

Eddie Yue: Hong Kong - the Asian hub for sustainable finance

Opening remarks by Mr Eddie Yue, Deputy Chief Executive of the Hong Kong Monetary Authority, at the Euromoney's 2nd Asia Sustainable & Responsible Capital Markets Forum, Hong Kong, 25 June 2019.

* * *

Distinguished guests, Ladies and Gentlemen,

1. I would like to thank Euromoney for inviting me to speak at this 2nd Asia Sustainable and Responsible Capital Markets Forum today. It is indeed an honour to have this opportunity to talk about this important topic, especially here in Hong Kong, where we place a high priority on and direct much effort towards developing our sustainable finance platform.

2. I understand that we will have a very comprehensive programme today, covering not just the potential of sustainable finance in the region and the role of different stakeholders, but also exciting developments of green bonds and other innovative products. Allow me then to focus my remarks on the bigger picture and on three areas in particular:

(i) First, the potential for sustainable finance in Asia;

(ii) Second, Hong Kong's role as Asia's hub for sustainable finance; and

(iii) Third, some of the Hong Kong Monetary Authority (HKMA)'s latest initiatives on this topic.

Potential for sustainable finance in Asia

3. The effects of climate change are already visible around the world: more severe weather events, infrastructure damage, problems with food security, water resources, and even human health. No country or community is immune. According to the International Monetary Fund (IMF), in the past four decades, we have witnessed the warmest years on record and the number of natural disasters has more than doubled.

4. The global community is already taking concrete actions to tackle climate change and there have been many admirable efforts. For example, countries around the world are putting in place policies to implement the 2015 Paris Agreement. In the world of finance, central banks, financial regulators and institutions are increasingly adopting agendas to promote green finance. The IMF has highlighted in its latest Global Policy Agenda the importance for international collaboration to combat climate risk and what the IMF will do to support this effort.

5. Here in Asia, huge investments in green and climate-resilient infrastructure are needed across the region. The Asian Development Bank (ADB) estimates that US\$1.7 trillion per year will be needed through 2030 for the region to maintain growth momentum, eradicate poverty and respond to climate change.

6. There is also growing awareness in the region of the need to ensure not just the level but also the quality of growth. This has forced policymakers to make a fundamental shift towards a more sustainable economic model which is less resource and carbon-intensive.

7. This requires a massive reallocation of capital and substantive involvement of the capital markets. Hence, the momentum of sustainable finance is building up strongly and will continue even more so in the coming years. For the global financial community, sustainable finance is no longer nice-to-have, but a necessary direction. We must therefore ensure that we are prepared to embrace it.

Hong Kong's role as the Asian hub for sustainable finance

8. What role can Hong Kong play in this global effort? Most importantly, it is critical that we use our strengths as an international financial centre to contribute to this endeavour.

9. Hong Kong is already one of the major green finance hubs globally. Last year, green bonds arranged and issued in Hong Kong reached US\$11 billion, up from US\$3 billion in 2017. The issuers included multilateral development banks, such as the ADB and the European Investment Bank, as well as private sector participants from Hong Kong, Mainland China and abroad.

10. In fact, a green finance ecosystem is already taking shape in Hong Kong. Many international green advisory firms and external reviewers have a presence in Hong Kong. They combine on-the-ground knowledge of the Asian market with robust international standards. We also have a local Green Finance Certification Scheme developed by the Hong Kong Quality Assurance Agency (HKQAA) with reference to a number of widely recognised international and Mainland standards.

11. The Hong Kong Government is a strong supporter of green finance, and puts in place supportive policies to promote green finance, such as the Green Bond Grant Scheme, which subsidises the cost of obtaining certification under the HKQAA's Green Finance Certification Scheme, as well as the Pilot Bond Grant Scheme, which covers issuance costs of eligible first-time bond issuers in Hong Kong, including green bonds. Furthermore, under the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area, Hong Kong is also the designated green finance centre in the area.

12. We also have a strong presence of banks and other financial intermediaries with experienced specialists in green finance, and international institutional investors based in Hong Kong who have made strong commitments to green investments.

13. So there is already strong momentum and an ecosystem here. But there is more that we can do.

HKMA's latest initiatives

14. This brings me to my third point on HKMA's initiatives – the HKMA's commitment to fully support green finance to combat climate change. As a bank regulator, one of the largest asset owners globally, and key promoter of market development, we can make use of our various roles and take meaningful actions to support and nurture green finance. We have already been taking a number of concrete actions to drive awareness and development of the market: for example, we co-hosted major conferences last year with the International Capital Market Association, which determines the Green Bond Principles and Social Bond Principles, and with the People's Bank of China to raise awareness and knowledge of green finance in Hong Kong. To grow the market on green bonds, the HKMA has also been actively reaching out to potential green bond issuers. Building on these efforts, and to further promote green and sustainable finance in Hong Kong, the HKMA announced three further sets of measures in May:

15. First, a three-phased approach to promote Green and Sustainable Banking.

(i) In the first phase, we will develop a common framework to assess the existing baseline of individual banks in order to establish how “green” they are.

(ii) The second phase is to engage and consult the industry and other relevant stakeholders to develop our supervisory expectation or requirements, particularly on how to incorporate Environmental, Social and Governance (ESG) risk elements in banks' corporate mandate, risk management practice and financial disclosure. The key objective of this phase is to set tangible deliverables for Hong Kong's banking industry to become greener and more sustainable.

(iii) The third phase will focus on implementation, monitoring and evaluation. During the process,

we will take into account the unique circumstances, risk profiles, nature and scale of business of each bank.

16. The second measure is adoption of the responsible investment principle by the Exchange Fund.

(i) Apart from it being a good cause, responsible investment makes good investment sense. ESG risk has become too significant to be ignored in the investment decision making process. Assets or companies with high ESG risk might see diminishing value over time or even risk becoming “stranded” assets. By integrating ESG factors into investment, we aim to seek better risk-adjusted return in the long run, which is consistent with the objectives of the Exchange Fund.

(ii) While we have been weaving ESG factors into our investment process over the past few years, the HKMA will now adopt a guiding principle that priority will be given to Green and ESG investments if the long term return is comparable to other investments on a risk-adjusted basis.

(iii) Going forward, we will be more proactive in embracing ESG in Exchange Fund investment in both public markets and private assets, for example, by: (a) growing the green bond portfolio by direct investment or investing in green bond funds; (b) on the public equities side, we aim to create ESG mandates by adopting ESG equities index as benchmark for passive portfolio, or by engaging active equities managers who use an ESG filter in equity selection; and (c) in the private markets, we will include green accreditation as a predominant factor for investment in real estate, and will also conduct ESG evaluation as a mandatory part of due diligence of all private markets investments, especially in infrastructure area.

17. The third measure is to strengthen our capacity building efforts by launching the Centre for Green Finance (CGF) under the HKMA Infrastructure Financing Facilitation Office (IFFO).

(i) The purpose of the Centre is to ensure that our financial institutions are equipped with the knowledge, skills, tools and other resources in green finance, particularly with the launch of the green and sustainable banking initiative. The CGF will serve as a one-stop shop in capacity building for the financial industry, especially banks, in the coming months. We are already in discussions with international organisations such as the International Finance Corporation on how to leverage their expertise on this.

18. Apart from these three initiatives, the HKMA helped to issue Hong Kong Government’s inaugural US\$1 billion, 5-year green bond under the Government Green Bond Programme earlier in May.

(i) We have seen strong demand for this issuance, attracting orders exceeding US\$4 billion, allowing the green bond to be priced at a tight spread against the US Treasury at issuance. The issuance has helped to set an important new benchmark for potential green bond issuers in Hong Kong and the region.

(ii) The deal has attracted interests from a diverse group of conventional and green investors. Orders were received from over 100 global institutional investors, and 50% of the Green Bond was distributed to Asia, 27% to Europe and 23% to the United States. By investor type, 29% was distributed to banks, 30% to fund managers, private banks and insurance companies, and 41% to sovereign wealth funds, central banks and supranationals. Based on some rough calculations by our Joint Global Coordinators, about half of the investors participating in our deal could be loosely defined as “green investors”.

19. By going through the issuance process ourselves, along with the help of external parties, we have hopefully showcased to potential green bond issuers, both locally and overseas, that Hong Kong is a convenient platform for issuing green bonds, for three reasons:

(i) Hong Kong has a strong presence of finance and legal professionals, who can advise on all aspects of the bond offering and assist in arranging, managing, co-ordinating and marketing the green bond certification and issuance;

(ii) Hong Kong combines the best market practice from internationally renowned green reviewers and local agencies. For example, we obtained a Second Party Opinion from Vigeo Eiris for the Green Bond Framework and the inaugural transaction under the Framework has also received the “Green Finance Certificate” (Pre-issuance) from the HKQAA; and

(iii) Hong Kong is home to leading international institutional investors, including many of the investors who have made strong commitments to green investments.

20. During the roadshow for the green bond, we were joined by our Environment Bureau colleagues to reach out to overseas investors in major cities such as London, New York, Paris, and Frankfurt, in order to demonstrate to the international community the HKSAR Government’s coordinated commitment to green finance and our broader objective to address climate change risks. We believe the exercise has gone a long way in asserting Hong Kong’s branding as the premier regional green finance hub to the leading institutional investors around the world.

21. To join like-minded peers globally in promoting best practices in green and sustainable finance, we have signed up to or are in the process of joining several international charters or organisations, such as the United Nations-supported Principles for Responsible Investment (UNPRI), Focusing Capital on the Long Term (FCLT), the Financial Stability Board (FSB)’s Task Force on Climate-related Financial Disclosures (TCFD), and the Central Banks and Supervisors Network for Greening the Financial System (NGFS).

22. The HKMA is not alone in driving green and sustainable finance in Hong Kong. For example, the Securities and Futures Commission (SFC) announced its Strategic Framework for Green Finance in September last year and published guidance on enhanced disclosures for green or ESG funds earlier in April. The Hong Kong Stock Exchange also launched a consultation in May on enhancing ESG reporting and disclosure. With these ongoing efforts, we hope to bring sustainable finance in Hong Kong to the next stage.

Concluding remarks

23. Finally, I would like to emphasise that this is just the beginning of a very long journey. While developments in sustainable finance have been encouraging, we are still at the initial phase of development and a lot more still needs to be done. Today’s forum is a most welcome opportunity to help prepare for the future. I look forward to working closely together with all of you in our common effort to develop the sustainable finance market.

24. Thank you.