

LEGISLATIVE COUNCIL BRIEF

Loans Ordinance (Chapter 61)

Resolution to Expand the Scope of and Raise the Maximum Amount of Borrowings under the Government Green Bond Programme

INTRODUCTION

At the meeting of the Executive Council on 25 May 2021, the Council **ADVISED** and the Chief Executive **ORDERED** that the Resolution, at **Annex A**, should be introduced into the Legislative Council (“LegCo”) to approve the Government to borrow, under section 3(1) of the Loans Ordinance (Cap. 61), for the purposes of the Capital Works Reserve Fund (“CWRF”), sums not exceeding in total HK\$200 billion or equivalent, being the maximum amount of all sums borrowed under the Government Green Bond Programme (“GGBP”) that may be outstanding by way of principal at any time, with the sums borrowed under the approval to be credited to the CWRF.

JUSTIFICATIONS

The GGBP’s Contribution to Green Finance Development

2. The GGBP was set up in 2018 with the policy objective of promoting the development of green finance in Hong Kong and signifying the Government’s support for sustainable development and determination to combat climate change. It was established pursuant to the passage of a resolution (i.e. Cap. 61F) (see **Annex B**) by LegCo on 15 November 2018 under section 3(1) of the Loans Ordinance (Cap. 61) authorising the Government to borrow, for the purposes of the CWRF, sums not exceeding in total HK\$100

billion or equivalent¹ under the GGBP. The sums raised will be credited to the CWRP for funding green public works projects of the Government.

3. The Steering Committee on the GGBP, chaired by the Financial Secretary (“FS”), has been established to oversee and give strategic direction on the implementation and development of the GGBP. The Hong Kong Monetary Authority (“HKMA”) assists in implementing green bond issuance under the GGBP.

4. In line with international best practice, a Green Bond Framework (“Framework”)² has been drawn up which sets out how the Government intends to issue green bonds to fund projects that will improve the environment and facilitate the transition to a low carbon economy. In accordance with the Framework, the proceeds of issuances will be used exclusively to finance or re-finance public works projects of the Government that fall under one or more of the eight eligible categories³ set out in the Framework.

5. Globally, including in Asia, there is growing momentum and interest in green bonds and sustainable investment. The Central Government sets out in “The Outline of the 14th Five-Year Plan for National Economic and Social Development of the People’s Republic of China and the Long-Range Objectives Through the Year 2035” the plan to promote a comprehensive green transformation for economic and social development and strive to become carbon neutral before 2060. Besides, Europe and many Asian economies have announced sizable green bond issuance plans to fund their green commitments and promote sustainable development. The Chief Executive announced in the 2020 Policy Address that the Hong Kong Special Administrative Region will strive to achieve carbon neutrality before 2050. FS also announced in the 2021-22 Budget that the Government plans to issue green bonds regularly and expand the scale of the GGBP by doubling the borrowing ceiling of the GGBP from HK\$100 billion to HK\$200 billion to allow for further issuance of green bonds totalling HK\$175.5 billion within the next five years, having regard to

¹ It refers to the maximum amount of outstanding principal at any time under the GGBP i.e. the principal amount of bonds issued minus that of bonds matured.

² The Framework, as well as any bonds issued under it, is aligned with the Green Bond Principles 2018 of the International Capital Market Association.

³ i.e. renewable energy; energy efficiency and conservation; pollution prevention and control; waste management and resource recovery; water and wastewater management; nature conservation / biodiversity; clean transportation; and green buildings.

the market situation. This will provide more room for piloting the issuance of green bonds that involves more types of currencies, project types, issuance format (including retail green bonds) and channels, thereby further enriching the green and sustainable finance ecosystem in Hong Kong.

6. Since its establishment, the GGBP has been serving its objective of promoting the development of green finance in Hong Kong. Bond issuances arranged under the GGBP have helped raise Hong Kong's profile and establish market benchmark, enriched the green and sustainable finance ecosystem and provided funding for green public works projects.

(a) Raising Hong Kong's Profile and Establishing Market Benchmark

7. A total of US\$3.5 billion of green bonds, targeting global institutional investors, has been successfully issued under the GGBP so far and was well received by the global investment community, showing investors' confidence in Hong Kong's credit strengths and economic fundamentals in the long term.

8. The inaugural green bond was issued in May 2019 with an issuance size of US\$1 billion and a tenor of five years, attracting orders more than four times the issuance size⁴. The issuance won various awards and the bond was also included in four major green bond indices⁵.

9. A further US\$2.5 billion of green bonds, comprising 5-year, 10-year and 30-year tranches, were successfully issued in February 2021 under a newly established "Global Medium Term Note Programme". The issuance achieved a number of breakthroughs: the world's largest US dollar government green bond deal; the longest tenor US dollar government green bond in Asia; and the first "Global Medium Term Note Programme" by a government dedicated to green bond issuances. Similar to the inaugural issuance, the green bonds also saw strong demand from investors, attracting orders more than five times the

⁴ The bond was priced at a tight 2.555% (32.5 basis points over US Treasuries), which is well within the spread of other US dollar comparables at the time.

⁵ namely Bloomberg MSCI Barclays Green Bond Index, the BAML Green Bond Index, the S&P Green Bond Index and the Solactive Green Bond Index.

issuance size⁶.

10. The Government's Green Bond Framework as well as the successful green bond issuances have demonstrated best practice to the market, from the compilation of the Framework and use of external review, to the selection of projects, management of proceeds as well as post-issuance reporting. The benchmark sized issuances (i.e. each tranche exceeding US\$500 million) as well as the tight pricing across various tenors have also helped establish a comprehensive benchmark yield curve for potential green bond issuers in Hong Kong and the region.

(b) Enriching the Green and Sustainable Finance Ecosystem

11. The implementation of the GGBP has demonstrated the Government's commitment to consolidating Hong Kong as the green and sustainable finance hub in the region. It helps promote greater liquidity for the green bond market in Hong Kong and showcase to potential green bond issuers, both locally and overseas, that Hong Kong has a full-fledged ecosystem of financial intermediaries and professional service providers including arrangers, legal professionals as well as external reviewers, and thus, is a premier platform offering one-stop solution for issuing green bonds and other related products. It encourages issuers to arrange financing for their green projects through our capital markets and grows the local green investor base.

12. Driven in part by the government green bond issuances as well as the various green and sustainable finance market development initiatives, the green and sustainable financing activities and ecosystem in Hong Kong have continued to expand since the inception of the GGBP in 2018. Despite the effect of COVID-19 pandemic, US\$12 billion of green bonds and loans were arranged and issued in Hong Kong in 2020, with cumulative green bond and loan issuance amounting to US\$38 billion by the end of 2020.

13. We have also seen increasing diversity in the market, in terms of both participants and products. A substantial number of Mainland and overseas entities have chosen to issue green bonds in Hong Kong, including multilateral

⁶ The bonds were priced tightly at 0.635% (22.5 basis points over 5-year US Treasuries) for the US\$1 billion 5-year tranche; 1.414% (37.5 basis points over 10-year US Treasuries) for the US\$1 billion 10-year tranche; and 2.431% (62.5 basis points over 30-year US Treasuries) for the US\$500 million 30-year tranche.

development banks like the World Bank, the Asian Development Bank and the European Investment Bank. One-third of the green bond issuers in 2020 were first-time issuers in Hong Kong. Besides green bonds, there is a growing range of green and sustainable products such as sustainability, social and transition bonds, green and sustainability-linked loans. These new products help narrow the gap of green financing, opening the door to a wider pool of borrowers while providing investors with more choices. The GGBP, as the catalyst to promote market development, will continue to attract more green and sustainable financing activities to Hong Kong, draw in more investors, borrowers, financial intermediaries and professional service providers, thereby further enriching the overall green and sustainable ecosystem in Hong Kong.

(c) Funding Green Public Works Projects

14. The GGBP finances the Government's green public works projects, conducive to the Government's efforts in promoting sustainable development, combating climate change and transforming Hong Kong into a low-carbon economy with an aim to achieve carbon neutrality before 2050.

15. The inaugural Government green bond of US\$1 billion has financed seven major public works projects that fall under four categories, namely energy efficiency and conservation, waste management and resource recovery, water and wastewater management and green buildings, which bring significant environmental benefits to the community. The quantifiable positive environmental impacts of these projects were set out in the Green Bond Report 2020 which is available online and distributed to global investors, showcasing to the world the sustainable development of our city. Proceeds from the second green bond will similarly be allocated to a variety of eligible green projects.

Expansion of the GGBP

16. In light of the total outstanding amount of US\$3.5 billion (or HK\$27.3 billion equivalent) green bonds as at March 2021 and the expanded issuance plan set out in paragraph 5 above, the total outstanding amount of green bonds is projected to reach the current borrowing ceiling around 2023. As such, we see the need to double the borrowing limit to HK\$200 billion at the earliest possible time so that enough flexibility will be provided to continue with regular

green bond issuances and adjust the issuance size and tenor of individual tranches as needed in response to the prevailing market conditions, with a view to promoting market development and consolidating further Hong Kong's position as a regional green finance hub. This will also help signal the Government's continuous commitment to promote sustainable development and combat climate change.

17. At present, the green bond proceeds received under the GGBP are only used to finance or re-finance major green public works projects of the Government under the CWRP that have already been approved by the Finance Committee ("FC") of LegCo. We see the need to expand the scope of the GGBP so that the green bond proceeds can be used to fund more green projects under the CWRP. We have identified that, apart from major public works projects, the following types of projects are also currently funded under the CWRP, and we propose that the scope of the GGBP should be expanded to cover also eligible green projects of these types -

- (a) minor works projects⁷: e.g. energy saving, recycling and greening projects;
- (b) major systems and equipment⁸: e.g. pollution surveillance, climate observation and early warning projects; and
- (c) capital subventions⁹: e.g. hospitals, school and welfare premises projects implemented by non-government organisations.

⁷ Minor works projects, also part of the Government's Public Works Programme, are funded under the CWRP block allocations approved by FS acting under the delegated power of FC. Under the CWRP block allocations arrangement, FC is responsible for approving the creation of block allocation subheads, the scope of delegation (including the applicable financial ceilings (currently \$50 million per project for applicable works-related block allocation subheads) and ambits of the subheads), and the annual allocation to all block allocation subheads as proposed by the Government. The relevant Controlling Officers of the Government are responsible for approving and implementing individual projects under the block allocation subheads under the delegated authority of FC.

⁸ The CWRP provides funding for non-administrative computer systems and communication equipment which cost more than a prescribed amount (currently \$10 million per project), and are not an integral part of a works project funded under other CWRP subheads. These projects are approved by FC of LegCo.

⁹ Capital subventions are provided under the CWRP for works projects implemented by non-government organisations ("NGOs"), such as hospitals run by welfare and religious groups, premises of NGOs, teaching facilities of tertiary institutions, etc. These projects are approved by FC of LegCo or FS acting under the delegated power of FC.

The proposed expansion of the scope will accommodate a bigger variety of green projects, allowing the Government to further tap into the green bond market to support the low-carbon transformation in Hong Kong and enhance the demonstrative effect of the GGBP on promoting green and sustainable finance. We expect that such expansion will be welcomed by the market and investors, depending on the actual costs, scale and expected environmental benefits of the projects concerned. We have already considered potential projects in the pipeline under the CWRF of which the total funding need far exceeds the current borrowing limit of HK\$100 billion.

18. On the issuance arrangements, the Government, together with the HKMA, will continue to adopt a flexible approach and monitor the market conditions closely to decide on the appropriate issuance timing and parameters. We are conducting the preparatory work for issuing institutional and retail green bonds within the current financial year, and will announce the details in due course. The management of proceeds under the GGBP will continue to be governed by the Green Bond Framework which will be updated as appropriate in light of the latest international green bond standards and principles, the latest environmental policies and targets of Hong Kong and potential expansion of the scope of eligible green projects as warranted. External review¹⁰ of the updated Framework will also be sought as necessary. All proceeds raised under the GGBP will continue to be credited to the CWRF. Expenses, including interest payments and principal repayment for bonds issued under the GGBP as well as other relevant expenses (e.g. expenses for external services) will continue to be met by the CWRF¹¹.

THE RESOLUTION

19. The purpose of the proposed resolution is to approve the Government to borrow for the purposes of the CWRF sums not exceeding in total HK\$200 billion or equivalent, being the maximum amount of all sums borrowed under the approval that may be outstanding by way of principal at any time. The

¹⁰ A Second Party Opinion was obtained in April 2019 from Vigeo Eiris, an external reviewer and an independent international provider of Environmental, Social and Governance research and services, for the Framework's compliance with the Green Bond Principles 2018 published by the International Capital Market Association.

¹¹ which is placed with the Exchange Fund for investment and attracts investment income on the basis of the "fixed rate" sharing arrangement applicable to fiscal reserves.

resolution requires that the sums borrowed be credited to the CWRP, and is to replace the resolution passed by LegCo under the Loans Ordinance on 15 November 2018 (i.e. Cap. 61F) prescribing the current maximum amount of borrowings of HK\$100 billion or equivalent.

LEGISLATIVE TIMETABLE

20. The tentative legislative timetable is set out below –

Moving the resolution in LegCo	16 June 2021
Publication in the Gazette and commencement	25 June 2021

IMPLICATIONS OF THE PROPOSAL

21. The proposal is in conformity with the Basic Law, including the provisions concerning human rights, and will not affect the current binding effect of the Loans Ordinance. There are no civil service, productivity, family and gender implications. Additional workload arising from the administration of the GGBP will be absorbed by relevant bureaux or departments with existing resources.

22. The economic, environmental, financial and sustainability implications of the proposal are set out in **Annex C**.

PUBLIC CONSULTATION

23. The proposal was announced in the 2021-22 Budget and positively received. We briefed the LegCo Panel on Financial Affairs on the proposal at its meeting on 9 April 2021. The Panel indicated general support for the proposal.

PUBLICITY

24. We will issue a press release upon the issuance of this brief. A spokesperson will be available to answer enquiries.

ENQUIRIES

25. Enquiries relating to this brief can be directed to Ms Candy Lau, Principal Assistant Secretary for Financial Services and the Treasury (Financial Services), at 2810 2150.

Financial Services and the Treasury Bureau
26 May 2021

Loans Ordinance

Resolution of the Legislative Council

Resolution made and passed by the Legislative Council under section 3(1) of the Loans Ordinance (Cap. 61) on 2021.

Resolved that—

- (a) the Government be approved to borrow from any person from time to time for the purposes of the Capital Works Reserve Fund established by the Resolution passed on 20 January 1982 (Cap. 2 sub. leg. A) sums not exceeding in total \$200 billion or equivalent, being the maximum amount of all sums borrowed under this paragraph that may be outstanding by way of principal at any time;
- (b) sums borrowed under paragraph (a) are to be credited to the Capital Works Reserve Fund; and
- (c) this Resolution is to replace the Resolution passed on 15 November 2018 (Cap. 61 sub. leg. F).

Clerk to the Legislative Council

2021

Explanatory Note

This Resolution relates to the proposal in the 2021–22 Budget to promote green finance in Hong Kong through the Government Green Bond Programme, which will provide funding for green projects funded by the Capital Works Reserve Fund.

2. This Resolution—

- (a) gives approval to the Government to borrow for the purposes of the Capital Works Reserve Fund sums not exceeding in total \$200 billion or equivalent, being the maximum amount of all sums borrowed under the approval that may be outstanding by way of principal at any time; and
- (b) requires that the sums be credited to the Capital Works Reserve Fund.

L.N. 225 of 2018

Loans Ordinance

Resolution of the Legislative Council

Resolution made and passed by the Legislative Council under section 3(1) of the Loans Ordinance (Cap. 61) on 15 November 2018.

Resolved that—

- (a) the Government be authorized to borrow from time to time, from any person for the purposes of the Capital Works Reserve Fund established by the Resolution published in the Gazette as Legal Notice No. 18 of 1982, sums not exceeding in total \$100 billion or equivalent, being the maximum amount of all borrowings made under this paragraph that may be outstanding by way of principal at any time; and
- (b) sums borrowed under paragraph (a) are to be credited to the Capital Works Reserve Fund.

Kenneth CHEN Wei-on
Clerk to the Legislative Council

15 November 2018

Explanatory Note

This Resolution relates to the proposal in the 2018–19 Budget to promote green finance in Hong Kong through a green bond issuance programme, which will provide funding for green public works projects of the Government.

2. This Resolution—
 - (a) authorizes the Government to borrow, for the purposes of the Capital Works Reserve Fund, sums not exceeding in total \$100 billion or equivalent; and
 - (b) requires that the sums be credited to the Capital Works Reserve Fund.

Implications of the Proposal

Economic Implications

The Government Green Bond Programme, with an expanded scope and raised borrowing ceiling (“the expanded GGBP”), will continue to help promote the development of green finance especially the green bond market in Hong Kong. It will help raise Hong Kong’s profile, establish market benchmark and enrich the green and sustainable finance ecosystem, which is conducive to strengthening Hong Kong’s position as a regional green and sustainable finance hub and an international financial centre.

Environmental Implications

2. The expanded GGBP will finance a greater number and variety of projects with positive environmental benefits, conducive to the Government’s efforts in transforming Hong Kong into a low-carbon economy and achieving the goal of carbon neutrality before 2050. It will signal the Government’s continuous commitment to promoting sustainable development and combating climate change. The proposal will not affect the established mechanism to assess environmental implications in taking forward individual projects.

Financial Implications

3. The financial implications to be brought about by the implementation of the expanded GGBP should be minimal. All proceeds raised under the expanded GGBP will continue to be credited to the Capital Works Reserve Fund (“CWRF”). Costs incidental to the issuance of bonds, annual payment of interest and repayment of principal will continue to be met by the CWRF.

Sustainability Implications

4. The expanded GGBP will fund a greater variety of green projects that will improve the environment and facilitate transition to a low carbon economy, which are conducive to sustainable development of Hong Kong. In addition to the environmental implications set out above, the expanded GGBP will continue to help promote the development of green finance in Hong Kong.