



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

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B9/197C

29 August 2023

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Planning for net-zero transition

I am writing to set out some high-level principles on planning for the transition to a net-zero economy, with a view to assisting banks in maintaining safety and soundness in the transition.

In June 2022, the Hong Kong Monetary Authority (HKMA) issued a circular on its two-year plan to integrate climate risk into its banking supervisory processes.¹ One of the initiatives under the two-year plan is to review the “greenness” assessment framework to better encompass measures taken by banks in managing climate risk, as well as to explore a wider scope, such as transition considerations. Since then, there have been significant developments on the subject of transition planning. Internationally, organisations have published recommendations and guidance on developing, implementing and disclosing transition plans. In addition, in its 2023-24 work programme, the Basel Committee on Banking Supervision (BCBS) stated that it would discuss potential work related to banks’ transition planning.

The HKMA recognises that international practices and discussions on transition planning and transition plans are still evolving. Nevertheless, given the increasing focus on the subject and in the light of the HKMA’s two-year plan, we consider it useful to set out some high-level principles to assist authorized institutions (AIs)

¹ <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2022/20220630e1.pdf>

in planning for a net-zero transition.² We have, based on the findings and recommendations of international bodies,³ identified some high-level principles below. For AIs which are local subsidiaries or branches of foreign banks, while their transition planning is likely to be conducted by their parent or head office, they should ensure that such planning has taken into account, and is applicable to, the AIs' local operation.

- (a) Setting clear objectives and targets: Transition planning can serve different purposes for different AIs. To some AIs, the primary purpose of transition planning is to develop a transition strategy, whereas to other AIs, it is primarily a risk management process. Regardless of the purpose, as a first step, AIs should set objectives that are aligned with a net-zero transition. As an AI's capacity for transition planning improves, it can set quantitative targets. The targets should be aligned with the goals of the 2015 Paris Agreement⁴ and based on science-based pathways.⁵ AIs can make use of scenario analysis to develop or plan its transition strategy or response.
- (b) Setting up a robust governance framework and embedding transition considerations into internal processes: Board and executive oversight and support is important for implementing transition planning. To achieve the transition planning objectives and targets, considerations about an orderly transition should be embedded into internal frameworks such as governance, accountability and risk management frameworks. As

² The HKMA previously shared with the industry some sound practices adopted by banks to support the transition to carbon neutrality in December 2021.

³ Such as:

- (a) the Network of Central Banks and Supervisors for Greening the Financial System (NGFS)'s "Stocktake on Financial Institutions' Transition Plans and their Relevance to Micro-prudential Authorities" (May 2023) https://www.ngfs.net/sites/default/files/medias/documents/stocktake_on_financial_institutions_transition_plans.pdf;
- (b) the Glasgow Financial Alliance for Net Zero (GFANZ)'s "Financial Institution Net-zero Transition Plans: Fundamentals, Recommendations, and Guidance" (November 2022) <https://assets.bbhub.io/company/sites/63/2022/09/Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf>; and
- (c) the Task Force on Climate-related Financial Disclosures' "Guidance on Metrics, Targets and Transition Plans" (October 2021) https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf.

⁴ The Paris Agreement, adopted by 196 countries in 2015, aims to limit the increase in the global average temperature to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels. The other two long-term goals of the Paris Agreement are: (a) to increase the ability to adapt the adverse impacts of climate change and foster climate resilience; and (b) to make finance flow consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

⁵ Examples include the NGFS Net Zero 2050 and the International Energy Agency Net Zero Emissions by 2050. One source of guidance on choosing sectoral pathways is GFANZ's "Guidance on Use of Sectoral Pathways for Financial Institutions" (June 2022) https://assets.bbhub.io/company/sites/63/2022/06/GFANZ_Guidance-on-Use-of-Sectoral-Pathways-for-Financial-Institutions_June2022.pdf.

necessary, transition considerations may also have to be embedded into the AI's business strategies and models, products and services.

- (c) Devising appropriate initiatives and actions to achieve the objectives: The initiatives and/or actions to take forward the transition planning process should be in line with the purposes and objectives. For instance, if the AI's transition planning is strategy-focused, there will likely be a series of actions with quantitative targets and metrics which can help translate the AI's long-term objectives into concrete steps and milestones. Where appropriate, the actions should be underpinned by relevant standards and frameworks, such as the use of taxonomies for identifying green or transition projects. The milestones can serve as checkpoints for the AI to assess its transition progress and gauge whether any update or modification to its planning is needed. Although there may not be such milestones if the AI's transition planning process is largely for risk management purposes, actions should be taken to incorporate transition considerations into the AI's governance and risk management frameworks.
- (d) Engaging with clients: An AI's transition planning and its clients' transition pathways are closely linked. To better understand clients' transition strategies and implement a planning process that is consistent with clients' transition pathways, it is important for AIs to actively engage with and provide support to their clients, for example through collecting relevant information from clients and understanding the risks and opportunities that their clients' sectors may face in the transition to a net-zero economy.
- (e) Performing reviews and updates: Climate scenarios and sectoral pathways evolve over time. It is necessary to ensure that the transition planning process reflects the latest developments and remains relevant, such as through conducting reviews and updates from time to time or when there are fundamental changes to the underlying scenarios, pathways and assumptions, and keeping in view the transition progress of the real economy.
- (f) Maintaining transparency: Given the growing expectations from stakeholders and the emerging requirements on the disclosure of climate-

related information, AIs should consider enhancing the transparency of their transition planning process and/or transition plans.⁶

The above principles may be enhanced subject to developments in the international community, such as any guidance from the BCBS. The HKMA will continue its dialogue with the industry. In particular, the HKMA will conduct a survey on AIs' practices in transition planning, tentatively in the fourth quarter of 2023, with a view to sharing with the industry a range of practices based on the survey results. Furthermore, in our work in embedding climate considerations into the Supervisory Review Process, the HKMA will consider taking into account the benefits of such planning efforts of AIs.

Should you have any questions about this circular, please contact Ms Renita Au (2878-8267) or Mr Warwick Yuen (2597-0933).

Yours faithfully,

Daryl Ho
Executive Director (Banking Policy)

cc: FSTB (Attn: Mr Justin To)

⁶ For example, the climate-related disclosure standard issued by the International Sustainability Standards Board (ISSB) in June 2023 requires disclosure of certain information about transition plans. The BCBS is also working to issue a consultation paper by end-2023 on the Pillar 3 framework for climate-related financial risks seeking to complement, and be interoperable with, the ISSB standards.