



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C
G16/1C

29 November 2023

The Chief Executive
All Registered Institutions

Dear Sir / Madam,

Sale and Distribution of Green and Sustainable Investment Products

I am writing to share with the industry the good practices observed in a recent review conducted by the Hong Kong Monetary Authority (“HKMA”) on sale and distribution of green and sustainable investment products, and set out the expected standards in respect of sale and distribution of green and sustainable investment products by registered institutions (“RIs”).

With the rising global awareness of climate change and commitment to tackle the issue, the HKMA notes increasing demand for green and sustainable investment products, and some RIs have offered such products to meet customer demand. In light of this, the HKMA has conducted a thematic review on all RIs (covering retail banks, private banks and corporate banks) with respect to their sale and distribution of green and sustainable investment products (the “Review”). The Review focused on the types of green and sustainable investment products offered, the relevant classification framework, the selling process as well as controls and monitoring conducted by the RIs.

From the Review, the HKMA observes that green and sustainable investment products offered include funds, bonds and structured products. Some RIs have established policies and procedures governing the product due diligence (“PDD”) and the classification framework for green and sustainable investment products, and put in place control measures to mitigate potential greenwashing, social washing and impact washing risks. Some good practices have been identified in areas including PDD, customer’s sustainability preference, disclosure,

governance and controls, staff training, as well as bookbuilding activities. In formulating the expected standards, the HKMA has also made reference to international developments, with evolving standards and practices. The HKMA's expected standards and examples of good practices are set out in **Annex I** and Frequently Asked Questions in **Annex II**. Please note that the expected standards outlined in **Annex I** are applicable to RIs that market or classify investment products as green and sustainable (except those on bookbuilding). The HKMA will keep in view the latest trends and market developments going forward.

RIs are expected, where applicable, to review and make any necessary enhancements to their policies and procedures, having regard to the expected standards set out in this Circular, so that adequate control measures are in place to manage potential risks arising from the sale and distribution of green and sustainable investment products to customers.

Implementation arrangements

RIs should comply with the expected standards set out in this Circular as soon as practicable and in any case not later than 12 months from the date of issuance of this Circular.

In case of questions on this Circular, please contact Ms Christine Ho at 2878-8229 or Mr Andrew Ng at 2878-8813.

Yours faithfully,

Alan Au
Executive Director (Banking Conduct)

Encl.

c.c. Securities and Futures Commission
(Attn: Mr Keith Choy, Interim Head of Intermediaries)

**Expected Standards and Examples of Good Practices on
Sale and Distribution of Green and Sustainable Investment Products**

A. Product due diligence (“PDD”)

Expected standards

Where RIs market or classify an investment product as green and sustainable, RIs are expected to take reasonable steps in classifying such product as green and sustainable. These could entail reviewing relevant information, including, to the extent applicable, product offering documents, documentation or reports provided by the product issuer or provider (such as issuer’s green and sustainable bond framework, post-issuance reports on allocation of proceeds and expected impacts, periodic reports on how the product has attained its green and sustainability focus, etc.) and reviews from external parties (such as second-party opinion, independent-party certification or verification, etc.).

On-going PDD should be conducted at appropriate intervals to ensure that the respective investment products continue to maintain their green and sustainable status. Adequate documentation of the assessment work should be properly maintained. Where an investment product no longer meets the criteria to maintain its green and sustainable status, RIs are expected to notify customers who are holding this product about the change of the status, if the RI has marketed or classified the investment product as green and sustainable to the customers in the sale and distribution process. For avoidance of doubt, RIs may continue to offer the investment product but should refrain from further marketing or classifying it as green and sustainable.

Good practices

- To facilitate evaluation on how the environmental, social and governance (“ESG”) or green or sustainability factors were considered and implemented in a fund’s investment process, some RIs required the fund house to complete an ESG or sustainability-specific questionnaire for each fund and reviewed its response. The questionnaire included questions covering various areas such as the fund’s investment philosophy and strategy, ESG criteria, use of

ESG data providers, governance oversight, transparency (e.g. customer communication and reporting), etc.

- For funds with thematic investing strategy like climate change, water and food security, some RIs assessed the fund’s investment strategy with reference to ESG criteria or principles recognised globally, e.g. checking the fund’s investment strategy to ensure it aligned with the sustainability themes articulated in the United Nations Sustainable Development Goals (“UN SDGs”).
- To supplement their own analysis, some RIs further obtained external data from multiple information service providers (e.g. ESG or sustainability ratings) and/or reviewed whether the fund was classified by the fund manager as Article 8 or 9¹ under the European regulation on sustainability-related disclosures in the financial services sector² (“SFDR”). An RI would obtain some additional third-party data where available (e.g. exposure to some adverse ESG / sustainability factors such as weapons, thermal coal, etc.), to verify the fund house’s internal assessments / sustainability reports.
- An RI applied exclusion of issuers which are involved in controversial business activities or violation of international norms and standards such as the United Nations Global Compact Principles.

B. Customer’s sustainability preference

Good practice

- An RI would enquire about a customer’s investment needs and objectives including any interest to invest in ESG or sustainable investments or any need to exclude those involving controversial business activities. A customer could further indicate ESG or sustainable investment preferences in specific areas (such as climate change, water, people, governance, etc.). The RI would consider the customer’s indicated ESG or sustainable investment preferences

¹ Under the SFDR, Article 8 funds refer to funds that promote, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices; and Article 9 funds refer to funds that have sustainable investment as their objective.

² Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

and other information (including customer's risk profile, knowledge and experience, financial situation) when recommending investment products to the customer, to ensure that the investments meet the customer's needs and align with the customer's values and objectives.

C. Disclosure

Expected standards

RIs should ensure that any representations made about green and sustainable investment products to customers are accurate and not misleading. Where RIs market or classify an investment product as green and sustainable, RIs should provide information about green or sustainability characteristics and associated risks specific to the green or sustainable investment product to help the customer make informed decisions. In doing so, RIs should use simple and plain language, and in a language that the customer can readily understand.

Where RIs provide sustainability levels or scores of investment products (regardless of whether such levels or scores are based on in-house built model or provided by external service providers) to customers, RIs should have clear understanding of and provide the information about the meanings of the levels or scores to customers. Upon customers' enquiry, RIs should provide information on how such levels or scores are derived (e.g. methodology, assessment criteria, data source, etc.).

Good practices

- For certain investment products such as bonds and funds, some RIs disclosed to customers the sustainability level of investment products based on their in-house built model, to help customers identify and compare the degree of integration of ESG or sustainability factors in different investment products.
- To raise customer's awareness of the ESG performance of green and sustainable investment products, an RI, using its in-house built model, would assess and assign an individual score for each of the "E", "S" and "G" factor and disclose the scores to the customer through monthly statements.

D. Governance and controls

Expected standards

RIs should ensure adequate management supervision on the issues and risks arising from sale and distribution of green and sustainable investment products, particularly greenwashing³ risks.

RI should establish proper policies and procedures and put in place adequate monitoring by control functions to ensure the risks arising therefrom are properly identified and managed.

Good practice

- Some RIs established dedicated management committees for reviewing policies and procedures for ESG or sustainable investments.

E. Staff training

Expected standards

Where RIs market or classify investment products as green and sustainable, RIs should provide adequate ESG-related training to its staff, covering the concept of sustainable investments, latest trend and market developments, as well as product knowledge, to ensure that they are equipped with necessary knowledge and skills and that they will keep abreast of the development.

In other cases, RIs are also encouraged to provide appropriate training including ESG-related training to staff to ensure that they keep abreast of latest market development.

Good practice

- Some RIs periodically invited external professionals or specialists to provide training on ESG-related topics for their staff.

³ For example, a lack of basis for classifying investment products as green and sustainable; malpractice of promoting investment products in a manner that portrays them as being more environmentally or climate-aligned than they are.

F. Bookbuilding activities

The applicability of the expected standards on bookbuilding to RIs is based on provisions of paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (“SFC’s Code of Conduct”). This Section is applicable to an RI who acts as capital market intermediary (“CMI”) as defined in paragraph 21.1.1 of the SFC’s Code of Conduct.⁴

Expected standards

RIs should conduct an adequate assessment of an issuer client before engaging in a debt offering for that issuer client. This includes taking reasonable steps to obtain an accurate understanding of the background, operations, business and performance, financial condition and prospects of the issuer client. RIs should also establish a governance process to review and assess a debt offering and the associated risks.

RIs should assess green and sustainable bond offerings with reference to applicable market principles and standards⁵ and check for any reviews from external parties as appropriate (including pre-issuance reviews on the bond issuance, bond programme and / or bond framework).

Good practice

- An RI, who acted as an arranger of green and sustainable bonds, established a specialised ESG team to evaluate bond offerings. A dedicated committee of the RI was tasked to provide oversight of the controls of green and sustainable bonds offered including, among others, review of the assessment work conducted by the specialised ESG team to ensure alignment with its internal policy.

⁴ A non-syndicate CMI as defined in footnote 14 of the SFC’s Code of Conduct is not required to comply with the expected standards set out in this section.

⁵ For example, Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines of the International Capital Market Association.

**Frequently Asked Questions on
Sale and Distribution of Green and Sustainable Investment Products**

Applicability of the Circular

1. Under what circumstances are RIs expected to comply with the expected standards set out in the Circular?

The expected standards (except those on bookbuilding) set out in the Circular are applicable to registered institutions (“RIs”) that market or classify an investment product as green and sustainable. As such, provided that the RI does not market or classify the investment product as green and sustainable, even if an RI sells an investment product whose name or other information may contain elements suggesting it as green and sustainable, the RI is not required to comply with the expected standards (except those on bookbuilding) set out in the Circular.

Whether an RI has marketed or classified an investment product as green and sustainable is a question of fact which should be assessed against the circumstances on a case-to-case basis.

For example, merely mentioning the product name (which may contain elements suggesting the investment product as green and sustainable) or providing information on ESG ratings / scores or ESG features based on the offering documents to customers without a representation or the intention that RIs market or classify such product as green and sustainable, is unlikely to fall within the scope of this Circular.

2. Can RIs apply the exemptions for Institutional Professional Investors and Corporate Professional Investors⁶?

RIs may continue to apply the exemptions related to the relevant existing regulatory requirements for Institutional Professional Investors and Corporate Professional Investors.

⁶ “Institutional Professional Investors” refer to that defined in the SFC’s Code of Conduct. “Corporate Professional Investors” refer to those professional investors where RIs have complied with paragraphs 15.3A and 15.3B of the SFC’s Code of Conduct.

3. Can RIs apply the streamlined approach when dealing with Sophisticated Professional Investors⁷?

RIs may apply the streamlined approach related to the relevant existing regulatory requirements for Sophisticated Professional Investors. For avoidance of doubt, with respect to applying the streamlined approach for Sophisticated Professional Investors, the HKMA does not require green and sustainable investment products to form a specific product category.

4. Is there any streamlined approach for bonds issued by government or sovereign?

RIs may continue to adopt the simplified arrangements for bonds that falls under “Eligible bonds” as stipulated in HKMA’s circular dated 31 July 2020 on “Simplified Arrangements for Sale and Distribution of Eligible Retail Bonds Issued by Government and Related Organisations”.

Product due diligence

5. Can RIs identify and classify green and sustainable investment products by relying on the relevant information provided by reputable third party service providers, the expertise of their parent company or other entities within the group?

While RIs may take reference to the information provided by third party service providers, RIs are expected to have in place clear policies and procedures which should encompass various aspects, such as selection criteria, due diligence and ongoing monitoring of service provider; and governance to ensure the reliability of information obtained.

While RIs may take into account assessment work of their group company or head/ regional office, where appropriate, RIs should establish proper policies and procedures to ensure that adequate and reasonable assessment is performed taking into consideration the local regulatory requirements and other local circumstances.

⁷ “Sophisticated Professional Investors” refer to those professional investors where RIs have complied with HKMA-SFC’s joint circular titled “Streamlined approach for compliance with suitability obligations when dealing with sophisticated professional investors” dated on 28 July 2023.

6. Is an RI expected to request product certification or verification?

To demonstrate reasonable steps have been taken in classifying green and sustainable investment product, RIs are expected to review relevant information, including to the extent applicable, information provided by product providers or issuers, and reviews from external parties. The emphasis is placed on conducting a thorough assessment based on available information, rather than requesting product certifications or verifications.

Customer's sustainability preference

7. Is it mandatory for RIs to make enquiry about a customer's sustainability preference?

It is not a mandatory requirement.

8. If a customer has indicated sustainability preference, is an RI only allowed to recommend investment products which align with the customer's sustainability preference, as the RI might not have such investment products available?

RIs may recommend products with or without sustainability-related features, regardless of the customer's sustainability preference. Nonetheless, if a customer indicates any sustainability preference, RIs should additionally take into account the customer's sustainability preference and may recommend products that align with the customer's sustainability preference, provided that such products are available, while also taking into account other circumstances of the customer.

9. If RIs make enquiry about a customer's sustainability preference, but the customer does not provide an answer or does not indicate any sustainability preference, can RIs still recommend products with sustainability-related features?

RIs may consider the customer as "sustainability-neutral" and may continue to recommend products both with or without sustainability-related features.