

# Green and Sustainable Finance

To solidify Hong Kong's position as a regional green and sustainable finance hub, the HKMA has been stepping up its efforts in promoting market awareness and participation, providing the necessary infrastructure and catalysts, and supporting international initiatives and alignment with global standards.



## Green and Sustainable Finance

### Green and Sustainable Finance Cross-Agency Steering Group: a champion of green and sustainable finance market developments

The Green and Sustainable Finance Cross-Agency Steering Group (CASG), which is co-chaired by the HKMA and the Securities and Futures Commission (SFC), co-ordinates the management of climate and environmental risks to the financial sector, accelerates the growth of green and sustainable finance in Hong Kong and supports the Government's climate strategies.<sup>1</sup> The CASG's work mainly follows a strategic plan which sets out six key focus areas and five action points for strengthening Hong Kong's financial ecosystem to support a greener and more sustainable future (Figure 1).

Figure 1

#### The CASG's key focuses and actions



#### Risk management

Strengthen the management of climate-related financial risks to consolidate Hong Kong's position as a global risk management centre



#### Disclosure

Promote the flow of climate-related information at all levels to facilitate risk management, capital allocation and investor protection



#### Capacity building

Enhance capabilities of market participants and raise awareness among the general public



#### Innovation

Encourage innovation and explore initiatives to facilitate capital flows towards green and sustainable causes



#### Mainland opportunities

Capitalise on the opportunities presented by the Mainland to develop Hong Kong into a green finance centre in the GBA<sup>a</sup>



#### Collaboration

Strengthen regional and international collaboration

Actions to date to advance Hong Kong's sustainable finance development:

- Establishing the **Centre for Green and Sustainable Finance** to act as a focal point for cross-sectoral capacity building and a repository of data resources
- Developing local green classification framework in line with mainstream taxonomy frameworks including the International Platform on Sustainable Finance's **Common Ground Taxonomy**
- **Mandatory TCFD<sup>b</sup>-aligned disclosures** across all relevant sectors no later than 2025
- Evaluating the potential adoption in Hong Kong of the IFRS<sup>c</sup> Foundation's **Sustainability Disclosure Standards**
- Exploring **carbon market** opportunities

Notes:

- a. GBA – Guangdong–Hong Kong–Macao Greater Bay Area
- b. TCFD – Task Force on Climate-related Financial Disclosures
- c. IFRS – International Financial Reporting Standards

<sup>1</sup> Co-initiated by the HKMA and the SFC, the CASG was established in May 2020. The other CASG members are the Environment and Ecology Bureau, the Financial Services and the Treasury Bureau, Hong Kong Exchanges and Clearing Limited, the Insurance Authority and the Mandatory Provident Fund Schemes Authority.

## Green and Sustainable Finance

The CASG has been making good progress since its establishment. The current focus areas of the CASG's work include capacity building and data availability under the Centre for Green and Sustainable Finance (see below), taxonomies (see *Developing a green classification framework to facilitate green finance flows* in *Building a Sustainable Financial System* chapter on page 9), climate-related disclosures and sustainability reporting, and carbon market opportunities. Specifically, a preliminary feasibility assessment of carbon market opportunities for Hong Kong was published in March, and the CASG will support the development of Hong Kong into a regional carbon trading centre, including the development of a global high-quality voluntary carbon market, in addition to the related opportunities arising from the Guangdong–Hong Kong–Macao Greater Bay Area (GBA) co-operation.

In December, the CASG announced collaboration with CDP<sup>2</sup> to enhance data availability and sustainability reporting in Hong Kong. As part of the collaboration, a Climate and Environmental Risk Questionnaire for non-listed companies and small and medium-sized enterprises (SMEs) was released to aid their sustainability reporting and facilitate financial institutions' collection and assessment of company-level data for risk assessment and relevant business decisions. This is a key step in broadening the CASG's data effort to include SMEs, an important and previously hard-to-reach segment of the economy.

### Centre for Green and Sustainable Finance: a cross-sector platform to help fill capacity, talent and data gaps

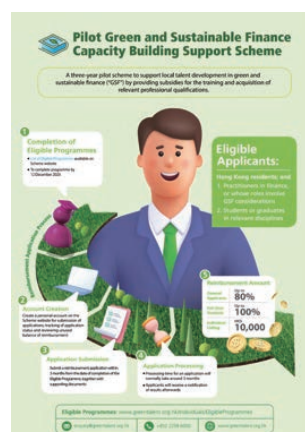
The CASG launched the Centre for Green and Sustainable Finance in July 2021 to co-ordinate efforts of financial regulators, Government agencies, industry stakeholders and academia in capacity building and policy development, and

to serve as a resource and data repository. In the first half of 2022, the Centre launched three repositories on data sources, training information and internship opportunities to support the financial and other relevant sectors in locating useful data and learning resources on green and sustainable finance.



The repository providing data sources for assessing physical risks in Hong Kong

To support capacity building for the industry, the Centre helped the Government to launch in December the Pilot Green and Sustainable Finance Capacity Building Support Scheme, which provides subsidies to market practitioners, students and graduates in taking up green and sustainable finance-related training and capacity building opportunities. Other measures to enhance capacity building include launching the Sustainable Finance Internship Initiative to create more internship opportunities for students, and developing a new module on Green and Sustainable Finance under the HKMA's Enhanced Competency Framework (ECF) for Banking Practitioners<sup>3</sup>.



*Pilot Green and Sustainable Finance Capacity Building Support Scheme*

<sup>2</sup> CDP is an international non-profit organisation that runs the global environmental disclosure system for companies.

<sup>3</sup> The ECF for Banking Practitioners is developed in collaboration with the banking industry and relevant professional bodies, providing a set of common and transparent competency standards required of the relevant professional areas in the banking sector. The ECF also provides a qualification framework for recognition of those practitioners who have completed the necessary training and assessment, and who have acquired relevant working experience.

## Green and Sustainable Finance

### Alliance for Green Commercial Banks: an initiative supporting regional green and sustainable finance development

The HKMA has also been actively supporting regional green and sustainable finance development. In November 2020, the International Finance Corporation (IFC) and the HKMA launched the Alliance for Green Commercial Banks<sup>4</sup> to bring together financial institutions, banking industry associations, research institutions and innovative technology providers in the region to develop a community of green commercial banks.

#### Why launch the Alliance for Green Commercial Banks?

The Alliance aims to unleash the potential of commercial banks and other financial institutions to mainstream green finance as a core business and to promote the involvement of the financial sector in global climate change activities.



#### How does it work?



##### Acting as a knowledge hub and deploying advisory support

Creating a one-stop shop and peer-to-peer learning platform for financial institutions to acquire knowledge, tools and information to develop their own green finance roadmaps and transform into credible green financial institutions



##### Forging a community of practice and innovation

Bringing together the leaders in green finance to develop a community of green financial institutions across emerging markets



##### Promoting investment for green business opportunities

Facilitating dialogue and providing thought leadership to advance the green finance agenda globally, unlocking the trillions of dollars available in green and climate-related investment opportunities

<sup>4</sup> The HKMA is the founding member and first regional anchor for the Asia Chapter.

## Green and Sustainable Finance

In June, five of the world's leading financial institutions<sup>5</sup> have become cornerstone members of the Alliance, working closely with the IFC and the HKMA to advocate client adaptation to green strategies, promote best practices in green products and services, and unlock new business opportunities that will enable the green transition of economies. Also in 2022, three global partners and a knowledge partner<sup>6</sup> have committed to contribute their climate expertise from innovation and standardisation to academic points of view.

More information about the Alliance and its membership structure can be found on its webpage:



Cornerstone members, IFC and HKMA, sign a Memorandum of Understanding

Meanwhile, the Alliance has hosted 18 training and roundtable sessions since March 2021, reaching over 6,000 participants globally across Asia Pacific, Europe, the Middle East, Africa, and the Americas. The Alliance's first thought leadership paper, *Climate Risk: Definitions, Measurement, Current Practices and Regulatory Oversight*, prepared in collaboration with the Hong Kong Institute for Monetary and Financial Research (HKIMR)<sup>7</sup>, was also published in June 2022.

### Green finance solutions: channelling capital to green the real economy

The HKMA has been promoting the issuance of green and sustainable debt and cultivating the local professional service ecosystem. In 2022, Hong Kong witnessed a 42% increase in green and sustainable debt (including bonds and loans) issuance, reaching a total of US\$80.5 billion.

**+42%**

Green and sustainable debt issuance  
(US\$80.5 billion)

<sup>5</sup> They are Bank of China (Hong Kong), Citi, Crédit Agricole CIB, HSBC and Standard Chartered.

<sup>6</sup> The three global partners are The Carbon Trust, The Institute of Public and Environmental Affairs, and the Resource and Environment Branch of the China National Institute of Standardization, and the knowledge partner is the University of Chicago.

<sup>7</sup> HKIMR is the research arm of the Hong Kong Academy of Finance which is set up with full collaboration amongst the HKMA, the SFC, the Insurance Authority and the Mandatory Provident Fund Schemes Authority. The Academy aims to bring together the strengths of the academia, the industry, professional training institutes and the regulatory community to develop financial leadership and promote research collaboration.

## Green and Sustainable Finance

### Green and sustainable bonds

To demonstrate the Government's determination to combat climate change, and the commitment to promoting green finance and developing Hong Kong into a more sustainable and liveable city, the Government Green Bond Programme was launched in 2018. The HKMA assists in implementing green bond issuance under the Programme.

A total of close to US\$16 billion equivalent of green bonds, comprising institutional and retail bonds, have been issued so far with the proceeds allocated to over 40 green Government projects, such as green buildings, waste management and resource recovery, energy efficiency and conservation. To enhance transparency and accountability of the Programme, annual Green Bond Reports have been published, with details on the allocation of the green bond proceeds and expected environmental benefits.

Retail green bonds were issued for the first time in May, to enable the public to participate in and share the fruit of Hong Kong's sustainable development through investment. The HK\$20 billion inaugural retail green bond was well received by the public and was the world's largest retail green bond at issuance. The bond has also broadened the variety of green and sustainable financial products in Hong Kong, reinforcing the city's position as a premier green finance hub both regionally and internationally.

The Government also continued with its regular institutional green bond issuances in the 2022-23 financial year, issuing US\$5.75 billion equivalent of green bonds in January 2023. The triple-currency issuance covered US dollar, euro and renminbi tranches in multiple tenors ranging from two to 30 years, continuing to provide important benchmarks for potential issuers in Hong Kong and the region. The green bonds were well received by the global investment community, drawing new investors who had not participated in previous green bond issuances, affirming investors' confidence in Hong Kong's credit strengths and economic fundamentals in the long term. In particular, the renminbi tranches were doubled to a total size of RMB10 billion to cater for strong investor demand, and has attracted increased participation of international investors as well as Mainland investors through Southbound Bond Connect, demonstrating Hong Kong's position as the leading offshore renminbi hub and further consolidating Hong Kong's leading role as an international finance centre.

The HKMA also assisted the Government to issue a tokenised institutional green bond in February 2023 to test out the use of distributed ledger technology in bond issuance and settlement. This is the first tokenised green bond issued by a government globally. The primary issuance was settled on a T+1 basis across a private blockchain network. Processes of the bond lifecycle, including coupon payment, settlement of secondary trading and maturity redemption, will also be digitalised. The Government's issuance provides a guide for similar future issuances by market participants.

To provide the industry with credible and handy market information, the HKMA continues to collaborate with the Climate Bonds Initiative and the International Capital Market Association (ICMA) respectively, to release annual reports featuring the Hong Kong and regional green debt markets. The ICMA report shows that Hong Kong was the largest centre for arranging international green and sustainable bond issuances in Asia, with a total issuance volume of US\$27.8 billion in 2022, equivalent to over one-third of the regional total.



Largest arranging hub for Asian international green and sustainable bond issuances

# US\$27.8 billion

Following its inaugural issuance in 2021, the Shenzhen Municipal People's Government issued another RMB5 billion of offshore municipal government bonds in Hong Kong in November 2022, including RMB2.6 billion of green and blue bonds<sup>8</sup>. In the same month, the People's Government of Hainan Province also conducted its inaugural issuance of RMB5 billion offshore bonds in Hong Kong, comprising blue and sustainable bonds. These issuances reaffirmed Hong Kong's unique role in facilitating green and sustainable capital flows between the Mainland and the rest of the world, and its long-standing status as the premier fund-raising platform in the region.

<sup>8</sup> The proceeds of the blue bonds will mainly be used for maritime economy and marine protection projects.



## Green and Sustainable Finance

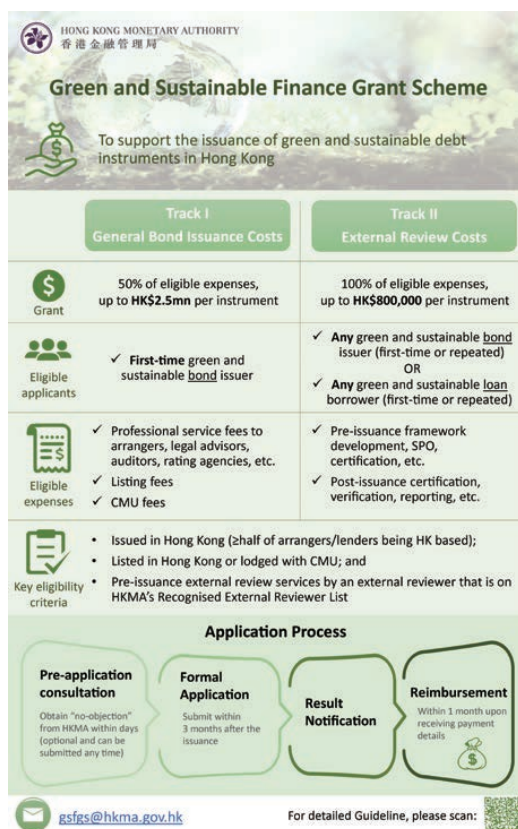
### Green and Sustainable Finance Grant Scheme

The HKMA continues to promote and administer the Green and Sustainable Finance Grant Scheme launched in 2021, and leverages the scheme to attract related professional service providers including financial institutions, green advisors and external reviewers to establish or expand their presence in Hong Kong. The Scheme has been well received by the industry. As of end-2022, the Scheme has covered the issuers' external review expenses – for pre-issuance, post-issuance, or both – of over 180 green and sustainable debt instruments, in support of their efforts to ensure and demonstrate adherence to market best practices and international standards.

Since March, the Scheme has been enhanced through lowering the minimum loan size threshold in respect of external review subsidy from HK\$200 million to HK\$100 million. This is to facilitate smaller-sized corporates in obtaining green financing.

### Greentech

Following the successful proof of concept on the tokenisation of retail green bonds under Project Genesis in 2021, the HKMA collaborated with the Bank for International Settlements Innovation Hub Hong Kong Centre again under Genesis 2.0 to explore the technical feasibility to digitise carbon forwards, also known as mitigation outcome interests (MOIs), to enhance the transparency, objectivity, and environmental integrity of the green bond market. The project was completed in October 2022, with two prototypes developed to track, deliver and transfer digitised MOIs through the use of blockchain and other related technologies.



*The three-year Green and Sustainable Finance Grant Scheme began operating in 2021*