



Hong Kong

March 2021

## STEERING GROUP ANNOUNCES GREEN AND SUSTAINABLE FINANCE STRATEGY FOR HONG KONG

On 17 December 2020, Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group (the **Steering Group**) published its Strategic Plan to Strengthen Hong Kong's Financial Ecosystem to Support a Greener and More Sustainable Future<sup>1</sup> (the **Strategic Plan**). The Strategic Plan is aimed at consolidating Hong Kong's position as a leading green and sustainable finance and risk management centre and follows Hong Kong Chief Executive Carrie Lam's pledge during a November 2020 policy address to build a low-carbon economy and develop green finance, in a bid to reach carbon neutrality by 2050.<sup>2</sup>

The Strategic Plan has six key focus areas, which are aimed at strengthening Hong Kong's financial ecosystem to support a greener and more sustainable future in the longer term. Separately, the Steering Group also agreed to implement five near-term action points.<sup>3</sup> Ashley Alder, Co-Chair of the Steering Group and CEO of the Securities and Futures Commission (the **SFC**), stated that the plan is aimed at mobilising significant volumes of private investment and will have a major impact globally given the international significance of Hong Kong's capital markets.<sup>4</sup>

### I. Key Focus Areas of the Green Finance Strategic Plan

#### 1. Strengthen the management of climate-related financial risks to consolidate Hong Kong's position as a global risk management centre

The Strategic Plan calls on climate-related risks to be acknowledged as a source of financial risks and urges measures to be implemented to address them, and promotes the development of a climate-resilient financial system. In particular, the plan encourages guiding market participants to take climate-related risks into account as part of their governance, strategy, risk management and investment decision-making and engaging and collaborating with stakeholders in managing these risks. Climate-related risks should also be integrated into regulatory frameworks and supervisory expectations for financial institutions and listed companies.

Asset owners are also encouraged to consider climate related risks when managing funds and selecting external asset managers. This is in line with the SFC's recent consultation on requirements for fund managers to incorporate climate risks into their investment decisions. For more details on the SFC's consultation, please refer to Charltons' November 2020 newsletter.<sup>5</sup>

Additionally, the Strategic Plan aims to promote the use of tools to enhance understanding of the implications of climate change

1 <https://www.sfc.hk/-/media/EN/files/ER/Strategic-Plan-20201215-Eng.pdf>

2 <https://www.policyaddress.gov.hk/2020/eng/p125.html>

3 [https://www.hkex.com.hk/-/media/HKEX\\_Common/Market/Stage/News-Centre/Cross-Agency-Steering-Group-Announcement\\_20201217.pdf](https://www.hkex.com.hk/-/media/HKEX_Common/Market/Stage/News-Centre/Cross-Agency-Steering-Group-Announcement_20201217.pdf)

4 <https://www.info.gov.hk/gia/general/202012/17/P2020121700425.htm>

5 <https://www.charltonslaw.com/sfc-consults-on-climate-risk-requirements-for-fund-managers/>

and align with globally recognised standards, principles and taxonomies to assess sustainability and to avoid greenwashing.

## **2. Promote the flow of climate-related information at all levels to facilitate risk management, capital allocation and investor protection**

The Strategic Plan aims to enhance climate-related disclosure and its communication among market participants and increase the availability of and accessibility to standardised, relevant and credible climate-related data. Currently, companies listed on the HKEx are subject to environmental, social and governance (ESG) disclosure requirements,<sup>6</sup> including disclosures on climate change policies and issues on a “comply or explain” basis.

## **3. Enhance capabilities of market participants and raise awareness among the general public**

Information on sustainability-oriented investment products is currently available on the SFC’s newly established Sustainable and Green Exchange (STAGE) platform.<sup>7</sup> The Strategic Plan aims to build on this by developing a repository of related resources, raising awareness and understanding of green and sustainable finance through industry and stakeholder collaboration, and promoting wider investor awareness through publishing educational content.

## **4. Encourage innovation and explore initiatives to facilitate capital flows towards green and sustainable causes**

The Strategic Plan aims to encourage greater uptake in the green and sustainable finance market through various initiatives and to enhance the scope of the market by facilitating the development and adoption of green and sustainable financial products. The enhancement of listing and trading platforms for these products will be explored. Big data, AI, blockchain and other technologies will also be utilised to support the development of green and sustainable finance.

## **5. Capitalise on the opportunities presented by Mainland China to develop Hong Kong into a green finance centre in the Greater Bay Area (GBA)**

Under the Strategic Plan, the Steering Committee seeks to leverage Hong Kong’s position as an international finance hub to contribute to green development. In particular, it plans to encourage Mainland entities to make use of Hong Kong’s capital markets and financial and professional services for green and sustainable investment, financing and certification. Additionally, the plan hopes to strengthen collaboration with the GBA authorities and seeks to explore the development of a carbon market in the GBA. This comes in addition to the recent formation of the Greater Bay Area Green Finance Alliance.

## **6. Strengthen regional and international collaboration**

Lastly, the Strategic Plan aims to strengthen Hong Kong’s regional and international collaboration by working with regional and global players in promoting best practices in green and sustainable finance and fostering collaboration in order to support the sustainable transition of the regional economy. At present, Hong Kong is involved in multiple collaborative projects and forums, for example the Hong Kong Monetary Authority (the HKMA) and the SFC are members of the International Platform on Sustainable Finance (the IPSF).

## **II. The Five Near-term Action Points**

In addition to the Strategic Plan, the Steering Group also agreed to implement five near-term action plans in order to consolidate Hong Kong’s status as an international green finance centre.

### **1. Climate-related disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations will be mandatory across relevant sectors no later than 2025**

The Steering Group aims to implement mandatory climate-related disclosures aligned with the TCFD Recommendations no later than 2025, with disclosures applying to financial institutions (i.e. banks, asset managers, insurance companies and pension trustees). This builds on the existing climate-related disclosure requirements applicable to HKEx-listed companies. As outlined above, the SFC is also proposing to require fund managers to incorporate climate risks into their investment decisions.

<sup>6</sup> <https://en-rules.hkex.com.hk/rulebook/environmental-social-and-governance-reporting-guide-0>

<sup>7</sup> <https://www.charltonslaw.com/hkex-to-launch-new-sustainable-and-green-exchange/>

## 2. Aim to adopt the Common Ground Taxonomy

The Steering Group aims adopt the Common Ground Taxonomy, which is being developed by the IPSF's Working Group on Taxonomies, to provide a reference point for the definition of economic activities that are classified as environmentally sustainable. The Common Ground Taxonomy is expected to be available by mid-2021.

## 3. Support the International Financial Reporting Standards (IFRS) Foundation's proposal to establish a new Sustainability Standards Board for developing and maintaining a global, uniform set of sustainability reporting standards

In cooperation with regulators in the UK and the EU, the Steering Group will support the IFRS Foundation in developing a global and uniform set of sustainability reporting standards.

## 4. Promote climate-focused scenario analysis

The Steering Group will promote scenario analysis initiatives as part of its efforts to embed climate considerations into financial institutions' business processes and identify any gaps in data and know-how for future enhancement.

## 5. Establish a platform to act as a focal point for financial regulators, government agencies, industry stakeholders and academia

The Steering Group will set up a platform which will serve as a channel to coordinate cross-sectoral capacity building, thought leadership and data exchange. This complements the SFC's newly established STAGE platform as mentioned above.

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