

The State of ESG in Hong Kong

12/2022



Hong Kong – Hot spot for green and sustainable finance

Hong Kong is uniquely positioned as a sustainable finance hub and gateway to a multi-trillion-dollar green investment opportunity in Mainland China

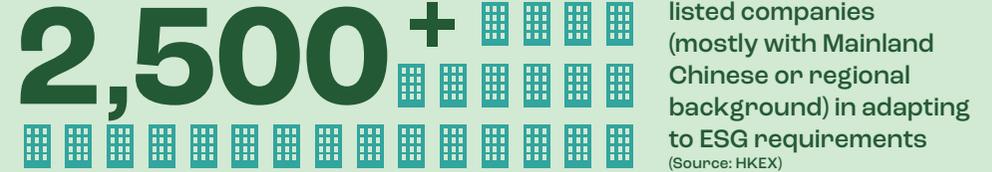
Leading international financial centre

Strong fundamentals support the development of a green and sustainable ecosystem



Robust corporate governance framework and progressive ESG requirements

HKEX supports

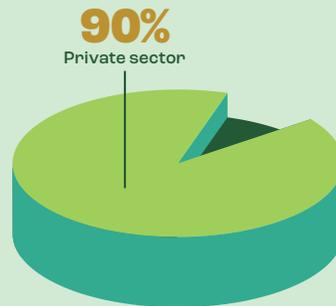


Vibrant and diverse green and sustainable finance industry



Multilateral organisations with green bonds issued in Hong Kong (e.g. World Bank, the Asian Development Bank, the European Investment Bank)
(Source: Climate Bonds Initiative)

Around **90%** of the green and sustainable bonds were issued by the private sector, with real-estate developers and financial institutions each taking up more than one third of the market in 2021
(Source: HKMA)



2nd in CG Watch 2020
(Source: ACGA)

HKEX's Corporate Governance Code and Listing Rule amended to enhance corporate governance standards in Jan 2022
(Source: HKEX)



Gateway to a multi-trillion-dollar investment opportunity

China's green investment market

An estimate of



Hong Kong is positioned as a trusted investment gateway for the international community and the Greater Bay Area

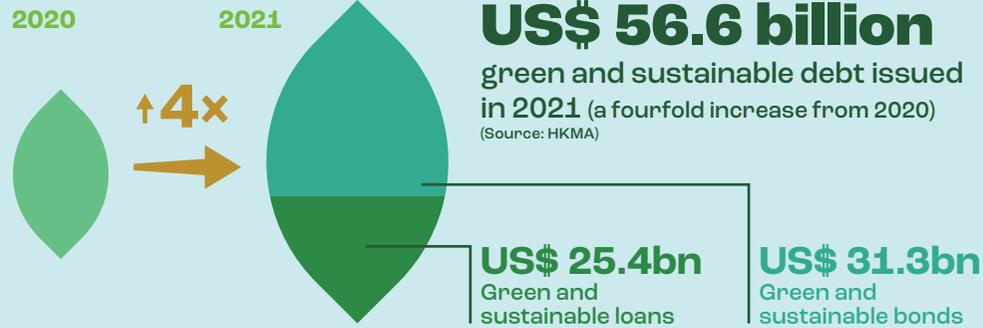
HKEX as the largest listing venue for Chinese offshore green bonds, accounting for



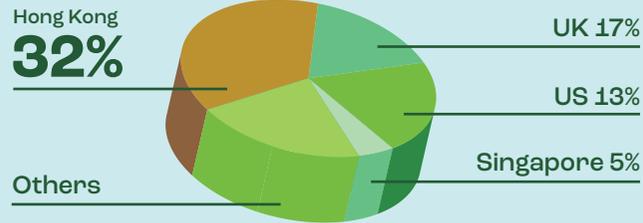
Hong Kong – Hot spot for green and sustainable finance

Hong Kong is an established market for a diversified set of green and sustainable finance products

A rapidly growing green and sustainable debt market –
The location of choice for Asian issuances



The largest arranging hub
for Asian international
green and sustainable
bonds - For 2021, Hong
Kong arranged one-third
of total issuance.
(Source: ICMA)



Strong demonstration effect by
the Government Green Bond Programme

Since 2019
Institutional green bond issuance
> US\$ 7 billion
(as at end July 2022)



Comprising
USD, EUR, RMB
denominated
bonds

(Source: HKMA)

First
30-year
USD green bond
issued by
an Asian
government

May 2022
HK\$ 20 billion
(US\$ 2.6 billion)

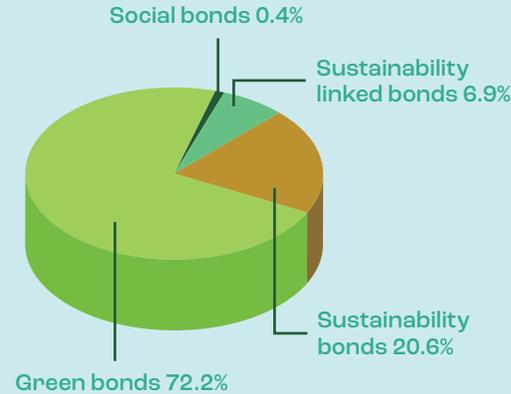
Inaugural retail
green bonds
launched



LARGEST RETAIL
GREEN BONDS
(AT ISSUANCE)

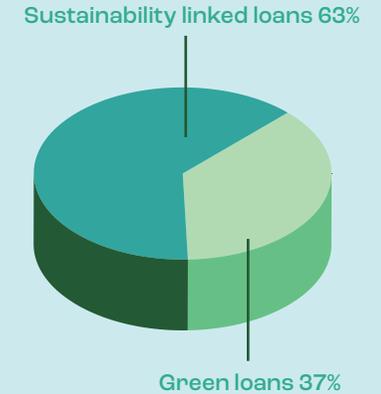
A diversified range of sustainable investment products

2021
Green & sustainable bonds



(Source: Climate Bonds Initiative)

2021
Green & sustainable loans



2020
US\$ 4.2 billion



2021
US\$ 16 billion



The value of sustainability-linked
loans issued in Hong Kong rose by
over US\$12 billion in 2021 (Source: LoanConnector)

Nos. of SFC-authorized ESG funds

Jun 2021
59



Jun 2022
135
(5 of them are ETFs)



The AUM of SFC-authorized ESG funds
reached US\$126 billion in Jun 2022 (Source: SFC)

Foundations of Hong Kong as a Green & Sustainable Finance Centre

Hong Kong's public sector is gearing up for a major ESG push as all pertinent actors have achieved the following milestones collaboratively and proactively.



Capacity building –

A wide range of initiatives covering education, practical guidance and setting up repositories for data and analytics to raise awareness and support capacity building



Regulatory –

Disclosure and reporting standards that align with international best practice being developed and implemented across relevant sectors



Sponsorships/ Incentives –

160+ approved applications for the Green and Sustainable Finance Grant Scheme since the launch in 2021



Market Size/ Products –

Rapidly expanding market with increasing diversity of instruments

Key Enablers	Capacity Building – Talent and Awareness	Regulatory – Disclosure and Standards	Sponsorships/ Incentives	Market Size/ Products
Central Government	Overall strategies → <ul style="list-style-type: none"> ▶ Supporting Hong Kong's development into a green finance centre in the GBA under the Outline Development Plan for the GBA in 2019 ▶ Announced pledge to hit peak carbon emissions before 2030 and to be carbon neutral before 2060 			
Hong Kong Government	Overall strategies → <ul style="list-style-type: none"> ▶ Developing Hong Kong into a green finance centre ▶ Announced in the 2020 Policy Address to strive to achieve carbon neutrality before 2050 ▶ Announced "Hong Kong's Climate Action Plan 2050", setting out the vision of "Zero-carbon Emissions · Liveable City · Sustainable Development" 		<ul style="list-style-type: none"> • Green and Sustainable Finance Grant Scheme to provide subsidy for green and sustainable bonds and loans issued in Hong Kong 	<ul style="list-style-type: none"> • Launch of the Government Green Bond Programme since 2018 for both institutional and retail investors
Gross-Agency Steering Group (CASG)	Overall strategies → <ul style="list-style-type: none"> ▶ Established in 2020 to coordinate the management of climate and environmental risks to the financial sector and support the Government's climate strategies, with three workstreams on regulation, market development, and carbon market ▶ Launched its strategic plan for strengthening Hong Kong's financial ecosystem to support a greener and more sustainable future ▶ Set up the Centre for Green and Sustainable Finance (GSF Centre) to coordinate cross-sector efforts particularly on capacity building and data 	<ul style="list-style-type: none"> • Support the international efforts on climate-related disclosures and reporting 		<ul style="list-style-type: none"> • Explore carbon market opportunities
Hong Kong Monetary Authority (HKMA)	<ul style="list-style-type: none"> • Co-launched the Alliance for Green Commercial Banks with International Finance Corporation (IFC) to jointly launch targeted initiatives to develop a roadmap to mainstream green finance as their core business 	<ul style="list-style-type: none"> • Promote green and sustainable banking by building climate resilience into the banking system • Integrate ESG factors into the investment process of the Exchange Fund 	<ul style="list-style-type: none"> • Administer the Green and Sustainable Finance Grant Scheme 	<ul style="list-style-type: none"> • Assist in implementing bond issuance under the Government Green Bond Programme
Securities and Futures Commission (SFC)	<ul style="list-style-type: none"> • Key positions in international bodies: <ul style="list-style-type: none"> → The Vice-Chair of the Sustainability Task Force of the International Organization of Securities Commissions (IOSCO) → Sustainable finance working group leader of IOSCO's Asia-Pacific Regional Committee → The co-chair of the Corporate Reporting Workstream tasked with evaluating the ISSB 	<ul style="list-style-type: none"> • Facilitating the development of green investments while combating greenwashing: <ul style="list-style-type: none"> → Introduced Strategic Framework for Green Finance in 2018 and issued the new Agenda for Green and Sustainable Finance in August 2022, with three focus areas → Issued enhanced and ongoing disclosure requirements of ESG funds → Amendments to the Fund Manager Code of Conduct on requiring climate related disclosures 		

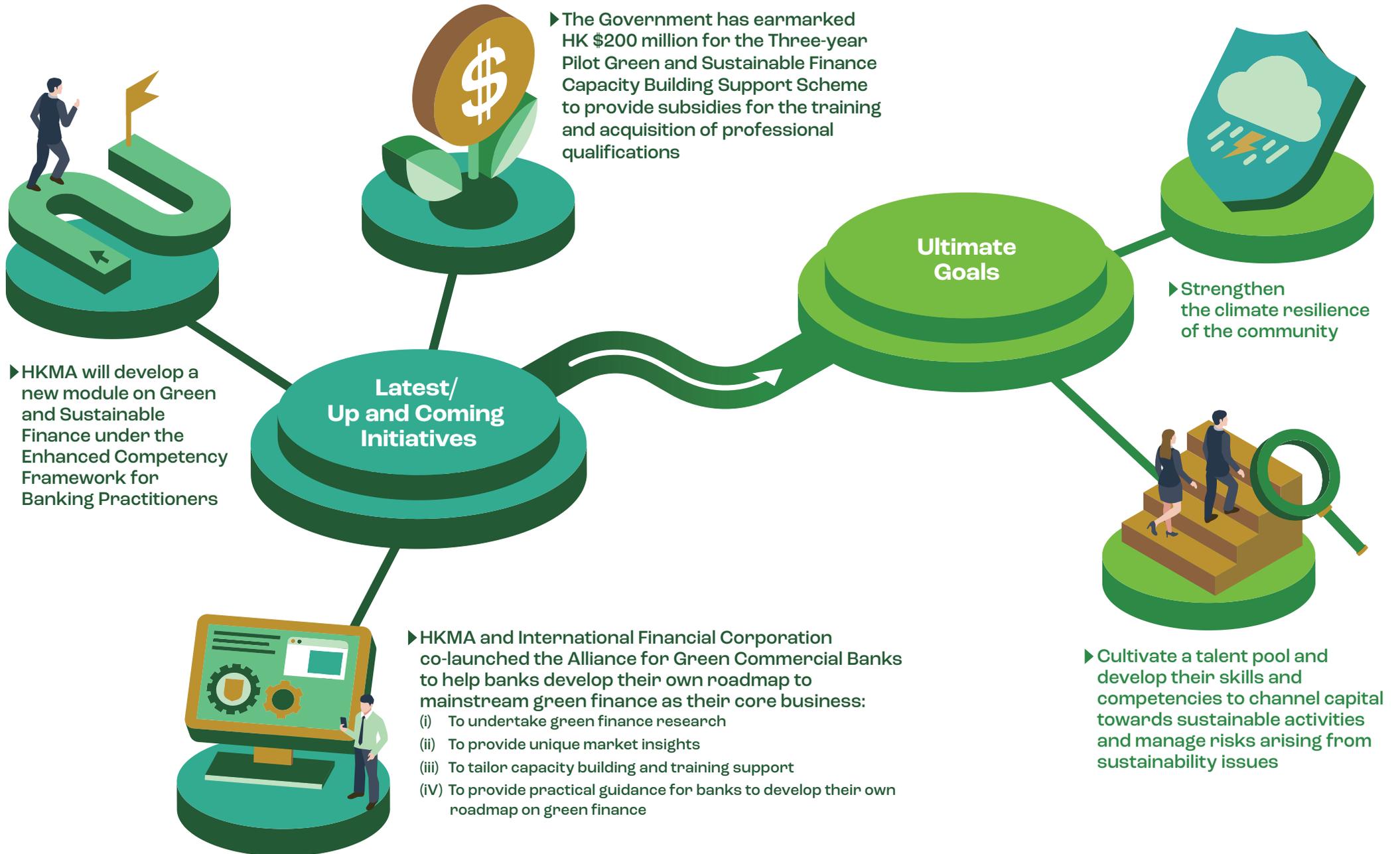
Foundations of Hong Kong as a Green & Sustainable Finance Centre

Key Enablers	Capacity Building – Talent and Awareness	Regulatory – Disclosure and Standards	Sponsorships/ Incentives	Market Size/ Products
Mandatory Provident Fund Schemes Authority (MPFA)	<ul style="list-style-type: none"> • Rolled out capacity building programme for MPF trustees • Internship initiative 	<ul style="list-style-type: none"> • Developed high-level guiding principles for MPF funds in 2021 • Require MPF trustees to disclose ESG integration strategy and implementation progress in annual governance report of MPF schemes • Sustainable investment for MPFA's capital grant 		<ul style="list-style-type: none"> • As of June 2022, 207 out of 412 MPF constituent funds invested in ESG-related investment products (e.g. green bonds)
Insurance Authority (IA)	<ul style="list-style-type: none"> • Work closely with the Hong Kong Federation of Insurers in raising awareness and building capacity for the insurance industry 	<ul style="list-style-type: none"> • Require listed insurance companies to follow the ESG reporting requirements by HKEX • Require insurance companies to integrate climate risk into enterprise risk management framework • Launched simplified and bespoke regulatory regime for special purpose insurers to facilitate insurance-linked securities (ILS) issuance 	<ul style="list-style-type: none"> • Pilot ILS Grant Scheme to attract local, Mainland and overseas issuers of ILS (e.g. catastrophe bonds) 	<ul style="list-style-type: none"> • Introduced Protection Linked Plans with at least one investment choice linked to SFC-authorized ESG funds • First two ILS have been issued in 2022
Hong Kong Quality Assurance Agency (HKQAA)	<ul style="list-style-type: none"> • Provide sustainability rating and research services for Hang Seng Corporate Sustainability Index Series 	<ul style="list-style-type: none"> • Green and Sustainable Finance Certification Scheme is launched to enhance credibility of green products 		
Hong Kong Exchanges and Clearing Limited (HKEX)	<ul style="list-style-type: none"> • Published "Practical Net-Zero Guide for Business" to help guide companies in developing a pathway to net zero • Launched ESG Academy, a centralised portal that provides ESG guidance and educational materials 	<ul style="list-style-type: none"> • Published TCFD-aligned ESG disclosures and corporate governance standards for listed companies in 2021 <ul style="list-style-type: none"> → Adopt a comply or explain approach → Introduce mandatory disclosures on board ESG governance → Amendments to Corporate Governance Code and Listing Rule with board diversity requirement upgraded → "Guidance on Climate Disclosures" provides guidance for issuers to align their disclosures with the TCFD Recommendations 		<ul style="list-style-type: none"> • Partnering with leading corporates and financial institutions to launch the Hong Kong International Carbon Market Council • Launched Core Climate in 2022, a new international carbon marketplace • Partnering with exchanges in Mainland to explore the development of carbon related products and programmes • Launched STAGE in 2020, an online product repository platform
FSDC	<ul style="list-style-type: none"> • At the top of the FSDC's priority agenda and has published four related papers since 2016 			
Private Sector	<p>Overall strategy → Incorporating ESG into business, investment and operational decisions, and promoting product diversification</p>			
Other Stakeholders	<ul style="list-style-type: none"> • Mobilising resources and talent in developing green finance policy recommendations and promoting green finance business (e.g. Hong Kong Green Finance Association) • Research Institutes to promote business sustainability through research (e.g. The Centre of Business Sustainability of the Chinese University of Hong Kong) • ESG analytics firms and index compilers introduce ESG integrated indexes to ensure transparent ESG disclosure (e.g. Hang Seng Corporate Sustainability Index Series) 			
	<ul style="list-style-type: none"> • Advocating through mass communications (e.g. Investor and Financial Education Council) • Offering internationally recognised professional accreditation programme (e.g. EEFAS/ HISED/ FoE) • Launched university degree programme on green and sustainable finance programme (e.g. HKUST) • Technical consultants provide insights on the quantification of climate-related risks and develop common methodology for risk assessment 			

Future development roadmap – *the path to success*



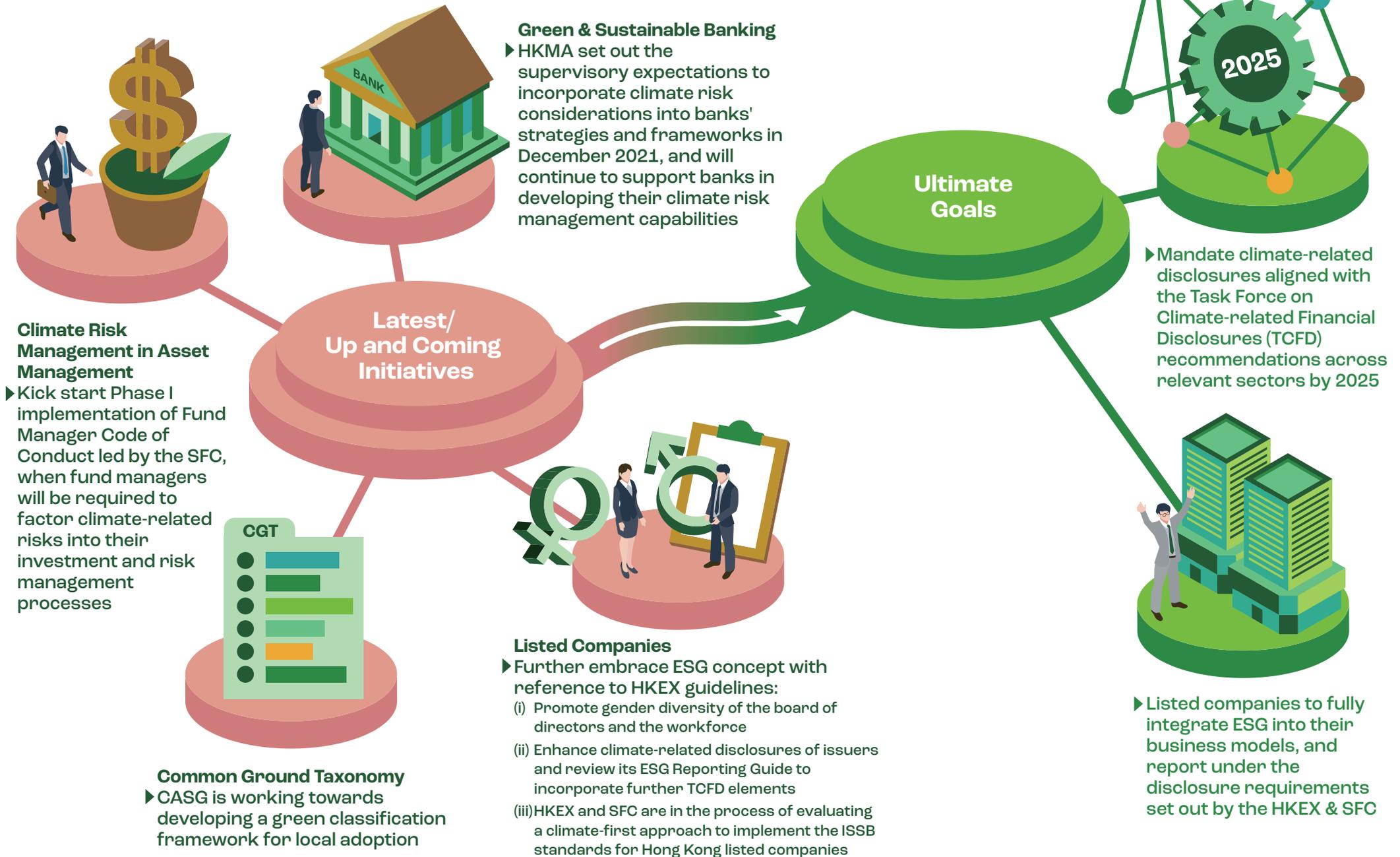
Capacity building (Talent and Awareness)



Future development roadmap – *the path to success*



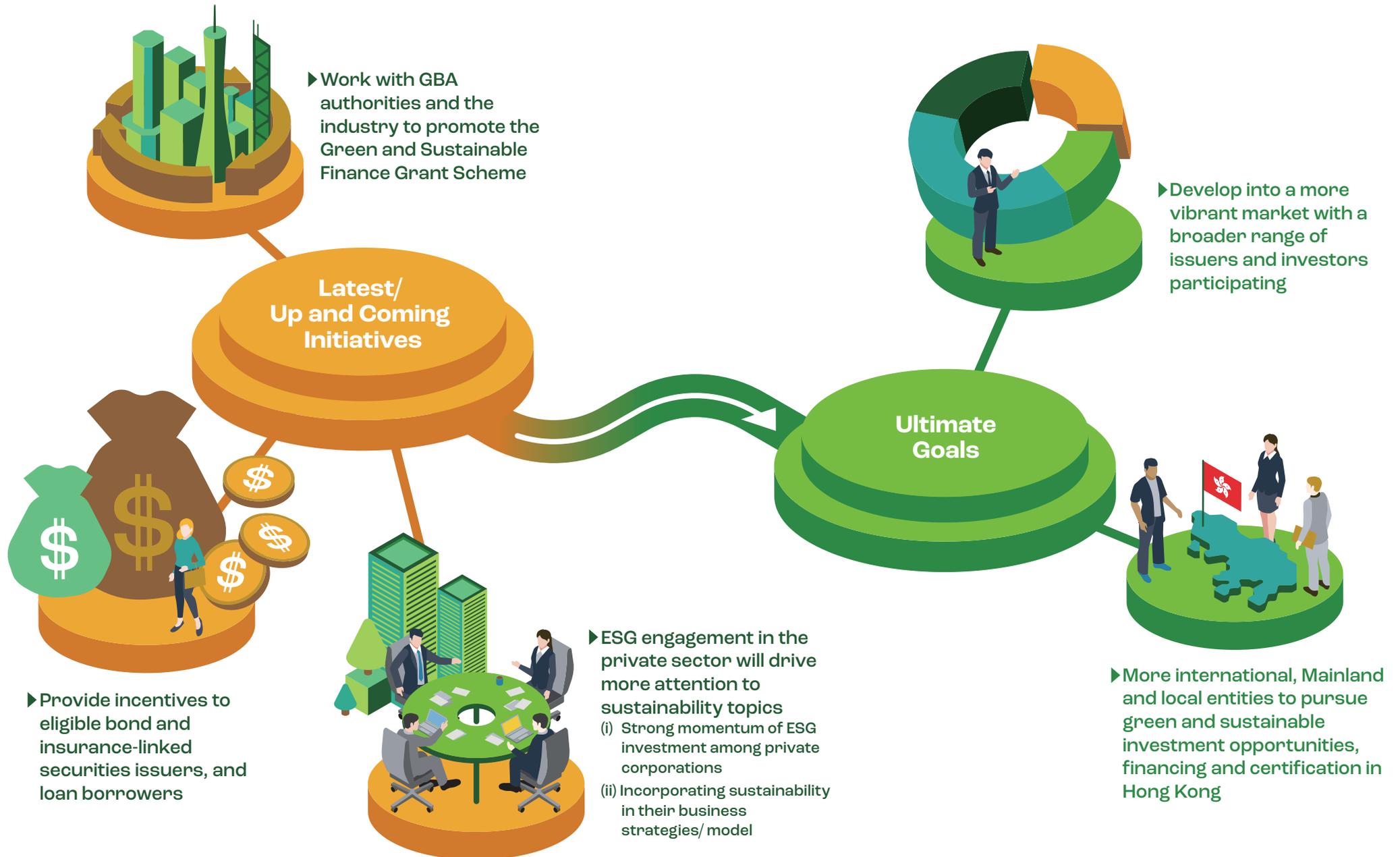
Regulatory (Disclosure and Standards)



Future development roadmap – *the path to success*

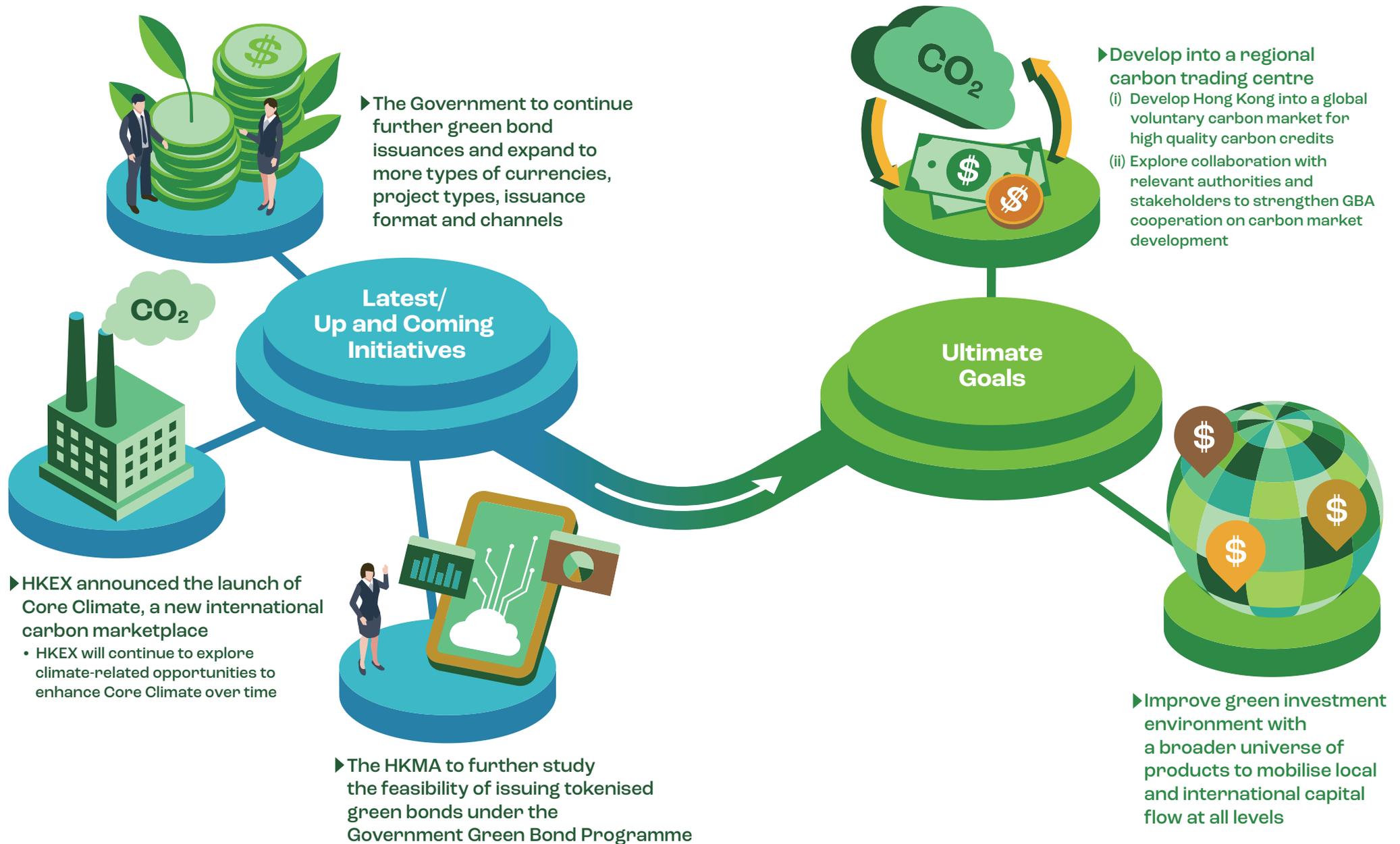


Sponsorships / Incentives



Future development roadmap – *the path to success*

Market Size/ Product



Pivotal role of the private sector

The public and private sectors join hands to develop a robust sustainable infrastructure and investment ecosystem in Hong Kong. All pertinent actors have moved promptly and have been collectively pushing sustainability agenda. Listen to the engaging conversation among ESG luminaries about Hong Kong as a sustainable finance hub. A video series featuring these speakers will be published on the FSDC website.



Ms Yoo-kyung Park

Head of APAC,
Responsible Investment & Governance,
APG Asset Management

‘The public and private sectors in Hong Kong have been working very closely. The city has developed a robust ecosystem and infrastructure for sustainable finance.’



Mr Duncan Lee

Director, Investment Environmental,
Social & Governance,
Group Investment, AIA Group

‘We recognise the importance of addressing ESG issues in the companies that we invested in.’



Mr Gabriel Wilson-Otto

Head of Sustainable Investing Strategy,
Fidelity International

‘I have seen an encouraging shift towards sustainable finance over the last five years in Hong Kong.’



Mr Chi Kit Chai

Senior Industry Executive

‘Hong Kong has the opportunity to become a leading carbon trading hub, connecting global investors with Mainland’s carbon market.’

Pivotal role of the private sector

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Listen to the engaging conversation among ESG luminaries about Hong Kong as a sustainable finance hub. A video series featuring these speakers will be published on the FSDC website.



Ms Liza Jansen

Head of Responsible Investment,
Prudential

‘In Hong Kong, the realisation that climate risk is a financial risk is very apparent. The HKEX offers great options for us to invest in the energy transition, starting with the ESG indices.’



Mr Chi-man Kwan

Group CEO & Co-Founder,
Raffles Family Office

‘Companies of family offices are expanding in a more sustainable and responsible way. Family office in Hong Kong has a big role to play.’



Ms Gillian Meller

Legal and Governance Director,
MTR Corporation Limited

‘More companies are now realising the potential of ESG, and how it can bring tangible and intangible benefits to those corporations if they stick with good ESG practices.’



Mr Martin Murray

Finance Director,
Swire Pacific Limited

‘We see increasing ESG momentum in the city and among private corporations, especially with growing demand for transparency in ESG disclosures.’

Endnotes

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*The Green and Sustainable Finance Cross-Agency Steering Group (CASG) is co-chaired by the Hong Kong Monetary Authority and the Securities and Futures Commission. Members include the Environment and Ecology Bureau, Financial Services and the Treasury Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and the Mandatory Provident Fund Schemes Authority.

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About the FSDC

The FSDC was established in 2013 by the Hong Kong Special Administrative Region Government as a high-level, cross-sectoral advisory body to engage the industry in formulating proposals to promote the further development of the financial services industry of Hong Kong and to map out the strategic direction for the development.

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