

Thank you for the opportunity to present on this very important matter.

By way of very brief introduction, I am presenting in the following capacities:

- Founder and co-chair of the Hong Kong green finance task force (an informal private sector association of around 70 individual members from around 35 institutions)
- Director and special adviser to the chairman of the Hong Kong green finance association (to be launched in September 2018 with around 90-100 initial members)
- Member of the steering committee of the United Nation's network of international financial centres for sustainability, comprising around 20 member financial centres
- Practising Hong Kong lawyer and partner of my law firm GPS Legal LLP /GPS McQuhae LLP (as of 1 August 2018).

### **Introduction**

On behalf of all the above, I support this government's policy commitment to green finance and to Hong Kong becoming a leading green financial centre.

The Hong Kong sovereign green bond program can be an effective and powerful way to accelerate the green finance market in Hong Kong, cement Hong Kong's standing as a leading international green financial centre, and have a significant positive environmental impact.

Green finance refers to capital raising where the use of proceeds has a measurable environmental benefit.

### **A global imperative**

The need for the greening of the financial system became a global imperative following the COP21 Paris Agreement. Achieving the decarbonisation commitments made by the world's leaders will require \$trillions of spending, money few (if any) governments can afford. Mobilising the private sector through the international financial centres is therefore essential to reaching these goals and tackling global warming.

Following COP21, there has been a huge international effort to drive the green finance agenda forward. Countries such as China, UK and France remain market leaders and an inspiration for others. The recently launched United Nations network of international financial centres for sustainability already comprises around 20 members and continues to grow. Hong Kong is a founding member of this network, and I have had the privilege of attending network meetings on behalf of Hong Kong.

### **Greening the financial system**

Notwithstanding the global imperative, implementing the greening of the domestic and global financial system requires major changes to mindsets and business practices, which in turn requires a major and concerted effort from all stakeholders. The greening process also requires the creation of green assets in which to invest, and a supporting institutional ecosystem such as green loans, insurance, green exchanges, indices, disclosure and reporting. This is a collaborative process, and public and private sector collaboration is essential. The public sector needs the private sector, through the financial centres, to mobilise green capital, and the private sector needs the public sector to accelerate implementation through measures such as policy initiatives, incentives, market signalling (including measures such as issuing a sovereign green bond), and de-risking.

While many agree that the successful green financial centres will ultimately be those that collaborate most effectively, green finance is about making money and therefore financial centres are also motivated to capture market share and to maximise respective competitive advantages. Maintaining (or improving) market position in the long term is a powerful motivator in some financial centres to promote green finance, and no one wants to be left behind.

### **Green bonds**

While international financial centres strive to develop their own green financial systems and investments, green bonds have been first to market just about everywhere including in Hong Kong where a number of corporates have already issued. Although green bonds require additional due diligence and verification to 'qualify' as green, they are essentially no different to regular bonds and, as such, may be brought to market with relative ease.

A sovereign green bond program of the magnitude proposed by this government should have many financial and environmental benefits for HK and globally. Financial benefits may include: (i) powerful signalling to the market that HK is a leading and go-to green financial centre; (ii) increased liquidity; (iii) creating additionality – that is, more assets into which the private sector may invest; (iv) accelerating the market for green investments in Hong Kong – leapfrogging other rival centres; (v) leveraging our world class financial, legal and other advisory talents; (vi) developing a leading green bond market; (vii) ensuring Hong Kong maintains its status as a leading international financial centre in the future; (viii) supporting the Mainland's green finance agenda.

Although a mature green financial system should be more than a green bond market, the green bond market could comprise a major component of the green financial system in Hong Kong, being an established and respected market, including in support of the Mainland's green agenda.

### **Green bonds are good for the environment**

Environmental experts can evaluate the positive impact of any particular green investment. The point I want to make on the environmental benefits of green capital is this: It is the use of proceeds that determines whether a bond (or any other financial product) is green. In other words, green capital may only be applied towards qualifying green projects or investments. By definition therefore, green capital is good for the environment and we should all want and encourage much more of it.

### **Green standards**

Today, as the global market for green products continues to develop, there are many (possibly too many) green standards out there. I believe the market will narrow the field in due course, and will likely settle for the highest (so called 'international') standards plus certain regional standards modified to accommodate specific regional characteristics. There are already many organisations that provide third party verification services, including HKQAA.

In brief summary: (i) we can all contribute to the global environmental clean-up, (ii) green finance, and therefore green bonds, by definition are good for the environment, and Hong Kong may choose the highest green standards for the sovereign green bond to ensure the greatest environmental benefit, (iii) being a leading international financial centre and gateway to the Mainland, Hong Kong can both contribute to and benefit from the greening of the financial system more than most.

If can be of any further assistance, I would be happy to do so.

Ben McQuhae  
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