

**For Discussion on
3 April 2018**

Legislative Council Panel on Financial Affairs

Development of Green Finance

Purpose

This paper briefs Members on the key initiatives for promoting and facilitating the development of green finance in Hong Kong, namely, (a) establishment of a local certification scheme for green finance products; (b) Government Green Bond Programme; (c) Green Bond Grant Scheme; and (d) promotion of international collaboration to facilitate cross-border investment in green bonds.

Background

2. Green finance is a new but rapidly expanding area of financial activities that seeks to bring a positive impact on the environment through emphasis on social responsibility and sustainable development. The concept of green finance, as well as the underlying principles and mechanisms for assessment and evaluation, is at the nascent stage of development, and keeps on evolving as it attracts more public attention and increased investment from around the world.

3. Riding on the increasing global demand for green financial products, Hong Kong, as an international financial centre and the global RMB business hub, is well-equipped to develop green finance, in particular serving as a premier financing platform for international and Mainland green enterprises / projects in raising funds through issuing bonds and initial public offerings.

4. In recognition of the importance of green finance to Hong Kong, the Chief Executive announced in the 2017 Policy Address that the

Government will take the lead in arranging the issuance of a green bond in the next financial year. This is in keeping with the recommendations of the Financial Services Development Council’s Report on “Hong Kong as a Regional Green Finance Hub”¹.

Initiatives to develop green finance in Hong Kong

Establishment of a local certification scheme for green finance products

5. Currently, there are different international organisations issuing green bond standards and guidelines, serving as reference for green bond issuers and investors. These include, amongst others, the Green Bond Principles (“GBP”) introduced by the International Capital Market Association² (“ICMA”). Generally speaking, these organisations establish standards and guidelines on the issuance of green bonds covering such aspects as the use and management of proceeds as well as project selection and reporting. Meanwhile, many jurisdictions have developed their own domestic standards and guidelines.

6. Locally, the Hong Kong Quality Assurance Agency³ (“HKQAA”) has recently established a Green Finance Certification Scheme⁴ (“GFCS”) to provide third-party conformity assessments for issuers on their green financial instruments by making reference to a number of international and national standards. This is a welcome development. The first certificate under GFCS was issued for a local green bond issuance in early January 2018. During the planning stage, representatives of the Financial Services and the Treasury Bureau and the Environment Bureau attended meetings of the HKQAA’s Technical Committee as observers

¹ The Report was released in May 2016 and made a number of recommendations including – (a) the issue by the Government and public sector controlled issuers of benchmark “green bonds”; (b) the hosting of a global conference on green finance and investment, followed by a seminar series; (c) building a pipeline of green finance professionals, through universities and professional institutions; and (d) establishing a green labelling scheme to attract issuers and investors to Hong Kong.

² ICMA is a self-regulatory association for the international capital market with over 530 member institutions from more than 60 countries, including banks, issuers, asset managers, infrastructure providers, law firms, rating agencies and other market participants.

³ Established in 1989 by the Hong Kong Government, the HKQAA is a non-profit-distributing organisation whose mission is to help different industries and commercial sectors in the development of quality, environmental, safety, hygiene, social and other management systems.

⁴ Current eligible instruments include bonds and loans, where two types of certificate are available – Green Finance Pre-issuance Stage Certification and Post-issuance Stage Certification.

upon their deliberation on the technical details of GFCS. We will continue to support GFCS's implementation and encourage local, Mainland and overseas enterprises to make use of the Scheme and our capital markets for financing their green projects.

Government Green Bond Programme

7. To demonstrate our support for sustainable development and determination to combat climate change, and to promote the development of green finance in Hong Kong, the Financial Secretary announced in the 2018-19 Budget that a Government Green Bond Programme ("the Programme") with a borrowing ceiling of \$100 billion will be launched. The proceeds of issuances under the Programme will be credited to the Capital Works Reserve Fund for funding green public works projects of the Government meeting criteria for inclusion in the Programme. These projects would continue to be subject to the same established mechanism for seeking funding approval from the Finance Committee of the Legislative Council ("LegCo"). Such projects must provide positive environmental benefits such as projects relating to renewable energy, energy efficiency, sustainable water and wastewater management, etc., that are aligned with the green standards or principles underpinning the issuance. The Programme is also expected to encourage more issuers to arrange financing for their green projects through our capital markets.

8. We will submit a resolution to LegCo as soon as possible to seek authorisation to take forward the Programme. The terms of the inaugural green bond issuance, such as the tenor and size, would be determined having regard to the financing and re-financing needs of the commitments of green public works projects and the market situation (e.g. the interest rate, supply and demand of the market, etc.). The inaugural issuance will align with a green bond standard/guidelines widely accepted by global investors to provide appropriate disclosure to investors and other stakeholders to understand the characteristics and the greenness of the inaugural Government green bond and set a good example to other potential green issuers in Hong Kong.

9. The green bond market, which is still in its development stage, is fast evolving. Green bonds are more sophisticated when comparing to

their conventional counterparts such as vanilla bonds. Most of the green bonds so far issued in the global and domestic markets mainly target institutional investors. We consider that, for the sake of prudence, Government green bonds issued under the Programme should, at least for the initial tranches, target at institutional investors. We will review the arrangement when we have gained more experience on green bond issuance having regard to relevant considerations.

Green Bond Grant Scheme

10. To attract more corporate green bond issuance in Hong Kong, a Green Bond Grant Scheme (“GBGS”) was announced in the 2018-19 Budget to subsidise qualified green bond issuers in obtaining green bond certification under GFCS. We propose offsetting 100% of the cost of obtaining an external review under GFCS for qualifying green bond issuances, with a grant ceiling of HK\$800,000 per issuance. First time and repeated issuers with their green bonds of any tenor issued and listed in Hong Kong denominated in any currency at a minimum size of HK\$500 million are welcome to apply. Further details of GBGS are being considered and will be announced in due course.

Promotion of international collaboration to facilitate cross-border investment in green bonds

11. We would strengthen efforts to publicise Hong Kong’s competitive capital markets and highlight our edge in developing green financial products.

12. The Hong Kong Monetary Authority has successfully bid to host ICMA’s “2018 Green and Social Bond Principles Annual General Meeting and Conference” in June 2018 in Hong Kong. As one of the most high profile gatherings for leaders in the green bond market and increasingly for the flourishing social and sustainable bond markets and other asset classes in sustainable finance, this is a flagship international green finance event, bringing together senior public and private sector representatives from all over the world to discuss market and regulatory developments⁵. Being held in Asia for the first time, not only does this

⁵ The most recent conference held in Paris in June 2017 attracted around 700 senior professionals

event recognise Hong Kong as a leading international financial centre, but more importantly showcases Hong Kong's credentials as a premier centre for green finance.

13. At the same time, the HKQAA will continue to organise promotional events such as seminars and symposiums to promote GFCS to potential green bond issuers and to facilitate dialogues / exchanges on the development of green finance among interested parties.

14. The Government would also make use of every opportunity to promote our competitive edges in terms of capital markets and green finance at regional and international forums including the annual Asian Financial Forum organised in Hong Kong.

Advice sought

15. Members are invited to note the contents of this paper and comment on the proposed measures.

Financial Services and the Treasury Bureau
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from around the world, including investors, issuers, intermediaries; external reviewers including rating agencies; the official sector including policy makers and market supervisors; stock exchanges; law firms; and other professional services firms.