

Norman T L Chan: Green finance - turning momentum into action

Opening remarks by Mr Norman T L Chan, Chief Executive of the Hong Kong Monetary Authority, at the HKMA Green Finance Forum, Hong Kong, 7 May 2019.

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Distinguished guests, ladies and gentlemen,

1. Thank you all for attending today's Green Finance Forum organised by the HKMA. Since the Paris Agreement was reached in December 2015, international efforts in combating climate change have gathered enormous momentum. When I was in Washington DC last month to attend the IMF Spring Meetings, the IMF Managing Director, Christine Lagarde, in presenting the Global Policy Agenda, highlighted the importance for international collaboration to confront climate risk and what the IMF will do to support this effort. Earlier the Bank of England and Banque de France affirmed their commitment to support and promote green banking. These are welcomed developments because climate change, as we all know, is one of the major risks threatening the well-being of mankind. According to the IMF, in the past four decades, we have witnessed the warmest years on record and the number of natural disasters more than doubled. So we gather today not to debate whether we need to combat climate change but what we, as the key stakeholders in the financial system, can and should do about it.
2. We all appreciate that climate change must be tackled on a global basis and across different sectors of the economy. How the banking and financial system operates will clearly have an impact on the way in which climate risk is managed or reduced. The HKMA, in support of the mission to reduce climate risk and to achieve sustainable finance, would like to launch three sets of measures.

Green and Sustainable Banking

3. In September 2017, I announced seven measures that the HKMA would undertake to bring Hong Kong into the new era of Smart Banking. The main objective of the Smart Banking Initiatives is to promote financial innovation, better customer experience and financial inclusion. What I am going to propose today is to enlarge the ambit of this exercise to "Smart and Sustainable Banking". We all appreciate the damages and economic losses caused by increased frequency and ferocity of natural disasters arising from global warming and climate change. The increased risk of business disruption and adverse impact on collateral value of properties also pose real threat to the banking system. So it is now time for the HKMA and the banking industry to take a more proactive approach to manage climate risk by pursuing "Green and Sustainable Banking". The HKMA will soon issue guidance to the banks in Hong Kong that a three-phased approach will be taken to promote Green and Sustainable Banking:

Phase I – this will entail the development of a common framework to assess the existing baseline of individual banks in order to establish how "green" they are currently. The baseline assessment would include the environmental risk of a bank's lending and other businesses. In this Phase, the HKMA will need to work with the industry to develop a (a) common framework, drawing on the latest international standards and best practices. The HKMA will also, in collaboration with the relevant international bodies, such as the International Finance Corporation (IFC), provide capacity building and training programmes to banks in Hong Kong for better understanding of the green principles and methodology in undertaking the baseline assessment.

Phase II – once we have completed the baseline assessment of banks in Hong Kong in Phase I, the HKMA will engage the industry and other relevant stakeholders in a

- (b) consultation on the supervisory expectation or requirement on Green and Sustainable Banking going forward. The key objective of this Phase is to set tangible deliverables for Hong Kong's banking industry to become "greener" and "more sustainable".

Phase III – once the deliverables have been set, the next Phase is Implementation,

- (c) Monitoring and Evaluation. The success of this Phase depends crucially on appropriate measurement of the "greenness" of the banks and the timely disclosure of progress or the lack of it.

- 4. With the support of the banking industry, I expect Phase I could be completed within around 12 months' time from now.

Responsible Investment

- 5. In the past few years, there has been a significant shift in mind-set amongst asset owners on Green and ESG investments. There has been growing evidence that Green and ESG investments may not lead to a sacrifice in returns. On the contrary, some ESG investments could actually enhance long term sustainability and improve risk-adjusted returns for investors. As the manager for the Exchange Fund, the HKMA takes a long term view and sees Green and ESG investments as an important driver of value in the long term. In this connection, the guiding principle that the HKMA will adopt going forward is that priority can be given to ESG investments if the long term return is comparable to other investments on a risk-adjusted basis. More specifically, the HKMA has taken or will take the following measures to support Responsible Investment:

- (a) we have already incorporated ESG factors in our credit risk analysis of bonds;
 - we have required our external managers of the Hong Kong equity portfolios to comply
- (b) with the Principles of Responsible Ownership promulgated by the Securities and Futures Commission in 2016;
 - we have invested two tranches of US\$1 billion each in the Managed Co-lending Portfolio
- (c) Programme (MCP) run by the IFC. A substantial part of the MCP will target sustainable investments across emerging markets;
- (d) we will further grow our green bond portfolio, through direct investment or investment in green bond funds;
- (e) we will participate in ESG-themed public equities investments through external managers in passive or active mandates targeting ESG benchmark indices; and
- (f) we will accord green accreditation as a predominant factor in investment in buildings in our real estate portfolio.

- 6. Instead of setting a quantitative threshold or target for Green investments, we believe our present approach is a more pragmatic and likely to be a more effective way of promoting Green and ESG investments. We will continue to work with like-minded investors to promote focus on good ESG practices in managing their investments. In the interest of transparency, the HKMA will also consider an appropriate framework for disclosing the Exchange Fund's Green and ESG investment efforts without arousing market sensitivity in the process.

Capacity Building in Green Finance: Centre for Green Finance (CGF)

- 7. Hong Kong is already one of the major green finance hubs in the world. Last year a total of US\$11 billion of green bonds were issued and arranged in Hong Kong. Earlier this morning, the HKMA, as the implementation agent of the HK\$100 billion Government Green Bond Programme, announced that a roadshow will be held for a potential green bond offering. Under the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay

Area, Hong Kong is the designated green finance centre in the Area. With the launch of the Green and Sustainable Banking initiative and the rapid growth of the Green Bond market, Hong Kong possesses enormous potential to become a leading Green Finance Hub in the world. However, in pursuing our aspirations, there is a pressing need to upgrade our capacity and expertise in green finance in the financial industry.

8. With this in mind, the HKMA will set up shortly a new Centre for Green Finance (CGF) under the Infrastructure Financing Facilitation Office (IFFO). The CGF will serve as the focal point for capacity building and experience sharing. As most of you are aware, IFFO has already become an active facilitator for capacity building in infrastructure investments and it would be logical and timely for the new CGF to be set up to promote capacity and expertise in Green Finance. Only yesterday, IFFO co-organised a seminar with the Chinese Ministry of Finance and IFC on ESG and Impact Investing. So the CGF will provide a one-stop shop in capacity building for Green Finance for the financial industry, especially banks, in the coming months. We are already in discussion with the IFC on how to leverage their expertise on this. Furthermore, I would like to mention that the CGF, together with the IFC, will co-organise the next Climate Business Forum in Hong Kong in early 2020. This Climate Business Forum is the IFC's flagship event to discuss trends and business opportunities relating to climate change and sustainability. In addition to green finance, the Forum will also cover topics such as green city, buildings, infrastructure, transportation and energy storage etc. So I look forward to your participation and support of the future activities of the CGF.

Conclusion

9. Ladies and gentlemen, in today's forum, we have arranged two panels, chaired by Eddie Yue and Arthur Yuen respectively, to elaborate on and discuss the initiatives and measures I have just mentioned. It would be useful for us to receive your comments and feedback. These initiatives and measures require persistence, dedication, and collaborative efforts of all the stakeholders: regulators, industry practitioners, international bodies, environmental groups. We must all work together. Thank you very much.