

Supporting the Central Banks and Supervisors Network for Greening the Financial System Glasgow Declaration

Climate change is one of the most pressing challenges facing the world today. To combat climate change, the Paris Agreement was reached in 2015 to take actions in cutting greenhouse gas emission and eventually achieving carbon neutrality within this century. The financial system has a key role to play in the transition by channelling more financing to activities that are consistent with a pathway towards low greenhouse gas emission and climate-resilient development.

The Hong Kong Monetary Authority (HKMA) is committed to strengthening Hong Kong's financial system to support a greener and more sustainable future, driving actions to support the Government's goal to achieve carbon neutrality before 2050.

To address global issues would require concerted actions. The Central Banks and Supervisors Network for Greening the Financial System (NGFS) has been at the forefront for strengthening the global response and promoting best practices in addressing climate-related issues among the central banking and regulatory community. The NGFS made the [*NGFS Glasgow Declaration*](#) at the 2021 United Nations Climate Change Conference (COP26) to reiterate the willingness to contribute to the global response required to meet the objectives of the Paris Agreement, and the commitment to expand and strengthen collective efforts towards greening the financial system. We support the NGFS declaration, and we are committed to delivering on the NGFS recommendations¹ in taking the necessary measures to foster a greener financial system.

This statement sets out, in accordance with the NGFS recommendations, how the HKMA will incorporate climate considerations in carrying out our main functions in maintaining currency stability within the framework of the Linked Exchange Rate System; promoting the stability and integrity of the financial system, including the banking system; helping to maintain Hong Kong's status as an international financial

¹ In its first comprehensive report « A call for action » issued in April 2019, the NGFS made six recommendations for central banks, supervisors, policymakers and financial institutions to enhance their role in the greening of the financial system and the managing of environment and climate-related risks.

centre, including the maintenance and development of Hong Kong's financial infrastructure; and managing the Exchange Fund.

1. Integrating climate-related risks into financial stability monitoring and micro-supervision

- The HKMA will continue to use NGFS climate scenarios in its internal analysis of climate-related risks relevant to its mandate.
- The HKMA will continue to take into account climate change in our ongoing work in monitoring financial stability risks, and incorporate analyses of climate-related risks in our financial stability report.
- The HKMA will conduct empirical analyses to assess the implications of climate change and related mitigation policies for the financial system.
- The HKMA will continue to promote industry awareness of climate-related issues to inspire banks to develop their approach to managing climate risks, supporting net zero and moving towards green and sustainable banking.
- The HKMA will engage with banks to monitor and understand their work plan and progress in implementing the supervisory requirements on climate risk management.
- Riding on the pilot stress testing exercise undertaken in 2021, the HKMA will continue to assess the challenges faced by banks, provide further guidance and explore measures to assist the industry in addressing gaps in data and risk management capabilities.
- The HKMA will continue to work with other financial regulators, government bureaus and financial market participants under the Green and Sustainable Finance Cross-Agency Steering Group to co-ordinate the management of climate and environmental risks to the financial sector (including promoting the use of climate-focused scenario analysis to assess the impacts on financial institutions under different climate pathways), and to address possible hurdles and constraints.
- The HKMA will continue to align with international practices to embed climate considerations into its regulatory requirements, supervisory framework and supervisory approach.

2. Integrating sustainability factors into own-portfolio management

- The HKMA, as the manager of the Exchange Fund, will continue to support responsible investment and adopt a guiding principle that priority will generally be given to environmental, social and governance (ESG) investments if the long-term risk-adjusted return is comparable to other investments.
- Underpinned by the guiding principle, the HKMA will continue to incorporate ESG factors into its investment processes for both public and private market investments, exercise active ownership via external managers, and collaborate with like-minded investors and international organisations to promote good ESG practices.
- The HKMA will continue expanding its ESG investments covering green, social and sustainability bonds, ESG-themed equity mandates and projects with green and sustainable features.
- With a view to adapting monetary operational framework to reflect sustainability considerations, the HKMA will explore how such considerations can be embedded in evaluating eligible collaterals under the Liquidity Facilities Framework.
- The HKMA will implement climate-related disclosure aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations no later than 2025.

3. Bridging the data gaps

- Riding on the Centre for Green and Sustainable Finance platform, the HKMA will continue working with other financial regulators, Government agencies, industry stakeholders and the academia to understand the data needs, assess data gap, and explore solutions to enhance data availability and analytics capability.

4. Building awareness and intellectual capacity and encouraging technical assistance and knowledge sharing

- The HKMA will continue organising large-scale events, and delivering workshops and training to raise awareness and enhance capacity of the banking industry.

- The HKMA will explore the development of common and transparent competency standards which enable more effective training on green finance for new entrants and professional development for existing practitioners.
- The HKMA will continue organising training for staff to equip them with knowledge on climate change and green finance.
- The HKMA will continue working with the international community, including the International Finance Corporation, to help banks develop the solutions needed to address climate change, focusing on capacity building and knowledge sharing.
- The HKMA will continue to work with other financial regulators, Government agencies, industry stakeholders and the academia to promote cross-sector capacity building, riding on the Centre for Green and Sustainable Finance platform.

5. Achieving robust and internationally consistent climate and environment-related disclosure

- The HKMA will continue to work towards mandatory TCFD-based disclosures in the banking sector by 2025.
- The HKMA will continue working with other financial regulators to make progress towards mandating TCFD-based disclosures across relevant sectors, and support the efforts by the International Sustainability Standards Board under the International Financial Reporting Standards Foundation to develop a new standard which would be built on the TCFD framework.

6. Supporting the development of a taxonomy of economic activities

- The HKMA will continue working with other financial regulators in Hong Kong, with the aim to adopt the Common Ground Taxonomy developed by the International Platform on Sustainable Finance across the financial sectors.

7. Others

- HKMA will continue to put in place sustainability policies and measures in respect of its office operations, and make regular disclosure on its efforts and performance.