

**For discussion on
3 October 2022**

Legislative Council Panel on Financial Affairs

**Latest Development of Green and Sustainable Finance and
Carbon Trading in Hong Kong**

Purpose

This paper briefs Members on the latest progress of various key initiatives in developing green and sustainable finance in Hong Kong, including the progress in developing Hong Kong into a global, high-quality voluntary carbon market (VCM).

Overview

2. The development of green and sustainable finance in Hong Kong offers promising prospects. By leveraging our advantages as an international financial centre, Hong Kong can facilitate matching between international capital and quality green projects, contribute proactively to helping our country achieve its “3060 Target” in relation to carbon emission peak and carbon neutrality, as well as propelling Hong Kong towards our carbon neutrality target before 2050 and promoting green transformation of our economy.

3. Since our last report to this Panel in September 2021 on the development of green and sustainable finance in Hong Kong, good progress has been made for various initiatives and market development. According to the report titled “The Asian International Bond Markets: Development and Trends (Second Edition)”, published in March 2022 by the International Capital Market Association (ICMA), the volume of green and sustainable bonds arranged in Hong Kong amounted to US\$31.3 billion in 2021, accounting for one-third of the Asian international green and sustainable bond market. Alongside bonds, green

and sustainable loans are another rapidly growing and increasingly important form of green financing. Total green and sustainable debt (including both bonds and loans) issued in Hong Kong quadrupled from 2020 to reach US\$56.6 billion in 2021.

Progress of Key Initiatives in Developing Green and Sustainable Finance in Hong Kong

4. Working in concert with the financial regulators and the industry, the Government has continued to take a multi-pronged strategy to promote green and sustainable finance in Hong Kong. Progress of key initiatives in market development, regulatory and carbon market opportunities is set out below –

(1) Market development

(a) Government Green Bond Programme (GGBP)

5. Since the establishment of the GGBP in 2018, the Government has successfully issued close to US\$10 billion equivalent of green bonds as at August 2022 which were well received by investors. These issuances have achieved a number of breakthroughs. For instance, the Government issued a total of about US\$4 billion worth of government green bonds covering multiple currencies and tenors under the Global Medium Term Note Programme in November 2021. The issuances attracted strong interest from a diverse group of conventional and green global investors despite market volatility at the time of offering. That was also the HKSAR Government's inaugural offering of renminbi (RMB)-denominated and euro-denominated bonds, setting important new benchmarks for potential issuers in Hong Kong and the region. The 20-year EUR tranche was the longest euro-denominated green bond issued by an Asian government at that time.

6. To enable local residents to directly contribute to greening Hong Kong, and share the fruits of our sustainable development by participating in the green and sustainable finance market, the Government issued the

inaugural retail green bond totalling HK\$20 billion in May 2022. It was well received by the public and was the world's largest retail green bond at issuance. Introduction of the retail green bond has broadened the variety of green and sustainable financial products in Hong Kong, and helped to further promote the development of the local retail bond market.

7. In addition to providing important benchmarks for potential issuers, the GGBP has also provided funding for various green projects in Hong Kong. As at end July 2022, the proceeds from the government green bonds issued (including that of the inaugural retail green bond) have been allocated or earmarked to finance a total of 45 green projects under four eligible categories¹. The Government issues the Green Bond Report annually to provide information on the allocation of the green bond proceeds and expected environmental benefits of the projects financed. The latest edition (i.e. Green Bond Report 2022) was released in August 2022.

(b) Gateway for international capital to access the Mainland green finance demand

8. The Shenzhen Municipal People's Government issued offshore RMB municipal government bonds totalling RMB5 billion in Hong Kong in October 2021, of which RMB3.9 billion were green bonds. In respect of interest paid or profit received arising from the debt instruments issued in Hong Kong by the Shenzhen Municipal People's Government, we will exempt the payment of profits tax. This was the first time a Municipal People's Government issues bonds in Hong Kong, setting a good example for other Mainland local governments or corporates in using Hong Kong's platform to issue green bonds.

9. The Qianhai authorities provide a subsidy of not more than RMB2 million to Qianhai corporates that issue green bonds in Hong Kong, which will be conducive to attracting more bond issuances in Hong Kong by corporates.

¹ namely energy efficiency and conservation, waste management and resource recovery, water and wastewater management, and green buildings.

10. We will continue to take forward the relevant work on green finance through different channels, including maintaining liaison with the Mainland authorities (including the Guangdong-Hong Kong-Macao Greater Bay Area (GBA)) and promoting the Green and Sustainable Finance Grant Scheme (GSFGS) to encourage more Mainland entities to use Hong Kong's platform for green and sustainable investment, financing and certification.

(c) Centre for Green and Sustainable Finance (GSF Centre)

11. Formed by relevant Government Bureaux and financial regulators, the Green and Sustainable Finance Cross-Agency Steering Group (Steering Group) launched the GSF Centre in July 2021 to co-ordinate cross-sector efforts in capacity building and enhancing talent and data resources for the financial industry. In the first half of 2022, the GSF Centre launched a series of repositories to support the industry and students in locating data sources as well as useful learning resources and opportunities. The repositories include -

- The GSF Training Information Repository: to facilitate easy access to information about international and local GSF training and qualifications.
- The GSF Internship Opportunities Repository: to serve as an information platform for university students who are looking for opportunities to gain GSF-related work experience and applied knowledge to prepare for a future career in this field.
- The GSF Data Source Repository: to support the financial sector in locating data sources for climate risk management and other GSF-related analysis and research. The repository contains various Government data sources relevant to the assessment of physical risks in Hong Kong, including historical data on catastrophe damages, district level micro-climate conditions (such as tropical cyclones, flooding, landslides and storm surges) as well as geographic data and a co-ordinates transformation tool.

12. The GSF Centre is also planning to create a free and publicly

accessible greenhouse gas emissions estimation tool, with clearly-disclosed methodologies, that companies can use as an alternative source of information.

(d) Green and Sustainable Finance Grant Scheme

13. The Government continues to promote the GSFGS, which was launched in May 2021 to provide subsidy to eligible green and sustainable bond issuers and loan borrowers to cover their expenses on bond issuance and external review services, among market participants to encourage more green financing activities to be conducted in Hong Kong and attract more financial and professional service providers including external reviewers to set up or expand their business in Hong Kong, with a view to establishing a well-rounded green finance ecosystem.

14. Among the applications received, many of them involved external review services relating to green and sustainable loans. We have therefore, since March 2022, lowered the minimum loan size threshold from \$200 million to \$100 million in respect of applications for subsidies for covering external review costs with a view to supporting relatively small enterprises in obtaining green financing, thereby facilitating their transition to low carbon and emission reduction, and promoting the development of green finance in Hong Kong. As at end September 2022, we have granted about \$136 million to around 150 green and sustainable debt instruments issued in Hong Kong.

(e) Talent development

15. The Government is committed to supporting capacity building and enhancing talent development in green and sustainable finance. We plan to launch a three-year Pilot Green and Sustainable Finance Capacity Building Support Scheme in the fourth quarter of 2022. The Scheme will provide subsidies to market practitioners as well as prospective practitioners in taking up training and capacity building opportunities with regard to green and sustainable finance. More details will be announced soon.

16. In order to attract non-local talents, we have added “professionals

in Environmental, Social and Governance” to the Talent List since October 2021 with a view to attracting more talents in this respect outside Hong Kong. Eligible applicants who meet the requirements of the Talent List may enjoy immigration facilitation under the Quality Migrant Admission Scheme after assessment.

(f) Training support and information exchange

17. Financial regulators have continued their effort in providing training support for and facilitating information exchange on green and sustainable finance among the industry. Since the co-launch of the Alliance for Green Commercial Banks (Alliance²) by the HKMA and International Finance Corporation (IFC) in November 2020 to promote green finance in the Asia region, the HKMA, by serving as the founding member and the regional anchor of the Asia Chapter, has been working with IFC to undertake green finance research, provide unique market insights, tailor capacity building and training support and provide practical guidance for the banks to develop their own roadmap to mainstream green finance as their core business and develop new green financial products. Since March 2021, the Alliance has hosted 13 training and roundtable sessions, reaching over 5 600 participants globally. Riding on the success of these events, the Alliance will continue to host a series of roundtable and training sessions throughout the year.

18. At the same time, the Hong Kong Exchanges and Clearing Limited (HKEX) collaborated with the United Nations Sustainable Stock Exchanges Initiative, IFC, CDP³ and SynTao Green Finance in August and September 2022 to organise e-training sessions, where industry experts came together to share practical tips on how companies can adopt Task Force on Climate-related Financial Disclosures (TCFD)-aligned climate reporting.

² Bank of China (Hong Kong), Citi, Crédit Agricole CIB, HSBC, and Standard Chartered have joined the Alliance as cornerstone members.

³ Formerly the Carbon Disclosure Project.

(2) Regulatory

(a) Taxonomy

19. To reduce the risk of greenwashing, Mainland China and the European Union are working jointly on the Common Ground Taxonomy (CGT) to help define what activities are considered to contribute significantly to climate change mitigation and adaptation. Following the publication of the CGT report⁴ by the International Platform on Sustainable Finance, the Steering Group will, with the aim of aligning with the CGT, explore developing a green classification framework for adoption in the local market which facilitates easy navigation among the CGT, the Mainland's and the EU's taxonomies. The work will be guided by the principles of interoperability, comparability and inclusiveness, taking into account other definitions of green, transitional activities, and local considerations. The Steering Group has been engaging with the industry and other relevant stakeholders to better understand the features and relevant challenges, and working towards proposing the structure and core elements of the local green classification framework for consultation.

(b) Climate-related disclosure reporting framework for listed companies

20. As one of the five near-term action points⁵ being implemented by the Steering Group, climate-related disclosures aligned with TCFD recommendations will be mandatory across relevant sectors no later than 2025. The Steering Group supports the development of a global uniform set of sustainability reporting standard. In March 2022, the International Sustainability Standards Board (ISSB) published the exposure drafts on the general requirements for sustainability-related disclosure standard and climate-related disclosure standard, which are built on the TCFD

⁴ The CGT report is a report resulting from an in-depth comparison exercise that puts forward areas of commonality between the Mainland's and the EU's taxonomies. It was first published in November 2021, and subsequently updated in June 2022.

⁵ The five action points are: (1) climate-related disclosures aligned with the Task Force on Climate-related Financial Disclosures recommendations will be mandatory across relevant sectors no later than 2025; (2) aim to adopt the CGT; (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 coordinate cross-sectoral capacity building, thought leadership and as a cross-sectoral repository of green and sustainable finance resources.

recommendations and are intended to form a comprehensive and effective global baseline of investor-focused sustainability disclosures. The Securities and Futures Commission (SFC) co-leads the IOSCO Sustainable Finance Task Force Corporate Reporting Workstream which is responsible for evaluating the ISSB standards when they are finalised, and is actively participating in international discussions to ensure Hong Kong's approach is aligned with global practices. The SFC and the Stock Exchange of Hong Kong Limited formed a joint working group with a view to developing proposals that are aligned with the ISSB standards for Hong Kong-listed issuers. Noting that issuers have varying levels of readiness and capabilities, the joint working group conducted soft consultations with over 50 listed issuers and professional bodies in April and May 2022 and will take into account their feedback when developing the proposals.

(c) Requirements of climate risk management

21. Financial regulators have implemented measures to require respective sectors to take into account climate risk in their businesses as follows.

Banking sector

22. In December 2021, the HKMA published its supervisory requirements for banks to incorporate climate risk considerations into governance, strategy, risk management and disclosure.

23. Going forward, the HKMA will conduct thematic examinations on selected areas of climate risk management and integrate climate risk stress test into the supervisor-driven stress-testing. The HKMA will also review the regulatory framework and consider whether and how to incorporate climate risk into its Supervisory Review Process (i.e. Pillar 2 of the Basel regulatory capital framework), with a view to incentivising banks to enhance their risk management framework to address risks related to climate change and transition to carbon neutrality.

Asset management

24. The SFC has implemented measures to require fund managers to

take climate-related risks into consideration in their investment and risk management processes as well as to make appropriate disclosures to meet investors' demand for climate risk information and to combat greenwashing.

25. Going forward, the SFC will continue to monitor the implementation of the measures and seek to enhance regulatory supervision in order to align with international regulatory development trends, including:

- Continuing to consider the issues concerning the data underpinning asset manager disclosures, including how to address concerns about data availability, coverage, reliability, verifiability, comparability and standardisation; and
- Maintaining regular dialogues with the industry to monitor the progress of licensed fund managers' incorporation of new climate-related risks conduct and disclosure requirements, and provide the necessary clarification and guidance to the fund managers, such as guidance on the engagement of ESG ratings and data products providers.

Mandatory Provident Fund (MPF) Funds

26. In November 2021, the Mandatory Provident Fund Schemes Authority (MPFA) issued the "Principles for Adopting Sustainable Investing in the Investment and Risk Management Processes of Mandatory Provident Fund (MPF) Funds" (Principles) to MPF trustees which provide a high-level framework to assist MPF trustees in integrating ESG factors into the investment and risk management of MPF funds and making relevant disclosure to MPF scheme members. The Principles cover four key elements: governance, strategy, risk management and disclosure. MPF trustees are also required to disclose their ESG integration policy and implementation progress in the governance report of each MPF scheme and submit their reports, together with schemes' consolidated reports, to the MPFA annually for all financial years ending on or after 30 November 2022.

(3) Carbon Market Opportunities for Hong Kong

27. As jurisdictions worldwide work on transitioning to a green, low-emission and climate-resilient economy, global and regional carbon markets are expected to grow significantly. In particular, there is significant potential in the expansion of the Mainland's carbon markets, given its commitments to carbon neutrality. Hong Kong has a strategic role in adding value to carbon market development given its unique position as an international finance and risk management centre, a regulatory leader in adopting international standards, a mobiliser of capital to the Mainland and a regional certification hub.

28. HKEX signed a Memorandum of Understanding (MoU) with the GFEX in August 2021 with a view to driving a green and low-carbon market in the GBA and supporting sustainable development through the promotion of exchanges and cooperation in areas such as clearing, technology, marketing and investor educational efforts.

29. HKEX also signed a MoU with the Guangzhou-based China Emissions Exchange in March 2022 to explore cooperation opportunities in carbon spot market, including jointly exploring the development of a carbon centre in the GBA, and working together to share research and experience on carbon market financing and global carbon market standards, to help boost the internationalisation of the Mainland's carbon market.

30. Hong Kong's first carbon futures Exchange Traded Fund (ETF) was listed on the Exchange in March 2022, which extends the coverage of Hong Kong-listed commodity ETFs to carbon credits, an important asset class in the global drive to achieving carbon neutrality.

31. At the same time, the Steering Group published a preliminary feasibility assessment for Hong Kong to pursue carbon market opportunities and recommends, among others, developing Hong Kong into a global, high-quality VCM⁶, leveraging Hong Kong's status as a

⁶ VCMs comprise buyers (usually corporates) that voluntarily purchase carbon credits generated by projects that avoid or remove greenhouse gas emissions to neutralise or compensate for their emissions. Each carbon credit is usually issued by self-regulated organisations and represents a tonne of emissions avoidance or removal.

champion of international standards, a facilitator to channel global capital into the Mainland, and an international financial centre with a stable and mature regulatory system.

32. Following the Steering Group's engagement with stakeholders, HKEX has commenced further discussions with various carbon exchanges and stakeholders from across the carbon market ecosystem. It launched the Hong Kong International Carbon Market Council (Council) in July 2022, with the inaugural members of the Council comprise Hong Kong, Mainland China and international corporates and financial institutions. HKEX is gathering insights from members on market needs and building momentum in the development of an efficient and effective Hong Kong-based international carbon market. HKEX together with the Council aim to drive the carbon market leveraging Hong Kong's status as a leading financial centre and unique position in the Mainland China and the world.

Advice Sought

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

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