

Opening address by Permanent Secretary for Financial Services and the Treasury (Financial Services) at 2024 China Europe International Business School Innovation Forum (English only)

Following is the opening address by the Permanent Secretary for Financial Services and the Treasury (Financial Services), Ms Salina Yan, at the 2024 China Europe International Business School Innovation Forum themed "Can ESG flourish in China's Greater Bay Area?" and co-organised by the Hong Kong Chinese Enterprises Association, the Asia Society Hong Kong Center and the Caixin Insight today (May 30):

Professor Bournois (Vice President and Dean, Chief Impact Officer and Professor of General Management and Leadership, China Europe International Business School, Professor Frank Bournois), President Zhang (President, Caixin Media, Ms Zhang Lihui), Alice (President, Asia Society Hong Kong Center, Ms Alice Mong), Vice President Zeng (Vice President, Hong Kong Chinese Enterprises Association, Mr Zeng Shendian), distinguished guests, ladies and gentlemen,

Good afternoon. It is my great pleasure to join you this afternoon at the 2024 China Europe International Business School (CEIBS) Innovation Forum held in the fantastic venue of the Asia Society in Hong Kong.

The forum poses a question as its theme of discussion – "Can ESG flourish in China's Greater Bay Area or GBA?". Seemingly straightforward, the answer lies not only in a simple yes or no but also a survey of the "why" and "how". As one of the nine cities in the GBA with a sophisticated commercial set-up and an international capital market, Hong Kong has gone a long way in the ESG (environmental, social, and governance) journey. Flourish is indeed the right word to describe where we are now in adopting ESG in different sectors of our business community, in particular the listed sector. I would like to highlight the latest developments through the aspects of compliance framework, market forces and policy commitment.

Compliance framework

First, on compliance framework, the Hong Kong Exchanges and Clearing Limited (HKEX) has been a pioneer in promoting ESG practices of listed companies. Notably, under the Listing Rules, it requires all listed companies to produce an ESG report annually and has conducted periodic reviews of listed companies' ESG disclosures since 2016. Furthermore, to promote gender diversity in corporate boardrooms, the Listing Rules and the Corporate Governance Code have been amended to phase out single-gender boards by the end of 2024. All new initial public offering applicants are now required to

identify at least a director of a different gender. The revised Corporate Governance Code also contains requirements for periodic corporate board membership refreshment.

On the environment front, great strides have been made for better climate-related disclosure in pursuit of the net-zero goal. The HKSAR (Hong Kong Special Administrative Region) Government issued a vision statement in March this year setting out our vision and approach in developing a comprehensive ecosystem for sustainability disclosure in Hong Kong in line with the ISSB (International Sustainability Standards Board) Standards. As a building block in realising the vision, the HKEX has recently published new climate-related disclosure requirements for listed companies based on the IFRS S2 Climate-related Disclosure for implementation starting January 2025 under a phased approach, taking into account the size of the company and nature of the disclosure, specifically Scope 1, 2, 3 of the Green House Gas (GHG) Emission and non-Green House Gas emission disclosure requirements. With this, our stock exchange will be among the first exchanges in the world to enhance climate-related disclosure requirements based on the ISSB Standards.

Combating climate change and adoption of ESG can go hand-in-hand with business propositions. We are happy to see that industries in Hong Kong are responding positively to sustainable development. For example, to raise the awareness and encourage practice of sustainable development by the Hong Kong business community, the Chinese Manufacturers' Association of Hong Kong has just launched an ESG+ Programme to encourage all sectors to sign the ESG Pledge with a view to improving ESG performance.

Market forces

This leads naturally to my second point on market forces. As Asia's green finance hub, Hong Kong's capital market has been channelling international capital to sustainable projects in Asia to support the region's green transition and ESG causes. As of end last year, 219 ESG funds were authorised by the Securities and Futures Commission with assets under management (AUM) over HK\$1,300 billion (around US\$170 billion), representing a year-on-year increase of 24 per cent and 20 per cent respectively. Impressive growth continues to be recorded in the first few months of this year.

Talking about funds as an investment class, we have widened our legislative framework to allow diversified fund structures. For example, since the introduction of the Limited Partnership Fund (LPF) and the open-ended fund company (OFC) regimes, over 1 100 such funds have been established in Hong Kong. This represents a year-on-year growth of 33 per cent for LPFs, and an astounding 140 per cent growth for OFCs. We also warmly welcome the important initiatives announced by the China Securities Regulatory Commission (CSRC) in mid-April to further expand mutual access between the capital markets of the Mainland and Hong Kong. The measures include expanding the eligible product scope of equity exchange-traded funds (ETFs) under Stock Connect; including real estate investment trusts (REITs) under Stock Connect; enhancing the arrangements for mutual recognition of funds; supporting the inclusion of the Renminbi (RMB) stock trading counter under the Southbound

trading of Stock Connect; and encouraging leading enterprises of industries in the Mainland to list in Hong Kong.

The bond market is equally active. For example, the volume of green and sustainable bonds arranged in Hong Kong topped the Asian market in 2023, accounting for 37 per cent of the total. Since 2019, the HKSAR Government has successfully issued Government green bonds totaling HK\$195 billion equivalent under the Government Green Bond Programme, including retail and institutional in multiple currencies and tenors, raising funds for many local green projects and providing important benchmarks for potential issuers. Over the past three years, the Government Green Bond Programme has issued RMB31.5 billion green bonds, fully demonstrating our ability to combine Hong Kong's unique advantages of being an offshore RMB centre as well as a green bond issuance platform. We also seek to be innovative. In February this year, we successfully issued around HK\$6 billion worth of tokenised green bonds denominated in HK dollar, RMB, US dollar and euro. This is the second tokenised bond issuance following our inaugural issuance in February last year; and is the world's first multi-tranche digitally native green bond.

Policy commitments

Third, on policy commitments. By now you would have a good grasp of Hong Kong's commitment in developing and enriching our ESG ecosystem. Nurturing a strong talent pool is a key part of these efforts. To encourage participation in ESG training, we have launched a three-year Pilot Green and Sustainable Finance Capacity Building Support Scheme for market practitioners and related professionals as well as students and graduates of relevant disciplines. After completing eligible programmes or accomplishing relevant qualifications, applicants can apply for a reimbursement of up to HK\$10,000. As of April 2024, more than 3 000 reimbursement applications have been approved, involving a total reimbursement amount of over HK\$17 million. There are now 63 eligible programmes and qualifications. The list will continue to be updated.

Earlier this month, the Hong Kong Monetary Authority published the Hong Kong Taxonomy for Sustainable Finance (Hong Kong Taxonomy), which provides the industry with a clear and transparent assessment tool for green finance and promotes common understanding on green economic activities. The Hong Kong Taxonomy currently encompasses 12 economic activities under four sectors namely power generation, transportation, construction, and water and waste management. We will work to expand the coverage of the taxonomy to include more sectors and activities, including transition activities.

To equip small and medium enterprises with the means to manage their environmental footprint and encourage market participants to improve sustainable business practices, we launched in February this year a set of GHG emissions calculation and estimation tools for free public access. We will also introduce a proof-of-concept financial support scheme soon to provide early-stage funding support for green fintech to facilitate commercialisation and foster the development of new green fintech solutions.

Greater Bay Area

As you know, at this very moment, our Financial Secretary is leading a delegation to participate in the Bay to Bay Dialogue between the California Bay Area and the Guangdong-Hong Kong-Macao Greater Bay Area, together with delegations from Guangdong Province and the Macao SAR.

With about 87 million in population, over RMB14 trillion GDP and complementary economic activities, we indeed see a lot of room to create synergy with other cities in the GBA. We are grateful to the Central People's Government for its support for Hong Kong's development into a green finance centre in the region, which is clearly set out in the Outline Development Plan for the GBA promulgated in 2019. 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. On this, we thank the Shenzhen Municipal People's Government initiative to issue offshore RMB bonds including green bonds, blue bonds and social bonds for multiple times in Hong Kong since 2021, serving as a concrete model for enterprises in the GBA.

We are also enhancing collaboration with our GBA counterparts in carbon market developments. For example, the HKEX has signed a number of Memoranda of Understanding with relevant exchanges in the GBA, including the Guangzhou Futures Exchange, the Guangzhou-based China Emissions Exchange, and the China Emissions Exchange Shenzhen to explore co-operation in carbon finance, supporting sustainable development and accelerating the carbon market ecosystem development in the GBA.

Knowledge exchange and talent development is another collaboration area that we attach great importance to. We launched the GBA Fintech Two-way Internship Scheme for Post-secondary Students in October 2023 to help students acquire practical work experience in fintech companies in Hong Kong and Mainland cities of the GBA. The Scheme provides more than 150 internship positions with over 30 fintech companies participating in the Scheme.

Closing remarks

Ladies and gentlemen, with the strong policy support from our country, the vast development potential of the GBA, Hong Kong's strengths and advantages as a green finance centre in the region, as well as a rising international awareness of ESG, my answer to the question posed by the Forum is clearly an affirmative one. I look forward to having your wise counsel on ESG and wish you a fruitful event. Thank you.