LCQ4: Promotion of green finance

Following is a question by the Hon Chan Chun-ying and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (November 7):

Question:

It is learnt that there were 16 cases of local green bond issuance in the first half of this year, raising funds of US$6.8 billion in total, which was three times the amount for the whole of last year. Some analyses have pointed out that the green industries on the Mainland will have a capital demand of about RMB3 trillion to RMB4 trillion per year during the period covered by the country's 13th Five-Year Plan for the National Economic and Social Development, and the infrastructure projects in the countries along the Belt and Road will have a capital demand of US$1.5 trillion per year between 2016 and 2030, as estimated by the Organization for Economic Co-operation and Development. Such situations have presented opportunities for Hong Kong to develop green finance. In this connection, will the Government inform this Council:

(1) as there are views that there is a need for the Government to set up a green financial system framework comprising clear green standards, specific development guidelines and comprehensive regulations, and at present some 20 countries and regions across the globe have rolled out a green finance development roadmap, whether the Government has considered developing (i) a green financial system framework, and (ii) a green finance development roadmap; if so, of the details; if not, the reasons for that;

(2) as some analyses have pointed out that private capital participation is crucial to the development of green finance, whether the Government has considered, by making reference to the approach of the United Kingdom (UK), financing the establishment of an independent green investment bank to mobilise private capital to invest in green projects; if so, of the details; if not, the reasons for that; and

(3) whether it has considered, by making reference to the experience of countries such as the UK and Germany, boosting the development of green finance through fiscal policies, such as introducing tax concessions, offering profit tax exemption to funds investing in green finance products, as well as granting interest subsidies to green lending products; if so, of the details; if not, the reason for that?

Reply:

President,

Our replies to the three parts of the question are as follow:

(1) and (3) Green finance is a new but rapidly expanding area of financial activities that seeks to bring a positive impact on the environment through

emphasis on social responsibility and sustainable development. Riding on the increasing global demand for green financial products, Hong Kong, as an international financial centre and the global Renminbi business hub, is well-equipped to develop green finance, in particular serving as a premier financing platform for international and Mainland green enterprises/projects in raising funds through issuing bonds and initial public offerings.

The Government is making progress on various fronts to develop and firmly establish Hong Kong as a leading hub for green finance in the region, with focus on the Mainland of China and economies along the Belt and Road. The Government would facilitate and provide the necessary infrastructure and catalyst for jump-starting market developments. We will at the same time build up our international profile on green finance with increased international visibility and proactive promotion targeting audience overseas.

On promoting local certification for green finance products, the Hong Kong Quality Assurance Agency (HKQAA) established a Green Finance Certification Scheme (GFCS) early this year to provide third-party conformity assessments for issuers on their green financial instruments by making reference to a number of international and national standards. Representatives of the Financial Services and the Treasury Bureau and the Environment Bureau attended meetings of the HKQAA's Technical Committee as observers upon their deliberation on the technical details of GFCS. We will continue to support GFCS's implementation and encourage local, Mainland and overseas enterprises to make use of the Scheme and our capital markets for financing their green projects.

Many local, Mainland and international organisations, such as the Asian Development Bank, the World Bank and the European Investment Bank, have made use of Hong Kong to issue green bonds. This attests to the strengths of our competitive capital markets. To attract more green bond issuance and promote market development in Hong Kong, the Government has launched the Green Bond Grant Scheme to subsidise eligible green bond issuers in obtaining certification under the GFCS, as well as the Pilot Bond Grant Scheme to provide grant to eligible enterprises issuing bonds (including green bonds) in Hong Kong for the first time. We have also enhanced the Qualifying Debt Instrument Scheme to provide tax concession for bond investment in Hong Kong. We hope that the Legislative Council would authorise the Government to implement the Government Green Bond Programme as soon as possible by making the proposed resolution under the Loans Ordinance to facilitate the inaugural government green bond issuance, with a view to setting a good example for the green finance market in Hong Kong and attracting more local, Mainland and international investors and financiers to participate therein. Moreover, we are reviewing the tax arrangements applicable to funds and we plan to introduce a legislation by the end of the year, so that different types of both onshore and offshore funds operated in Hong Kong, subject to certain eligibility requirements, can enjoy profits tax exemption for transactions in qualifying assets including securities, futures and shares of private companies, etc. This tax arrangement would be applicable for funds investing in green finance products which can be classified as such qualifying assets.

We would strengthen efforts to publicise Hong Kong's competitive capital markets, highlight our edge in developing green financial products and raise green finance awareness at regional and international forums including the Asian Financial Forum organised in Hong Kong. The Hong Kong Monetary Authority hosted the International Capital Markets Association's Green and Social Bond Principles Annual General Meeting and Conference and a seminar with the People's Bank of China on Mainland-Hong Kong green finance opportunities this June, which altogether attracted some 1 300 market participants.

Furthermore, the Hong Kong Exchanges and Clearing Limited (HKEX) became a Partner of the United Nations Sustainable Stock Exchange Initiative this June, committing to further promotion of sustainable and transparent capital markets. The Securities and Futures Commission published its Strategic Framework for Green Finance this September and looks forward to fostering cross-agency and public-private collaboration to develop green finance, on which it has started discussions with the HKEX, other financial authorities, key stakeholders along the investment chain and the wider financial community.

(2) Most of the large-scale green infrastructure projects in Hong Kong, such as sewage treatment, waste management and district cooling systems, etc., are carried out by the Government. Investors who are interested in financing green projects of the Government can participate in our Government Green Bond Programme. In addition, private organisations can make use of our capital markets to issue green financial instruments. Thus, the market effect of and actual demand for a green investment bank in Hong Kong are limited at the moment.

Moreover, the Government has various initiatives in place to support local environmental and recycling industries and attract private capital to invest in different green projects. For instance, the $1 billion Recycling Fund was launched in October 2015 to provide funding support for the local recycling industry in general or in specific sectors in enhancing their operational standards and productivity. On promoting the development of renewable energy (RE), the Government and the two power companies have introduced Feed-in Tariff Scheme under the post-2018 Scheme of Control Agreements to provide economic incentives for individuals and non-government bodies to invest in RE.