



The Green Bond Market in Hong Kong

Developing a Robust Ecosystem for Sustainable Growth

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HKIMR Applied Research

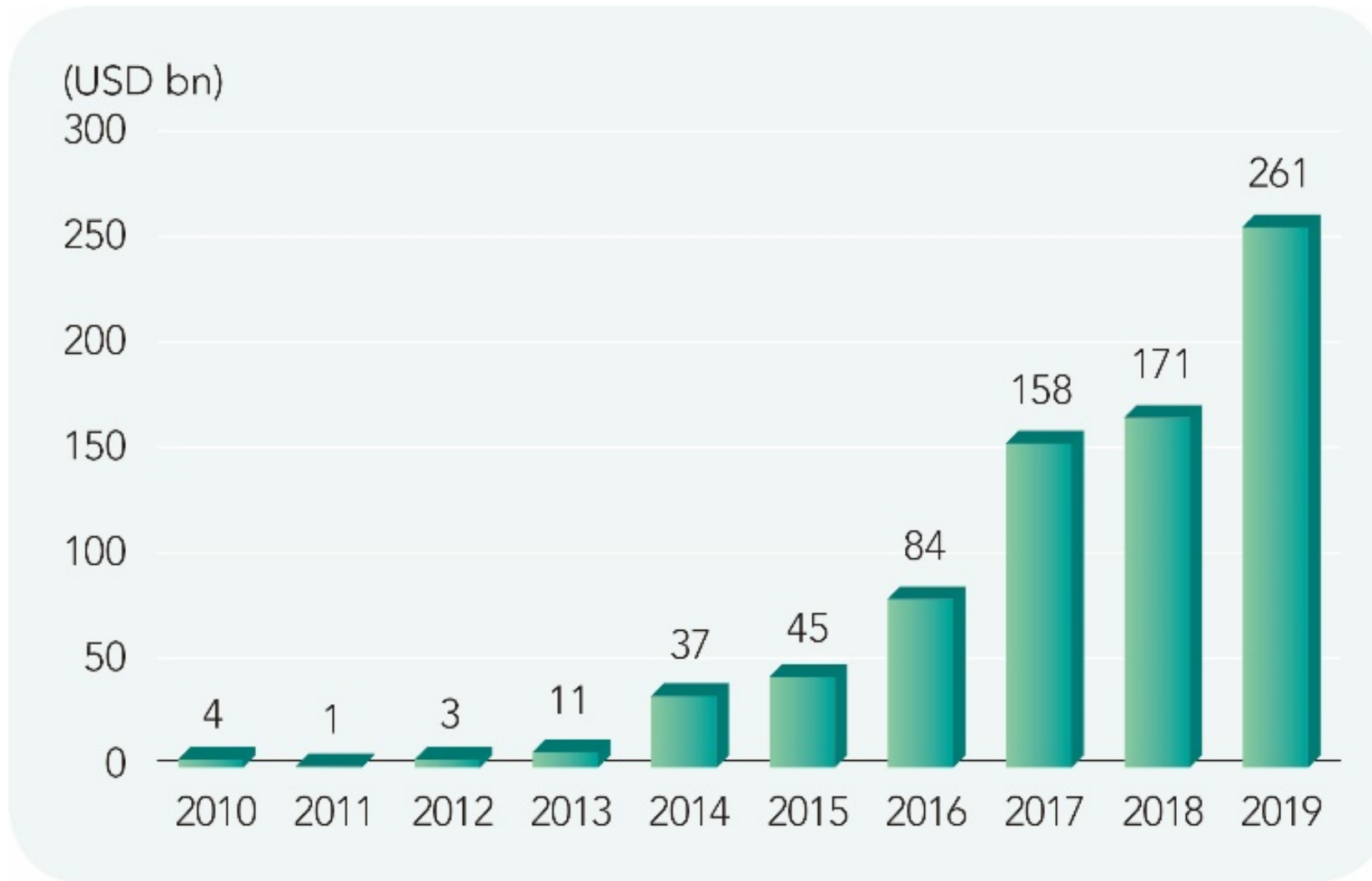
The Green Bond Market in Hong Kong: Developing a Robust Ecosystem for Sustainable Growth

- This report is **the third** in a series of **HKIMR applied financial research reports** on topics that are highly relevant to the **financial industry** and **regulators in Hong Kong**
- The HKIMR is **the research arm** of the **Hong Kong Academy of Finance (AoF)**

Objectives of the Study

- Overview of the state of the green bond markets in Hong Kong and globally
- Assess the benefits of green bonds to issuers and investors
- Gather views and insights from local market participants, highlighting the opportunities and prospects of the green bond market in Hong Kong
- Discuss the strategies to accelerate the development of Hong Kong as a leading international green bond hub

Dramatic Increase in Global Green Bond Issuance since 2013

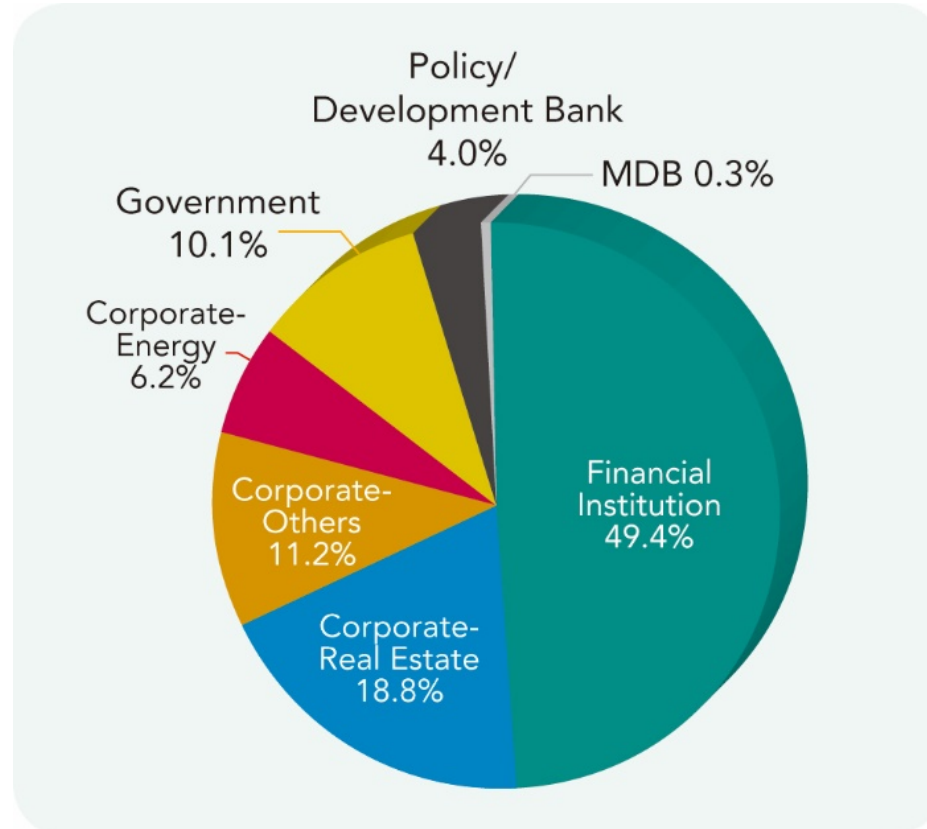


Source: CBI

Green Bonds Arranged and Issued in Hong Kong

- **Cumulative issuance** in Hong Kong amounted to **USD 26bn** by the end of 2019
- **Around half** of green bonds in 2019 were issued by **financial institutions**
- **Mainland entities** were the largest issuers, followed by local issuers and issuers from the rest of Asia and Europe

Breakdown by issuer type in 2019



Note: MDB refers to multilateral development bank.
Source: HKIMR compilation.

Initiatives of the Hong Kong Green Bond Market

- The HKMA and the Securities and Futures Commission (SFC) initiated the establishment of the **Green and Sustainable Finance Cross-Agency Steering Group**
- The **Government Green Bond Programme** is one of the world's largest
- The Hong Kong Quality Assurance Agency (HKQAA) provides third-party conformity assessments for green finance issuers. Subsidies for the HKQAA certification are available through the **Green Bond Grant Scheme**
- The **Sustainable and Green Exchange** (STAGE) is a first-of-its-kind sustainable finance platform in Asia

Benefits to Green Bond Issuers and Investors

For issuers

- Green bonds generally enjoy a **lower cost of borrowing**. The cost reduction is **tangible if they are verified or certified**
- Green bond issuance also leads to **higher equity returns** around the issuance period **when the green bonds are verified or certified**

For investors

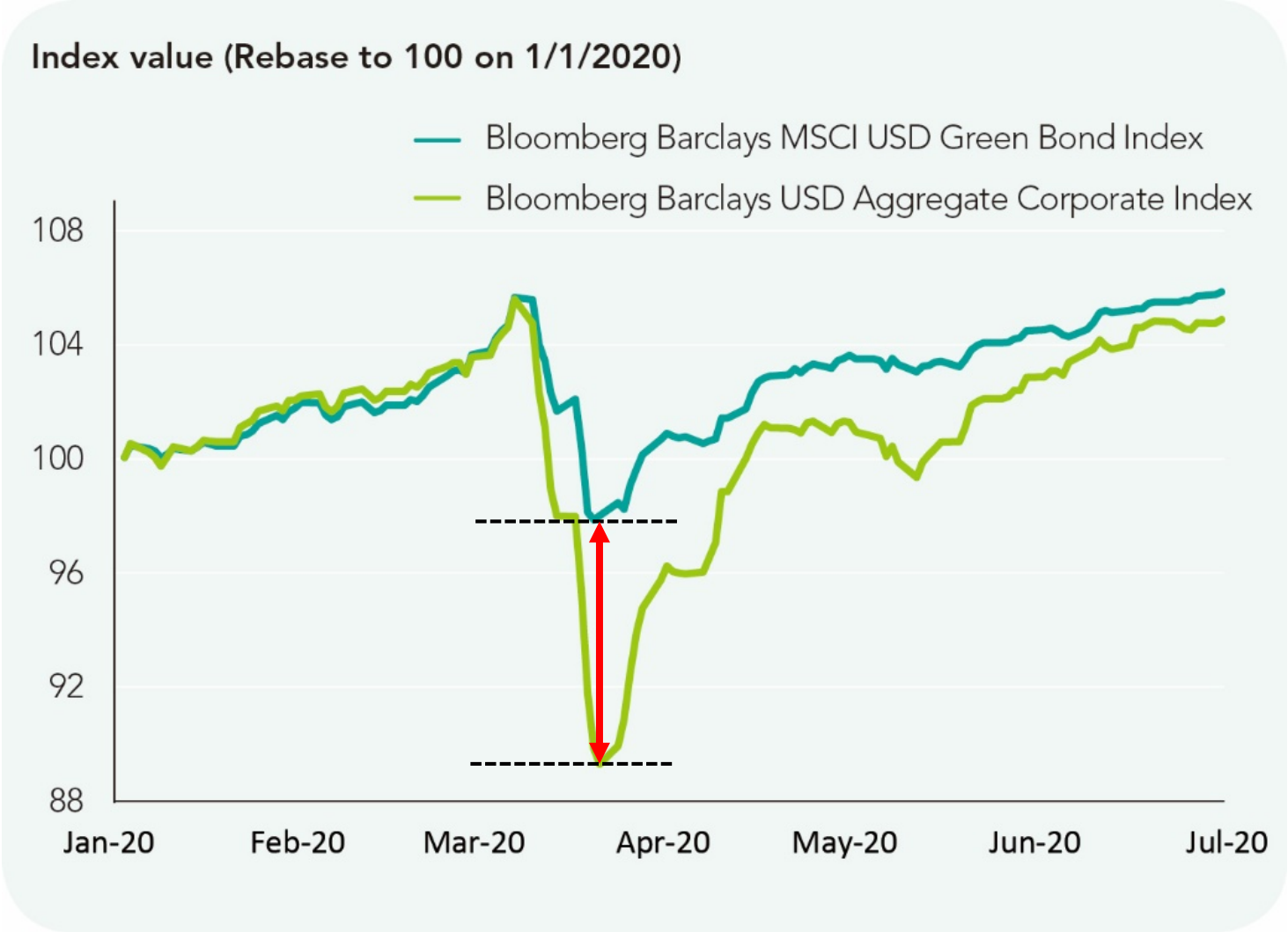
- Accumulating evidence suggests that green bonds may **offer resilience in market downturns**
- During the Covid-19 epidemic, some green bond indices exhibited a **better risk-return tradeoff** than their conventional bond counterparts

Verified/Certified Green Bonds Enjoy Lower Cost of Borrowing



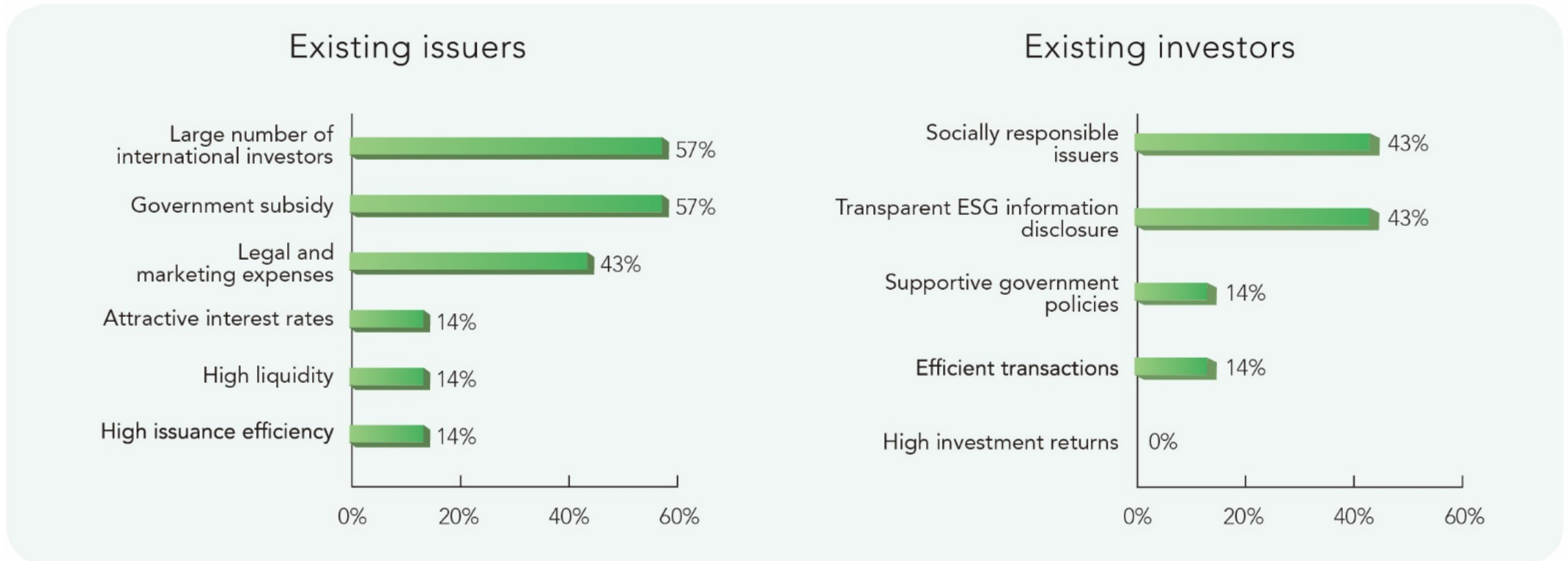
Sources: Moinas and Bao (2020) and HKIMR staff compilation

Green Bonds May Offer Resilience in Market Downturns



Sources: Bloomberg

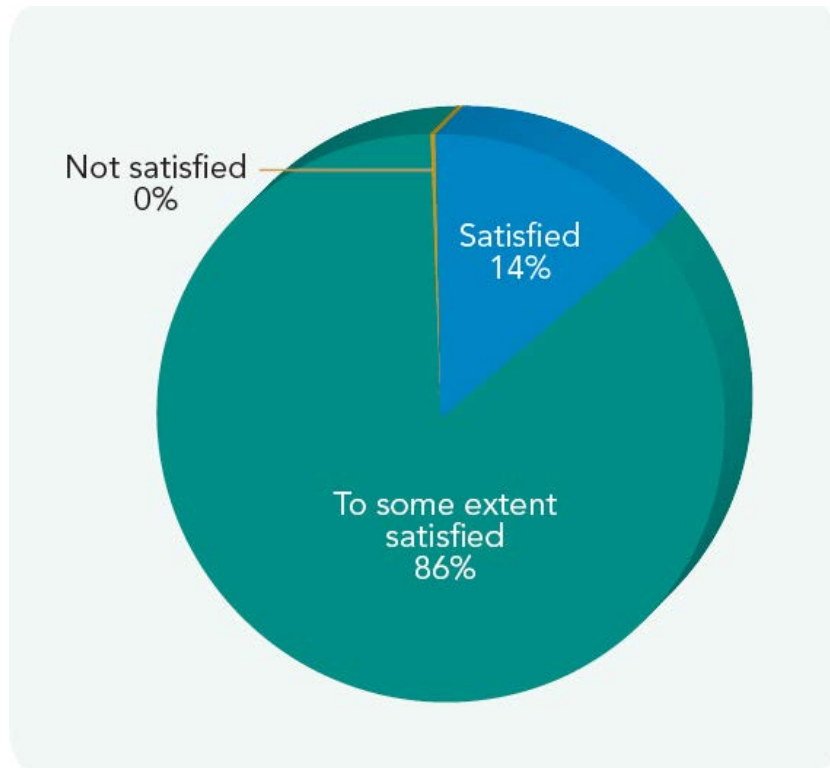
Participants' Views of the Advantages of the Hong Kong Green Bond Market that Motivate Participation



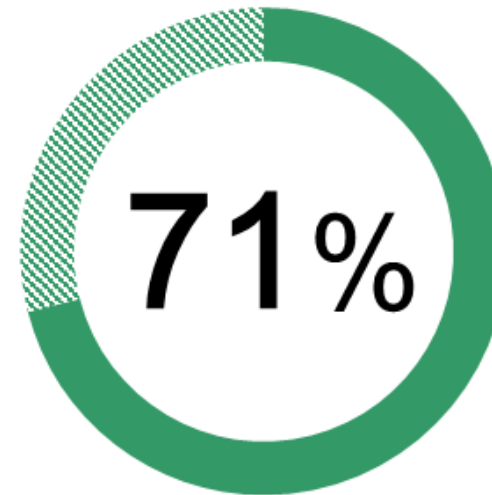
Source: HKIMR staff calculations based on the Green Bond Survey

Existing Market Participants are Satisfied with the Hong Kong Market

Are existing investors satisfied with ESG information disclosure in Hong Kong?



Do you have plans to participate in the Hong Kong green bond market in the future?



Existing issuers



Existing investors

Source: HKIMR staff calculations based on the Green Bond Survey

Challenges Perceived by Hong Kong Market Participants

- Low public awareness about the green bond market
- Financial and time costs involved in the verification and certification procedures
- Lack of unified international green bond taxonomy and standards

Strategies to Encourage Broader Market Participation

- Promote **public awareness** to increase the size of **local green investors**
- Broaden incentive policies to include more generous **tax exemption or reduction** for interest income for green bonds
- Other participants suggest **subsidies to certification by a broader list of recognised certification bodies**

Strategies to Perfect the Green Infrastructure

- Encourage **convergence of international green bond practices**
- Develop a system of **more transparent ESG information disclosure**
- Construct **green bond indices** and promote **green exchange**
- Facilitate **cross-border green bond issuance** for enterprises from Mainland China
- Support **responsible investment** and **government issuance**

Find out more from the full report on

<https://www.aof.org.hk/docs/default-source/hkimr/applied-research-report/gbrep.pdf>

