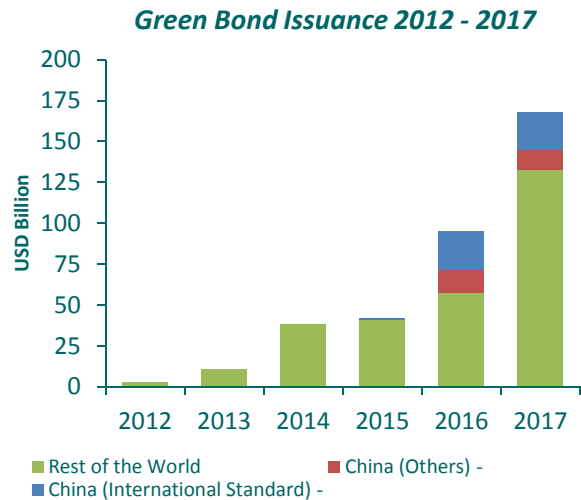


GREEN FINANCE: HONG KONG'S UNIQUE ROLE

Global green finance has grown exponentially over the past few years, with strong demands for green funding coming from Mainland China, and for green investment opportunities from international green investors. Hong Kong is an international financial centre and has always been the gateway between Mainland China and the rest of the world. It is uniquely positioned to connect these two markets, and capture the opportunities from green finance.

UNMET DEMAND AND SUPPLY

In 2017, green bonds issued in Mainland China reached USD23 billion¹, representing 15% of the world's total, and over 20 times increase from 2015². Developing green finance is a national strategy, featured in President Xi Jinping's report to the 19th National Congress of the Communist Party of China³. It is estimated that Mainland China would need an annual green investment of RMB3-4 trillion (USD480-640 billion)⁴. Domestic investment alone would not be sufficient to meet this demand.



Source: Climate Bond Initiative

Meanwhile, international investors' interest in green investment has been growing. Since its founding in 2006, the United Nations Principles for Responsible Investing has attracted support from more than 1,700 signatories, representing over USD68 trillion in assets under management as of April 2017⁵. An industry study showed that between 2012 and 2017, aggregate asset under management of environmental, social and governance themed ETFs grew by 340%, to over USD11 billion⁶. A recent industry survey has also shown that 68% of international investors plan to increase their allocation to low-carbon related asset⁷.

Matching Mainland China's demand with international supply of green capital will create a win-win outcome. But green financial flow between Mainland China and the rest of the world has so far been insignificant, held back by issues regarding infrastructure, market practice, legal and regulatory regimes, etc.

¹ The figure covers only green bonds that are aligned with both local and international standards. If green bonds not aligned with international standard are included, total green bond issuance in Mainland China reached USD37.1billion (RMB248.6billion) in 2017.

² Source: Climate Bonds Initiative, *China Green Bond Market Annual Report 2017*, February 2018

³ Source: Para IX, *President Xi Jinping's Report delivered at the 19th National Congress of the Communist Party of China*, 18 October 2017

⁴ Source: The International Institute of Green Finance and the United Nations Environment Programme, *Establishing China's Green Financial System: Progress Report 2017*

⁵ Source: MSCI, *ESG 101: What is ESG Investing?*

⁶ Source: JP Morgan, *Sustainable Investing is Moving Mainstream*, 20 April 2018.

⁷ Source: HSBC, *Growing Investor Appetite for Green Assets Puts Pressure on Companies to Explain Their Climate Strategies*, 12 September 2017

Hong Kong can play a role in facilitating this flow.

INTERNATIONAL FINANCIAL CENTRE AND GATEWAY TO CHINA

Hong Kong is an international financial centre and a leading bond hub in Asia, ranking third in terms of issuance in Asia ex-Japan, after Mainland China and Korea⁸. In the first five months in 2018, at least 13 green bonds were issued in Hong Kong, with an aggregate size of USD5 billion, by notable issuers from multilateral development banks and private sectors from Hong Kong, Mainland China and abroad. Please refer to the annex for further details.

Hong Kong has always been the gateway between Mainland China and the rest of the world, originating and intermediating some 60% of Mainland China's direct inward and outward investment, and serving as the preferred offshore listing location of Mainland enterprises. The same also applies when it comes to bonds and green bonds.

Hong Kong is the preferred location for international investment in the Mainland bond market, and for Mainland issuers looking to raise bond financing. Two recent developments have further reinforced Hong Kong's appeal:

- **Bond Connect**: In July 2017, we launched the Bond Connect, which quickly became international investors' default channel for investing in the China Interbank Bond Market, as it allows them to use the Hong Kong trading and clearing platform, and to continue their existing legal framework, counterparty arrangements and internal practices. In the first quarter of 2018 alone, a total of RMB163 billion Chinese bonds were traded via Bond Connect⁹.
- **Offshore bonds by Mainland issuers**: In 2017, Mainland issuers issued more than

USD220 billion foreign currency bonds¹⁰, a majority of which were issued in Hong Kong. In addition, many Mainland issuers have issued RMB "dim sum" bonds in Hong Kong. At the end of 2017, outstanding "dim sum" bonds totalled over RMB200 billion¹¹. Mainland issuers have been attracted to Hong Kong due to its deep market and familiar regulatory and operating environment. The number of issuance in Hong Kong is expected to grow further, given the increasing offshore funding needs of Mainland enterprises seeking to expand abroad under, for example, the Belt and Road Initiative.

THE TRUSTED INTERLOCUTOR

Hong Kong's gateway role is particularly important in green finance. International investors making green investment in Mainland China face additional complications resulting from differences in green standards and a lack of understanding in the ongoing green compliance of Mainland issuers. Hong Kong is well-positioned to bridge this gap:

- Many internationally renowned green reviewers have a presence in Hong Kong to provide coverage of onshore or offshore green bonds issued by Mainland issuers. By setting up an operation in Hong Kong, these reviewers can combine on-the-ground knowledge of the Mainland market with their robust and internationally recognised green assessment approach, thereby facilitating a more efficient assessment process while giving confidence to international green bond investors.
- Supported by the Hong Kong Government, the Hong Kong Quality Assurance Agency (HKQAA) has developed the Green Certification Scheme, with reference to a number of widely recognised international

⁸ Source: Asian Development Bank

⁹ Source: Bond Connect Company Limited

¹⁰ Source: Asian Development Bank. Figure only includes bonds denominated in G3 (USD / EUR / JPY) currencies, which should make up the majority of Mainland China's foreign currency bond issuance.

¹¹ Source: HKMA

and Mainland standards¹². The scheme leverages HKQAA's experience and track record from its existing certification services, and its familiarity with the Mainland market. The scheme enhances the credibility in green finance and facilitates its further development.

ROBUST GOVERNMENT SUPPORT

In January 2017, the Environmental Bureau published Hong Kong's Climate Action Plan 2030+, setting out a vision to reduce per capita carbon emissions from 6.2 tonnes in 2014 to 3.3-3.8 tonnes by 2030, and to reduce carbon intensity (carbon per unit of GDP) by 65% to 70% by 2030 versus a 2005 baseline. The Action Plan put forward a comprehensive set of measures to reduce emission, including:

- To develop low carbon public transportation
- To invest in infrastructure which enables the supply side energy transition and for climate change adaptation
- To invest in biodiversity conservation
- To promote low carbon consumption and green procurement

In green finance too, the Government is also taking active steps. The Chief Executive of the Hong Kong Government has declared green finance as a priority area, and the Financial Secretary announced in the 2018-19 Budget a series of supportive measures including:

- Pilot Bond Grant Scheme, to subsidise bond issuance in Hong Kong, covering

green bonds

- Green Bond Grant Scheme, to subsidise the use of the HKQAA Green Certification Scheme
- The HKD100 billion Government Green Bond Programme, to create demonstrative effect to attract Mainland and international green issuers and investors to Hong Kong
- Enhancement of the Qualifying Debt Instrument scheme, to provide tax concession for bond investment in Hong Kong

¹²The standards that the HKQAA has referred to in developing its scheme include:

- Clean Development Mechanism under the United Nations Framework Convention on Climate Change;
- Green Bond Principles of the International Capital Market Association;
- The People's Bank of China Announcement No. 39 [2015] and its Annex - Green Bond Endorsed Project Catalogue; and
- ISO 26000:2010 Guidance on Social Responsibility, among others.



Selected examples of green bond issuance in Hong Kong in Jan-May 2018

Issuer	Issue date	Issuance size
Swire Properties	Jan 2018	USD500 million
Modern Land (China) Co., Limited	Feb 2018	USD350 million
Tianjin Rail Transit Group	Mar 2018	EUR400 million
Asian Development Bank	Mar 2018	HKD400 million
Asian Development Bank	Mar 2018	HKD100 million
Beijing Capital Polaris Investment Co Ltd	Mar 2018	CNY630 million
Beijing Capital Polaris Investment Co Ltd	Mar 2018	USD500 million
European Investment Bank	April 2018	USD1.5 billion
World Bank	April 2018	HKD1 billion
Landsea Green Group CO., Ltd.	April 2018	USD150 million
Envision Energy Overseas Capital Co., Ltd.	April 2018	USD300 million
Bank of China Limited, Hong Kong Branch	May 2018	HKD3 billion
Bank of China Limited, London Branch	May 2018	USD1 billion

Note: The list is compiled based on publicly available information as of 31 May 2018. The list is non-exhaustive.