

LCQ15: Development of green finance

Following is a question by the Hon Yim Kong and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (April 27):

Question:

There are views pointing out that the development of green finance will enable Hong Kong to fully leverage its advantages as an international financial centre, and contribute to the national strategic goals of achieving carbon emission peak before 2030 and carbon neutrality before 2060 (the twin carbon goals). Some analyses have pointed out that the green and low-carbon investments required by the Mainland for achieving the twin carbon goals can amount to Renminbi (RMB) 100 trillion to 180 trillion, and the Hong Kong Monetary Authority has estimated that the volume of green and sustainable debt issued in Hong Kong in 2021 exceeded US\$50 billion, many of which were RMB green bonds. Hence, the development potentials for green finance in Hong Kong is considerable. In this connection, will the Government inform this Council:

- (1) given that the Government has carried out an assessment on the feasibility of developing Hong Kong into a regional carbon trading centre, whether it has formulated a timetable for setting up in Hong Kong an institution (e.g. an exchange) responsible for handling carbon emissions related trading; if not, of the specific reasons for that, and whether it will commence the relevant planning work;
- (2) whether it will consider providing further subsidies or introducing other concessionary policies with a view to attracting Mainland institutions (particularly enterprises) to issue green bonds in Hong Kong; and
- (3) of the measures in place to grasp the socio-economic opportunities arising from the achievement of the twin carbon goals as well as the green and low-carbon transformation in the Mainland, so as to develop green finance in Hong Kong, thereby further promoting the city's status as an offshore RMB hub?

Reply:

President,

By leveraging our advantages as an international financial centre, Hong Kong can facilitate matching between international capital and quality green projects, contribute proactively to helping our country achieve its "3060 Target" in relation to carbon emission peak and carbon neutrality, as well as propelling Hong Kong towards our carbon neutrality target by 2050 and promoting green transformation of our economy. The development of green and sustainable finance in Hong Kong offers promising prospects.

The reply to the Hon Yim's question is as follows:

(1) Formed by relevant Government bureaux and financial regulators, the Green and Sustainable Finance Cross-Agency Steering Group (Steering Group) published in end March 2022 a preliminary feasibility assessment for Hong Kong to pursue carbon market opportunities and is of the view that Hong Kong's success factor in adding value to global carbon markets lies in our close links with the Mainland, which enables us to facilitate global capital flows into the Mainland's carbon markets. In addition, Hong Kong's green certification services at international level and familiarity with both Mainland and international standards will enable us to serve as a bridge to the world for Mainland which will, in turn, contribute to the development of the carbon market.

Specifically, Hong Kong can leverage the work of the relevant international institution on voluntary carbon markets (VCMs) and financial expertise to develop a centralised and on-exchange VCM, so that buyers of carbon credits from Hong Kong, Mainland and overseas can have an additional and transparent purchase channel. Meanwhile, Hong Kong can be a bridge to the world for Mainland China's carbon credits and the underlying projects under the China Greenhouse Gas Voluntary Emission Reduction Programme administered by the Ministry of Ecology and Environment. Hong Kong is the gateway between the Mainland and international markets and has unique institutional advantages in facilitating international capital flows into the Mainland. Hong Kong should leverage its strengths to proactively assist and integrate into national and the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) developments, which are moving towards a comprehensive green transformation.

Based on the assessment, the Steering Group intends to proceed with the following next steps with a view to developing Hong Kong into a regional carbon trading centre:

(i) develop Hong Kong into a global, high-quality VCM, leveraging Hong Kong's status as a champion of international standards, a facilitator to channel global capital into the Mainland, and an international financial centre with a stable and mature regulatory system;

(ii) collaborate with relevant authorities and stakeholders to work towards establishing the GBA Unified Carbon Market in line with Mainland policies to strengthen GBA co-operation;

(iii) explore opportunities to link up international investors with the GBA Unified Carbon Market and potentially the national emissions trading system; and

(iv) strengthen co-operation with the Guangzhou Futures Exchange (GFEX) on carbon market development to enable Hong Kong to act as the Mainland's offshore risk management centre.

The Steering Group will consider which market and regulatory model would be the most appropriate, and prepare a detailed roadmap, implementation plan and indicative timeline after consulting market experts and relevant authorities.

The Hong Kong Exchanges and Clearing Limited (HKEX) signed a memorandum of understanding (MoU) with the GFEX in August 2021 with a view to driving a green and low-carbon market in the GBA and supporting sustainable development through the promotion of exchanges and co-operation in areas such as clearing, technology, marketing and investor educational efforts. The HKEX also signed a MoU with the Guangzhou-based China Emissions Exchange in March 2022 to explore co-operation opportunities in carbon finance, including jointly exploring the development of a voluntary carbon emission reduction programme in the GBA, with the aim of supporting the country's efforts to peak carbon emissions and reach carbon neutrality; and working together to share research and experience on carbon market financing and global carbon market standards, to help boost the internationalisation of the Mainland's carbon market. Moreover, Hong Kong's first carbon futures exchange traded fund (ETF) was listed on the HKEX on March 23, 2022, which extends the coverage of Hong Kong-listed commodity ETFs to carbon credits, an important asset class in the global drive to achieving carbon neutrality.

In addition, the International Platform on Sustainable Finance published in November 2021 the Common Ground Taxonomy (CGT) report, which could help define what activities are considered to contribute significantly to climate change mitigation as well as reduce the risk of green washing. The Steering Group will, with the aim of aligning with the CGT, explore developing a green classification framework for adoption in the local market which facilitates easy navigation among the CGT, the Mainland's and the European Union's taxonomies, aligning Hong Kong's regulatory standards with international best practice.

(2) As an international financial centre, Hong Kong has a large financial market and a sound world-class regulatory framework, bringing together global leading financial and professional institutions, green assessment and certification bodies as well as international investors. With these strengths and advantages, Hong Kong is well placed to develop into a green finance hub in the region.

Last year, the Shenzhen Municipal People's Government issued offshore Renminbi (RMB) municipal government bonds totalling RMB 5 billion in Hong Kong, including green bonds. In respect of interest paid or profit received arising from the debt instruments issued in Hong Kong by the Shenzhen Municipal People's Government, the Hong Kong Special Administrative Region Government (HKSAR Government) will exempt the payment of profits tax. This is the first time a Municipal People's Government issues bonds in Hong Kong, testifying to the strength of Hong Kong as a platform to issue RMB bonds, including green bonds.

The HKSAR Government launched a new Green and Sustainable Finance Grant Scheme (Grant Scheme) in May 2021 to provide subsidy for eligible bond issuers and loan borrowers to cover their expenses on bond issuance and external review services. The scheme has been well received by the industry. As at early April this year, over 60 applications have been approved under the Grant Scheme, involving a grant amount of over \$70 million. Among the applications approved, many of them involved subsidies for covering the external review costs relating to green and sustainable loans. Lowering the

minimum loan size threshold in respect of applications for subsidies for covering external review costs would facilitate relatively small enterprises in obtaining green financing. Therefore, we have lowered the threshold from \$200 million to \$100 million, with a view to benefitting more enterprises interested in green transformation and promoting the development of green finance in Hong Kong at the same time.

We will continue to take forward the relevant work on green finance through different channels, including maintaining liaison with the Mainland authorities (including the GBA) and promoting the Grant Scheme to encourage more Mainland entities to use Hong Kong's platform for green and sustainable investment, financing and certification. The Qianhai authorities also provide a subsidy of not more than RMB 2 million to Qianhai corporates that issue green bonds in Hong Kong, which will be conducive to attracting more bond issuances in Hong Kong by corporates.

(3) The Central People's Government promulgated the Outline Development Plan for the GBA in 2019, supporting Hong Kong's development into a green finance centre in the region. The Opinion on Providing Financial Support for the Development of the GBA subsequently promulgated in May 2020 encourages more GBA entities to make use of Hong Kong's platform for the financing and certification of their green projects and supports Guangdong incorporated financial institutions to issue green bonds and other green financial products in Hong Kong. Leveraging Hong Kong's strengths as an international financial centre and the gateway between China and the rest of the world, Hong Kong is well positioned to connect the flow of green and sustainable funds with the Mainland and the world to promote green investments and ecological civilisation in the Mainland.

The Government has successfully issued Government green bonds under the Government Green Bond Programme totalling over US\$7 billion equivalent since May 2019, which were well received by the global investment community with oversubscription recorded for many times. In particular, we issued a total of RMB 5 billion green bonds for the first time in November last year, including a 3-year tranche and a 5-year tranche, setting an important benchmark for potential issuers. The Government also announced in February this year the offering details of the inaugural retail green bond for public subscription, of which the issuance was previously postponed due to the epidemic situation. The Government subsequently announced the relaunch of the subscription from April 26 to May 6, 2022 and combining the issuance targets of the last and the current financial years, so as to minimise issuance costs and administrative work. The target issuance size is HK\$15 billion. The Government may further increase the issuance size to a maximum of HK\$20 billion having regard to market conditions. We also doubled the borrowing ceiling of the Government Green Bond Programme to HK\$200 billion last year and will, having regard to the market situation, continue to issue green bonds, including RMB green bonds, to provide a pricing reference for the market.

In addition, the Government plans to launch the Pilot Green and Sustainable Finance Capacity Building Support Scheme to provide subsidies for practitioners in the financial and other relevant sectors to participate in

green and sustainable finance training and obtain relevant professional qualifications, so as to encourage them to enroll in the relevant training, and help build up the local green and sustainable finance talent pool. This will support the industry in capturing green finance opportunities and bring long-term economic benefits to Hong Kong. According to the current plan, the scheme will cover practitioners in the financial services and persons from relevant sectors who need to build up their knowledge in green and sustainable finance. Eligible courses or qualifications to be subsidised will be devised after taking into account views of relevant parties and other places' experiences. The scheme will last for three years with an estimated provision of \$200 million.

We will continue to capitalise on the enormous green finance opportunities presented by the country's green development, work closely with Mainland authorities and the industry, with a view to facilitating more entities to make use of Hong Kong's financial and professional services for green and sustainable investment, financing and certification to support green enterprises and projects in the Mainland. At the same time, we are promoting talent development and capacity building to tie in with the industry efforts on strengthening resilience to climate risks, as well as encouraging more financial institutions, professional service providers and external reviewers to set foot in Hong Kong and enhancing Hong Kong's attractiveness as a one-stop platform, directing green capital to and from the Mainland and promoting RMB internationalisation.