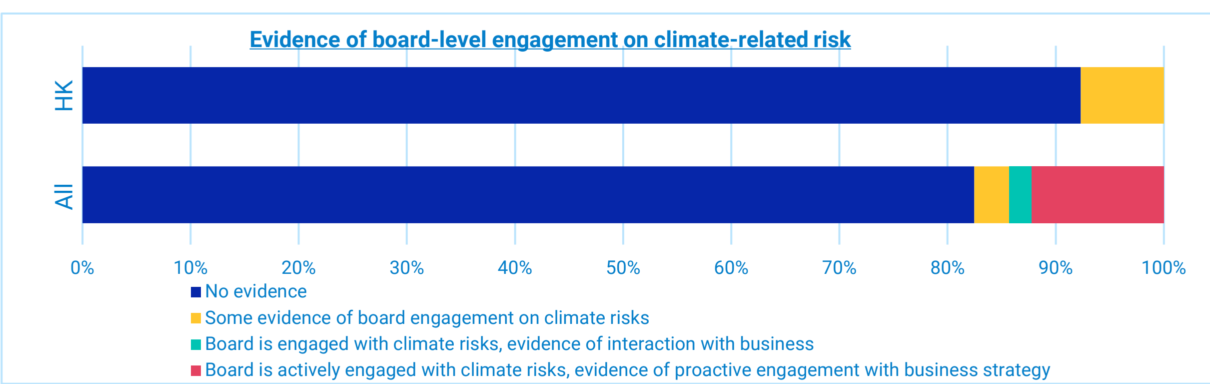
3 – Governance
3.1 – Responsibilities of the board and senior management
3.2 – Oversight

- **Key Issue:** Financing Environmental Impact → **Theme:** Oversight of ESG risks in financing activities → **Datapoints:**
    - Ownership over ESG performance of the company's financing & investment activities



Source: MSCI ESG Research LLC, as May 31, 2021. The x-axis shows the % of companies assessed to have policies/practices most aligned with the respective category on the chart. The practices are ordered from the weakest (no evidence) to what we consider the best practice.

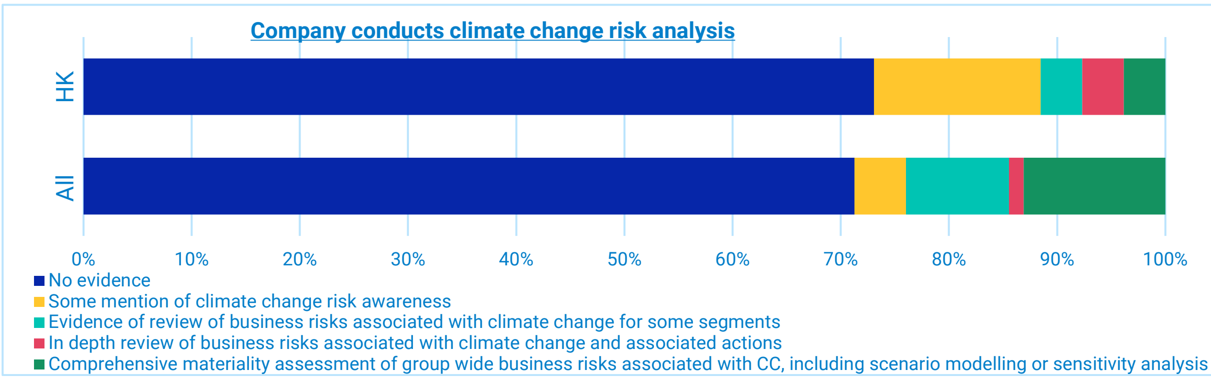
- Evidence of board engagement with climate risk



Source: MSCI ESG Research LLC, as May 31, 2021. The x-axis shows the % of companies assessed to have policies/practices most aligned with the respective category on the chart. The practices are ordered from the weakest (no evidence) to what we consider the best practice.

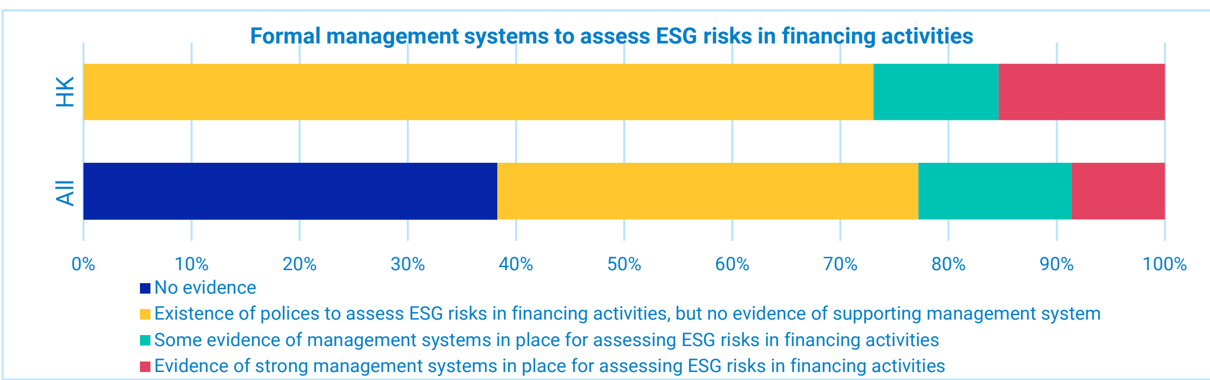
4 – Strategy
4.1 – Overview
4.2 – Formulation (Internal factors, External factors, Stakeholder engagement, Time management)

- For overall climate risk related strategy:
    - **Key Issue:** Financing Environmental Impact → **Theme:** Oversight of ESG risks in financing activities → **Datapoints:**
        - Company conducts climate change risk analysis



Source: MSCI ESG Research LLC, as May 31, 2021. The x-axis shows the % of companies assessed to have policies/practices most aligned with the respective category on the chart. The practices are ordered from the weakest (no evidence) to what we consider the best practice.

- **Internal factors** (risk management structures and systems):
    - **Key Issue:** Financing Environmental Impact → **Theme:** Management systems to assess ESG risks in financing → **Datapoints:**
        - Formal management systems to assess ESG risks in financing activities



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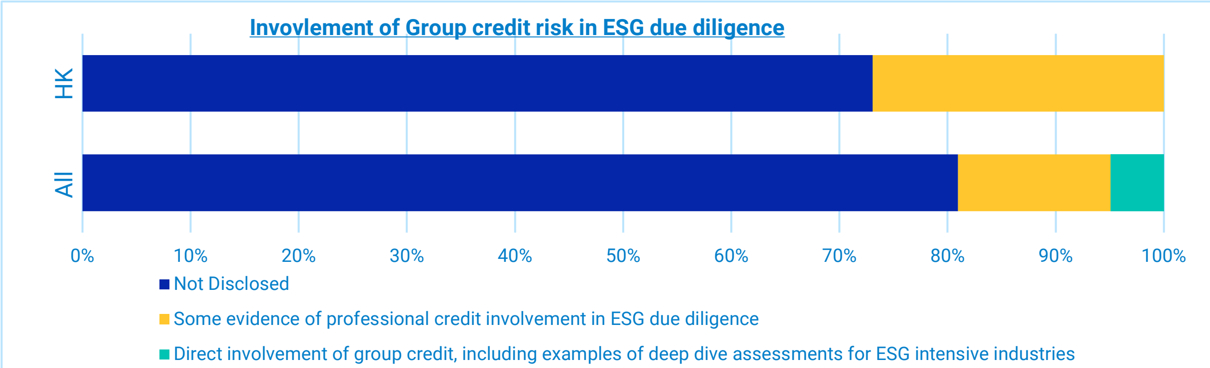
5 – Risk management
5.1 – Overview

ESG/climate change integration in the risk management framework is addressed through

- **Key Issue:** Financing Environmental Impact → **Theme:** ESG integration in risk management → **Datapoints:**
    - Involvement of Group Credit Risk in ESG due diligence



Source: MSCI ESG Research LLC, as May 31, 2021. The x-axis shows the % of companies assessed to have policies/practices most aligned with the respective category on the chart. The practices are ordered from the weakest (no evidence) to what we consider the best practice.

- Formal training of risk officers and bankers on ESG risks and procedures

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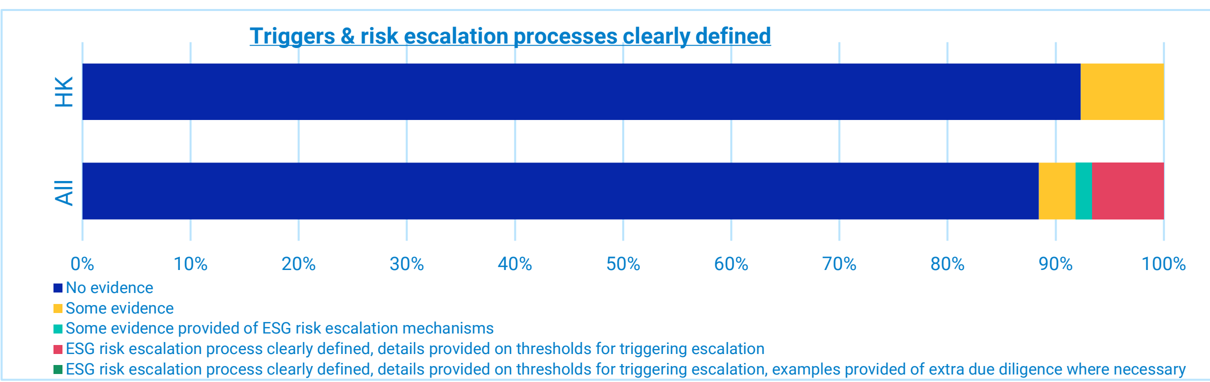
- Triggers and risk escalation processes clearly defined



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