



HONG KONG MONETARY AUTHORITY
香港金融管理局

Hong Kong's alignment to international regulatory standards and further initiatives to enhance the ecosystem :

Regulatory work for banks

Jan 2023

Climate change: a source of financial risks



Far-reaching impacts in breadth and magnitude
Foreseeable nature
Irreversibility
Dependency on short-term actions



Source: SCMP



Source: SCMP

Climate
Change

Physical
Risk

Transition
Risk

Arise from **extreme weather events**
e.g.. droughts, floods, storms and sea-level rises

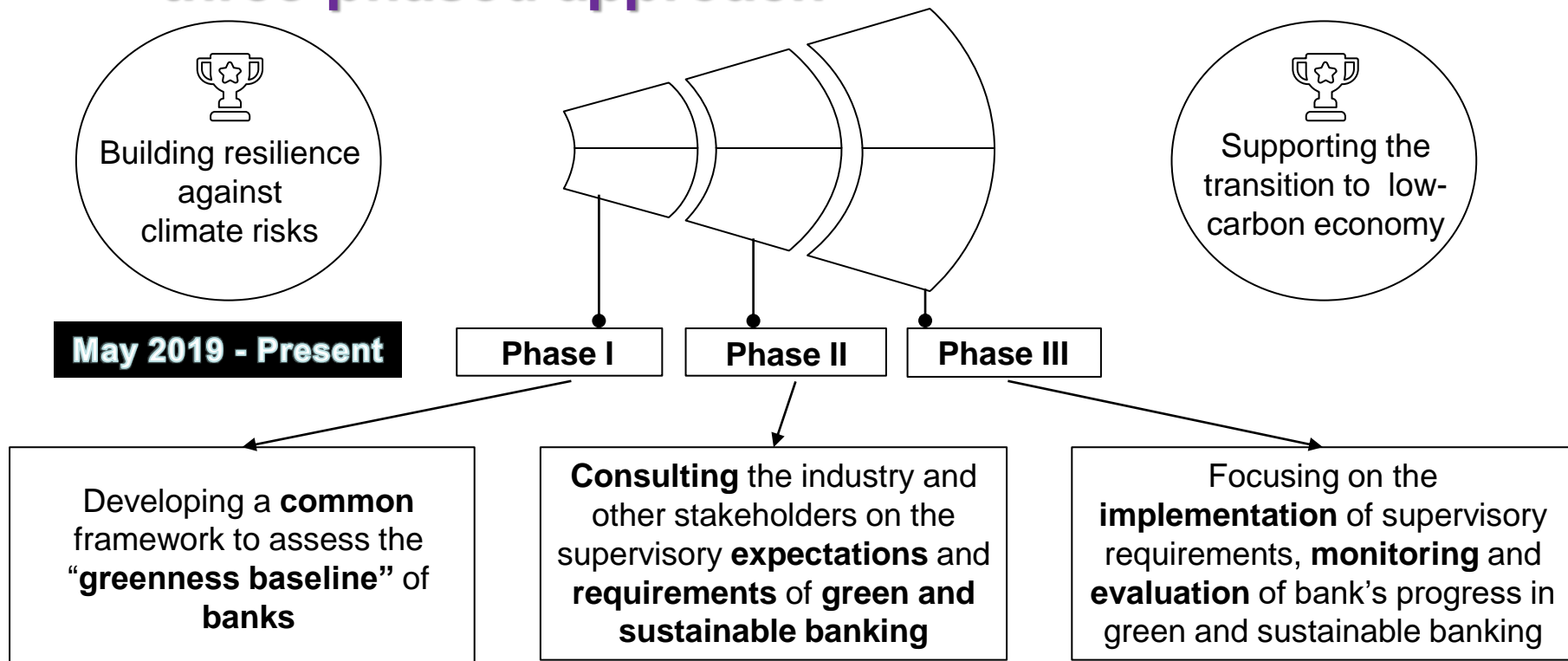
Result in **damages** to property and **disruption** to global supply chains. Affecting repayment ability of borrowers

Arise from the process of **adjustment** towards a **lower-carbon economy** promoted by changes in climate policy, technology or market sentiment

Affect the **businesses/assets of carbon-intensive sectors**



Green and sustainable banking: three-phased approach



Climate risk stress test to assess resilience



The HKMA undertook a pilot climate stress testing (CRST) exercise in 2021



Objectives

- ❑ Assess the climate resilience of the banking sector
- ❑ Facilitate the capability building of participating banks for measuring **climate risks**



Results

- ❑ Banking sector **remained resilient** even in the face of extreme climate-related shocks, although these shocks could potentially give rise to significant **adverse impacts** on banks' **financials**.
- ❑ The stress test helped to **enhance** banks' capabilities for measuring and assessing climate risks.
- ❑ The HKMA is **refining** the CRST framework and plans to **integrate** the next CRST into the HKMA's **regular** supervisor-driven stress testing.

Supervisory requirements on climate risk management



Local

Dec
2021

HKMA issued a new supervisory policy manual module on “climate risk management”



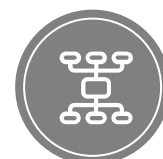
Governance



Strategy



Risk
management



Disclosure



Banks are expected to **incorporate** climate considerations into the above categories

International

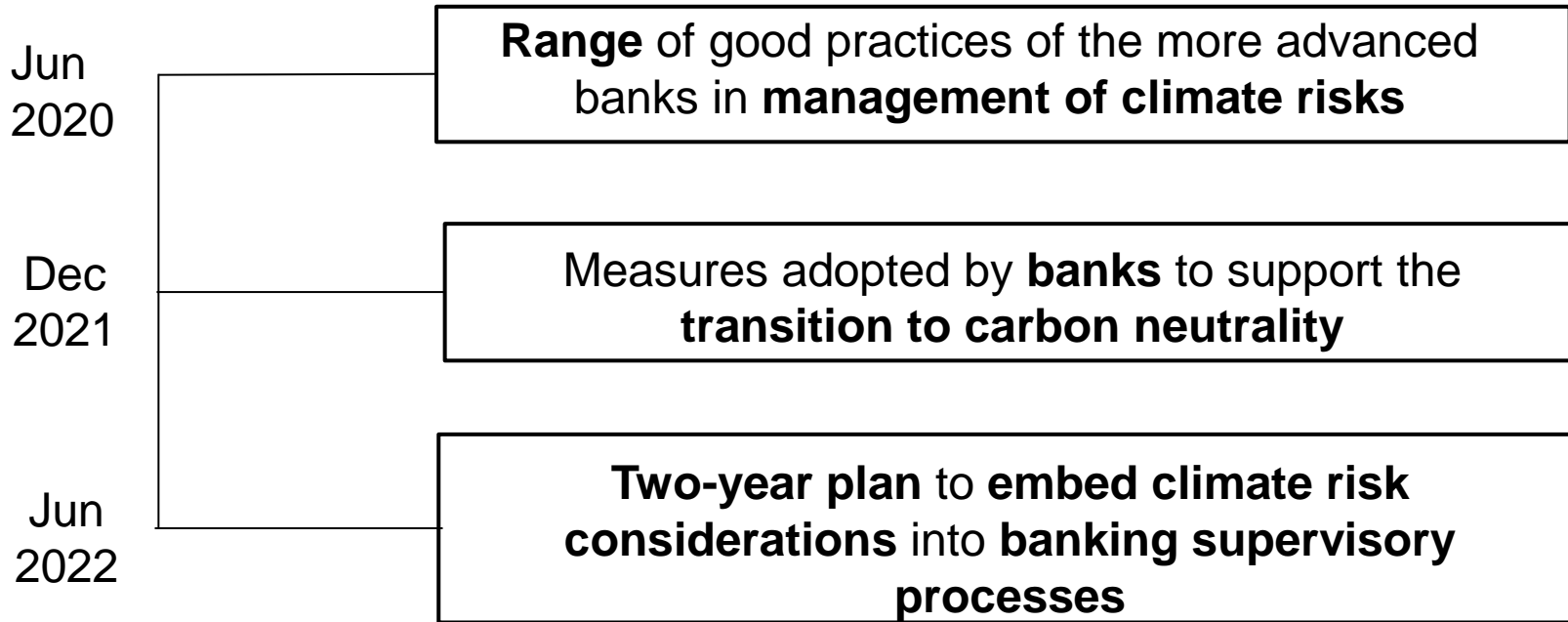
Jun
2022

Basel Committee issued principles for the **effective management** and **supervision** of climate-related financial risks.

Dec
2022

Basel Committee issued Frequently Asked Questions on Climate Related Financial Risks

Embedding climate risk in banking supervision





Green taxonomy



A green taxonomy is a **classification system** for identifying activities / investments as green / sustainable with respect to certain **environmental objectives**



Provide clarity to help determine **which investments** could be regarded as “green”



Prevent **greenwashing**
Facilitate **policy formulation**

China Green Bond Endorsed Projects Catalogue (2021 Edition)



Following a consultation in 2020, finalized by PBoC, NDRC, CSRC in 2021

6 Broad sectors

204 Activities

1 Energy Saving and Environmental Protection Industry	2 Pollution Prevention and Treatment	3 Clean Energy Industry
4 Ecological Agriculture	5 The Green Upgrade of Infrastructure	6 Green Services

EU Taxonomy Regulation (2020)



Six environmental objectives

1	Climate Change Mitigation	2	Climate Change Adaptation	3	The Sustainable Use and Protection of Water and Marine Resources
4	The Transition to a Circular Economy	5	Pollution Prevention and Control	6	The Protection and Restoration of Biodiversity and Ecosystem



“Green” / “environmentally sustainable”: economic activities that make a **substantial contribution** to at least one of the objectives, while at the same time **not significantly harming** any of these objectives and meeting minimum social safeguards.



Technical screening criteria (TSC) for **88 climate change mitigation** and **96 climate change adaptation** activities have been developed

Common Ground Taxonomy (CGT)



Background:

- First published by the International Platform on Sustainable Finance (IPSF) in November 2021, revised in June 2022
- Undertaken by a technical expert group and led by a working group co-chaired by China and EU
- Highlight the commonalities between EU and China taxonomies

Advantages



Cover around **80 activities** across **6 sectors** in **climate change mitigation**



Improve **comparability** and **interoperability** of taxonomies



Provide more **clarity** and **transparency** about the commonalities and differences between approaches



Potentially contribute to the analysis **to lower the transboundary cost** of sustainable investments and scale up the **mobilization** of sustainable capital **internationally**

Local green classification framework - Hong Kong's approach



1 To explore developing a green classification framework



Guided by the principles of **interoperability, comparability and inclusiveness**



Facilitate easy navigation among the **CGT, China** and the **EU's taxonomies**



Take into account **other definitions** of green & transitional activities, and local considerations

2 To work with industry practitioners, experts and stakeholders

3 To propose the structure and core elements for a consultation, targeted around Q1 2023