

Managing Climate-Related Risks: A Fund Manager's Guide



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Climate-related risks pose significant challenges to fund managers. The Securities and Futures Commission's (SFC's) requirements, aligned with global standards, emphasise managing and disclosing these risks to protect investors and ensure compliance.

Below outlines the SFC's expectations, the importance of climate risk management, and practical steps for fund managers.

Why It Matters

Climate change impacts investments through physical risks (e.g., extreme weather) and transition risks (e.g., carbon regulations). These factors can devalue assets or reduce earnings, especially in carbon-intensive sectors. A report by the [Climate Policy Initiative](#) underscores the material risks faced by institutional investors. Investors increasingly demand transparency, with studies showing that funds with lower climate risks tend to attract more capital. Addressing climate risks is both a regulatory necessity and a strategic advantage.

SFC Requirements

The SFC's amended Fund Manager Code of Conduct (FMCC), effective from 2022, requires [Type 9 licensed](#) fund managers to identify, assess, and manage climate-related risks across their operations. Key areas include:

- **Governance:** Board and senior management must oversee climate risks with clearly defined policies and roles.
- **Investment management:** Assess climate risks for all funds, justifying irrelevance if applicable, incorporating standards such as the Principles for Responsible Investment(PRI).
- **Risk management:** Integrate climate risks into frameworks, leveraging tools like scenario analysis and active engagement with investee companies.
- **Disclosures:** Provide entity and fund-level disclosures on risk management and Scope 1 and 2 GHG emissions, with enhanced requirements for large managers (AUM ≥ HK\$8bn).

Global Standards

The Task Force on Climate-related Financial Disclosures (TCFD) provides a globally recognized framework for reporting on governance, strategy, risk management, and climate-related metrics. Adopted by nearly 5,000 organizations worldwide, the TCFD framework is closely aligned with the Hong Kong SFC requirements. In parallel, the US Securities and Exchange Commission (SEC) and EU Sustainable Finance Disclosure Regulation (SFDR) have also introduced their own mandatory climate disclosures, reflecting a global regulatory shift toward greater transparency in sustainable finance.

Benefits of Compliance

Proactively managing climate-related risks enhances risk assessment capabilities, improves capital allocation, and appeals to environmentally conscious and sustainability-focused investors. Compliance with SFC and TCFD standards not only reduces the risk of regulatory penalties, but also builds investor confidence and strengthens market competitiveness.

How Waystone Can Help

Waystone offers a full suite of [Corporate Compliance Solutions](#) tailored to the needs of businesses expanding into or operating within Hong Kong. We are committed to enhancing your compliance framework, so you can focus on growing your business with confidence.

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