

HKMA ESG Expectations

The HKMA incorporates ESG factors in selecting, appointing and monitoring its investment-related counterparties/service providers, including for example issuers/counterparties of financial instruments, external managers of public market investments and general partners of private market investments (collectively referred to as “counterparties” hereafter). The ESG expectations set out in this document are key performance indicators used by the HKMA for assessing ESG practices of its counterparties. The HKMA intends to adopt a pragmatic approach in conducting such ESG assessment, recognising that some of these expectations might not be applicable to certain investments or counterparties.

Areas	Principles
Governance and resources	Counterparties should comply with applicable stewardship codes.
	Counterparties should establish relevant committee(s) providing oversight for their ESG investment and stewardship work. Staff dedicated for relevant work should have appropriate ESG expertise and training.
	Compensation of senior management as well as portfolio management and stewardship teams should be linked to ESG-related key performance indicators.
	Counterparties should consider supporting international organisations advocating good ESG practices and keep abreast of developments of ESG standards and practices.
ESG framework / policy	Counterparties should establish framework for ESG assessment of investee companies in their investment portfolio(s) and/or underlying project(s)/asset(s) linked to their financial product(s) using multiple data sources, focussing on material and/or systemic risks including climate-related risks.
	Counterparties should monitor ESG performance of investee companies in their investment portfolio(s) and/or underlying project(s)/asset(s) linked to their financial product(s), including their carbon footprint as well as net-zero transition pathway, throughout the investment cycle.

Areas	Principles
Engagement	Counterparties should establish an engagement policy with a view to mitigating material and/or systemic ESG risks of their investment portfolio(s) and/or underlying project(s)/asset(s) linked to their financial product(s) in particular transition planning to manage climate-related risks, as well as promoting good ESG practices to be adopted by investee companies and/or such underlying project(s)/asset(s). Engagement is preferred to divestment.
	Counterparties' engagement policy should set out principles including but not limited to identification of engagement theme(s) and target companies/projects/assets, engagement objective(s), tracking of engagement progress and escalation mechanism.
	Counterparties should consider leading collaborative engagement as appropriate.
Voting	To ensure consistent voting stance, counterparties should establish their own voting guidelines with a clear framework for voting in favour or against resolutions. Such guidelines should be annually reviewed.
	Counterparties should vote all shares held. Abstention should not be automatically elected. Counterparties should provide rationale in cases where it is deemed more appropriate to abstain or deviate from voting guidelines.
	Counterparties should establish a mechanism to review voting recommendations provided by proxy voting advisor(s) prior to finalising their voting stance. The practices adopted by proxy voting advisor(s) should be audited at least annually.
	Counterparties should strive for reaching a unanimous decision on a given resolution of an investee company held in different portfolios. Voting decisions should be coordinated by stewardship team and endorsed by relevant committee(s) as appropriate.

Areas	Principles
ESG disclosure / reporting	<p>Counterparties should provide periodic ESG reporting (at least annually) on:</p> <ul style="list-style-type: none">(i) measurement of ESG risks including both backward- and forward-looking carbon metrics;(ii) engagement work including list of investee companies/projects/assets engaged with engagement objective(s) and status;(iii) voting statistics and rationale for exceptions; and(iv) sustainability outcomes, e.g. carbon avoidance.