

## **Guideline on the Green and Sustainable Finance Grant Scheme**

Launched in May 2021, the Green and Sustainable Finance Grant Scheme (GSF Grant Scheme) provides subsidy for the costs of eligible green and sustainable bond and loan issuances in Hong Kong.

The Financial Secretary proposed in the 2024-25 Budget to extend the GSF Grant Scheme, which is due to expire in May 2024, by three years to 2027, and expand the scope of subsidies to cover transition bonds and loans, with a view to encouraging relevant industries in the region to make use of Hong Kong's transition financing platform as they move towards decarbonisation. The Hong Kong Monetary Authority (HKMA) will continue to administer the GSF Grant Scheme.

This updated Guideline on the GSF Grant Scheme will be effective from 10 May 2024.

The HKMA will keep in view market developments and industry feedback, and may adjust the design of the GSF Grant Scheme (including eligibility criteria, eligible expenses, grant amounts and application process) from time to time as needed.

## Overview

The GSF Grant Scheme consists of two tracks, covering:

- I. General Bond Issuance Costs: covering bond issuance expenses (e.g. arrangement, legal, audit, listing fees, etc.) for eligible first-time green, social, sustainability, sustainability-linked and transition bond issuers; and
- II. External Review Costs: covering transaction-related external review fees (e.g. including pre-issuance and post-issuance external review) for eligible green, social, sustainability, sustainability-linked and transition bond issuers and loan borrowers, including first-time and repeated issuers and borrowers.

Grant applications for bonds or loans issued before 10 May 2024 will follow the [previous Guideline](#), and certain parts of this updated Guideline as stated below. Grant applications for bonds or loans issued on or after 10 May 2024 will follow this updated Guideline.

## Eligibility criteria

(Please refer to the **Glossary** section for definitions of the terms “issued in Hong Kong”, “recognised arranger” and “recognised external reviewer”.)

|                                                                    | Track I - General Bond Issuance Costs                                                                                                                                                                                                                                                                                                                  | Track II - External Review Costs                                                                                                                                             |
|--------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Eligible instrument types                                          | <ul style="list-style-type: none"><li>Green, social, sustainability, sustainability-linked and transition bonds<sup>1</sup></li></ul>                                                                                                                                                                                                                  | <ul style="list-style-type: none"><li>Green, social, sustainability, sustainability-linked and transition bonds and loans<sup>1</sup></li></ul>                              |
| Eligible bond issuers <sup>2</sup> and loan borrowers <sup>3</sup> | <ul style="list-style-type: none"><li>First-time issuers (i.e. issuers that have not issued<sup>4</sup> any green, social, sustainability, sustainability-linked or transition bonds in Hong Kong<sup>5</sup> within five years preceding the eligible issuance), excluding issuers that also act as arranger for the eligible bond issuance</li></ul> | <ul style="list-style-type: none"><li>First-time and repeated issuers and borrowers (each entity can apply for subsidy for two eligible loans<sup>6</sup> at most)</li></ul> |
| Criteria for eligible issuances (bonds and loans)                  | <ul style="list-style-type: none"><li>Issued in Hong Kong</li><li>Issuance size of at least HK\$1.5 billion (or the equivalent in foreign currency) (for Track I), or HK\$100 million (or the equivalent in foreign</li></ul>                                                                                                                          |                                                                                                                                                                              |

<sup>1</sup> For the avoidance of doubt, only transition bonds and loans issued on or after 10 May 2024 are eligible under the GSF Grant Scheme.

<sup>2</sup> For the purpose of the GSF Grant Scheme, the term “issuer” denotes the entity issuing a bond (“issuing entity”) and the issuing entity’s associate(s), excluding government issuers. The term “associate” refers to (i) a person/corporation over which the issuing entity has control; (ii) a person/corporation which has control over the issuing entity; or (iii) a person/corporation that is under the control of the same person/corporation as the issuing entity.

<sup>3</sup> Excluding government borrowers.

<sup>4</sup> For the purpose of the GSF Grant Scheme, the pricing date of a bond issuance is deemed to be the issuance date.

<sup>5</sup> Issuers that issue transition bonds in Hong Kong for the first time, including those that have previously issued green, social, sustainability or sustainability-linked bonds in Hong Kong, are deemed to be first-time issuers for the purpose of Track I.

<sup>6</sup> Including all eligible loans (issued before, on or after 10 May 2024) where the entity acts as borrower or guarantor.

|  | <b>Track I - General Bond Issuance Costs</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b>Track II - External Review Costs</b> |
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|  | <p>currency) (for Track II)</p> <p>Applicable to bonds only:</p> <ul style="list-style-type: none"> <li>• In their entirety lodged with and cleared by the Central Moneymarkets Unit (CMU) operated by the HKMA, or listed on The Stock Exchange of Hong Kong Limited (SEHK); and</li> <li>• Issued, at issuance, to (i) 10 or more persons or (ii) less than 10 persons none of whom is an associate of the issuer</li> </ul> <p>Applicable to green, social, sustainability and sustainability-linked bonds and loans:</p> <ul style="list-style-type: none"> <li>• pre-issuance external review related to the issuance demonstrating alignment with internationally-recognised principles, standards or guidance, as provided by a recognised external reviewer</li> </ul> <p>Applicable to transition bonds and loans:</p> <ul style="list-style-type: none"> <li>• a developed and appropriately disclosed transition plan (or equivalent disclosures on climate transition strategy) at the entity-level<sup>7</sup>;</li> <li>• pre-issuance external review demonstrating the adoption of internationally-recognised transition finance principles, standards or guidance (including the transition plan related elements under such principles, standards or guidance), as provided by a recognised external reviewer; and</li> <li>• for use-of-proceeds instruments, pre-issuance external review demonstrating alignment with an</li> </ul> |                                         |

<sup>7</sup> For the purpose of the GSF Grant Scheme, a transition plan (or equivalent disclosures on climate transition strategy) developed at the group-level shall be generally considered acceptable to the extent that it encompasses the relevant climate transition disclosures for the issuing entity of the concerned issuance.

|  | <b>Track I - General Bond Issuance Costs</b>                                                                | <b>Track II - External Review Costs</b> |
|--|-------------------------------------------------------------------------------------------------------------|-----------------------------------------|
|  | applicable internationally-recognised taxonomy <sup>8</sup> , as provided by a recognised external reviewer |                                         |

The granting of subsidy to a bond or loan under the GSF Grant Scheme does not in any way constitute an investment advice, nor does it constitute an endorsement of the bond or loan or the relevant taxonomies, principles, standards or guidance as referenced in connection with such subsidised debt instrument by the HKMA.

The above eligibility criteria do not in any way constitute any official definition of green, social, sustainability, sustainability-linked or transition bonds and loans for regulatory purposes.

### **Grant amounts and eligible expenses**

|                              | <b>Track I - General Bond Issuance Costs</b>                                                                                                                                                                                           | <b>Track II - External Review Costs</b>                                                                                                                                                                                                                     |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Grants per eligible issuance | Half of the eligible expenses, up to: <ul style="list-style-type: none"> <li>• HK\$2.5 million where the bond, its issuer or its guarantor(s) possess a credit rating<sup>9</sup>; or</li> <li>• HK\$1.25 million otherwise</li> </ul> | Full cost of eligible expenses, up to, for each eligible issuance: <ul style="list-style-type: none"> <li>• HK\$800,000 in total for all pre-issuance external review and post-issuance external review services;</li> <li>• HK\$250,000 for all</li> </ul> |

<sup>8</sup> In the case of a national-based or internally-developed (for example, by financial institutions, external reviewers, etc.) taxonomy, the HKMA may, for the purpose of the GSF Grant Scheme, request confirmation, and additional information to support, that such taxonomy can reasonably be considered as internationally-recognised, or comparable to an internationally-recognised taxonomy, in the context of the concerned transition bond/loan issuance. The HKMA will consider such confirmation and additional information on a case-by-case basis, taking into account factors such as (i) in the case of a transition bond, the extent to which it is an international issuance (i.e. issued in a market outside the issuer's home jurisdiction); (ii) in the case of a transition loan, the number and location(s) of the involved lender(s); (iii) the extent to which the taxonomy concerned is comparable to an internationally-recognised taxonomy in respect of, for example, the activities concerned; (iv) whether it would result in a substantially different alignment assessment had the external review been performed in reference to an internationally-recognised taxonomy.

<sup>9</sup> By one or more of the following credit rating agencies (in alphabetical order): China Chengxin (Asia Pacific) Credit Ratings Company Limited, Fitch Ratings, Lianhe Ratings Global Limited, Moody's Investors Service, Rating and Investment Information, Inc., and S&P Global Ratings.

|                                 | Track I - General Bond Issuance Costs                                                                                                                                                                                                                                                                                        | Track II - External Review Costs                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                 |                                                                                                                                                                                                                                                                                                                              | <p>pre-issuance external review services; and</p> <ul style="list-style-type: none"> <li>• HK\$200,000 per year for all post-issuance external review services for the first three years from the date of the eligible issuance or up until the maturity of the issuance, whichever is shorter<sup>10</sup></li> </ul>                                                                                                           |
| Eligible expenses <sup>11</sup> | <ul style="list-style-type: none"> <li>• Fees to Hong Kong-based arrangers</li> <li>• Fees to Hong Kong-based legal advisors</li> <li>• Fees to Hong Kong-based auditors and accountants</li> <li>• Fees to Hong Kong-based rating agencies</li> <li>• SEHK listing fees</li> <li>• CMU lodging and clearing fees</li> </ul> | <p>Transaction-related fees paid to recognised external reviewers for:</p> <ul style="list-style-type: none"> <li>• pre-issuance external review <sup>12</sup>, including external review based on applicable internationally-recognised principles, standards or guidance (including the <a href="#">Hong Kong Taxonomy for Sustainable Finance</a> published by the HKMA);</li> <li>• post-issuance external review</li> </ul> |

<sup>10</sup> This applies to the post-issuance external review services for eligible bonds and loans issued before, on or after 10 May 2024.

<sup>11</sup> Excluding expenses covered by other grant scheme(s) in Hong Kong or outside Hong Kong.

<sup>12</sup> For example, certification, second-party opinion, verification, ESG scoring/rating, assurance, etc.

## Glossary

| Term                         | Definition                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Issued in Hong Kong          | <p>A bond is considered issued in Hong Kong if half or more of the involved lead arranger(s) are recognised arrangers. Bond arranging activities comprise originating and structuring, legal and transaction documentation preparation, and sale and distribution.</p> <p>A loan is considered issued in Hong Kong if at least half of the loan amount is borrowed from Hong Kong-based lenders.</p>                                                                                                                                                                                             |
| Recognised arranger          | <p>In granting recognised arranger status, the HKMA will review the information provided in the <u>Arranger Application Form</u> and consider to what extent the arranger has substantial Hong Kong debt capital market (DCM) operations, taking into account the size of an arranger's DCM operations, its use of Hong Kong service providers, its plan for developing its DCM operations in Hong Kong, and other relevant factors.</p>                                                                                                                                                         |
| Recognised external reviewer | <p>In granting recognised external reviewer status, the HKMA will review the information provided in the <u>External Reviewer Application Form</u> and consider to what extent the external reviewer has:</p> <ul style="list-style-type: none"><li>• considerable presence in Hong Kong<sup>13</sup>;</li><li>• satisfactory observance of internationally-recognised standards; and</li><li>• proven track records in providing external review services to green, social, sustainability, sustainability-linked and transition bonds and loans, especially international issuances.</li></ul> |

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<sup>13</sup> Taking into account the current size and functions of its Hong Kong team, its plan for expanding its presence in Hong Kong, and other relevant factors.

The recognised arranger status of the existing recognised arrangers and the recognised external reviewer status of the existing recognised external reviewers will remain valid upon the extension of the GSF Grant Scheme on 10 May 2024.

The granting of recognised arranger status and recognised external reviewer status for the purpose of the GSF Grant Scheme does not constitute a recommendation by the HKMA to engage with any of these organisations for financial advice or services.

## Application Process

### Application for grant

- **Pre-application consultation:** Prior to or after the issuance of the bond/loan, the lead arranger(s)/lender(s) may, on behalf of the issuer/borrower, consult the HKMA via [gsfsgs@hkma.gov.hk](mailto:gsfsgs@hkma.gov.hk) on a pre-application before submitting the formal application. The HKMA will give a no-objection to the pre-application if it is satisfied that, based on the preliminary information provided by the lead arranger(s)/lender(s), the eligibility requirements for the GSF Grant Scheme are met.
- **Formal application:** A formal application may be made by the lead arranger(s)/lender(s) within three months after the bond/loan is issued, or within three months from the issuance date of the relevant external review report in the case of post-issuance external reviewer costs<sup>14</sup>. Applicants may obtain the Issuer/Borrower Application Form, Arranger Application Form and External Reviewer Application Form from the HKMA via [gsfsgs@hkma.gov.hk](mailto:gsfsgs@hkma.gov.hk). The HKMA will process applications in monthly batches.

### Application for recognised arranger status

Interested arrangers may obtain and submit the Arranger Application Form to the HKMA via [gsfsgs@hkma.gov.hk](mailto:gsfsgs@hkma.gov.hk) to apply for recognised arranger status. The recognised arranger status would be valid for a one-year period, after which the arranger may update the information in its Arranger Application Form to renew its status.

### Application for recognised external reviewer status

Interested external reviewers may obtain and submit the External Reviewer Application Form to the HKMA via [gsfsgs@hkma.gov.hk](mailto:gsfsgs@hkma.gov.hk) to apply for recognised external reviewer status. The recognised external reviewer status would be valid for a one-year period, after which the external reviewer may update the information in its External Reviewer Application

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<sup>14</sup> Application for post-issuance external reviewer costs of bonds/loans may also be submitted by the issuer/borrower directly.

Form to renew its status.