

Hong Kong Monetary Authority Green Finance Forum

**Media briefing
7 May 2019**





Green and sustainability - why is it important?

- Climate change has significant impact on our natural environment and society



Source: Reuters



Source: WWF



Green and sustainability - why is it important?

- Global community taking actions to tackle climate change, such as 2015 Paris Agreement
- Transition to low-carbon economy requires a massive reallocation of capital
- Climate change is one of the major risks threatening the well-being of mankind, and the financial sector is no exception



HKMA's strategic framework on green finance

1. A phased regulatory approach to green and sustainable banking;
2. Responsible investment by the Exchange Fund; and
3. Set up a Centre for Green Finance (CGF) under the HKMA Infrastructure Financing Facilitation Office (IFFO) on capacity building



Agenda

- HKMA's strategic framework on green finance
 - 1. Green and sustainable banking**
 2. Responsible investment
 3. Market development and launch of Centre for Green Finance



Green and sustainable banking – not a remote issue for us

- More frequent extreme weather events around the world due to global warming
- With more fierce typhoons, collateral value depreciates, and affecting banks' sustained operations
- Banks need to properly manage climate change risks



Green and sustainable banking – initial findings from survey

Business development

- Banks have certain green assets and issued some green bonds. There is still room for further development
- 60% of surveyed banks have plans to develop green and sustainable banking business, mainly customer-driven

Risk management and disclosure

- Half of surveyed banks have addressed and disclosed climate and environmental risks to different extents
- Major challenges include lack of information and methodologies for measuring and assessing climate and environmental risks

Overall observations

- Different banks have different degrees of readiness for developing green and sustainable banking; bigger banks and international banks are more advanced



Green and sustainable banking – HKMA’s approach

- **Phase I** – raise banking industry’s awareness of green finance, strengthen banks’ management of climate change risks in their loans and other businesses, and develop an assessment framework and baseline in line with international standards
- **Phase II** – consult the industry to set tangible deliverables on green and sustainable finance, and promote green finance reform in the Hong Kong banking industry
- **Phase III** – implement relevant measures, and continuously monitor and evaluate the green progress of banks



Green and sustainable banking – HKMA's engagement with banks

- The HKMA will consult and engage relevant stakeholders in developing the supervisory expectation or requirement
- We are mindful that each bank has its unique circumstances and some banks may be more ready than others
- We intend to develop a flexible framework which allows banks to develop and implement their own action plans proportionate to complexity of their business operations and scale
- The 3-phased approach is an ongoing process that involves continuous development of a framework based on feedback from the industry as well as evolvement of international practices



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Integrating Environmental, Social and Governance (ESG) factors in investment

- Helps the Exchange Fund to seek better risk-adjusted return in the long run
- ESG risk has become too significant to be ignored in investment decisions (e.g. financial risks associated with stranded assets in the transition to low carbon emission environment)
- ESG factors help unveil long-term value in new opportunities (e.g. renewables)
- Priority will generally be given to Green and ESG investments if long-term risk-adjusted return is comparable to other investments



Integrating ESG factors in investment

- Required our HK equities managers to comply with the Principles of Responsible Ownership issued by the Securities and Futures Commission in 2016
- Included ESG factors in the selection, appointment and monitoring of our external managers
- Incorporated ESG factor in our credit risk analysis of our bond portfolio
- Examined ESG policies and practices of our general partners as part of our due diligence of private equity and real estate investment



Investing directly in public market

Past efforts

- Invested in green bonds since 2015, amongst the early investors in this market
- Invested a total of US\$ 2bn in the Managed Co-Lending Portfolio Programme (focused on sustainable projects in emerging markets) run by the IFC

Future initiatives

- Grow the green bond portfolio by (i) direct investment or (ii) investing in green bond funds
- Create ESG-themed mandates in equities investment by (i) adopting ESG equities index as benchmark for passive portfolio and (ii) engaging active equities managers who apply ESG factors



Investing in ESG-related private assets

Past efforts

- Infrastructure – all GPs have developed ESG policies
- Real estate – invested in (i) green buildings and (ii) warehouses with green and sustainable features

Future initiatives

- Source projects with sustainable features
- Include green accreditation (e.g. US' LEED and UK's BREEAM) as a predominant factor for investment in buildings
- Conduct ESG evaluation as a mandatory part of due diligence of all LTGP investments



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Market development initiatives

- The HKMA has been taking a number of concrete actions to drive awareness and development:
 - Co-hosted major conferences with the International Capital Markets Association and the People's Bank of China in 2018
 - Actively reached out to potential green bond issuers to promote Hong Kong's green platform
 - Worked with Climate Bonds Initiative to provide authoritative information on Hong Kong's green bond market





Green finance in Hong Kong

- Hong Kong is one of the world's largest green bond markets by issuance
 - Green bonds arranged and issued in Hong Kong amounted to US\$11 billion in 2018
 - Diverse background of issuers, including multilateral development banks and private sector from Hong Kong, Mainland China and abroad
 - Strong eco-system facilitating more issuances and product development
- Supportive government policies to promote green finance, e.g. Green Bond Grant Scheme, Government Green Bond Programme



THE WORLD BANK



ASIAN DEVELOPMENT BANK



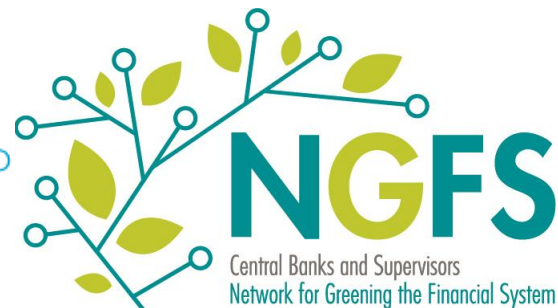
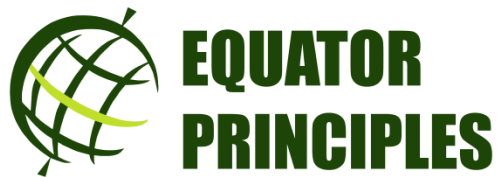


Centre for Green Finance

- Set up a new Centre for Green Finance (CGF) under the Infrastructure Financing Facilitation Office (IFFO)
- A platform for technical support and experience sharing for the green development of the Hong Kong banking and finance industry
- To co-organise the Climate Business Forum with International Finance Corporation (IFC) in Hong Kong in early 2020



International cooperation





Conclusion

- HKMA's strategic framework will support and nurture green finance development in Hong Kong
- Welcome private sector to join in contributing to the combat of climate change risks
- Continue to work closely with the Government and the industry in supporting the growth of green finance in Hong Kong