

**For discussion on
6 September 2021**

Legislative Council Panel on Financial Affairs

Development of Green and Sustainable Finance in Hong Kong

Purpose

This paper briefs Members on the latest development of green and sustainable finance in Hong Kong and the key initiatives to consolidate Hong Kong as the green and sustainable finance hub in the region.

Overview

2. Combating climate change is an increasingly important issue across the globe. As an international financial centre, Hong Kong has participated actively in the global economy's transition towards a low carbon and sustainable economy.

3. The Central People's 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 to endeavour to have carbon emissions peak before 2030 and achieve carbon neutrality before 2060. In Hong Kong, the Chief Executive announced in her 2020 Policy Address that the Hong Kong Special Administrative Region (HKSAR) will strive to achieve carbon neutrality before 2050.

4. Over the years, the Government, together with the financial regulators, have continued to develop green and sustainable finance to boost investments conducive to reducing carbon emissions and building a low-carbon economy. With a view to contributing to the goal of achieving carbon neutrality before 2060 in the Mainland and before 2050

in Hong Kong, and elevating Hong Kong's position as a green and sustainable finance hub in the region, we are enhancing our efforts to promote market development, align Hong Kong's regulatory standards with international best practice, encourage more entities to make use of Hong Kong's capital markets as well as financial and professional services for green and sustainable investment, financing and certification, and capitalise on the enormous green finance opportunities presented by the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) development and the Belt and Road Initiative.

Local Market Development

5. In 2020, US\$12 billion of green debt (including bonds and loans) was arranged and issued in Hong Kong, with cumulative green debt issuance amounting to over US\$38 billion by the end of 2020. One-third of the green bond issuers in 2020 were first time issuers in Hong Kong.

6. We have 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 development banks. There is also a growing range of other 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.

7. As of 31 July 2021, 108 green / environmental, social and governance (ESG)-related bonds are listed on the Stock Exchange of Hong Kong (Exchange), amounting to HK\$356.3 billion cumulatively. The number of listings and amount of issuance size have been on an increasing trend over the past five years (i.e. from three listings and HK\$10.3 billion in 2016 to 55 listings and HK\$150.9 billion in the first seven months (January to July) of 2021). In addition, as of 1 August 2021, there are over 60 ESG funds authorised by the Securities and Futures Commission (SFC).

Key Initiatives

8. Working in concert with the financial regulators and the industry, the Government is taking a multi-pronged strategy to promote green and sustainable finance in Hong Kong. Key initiatives include -

(1) Market infrastructure and development

(a) Government Green Bond Programme (GGBP)

9. Since the establishment of the GGBP in 2018, a total of US\$3.5 billion of green bonds, targeting global institutional investors, has been successfully issued and was well received by the global investment community. The inaugural green bond was issued in May 2019 with an issuance size of US\$1 billion. A further US\$2.5 billion of green bonds, comprising 5-year, 10-year and 30-year tranches, were issued in February 2021 under a newly established “Global Medium Term Note (MTN) Programme”. The issuances achieved a number of breakthroughs: the world’s largest US dollar government green bond deal; the 30-year tranche being the longest tenor US dollar government green bond in Asia and the longest tenor issued by the Government; and the first “Global MTN Programme” by a government dedicated to green bond issuances.

10. The GGBP has helped raise Hong Kong’s profile and establish market benchmark, enriched the green and sustainable finance ecosystem, provided funding for green public works projects and showcased to potential green bond issuers that Hong Kong is a premier platform offering one-stop solution for issuing green products.

11. As announced in the 2021-22 Budget, the Government will issue green bonds regularly and double the borrowing ceiling of the GGBP to HK\$200 billion to allow for further issuance of green bonds totalling HK\$175.5 billion within the next five years from 2021-22, having regard to 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 and channels. The borrowing ceiling of the GGBP has since been raised to HK\$200 billion pursuant to a resolution passed by the Legislative Council in July 2021, and the scope expanded to funding a

wider variety of green projects not limited to public works projects. We are also planning to issue retail green bonds in 2021-22 for the participation of the general public.

(b) Green and Sustainable Finance Grant Scheme (GSFGS)

12. To help attract more green and sustainable bond issuers and borrowers to use Hong Kong's fundraising platform and professional services, the Government launched a three-year GSFGS in May 2021 to provide subsidy for eligible bond issuers and loan borrowers to cover their expenses on bond issuance and external review services. GSFGS also encourages more financial and professional service providers and external reviewers to set foot in Hong Kong as a regional hub.

(c) Responsible investment of the Exchange Fund

13. As one of the largest asset owners globally, the Hong Kong Monetary Authority (HKMA) continues to strengthen responsible investment of the Exchange Fund and has adopted a guiding principle that priority will generally be given to ESG investments if the long-term return is comparable to other investments on a risk-adjusted basis. In addition, the HKMA has been weaving ESG factors into the investment process for both public and private market investments.

(d) Sustainable and Green Exchange (STAGE)

14. The Hong Kong Exchanges and Clearing Limited (HKEX) officially launched STAGE on 1 December 2020. STAGE aims to promote transparency and international standards adherence for green and sustainable finance products. At its heart is an online product repository¹ that showcases these products and provides access to additional data for sustainable investing. It also features a resources library which provides case studies, webcast videos, guidance materials, research papers and other publications aiming to help market participants enrich their understanding

¹ As of 31 July 2021, STAGE has featured a total of 72 sustainable-themed products, including 69 bonds (including green, transition, social, blue, and sustainability-linked bonds) and 3 exchange-traded funds.

of sustainable finance, green products, ESG integration and sustainable investing. The HKEX will continue to enhance and develop STAGE in order to support the green and sustainable finance development in Hong Kong and Asia.

(e) Insurance-linked Securities (ILS)

15. Various forms of ILS are gaining popularity, both among institutional investors as a tool for risk diversification and among insurers as a means to transfer catastrophe risks associated with climate change to the capital market. We have enacted the necessary legislative amendments to provide for a bespoke regulatory regime and rolled out the Pilot ILS Grant Scheme, thereby attracting local, Mainland and overseas issuers to Hong Kong and promoting the development of ILS business.

(2) Regulatory

(a) Taxonomy

16. To reduce the risk of greenwashing, China and the European Union are working jointly on the Common Ground Taxonomy to help define what activities are considered to contribute significantly to climate change mitigation and adaptation. This technical study is being conducted under the International Platform on Sustainable Finance (IPSF), which was launched in October 2019 as a multilateral forum of dialogue between policy makers to scale up the mobilisation of private capital towards environmentally sustainable investments. We aim to adopt the Common Ground Taxonomy which is being developed by the IPSF. Potential areas for local adaptation and application across the financial sectors are being explored.

(b) Green and sustainable banking

17. The HKMA has been adopting a three-phased approach to promote green and sustainable banking. For Phase I, the HKMA rolled out a common framework to assess the “greenness baseline” of banks in May 2020. For Phase II, a white paper was published in June 2020 which outlined the HKMA’s initial thinking on supervisory expectations, after

which a range of practices circular was issued to inspire banks on the management of climate risks. The supervisory requirements were issued for industry consultation in July 2021 before moving on to the final third phase of implementation.

(c) Asset management

18. In October 2020, the SFC issued a Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers, which proposed to require fund managers to take climate-related risks into consideration in their investment and risk management processes and to make appropriate disclosures of such. The SFC mainly made reference to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) of the Financial Stability Board in developing the requirements. Under the proposals, the Fund Manager Code of Conduct would be amended, and a circular would be issued to set out the expected standards to adhere to with the proposed requirements. The Consultation Conclusions, together with the circular, were published on 20 August 2021. The new requirements will be implemented in phases with the first phase to begin on 20 August 2022.

19. In view of the rapid growth of ESG funds and international regulatory developments, the SFC published in June 2021 a new circular², which provides updated disclosure guidance, a new requirement for ESG funds to conduct and disclose periodic assessments and additional guidance for ESG funds with a climate-related focus.

(d) ESG reporting framework for listed companies

20. The Exchange enhanced its ESG reporting framework with a focus on ESG governance and climate change disclosures, with changes effective from 1 July 2020. These requirements align with and have incorporated elements of the recommendations of the TCFD. The Exchange has been working on, and expects to publish, a new practical guide on the preparation of TCFD-aligned disclosures in the fourth quarter of 2021, and is also consulting on aligning the publication timeframe of

² The circular supersedes a previous version issued in April 2019.

ESG reports with annual reports to improve the timeliness of releasing ESG information. Going forward, the Exchange will further enhance climate-related disclosures of issuers and review its ESG Reporting Guide to incorporate further TCFD elements as appropriate.

(e) Enterprise Risk Management (ERM)

21. The Insurance Authority (IA) is pursuing initiatives to induce greater adoption of ESG principles by insurance companies through regulatory requirements and business propositions. All insurance companies listed in Hong Kong are obliged to follow the new ESG reporting requirements imposed by the Exchange. The ERM framework embedded in the risk-based capital regime also compels insurers to put in place a robust system of governance that should cover climate risk.

(f) Mandatory Provident Fund (MPF)

22. Further to the circular letter issued in 2018 encouraging MPF trustees and their investment managers to consider taking into account ESG factors in their decision-making process and disclosing their investment approach in this regard to scheme members, the Mandatory Provident Fund Schemes Authority (MPFA) will issue a further set of high-level guiding principles for adopting sustainable investing for MPF funds to MPF trustees before the end of 2021 to provide additional guidance to the industry. The MPFA has also developed a capacity building plan and arranged a series of briefings for MPF trustees to enhance their knowledge in different areas of sustainable investing.

(3) Capacity building and promotion

(a) Infrastructure Financing Facilitation Office (IFFO)

23. The HKMA has set up the IFFO to promote Hong Kong as the hub for green finance in Asia and the importance of sustainability within infrastructure investments and financing.

(b) Alliance for Green Commercial Banks

24. The HKMA co-launched the Alliance for Green Commercial Banks (the Alliance) with International Finance Corporation (IFC) in November 2020. By serving as the founding member and the regional anchor of the Asia Chapter, the HKMA, together with the IFC, will bring together financial institutions, banking industry associations, research institutions and innovative technology providers from across Asia to develop, build and boost the capacity for green finance and promote climate investments. The HKMA and IFC will jointly launch targeted initiatives and campaigns in the region to undertake green finance research, provide unique market insight, tailor capacity building / training support and provide practical guidance for banks in order to develop their own roadmap to mainstream green finance as their core business and develop new green capital market products.

(c) Investor and Financial Education Council (IFEC)

25. The IFEC has stepped up its capacity building on investor education through mass communications and stakeholder collaboration initiatives on green and sustainable finance. A dedicated “Green finance – Global trend in investment” web page was developed in the IFEC web site since March 2019, which has attracted more than 24 000 pageviews. The IFEC Retail Investor Study conducted in June 2021 revealed that 38% of surveyed investors reported their awareness of the subject. Although only 6% of the respondents showed interest to invest in related products, close to half (46%) said that they were interested to know more about the topic.

(d) ESG Academy webinar series

26. In May 2021, the Exchange launched the ESG Academy webinar series to deepen ESG understanding and knowledge among listed issuers and the wider business community, and facilitate the integration of ESG considerations into their decision making processes.

(4) International and regional collaboration

27. Financial regulations globally are paying increasing attention to the financial impact of climate change on financial stability, financial institutions and real economy companies. The Government and financial regulators have been joining like-minded peers globally with active participation in various regional and international fora, such as the IPSF, the Network of Central Banks and Supervisors for Greening the Financial System and the Sustainability Task Force of the International Organization of Securities Commissions, to keep abreast of the latest market insights and build up Hong Kong's international profile on green and sustainable finance with increased visibility. These collaborative efforts are conducive to the development of the local framework and contribute to the development of environment and climate risk management in the global financial sector.

(5) Integrating into the country's overall development

28. The Outline Development Plan for the GBA and the Opinion on Providing Financial Support for the Development of the Greater Bay Area, promulgated by the Central Government in 2019 and 2020 respectively, support Hong Kong's development into a green finance centre in the GBA. With the new economic development pattern of "dual circulation", the GBA will be the natural conduit for Hong Kong to participate in and benefit from the Mainland's domestic circulation, while we strengthen our intermediary and facilitator role in international circulation. Leveraging Hong Kong's strengths as an international financial centre and the gateway between China and the rest of the world, Hong Kong is well positioned to connect the flow of green and sustainable funds with the Mainland and the world to promote green investments and ecological civilisation on the Mainland. Looking ahead, we will continue to work closely with GBA authorities and the industry to enhance Hong Kong's attractiveness as a one-stop platform by providing the necessary financial services to GBA enterprises in green financing.

29. The Arrangement between the National Development and Reform Commission and the Government of the HKSAR for Advancing Hong Kong's Full Participation in and Contribution to the Belt and Road

Initiative signed in 2017 supports the development of a green bond market on the basis of Hong Kong's platform by supporting qualified Chinese enterprises to raise funds through issuing bonds in Hong Kong for green projects relating to the Belt and Road Initiative. We will, together with the IFFO, continue to work with stakeholders to facilitate investments and financing of sustainable infrastructure and green development.

The Green and Sustainable Finance Cross-Agency Steering Group

30. To consolidate and elevate efforts across the financial sector to the next higher level, the Green and Sustainable Finance Cross-Agency Steering Group (Steering Group) was established in May 2020 to coordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategies.

31. Following engagement with key stakeholders and industry practitioners, the Steering Group promulgated its Strategic Plan in December 2020 with six key focus areas³ and five near-term action points⁴ to strengthen Hong Kong's financial ecosystem for a greener and more sustainable future. It further announced in July 2021 its next steps with focus as follows -

(1) Climate-related disclosures and sustainability reporting

32. The Steering Group supports the efforts of the future International

³ (1) Strengthening climate-related financial risk management; (2) promoting the flow of climate-related information at all levels to facilitate risk management, capital allocation and investor protection; (3) enhancing capacity building for the financial services industry and raising public awareness; (4) encouraging innovation and exploring initiatives to facilitate capital flows towards green and sustainable causes; (5) capitalising on Mainland opportunities to develop Hong Kong into a green finance centre in the GBA; and (6) strengthening regional and international collaboration.

⁴ (1) Climate-related disclosures aligned with the TCFD recommendations will be mandatory across relevant sectors no later than 2025; (2) aim to adopt the Common Ground Taxonomy; (3) support the International Financial Reporting Standards Foundation's proposal to establish a new Sustainability Standards Board; (4) promote climate-focused scenario analysis; and (5) establish a platform to act as a focal point for financial regulators, Government agencies, industry stakeholders and the academia to coordinate cross-sectoral capacity building and thought leadership.

Sustainability Standards Board ⁵ under the International Financial Reporting Standards Foundation to develop a new standard which would be built on the TCFD framework. The SFC and HKEX will collaborate with the Financial Reporting Council and the Hong Kong Institute of Certified Public Accountants to work on a roadmap to evaluate and potentially adopt the new standard.

(2) Carbon market opportunities

33. International carbon markets are expected to grow significantly as the Mainland and other key overseas markets are dedicated to transitioning to a green, low-emission and climate-resilient economy. As an international financial centre, Hong Kong is in a unique position to play a strategic role as the Mainland's gateway and mobiliser of capital to facilitate the national carbon neutrality goals. The Steering Group has set up a Carbon Market Work Stream, co-chaired by the SFC and HKEX, to assess the feasibility of developing Hong Kong as a regional carbon trading centre while strengthening collaboration in the GBA and exploring other opportunities presented by both the compliance carbon market and the voluntary carbon market in China and overseas.

(3) Centre for Green and Sustainable Finance

34. The Steering Group launched the Centre for Green and Sustainable Finance in July 2021 to co-ordinate efforts of financial regulators, Government agencies, industry stakeholders and the academia in capacity building, thought leadership and policy development. The Centre will also serve as a repository for resources, data and analytics which supports the transition to a more sustainable development pathway. Working groups have been established under the Centre to develop strategies and roadmaps to promote capacity building and develop data repository and analytics capability as the priority areas of action.

35. Looking ahead, the Government will join hands with the financial sector and relevant stakeholders to take forward the strategic plan to mobilise capital towards sustainable projects in the region.

⁵ Expected to be established before November 2021.

Advice Sought

36. Members are invited to note the content of this paper and give their views.

**Financial Services and the Treasury Bureau
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