

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

The Financial Secretary announced in the 2021-22 Budget that the Government would consolidate the Pilot Bond Grant Scheme and Green Bond Grant Scheme into a Green and Sustainable Finance Grant Scheme (GSF Grant Scheme) to provide subsidy for eligible bond issuers and loan borrowers to cover their expenses on bond issuance and external review services. As noted in the Budget, details of the GSF Grant Scheme would be announced by the Hong Kong Monetary Authority (HKMA) in due course.

The eligibility criteria and application process of the GSF Grant Scheme are set out below. The HKMA will keep in view market developments and may update or adjust certain details of the GSF Grant Scheme 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 and sustainable bond issuers; and
- II. External Review Costs: covering transaction-related external review fees (e.g. including pre-issuance external review and post-issuance external review or reporting) for eligible green and sustainable bond issuers and loan borrowers, including first-time and repeated issuers and borrowers.

It will commence on 10 May 2021 and last for three years. To qualify for the GSF Grant Scheme, a bond or loan must be issued on or after 10 May 2021.

The English version of the Guideline shall prevail in the event of a conflict with the Chinese version.

## Track I - General Bond Issuance Costs

	<b>Details</b>
First-time green and sustainable bond issuers	<p>First-time green and sustainable bond issuers are issuers<sup>1</sup> that have not issued green and sustainable bonds in Hong Kong in the rolling five-year period prior to the bond’s pricing date<sup>2</sup>.</p> <p>Arrangers of GSF Grant Scheme bonds are not eligible as issuers of the GSF Grant Scheme.</p>
Eligible issues	<p>Eligible issues must satisfy the following criteria:</p> <ul style="list-style-type: none"> <li>• having procured pre-issuance external review services related to the bond issue that is provided by a recognised external reviewer (see <b>Definitions</b> below);</li> <li>• being issued in Hong Kong (see <b>Definitions</b> below);</li> <li>• having an issuance size of at least HK\$1.5 billion (or the equivalent in foreign currency);</li> <li>• being lodged with and cleared by the Central Moneymarkets Unit (CMU) operated by the HKMA in its entirety, or being listed on The Stock Exchange of Hong Kong Limited (SEHK); and</li> <li>• being, at issuance, issued in Hong Kong to (i) 10 or more persons or (ii) less than 10 persons none of whom is an associate of the issuer.</li> </ul>
Grant amount	<p>The grant amount for each green and sustainable bond issue is equivalent to half of the eligible expenses, up to the following limits:</p> <ul style="list-style-type: none"> <li>• HK\$2.5 million where the bond, its issuer or its guarantor(s) possess a credit rating by a rating</li> </ul>

<sup>1</sup> In the GSF Grant Scheme, the term “issuer” denotes the entity issuing a bond and the entity’s associate(s). The term “associate” refers to (i) a person/corporation over which the issuer has control; (ii) a person/corporation which has control over the issuer; or (iii) a person/corporation that is under the control of the same person/corporation as the issuer.

<sup>2</sup> Issuers who have issued only non-green and sustainable bonds during the five-year period will still be eligible.

	<b>Details</b>
	<p>agency recognised by the HKMA<sup>3</sup>; or</p> <ul style="list-style-type: none"><li>• HK\$1.25 million where none of the bond, its issuer or its guarantor(s) possess a credit rating by a rating agency recognised by the HKMA.</li></ul> <p>Each issuer can apply for a grant for two green and sustainable bond issuances at most.</p>
Eligible expenses	<p>Eligible expenses include the following<sup>4</sup>:</p> <ol style="list-style-type: none"><li>1. Fees to Hong Kong-based arrangers</li><li>2. Fees to Hong Kong-based legal advisors</li><li>3. Fees to Hong Kong-based auditors and accountants</li><li>4. Fees to Hong Kong-based rating agencies</li><li>5. SEHK listing fees</li><li>6. CMU lodging and clearing fees</li></ol> <p>Expenses relating to external review services are covered separately under <b>Track II - External Review Costs</b> below.</p>

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<sup>3</sup> The rating agencies recognised by the HKMA are: Fitch Ratings, Moody's Investors Service, Rating and Investment Information, Inc, and S&P Global Ratings.

<sup>4</sup> Expenses covered by another grant scheme(s) in Hong Kong or outside Hong Kong are ineligible.

**Track II - External Review Costs**

	<b>Details</b>
Eligible issuers/ borrowers	Green and sustainable bond issuers and loan borrowers, including first-time and repeated issuers and borrowers.
Eligible issues	<p>Eligible green and sustainable bonds must satisfy the following criteria:</p> <ul style="list-style-type: none"> <li>• having procured pre-issuance external review services related to the bond issue that is provided by a recognised external reviewer (see <b>Definitions</b> below);</li> <li>• being issued in Hong Kong (see <b>Definitions</b> below);</li> <li>• having an issuance size of at least HK\$200 million (or the equivalent in foreign currency);</li> <li>• being lodged with and cleared by the CMU in its entirety, or being listed on the SEHK; and</li> <li>• being, at issuance, issued in Hong Kong to (i) 10 or more persons or (ii) less than 10 persons none of whom is an associate of the issuer.</li> </ul> <p>Eligible green and sustainable loans must satisfy the following criteria:</p> <ul style="list-style-type: none"> <li>• having procured pre-issuance external review services related to the loan that is provided by a recognised external reviewer (see <b>Definitions</b> below);</li> <li>• being issued in Hong Kong (see <b>Definitions</b> below); and</li> <li>• having a loan size of at least HK\$200 million (or the equivalent in foreign currency).</li> </ul>
Grant amount	Full cost of eligible expenses paid to recognised external reviewers, capped at HK\$800,000 per bond issuance/loan.

	<b>Details</b>
Eligible expenses	<p>Eligible expenses include<sup>5</sup> all transaction-related fees for:</p> <ul style="list-style-type: none"><li>• pre-issuance external review (including, for example, certification, second-party opinion, verification, ESG scoring/rating, assurance, consultation to develop the green and sustainable bond/loan framework); and</li><li>• post-issuance external review or reporting.</li></ul>

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<sup>5</sup> Expenses covered by another grant scheme(s) in Hong Kong or outside Hong Kong are ineligible.

## Definitions

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>When assessing an arranger, the HKMA will, based on the information provided in the <u>Arranger Information Form</u>, consider to what extent it has substantial Hong Kong debt capital market (DCM) operations, determined based on 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>When assessing an external reviewer, the HKMA will, based on the information provided in the <u>External Reviewer Information Form</u>, consider whether it has:</p> <ul style="list-style-type: none"><li>• considerable presence in Hong Kong<sup>6</sup>;</li><li>• satisfactory observance of internationally-recognised standards; and</li><li>• proven track records in providing external review services to green and sustainable bonds and loans, especially international issuances.</li></ul>

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<sup>6</sup> The HKMA will consider the current size and functions of its Hong Kong team, its plan for maintaining or expanding its presence in Hong Kong, and other relevant considerations.

## 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 of the invoice date in the case of post-issuance external reviewer costs<sup>7</sup>. Applicants may obtain the Issuer/Borrower Application Form, Arranger Information Form and External Reviewer Information Form from the HKMA via [gsfsgs@hkma.gov.hk](mailto:gsfsgs@hkma.gov.hk). The HKMA will process applications in monthly batches.

### Application for recognition as a recognised arranger

Interested arrangers may obtain and submit the Arranger Information Form to the HKMA via [gsfsgs@hkma.gov.hk](mailto:gsfsgs@hkma.gov.hk). If the form is submitted as part of an application by the lead arranger(s) of a bond, the arranger will be assessed simultaneously with other parts of the application. Alternatively, an arranger may submit the form on its own and seek recognition status before being engaged for a particular bond issuance. The recognition status would be valid for a one-year period, after which the arranger may update the information in its Arranger Information Form to renew its recognition status.

### Application for recognition as a recognised external reviewer

Interested external reviewers may obtain and submit the External Reviewer Information Form to the HKMA via [gsfsgs@hkma.gov.hk](mailto:gsfsgs@hkma.gov.hk). If the form is

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<sup>7</sup> Application for post-issuance external reviewer costs of bonds/loans may also be submitted by the issuer/borrower directly.

submitted as part of an application by the lead arranger(s)/lenders(s) of a bond/loan, the external reviewer will be assessed simultaneously with other parts of the application. Alternatively, an external reviewer may submit the form on its own and seek recognition status before being engaged for a particular bond issuance/loan. The recognition status would be valid for a one-year period, after which the external reviewer may update the information in its External Reviewer Information Form to renew its recognition status.