

**Expected Standards and Examples of Good Practices on
Sale and Distribution of Green and Sustainable Investment Products**

A. Product due diligence (“PDD”)

Expected standards

Where RIs market or classify an investment product as green and sustainable, RIs are expected to take reasonable steps in classifying such product as green and sustainable. These could entail reviewing relevant information, including, to the extent applicable, product offering documents, documentation or reports provided by the product issuer or provider (such as issuer’s green and sustainable bond framework, post-issuance reports on allocation of proceeds and expected impacts, periodic reports on how the product has attained its green and sustainability focus, etc.) and reviews from external parties (such as second-party opinion, independent-party certification or verification, etc.).

On-going PDD should be conducted at appropriate intervals to ensure that the respective investment products continue to maintain their green and sustainable status. Adequate documentation of the assessment work should be properly maintained. Where an investment product no longer meets the criteria to maintain its green and sustainable status, RIs are expected to notify customers who are holding this product about the change of the status, if the RI has marketed or classified the investment product as green and sustainable to the customers in the sale and distribution process. For avoidance of doubt, RIs may continue to offer the investment product but should refrain from further marketing or classifying it as green and sustainable.

Good practices

- To facilitate evaluation on how the environmental, social and governance (“ESG”) or green or sustainability factors were considered and implemented in a fund’s investment process, some RIs required the fund house to complete an ESG or sustainability-specific questionnaire for each fund and reviewed its response. The questionnaire included questions covering various areas such as the fund’s investment philosophy and strategy, ESG criteria, use of

ESG data providers, governance oversight, transparency (e.g. customer communication and reporting), etc.

- For funds with thematic investing strategy like climate change, water and food security, some RIs assessed the fund's investment strategy with reference to ESG criteria or principles recognised globally, e.g. checking the fund's investment strategy to ensure it aligned with the sustainability themes articulated in the United Nations Sustainable Development Goals ("UN SDGs").
- To supplement their own analysis, some RIs further obtained external data from multiple information service providers (e.g. ESG or sustainability ratings) and/or reviewed whether the fund was classified by the fund manager as Article 8 or 9¹ under the European regulation on sustainability-related disclosures in the financial services sector² ("SFDR"). An RI would obtain some additional third-party data where available (e.g. exposure to some adverse ESG / sustainability factors such as weapons, thermal coal, etc.), to verify the fund house's internal assessments / sustainability reports.
- An RI applied exclusion of issuers which are involved in controversial business activities or violation of international norms and standards such as the United Nations Global Compact Principles.

B. Customer's sustainability preference

Good practice

- An RI would enquire about a customer's investment needs and objectives including any interest to invest in ESG or sustainable investments or any need to exclude those involving controversial business activities. A customer could further indicate ESG or sustainable investment preferences in specific areas (such as climate change, water, people, governance, etc.). The RI would consider the customer's indicated ESG or sustainable investment preferences

¹ Under the SFDR, Article 8 funds refer to funds that promote, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices; and Article 9 funds refer to funds that have sustainable investment as their objective.

² Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

and other information (including customer's risk profile, knowledge and experience, financial situation) when recommending investment products to the customer, to ensure that the investments meet the customer's needs and align with the customer's values and objectives.

C. Disclosure

Expected standards

RIs should ensure that any representations made about green and sustainable investment products to customers are accurate and not misleading. Where RIs market or classify an investment product as green and sustainable, RIs should provide information about green or sustainability characteristics and associated risks specific to the green or sustainable investment product to help the customer make informed decisions. In doing so, RIs should use simple and plain language, and in a language that the customer can readily understand.

Where RIs provide sustainability levels or scores of investment products (regardless of whether such levels or scores are based on in-house built model or provided by external service providers) to customers, RIs should have clear understanding of and provide the information about the meanings of the levels or scores to customers. Upon customers' enquiry, RIs should provide information on how such levels or scores are derived (e.g. methodology, assessment criteria, data source, etc.).

Good practices

- For certain investment products such as bonds and funds, some RIs disclosed to customers the sustainability level of investment products based on their in-house built model, to help customers identify and compare the degree of integration of ESG or sustainability factors in different investment products.
- To raise customer's awareness of the ESG performance of green and sustainable investment products, an RI, using its in-house built model, would assess and assign an individual score for each of the "E", "S" and "G" factor and disclose the scores to the customer through monthly statements.

D. Governance and controls

Expected standards

RIs should ensure adequate management supervision on the issues and risks arising from sale and distribution of green and sustainable investment products, particularly greenwashing³ risks.

RI should establish proper policies and procedures and put in place adequate monitoring by control functions to ensure the risks arising therefrom are properly identified and managed.

Good practice

- Some RIs established dedicated management committees for reviewing policies and procedures for ESG or sustainable investments.

E. Staff training

Expected standards

Where RIs market or classify investment products as green and sustainable, RIs should provide adequate ESG-related training to its staff, covering the concept of sustainable investments, latest trend and market developments, as well as product knowledge, to ensure that they are equipped with necessary knowledge and skills and that they will keep abreast of the development.

In other cases, RIs are also encouraged to provide appropriate training including ESG-related training to staff to ensure that they keep abreast of latest market development.

Good practice

- Some RIs periodically invited external professionals or specialists to provide training on ESG-related topics for their staff.

³ For example, a lack of basis for classifying investment products as green and sustainable; malpractice of promoting investment products in a manner that portrays them as being more environmentally or climate-aligned than they are.

F. Bookbuilding activities

The applicability of the expected standards on bookbuilding to RIs is based on provisions of paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (“SFC’s Code of Conduct”). This Section is applicable to an RI who acts as capital market intermediary (“CMI”) as defined in paragraph 21.1.1 of the SFC’s Code of Conduct.⁴

Expected standards

RIs should conduct an adequate assessment of an issuer client before engaging in a debt offering for that issuer client. This includes taking reasonable steps to obtain an accurate understanding of the background, operations, business and performance, financial condition and prospects of the issuer client. RIs should also establish a governance process to review and assess a debt offering and the associated risks.

RIs should assess green and sustainable bond offerings with reference to applicable market principles and standards⁵ and check for any reviews from external parties as appropriate (including pre-issuance reviews on the bond issuance, bond programme and / or bond framework).

Good practice

- An RI, who acted as an arranger of green and sustainable bonds, established a specialised ESG team to evaluate bond offerings. A dedicated committee of the RI was tasked to provide oversight of the controls of green and sustainable bonds offered including, among others, review of the assessment work conducted by the specialised ESG team to ensure alignment with its internal policy.

⁴ A non-syndicate CMI as defined in footnote 14 of the SFC’s Code of Conduct is not required to comply with the expected standards set out in this section.

⁵ For example, Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines of the International Capital Market Association.