International
Capital
Market
Association

ICMA

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To the Chairman of the Subcommittee Ir Dr The Honourable Lo Wai Kwok,

We are very pleased to have the opportunity to comment in the context of the Proposed Resolution of the Legislative Council of the Hong Kong Special Administrative Region concerning the authorisation of the HK$100 billion Government Green Bond Programme.

The International Capital Market Association (ICMA) is the trade association for the international capital market with over 540 member firms from more than 60 countries, including banks, issuers, asset managers, infrastructure providers and law firms. It performs a crucial central role in the market by providing industry-driven standards and recommendations for issuance, trading and settlement in international fixed income and related instruments. ICMA liaises closely with regulatory and governmental authorities, both at the national and supranational level, to help to ensure that financial regulation promotes the efficiency, fluidity and cost-effectiveness of the capital market.

ICMA plays a key role in the global green finance market by serving as the Secretariat for the Green Bond Principles, which are the market-led global standard for green bond issuance referenced, in particular, by all sovereign green bond issuers to date.

Climate change and environmental risks are an acute threat to economic growth and global development. It is estimated that trillions of dollars are needed to help countries meet the climate and environmental challenge. By supporting the development of climate and sustainable finance, governments can help build a more resilient future in the face of environmental risks. Sovereign green bonds especially can directly fund or refinance government projects designed to address, mitigate or adapt to environmental challenges.

Sovereign green bonds can also become a key part of the elaboration and implementation of environmental policy through a process where potential projects can be benchmarked against established international categories and market precedent; where the nature and role of external environmental expertise is clear; and finally, where transparency and reporting requirements are explicit. Green sovereign bonds can also help governments meet their commitments under international environmental targets such as those contained in the Paris Agreement within the United Nations Framework Convention on Climate Change.

The issuance of sovereign green bonds can further have a direct beneficial impact on the development of local green bond markets. This can occur with sovereign issues having a demonstration effect for other issuers and by familiarising investors with this innovative security; as well as supporting best practice in terms of transparency, disclosure and reporting; and enhancing market liquidity through benchmark size transactions.

We can confirm that other governments that have issued sovereign green bonds, such as Poland, France, Fiji, Nigeria, Belgium and Lithuania (along with Indonesia which also issued the first

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sovereign green sukuk in early 2018), have typically reported several potential benefits. These have included some or all of the following:

(i) a greater diversity and number of investors,
(ii) higher demand and oversubscription,
(iii) the option to issue at longer maturities,
(iv) wide communication of the sovereign's sustainability strategy, and
(v) leadership that encourages corporate and financial sector follow up transactions.

The Green Bond Principles promote integrity in the Green Bond market through guidelines that recommend transparency, disclosure and reporting; and include high-level green project categories and recommendations for external reviews. They are intended for use by market participants and are designed to drive the provision of information needed to increase capital allocation to such projects. With a focus on the use of proceeds, the Green Bond Principles aim to support issuers in transitioning their activities towards greater environmental sustainability through specific projects.

The Green Bond Principles are *voluntary market-driven guidelines* that operate independently of official regulations and laws. They have however to date always been drawn upon or explicitly referenced by market authorities that have published regulations or guidance for national or regional green bond markets, as in the case of the People's Bank of China and most recently the ASEAN Capital Market Forum.

The Green Bond Principles bring together near 300 market participants and stakeholders through an associated market initiative advised and supported through a Secretariat provided by ICMA. The Green Bond Principles are designed to evolve over time, to reflect the growth and evolution of the market and the evolution of best practices. They are therefore updated every year by its Executive Committee with the input of a robust consultation process involving market participants and stakeholders around the world in the public, private, and NGO sectors.

The Green Bond Principles have consistently engaged in a constructive dialogue with sovereign issuers in order to provide explanations and also to benefit from their feedback. This process has also allowed for clarifications on some important points that may be especially relevant to sovereign issuers. The Green Bond Principles have for example explained that the Green Bond Principles Eligible Project Categories also include supporting expenditures such as research and development. This can be pertinent for the allocation of proceeds to eligible government financed projects that have benefited from significant prior supporting investment or expenditure. Similarly, it has been confirmed that governments, as well as other issuers, may track equivalent amounts to those raised by their green bonds, rather than segregating the actual funds which may not be practical in the context of a national budgetary and funding process.

The Green Bond Principles 2018, released on 14 June in Hong Kong, were accompanied by separate Guidelines for External Reviews promoting best practice and integrity in the provision of external review services for Green Bonds. These were produced in consultation with over 30 external reviewers, some of which are referenced on ICMA's website. These External Review Guidelines include (i) updated typology of external reviews, (ii) ethical and professional standards, and (iii) organisation and content. The Guidelines are designed to contribute to the integrity of Green Bond market and to provide further clarity on the role of external reviews. They also constitute a resource for sovereign issuers seeking to understand the purpose of external reviews and what to expect from the organisations providing these services. We emphasize that neither the Green Bond Principles nor the Guidelines for External Reviews recommend any specific green bond reviewer.

We attach for your information a list of sovereign green issues to date and several case studies. They may serve as useful reference with respect to structure, scope of use of proceeds, as well as reporting commitments. They also illustrate both the case of individual issues as well as green bond programmes.

We at ICMA thank the Subcommittee for the opportunity to share our views on the Proposed Resolution. We would be happy to answer any further questions or provide further clarification about the Green Bond market and international practices.

Best regards,

Martin Scheck
Chief Executive

Sovereign Green Bonds

- 7 sovereign green bonds have been issued to date to a total of US$25.5 billion, including the largest issuance and the longest maturity date in the market's history with France's Green OAT.
- Issuance has been from both developing and emerging markets with important symbolic issues from Fiji, Nigeria and Indonesia.
- Other Sovereigns including Kenya, Morocco, Sweden, Italy, Portugal, Ireland, the Netherlands are reported to be working on potential issues in the near term.

Issuer	Date	Bond Size/Coupon
Belgium	• Issue date: Feb 2018; • Maturity date: April 2033	• €4.5bn • 1.250%
Fiji	• Issue dates: November 2017/ May 2018; • Maturity dates: November 2022/ November 2030;	• 100 million Fiji dollars (US$50mn); • 5 year: 4.00%/ 13 year: 6.30%
France	• Initial issue date: Jan 2017; • Maturity date: June 2039;	• €7bn up to €14.8bn following 4 taps • 1.75%
Indonesia	• Issue date: Feb 2018; • Maturity date: March 2023	• US$1.25bn • 3.75%
Lithuania	• Issue date: May 2018; • Maturity date: May 2028;	• €20mn • 1.20%
Nigeria	• Issue date: December 2017; • Maturity date: December 2022;	• 10.69 billion Naira (US$29.8mn) • 13.48% per year
Poland	• Issue dates: Dec 2016; Jan 2018 • Maturity dates: Dec 2021; Jan 2026	• €750m; €1bn • 0.50%; 1.125%

Kingdom of Belgium: Green Bond Case Study

Details	€4.5bn, 1.25%, April 2033 issued April 2018
Use of Proceeds	• Renewable Energy and Energy Efficiency; • Clean Transport; • Circular Economy; • Living Resources and Land Use
Tracking	Tracking of Eligible Green Expenditures will be done by the Belgian Debt Agency, ensuring that the allocation of proceeds will not allow for listing of the same budget allocation twice. Only expenditures net of EU grants, loans, or other revenues earmarked for specific purposes are eligible. The management of Eligible Green Expenditures will be done on a notional basis.
External Review	The Green OLO Framework obtained a "Second Party Opinion" from Sustainalytics.
Reporting	The Ministry of Finance and the Belgian Debt Agency will coordinate and publish a report on the management/allocation of the proceeds of the preceding year to Eligible Green Expenditures by green sector. The allocation of the proceeds will be reviewed annually by an independent audit firm. The Minister of the Environment will coordinate and publish a report assessing the environmental impact of Eligible Green Expenditures. A multi-agency task force will provide input. The first impact report will be published in the year following the issuance, and as necessary thereafter following additional issuance/tap.

Republic of France: Green Bond Case Study

Details	Largest and longest tenor green bond in the market: June 2039, €7bn, 1.75% OAT issued in Jan 2017 and now tapped 4x to outstanding €14.8bn
Use of Proceeds	• Buildings: investment in energy efficient buildings, no efficiency targets stated • Transport: public transport, modal infrastructure, energy efficient transportation • Energy: renewable energy and its integration into power systems • Living resources and biodiversity: organic farming, sustainable forestry, biodiversity protection, protection of natural areas • Adaptation: observation systems, climate research, adaptation research • Pollution control and eco-efficiency: pollution monitoring, promotion of sustainable consumption, recycling.
Tracking	Tracking of allocation will be done by the Ministry of Finance. More than 50% allocated to current and future investments
External Review	Independent review provided by Vigeo Eiris
Reporting	• An annual report on allocation of bond proceeds, reviewed by an audit firm. • An annual report on performance indicators of Eligible Green Expenditures • Ex-post environmental impacts of Eligible Green Expenditures, under the supervision of a high level Green Bond Evaluation Council.

Republic of Poland: Green Bond Case Study

Details	2 green bonds issued: Dec 2021, €750m, 0.50% priced Dec 2016; Aug 2026, €1bn, 1.125% priced Jan 2026
Use of Proceeds	• Renewable Energy • Clean Transportation • Sustainable Agricultural operations • Afforestation • National Parks • Reclamation of Heaps
Tracking	Poland changed national law to specifically to allow earmarking of green funds through ministries to aid allocation/reporting/prevent double counting. There is also capacity to use on lending in the form of subsidies and budget allocation
External Review	Sustainalytics reviewed the State Treasury of the Republic of Poland Green Bond Framework and provided a Second Party Opinion
Reporting	The Ministry of Finance, Public Debt Department will report annually, or until proceeds are fully allocated, on: (i) aggregate amount allocated to the various Eligible Sectors (ii) remaining balance of funds which have not yet been utilized (iii) examples of Green Projects from each Eligible Sector(s) (subject to confidentiality disclosures) When feasible, the Ministry of Finance, Public Debt Department will also report on environmental and social impacts resulting from funded projects