

Latest Developments of Green Finance (1st half of 2020)

This policy update is prepared by the Policy Research and Dissemination Working Group of the Hong Kong Green Finance Association. To read more about the working group, visit:

<https://www.hkgreenfinance.org/working-group/policy-research-and-dissemination/>.

1. Policy, Regulatory and Industry Updates

1.1 Hong Kong

Local Development

- **Cross-Agency Steering Group established:** In May, the HKMA and the SFC launched the Green and Sustainable Finance Cross-Agency Steering Group with five other financial regulators. This group aims to coordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance and support the Government's climate strategies¹.
- **HKMA Common Assessment Framework:** In May, the HKMA issued a self-assessment framework to evaluate an institutions' capacity to address climate and environmental-related risks, enabling the measurement of the "Greenness Baseline" of individual authorized institutions².
- **HKEX announced STAGE:** In June, HKEX announced a comprehensive database platform dedicated to providing investors information on sustainable and green investment options in the Hong Kong's securities market. STAGE phase 1 planned to roll out in the latter half of 2020³.
- **HKMA published White Paper on Green and Sustainable Banking:** In June, the HKMA published the white paper to provide background on climate and environmental issues in addition to the regulator's initial thoughts on its supervisory approach to addressing climate-related issues, and to a lesser extent, broader sustainability issues⁴.

Transformative Dialogue

- **Greater Bay Area Green Finance Alliance pre-launch meeting:** In January, Greater Bay Area (GBA) government officials, green finance committees, project owners and industry professionals joined forces at the China Commission Exchange Shenzhen office to strategize a platform for policy research and incubate green investments to decarbonize the region. Of the 5 key projects discussed, 3 will be led by Hong Kong including the Green Buildings Project, Blockchain Solar Project and Carbon Trading⁵.
- **2020 Green and Sustainable Finance Opportunity workshop:** In January, the HKGFA and Hong Kong Trade Development Council co-organized a workshop at the 13th Asian Financial Forum which highlighted plans to establish the GBA Green Finance Alliance, opportunities in developing green buildings and the blue economy, fulfilling funding gaps, the latest HKSAR government policy support and Hong Kong's role in the regional green and sustainable finance opportunities⁶.

¹ <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2020/05/20200505-8/>

² <https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200513e1.pdf>

³ <https://www.hkex.com.hk/eng/stage/index.htm>

⁴ <https://www.hkma.gov.hk/media/chi/doc/key-information/guidelines-and-circular/2020/20200630c1a1.pdf>

⁵ <https://www.hkgreenfinance.org/the-greater-bay-area-green-finance-alliance-pre-launch-meeting/>

⁶ <https://www.hkgreenfinance.org/asia-financial-forum-2020-green-and-sustainable-finance-opportunity/>

1.2 Mainland China

Local Development

- **Greater Bay Area Green Finance Alliance pre-launch meeting:** Shenzhen will lead decentralization of solid waste management, while Guangzhou leads a green supply chain project primarily focused within the automobile industry⁷.
- **China Green Bond Endorsed Projects Catalogue released:** In May, the People’s Bank of China, the China Securities & Regulatory Commission and the National Development & Reform Commission announced an updated catalogue for eligible projects in China’s green bond market, where “clean coal” is excluded from eligibility of Chinese green bonds⁸⁹.

International Dialogue

- **Shanghai-Singapore Financial Co-operation:** In June, Mr. Ravi Menon, Managing Director of the Monetary Authority of Singapore acknowledged that green finance would be an important collaboration area for the continued bi-lateral relationship. Suggested the co-development of frameworks for green and sustainability-linked loans for Chinese and Singaporeans SMEs while adopting innovative FinTech solutions¹⁰.
- **Virtual events on China Green Bond Market:** In June, the Climate Bonds Initiative (CBI) hosted several virtual events to launch their research report on the Chinese Green Bond Market in 2019. The fourth annual report covered key insights on developments in Chinese green finance with US\$55.8B issued in 2019 and policy recommendations moving forward¹¹.
- **The State and Effectiveness of the Green Bond Market in China published by the Climate Policy Initiative:** In June, the CPI published a report that found a lack of diversity in Chinese green bond market participation, evaluated environmental impact, addressed current regulatory framework, and presented recommendations on how the market could operate more efficiently¹².

⁷ <https://www.hkgreenfinance.org/hong-kong-guangdong-macau-to-join-forces-to-reduce-carbon-emissions-in-greater-bay-area/>

⁸ <https://www.reuters.com/article/us-china-environment-finance-idUSKBN2350FW>

⁹ <https://www.climatebonds.net/files/files/China-Green-Bond-Catalogue-2020-Consultation.pdf>

¹⁰ <https://www.bis.org/review/r200619a.htm>

¹¹ <https://www.climatebonds.net/2020/06/china-green-bond-market-2019-report-china-cements-position-leading-market-usd558bn-issued>

¹² https://greenfinanceplatform.org/State%20and%20Effectiveness%20Chinese%20Green%20Bonds_.pdf

1.3 Global Markets

- **European Green Deal Investment Plan proposed:** In January, the European Commission (EC) aimed to mobilize €1T of sustainable investment over the next decade by initially using public funds to help unlock private funds through EU financial instruments¹³.
- **The UK Stewardship Code revised:** In January, the Financial Reporting Council of the UK integrated outcome based ESG factors to strengthen its Code which consists of 12 principles for asset managers and owners, and six principles for financial service providers¹⁴.
- **European Securities and Markets Authority Strategy on Sustainable Finance:** In February, the ESMA published the Strategy on Sustainable Finance, which will take ESG factors into account across all activities, monitor and assess ESG-market developments and risks, and include environmental systematic risk in its stress test scenario¹⁵.
- **Australia publishes climate risk reporting guidance:** In February, Governance Institute of Australia released a guide on climate risk reporting to provide practical assistance to Australian Stock Exchange listed companies and steps for reporting against the TCFD framework¹⁶.
- **The UK proposes rule to report against TCFD recommendations:** In March, the Financial Conduct Authority of the UK proposed a rule that would require companies with a premium listing to report against the TCFD recommendations on a comply or explain basis¹⁷.
- **EU Sustainability Disclosures Regulation:** In March, the EU introduced new requirements on the sustainability-related disclosure obligation for the financial services sector¹⁸.
- **German Sustainable Finance Committee issued interim report:** In March, the Sustainable Finance Committee of the German Government laid out 53 draft recommendations addressing the German public sector, real economy and financial market participants¹⁹.
- **France published new guidelines on disclosure for investors:** In March, the French Financial Market Authority published new guidelines for sustainable funds, aimed at ensuring non-financial factors are accounted and communication of ESG integration is reliable²⁰.
- **Japan's Stewardship Code updated:** In March, the Financial Services Agency of Japan updated its code to place stronger emphasis on sustainability factors, set expectations that beneficiaries' views are considered, and encouraged investors to disclose rationales for significant voting decisions²¹.
- **ASEAN Capital Markets Forum finalized Roadmap:** In March, the 32nd ASEAN Capital Markets Forum Meeting finalized recommendations under the Roadmap for ASEAN Sustainable Capital

¹³ https://ec.europa.eu/commission/presscorner/detail/en/ip_20_17

¹⁴ https://www.frc.org.uk/getattachment/Stewardship-Code_Dec-19-Final-Corrected.pdf

¹⁵ https://www.esma.europa.eu/sites/default/files/library/esma22-105-1052_sustainable_finance_strategy.pdf

¹⁶ <http://image.e-marketing.unpri.org/lib/fe39117075640475741272/m/1/354c6d63-26d7-4721-b5e0-7863f43832d6.pdf>

¹⁷ <https://www.fca.org.uk/publications/consultation-papers/cp20-3-proposals-enhance-climate-related-disclosures-listed-issuers-and-clarification-existing>

¹⁸ https://d8g8t13e9vf2o.cloudfront.net/Uploads/l/i/v/externalbriefing20192088investordisclosure_696620.pdf

¹⁹ https://sustainable-finance-beirat.de/wp-content/uploads/2020/03/200306_SFB-Zwischenbericht_EN.pdf

²⁰ https://doctrine.amf-france.org/en_US/Reglementation/Doctrine/Doctrine-list/Doctrine?docId=workspace%3A%2F%2FspacesStore%2F138e8494-3731-476e-a7da-7bf79200c1a2&docVersion=1.0&langSwitch=true

²¹ <https://www.fsa.go.jp/en/refer/councils/stewardship/20200324.html>

Markets. The Roadmap provides recommendations under four priority areas, namely strengthening foundations, catalyzing products and enabling access to underserved areas, raising awareness and capacity building, and increasing regional connectivity.²²

- **The European Central Bank published a guide on climate-related and environmental risks:** In May, the ECB released its supervisory expectations relating to the integration of climate and environmental risks in business strategy, governance, risk management and disclosure²³.
- **NGFS Report on Risk Differentials and Supervision:** In May, the NGFS released survey results from financial institutions research on risk assessment and measurement in green, non-green, and brown financial assets²⁴, as well as a report on best practices in supervision of green finance²⁵.
- **Adoption by the European Parliament of the Sustainability Taxonomy Regulation:** In June, the European Commission adopted new legislation to provide a first-ever “green list” classification framework to define environmentally sustainable economic activity and contribute to the European Green Deal by boosting private sector investments in sustainable projects²⁶.
- **Principles for Sustainable Insurance Initiative published:** In June, the United Nations Environment Finance Initiative collaborated with the global insurance industry to produce guidelines that outline 8 key areas of possible actions for insurers to manage ESG risks in non-life insurance transactions, focus on risk assessment and insurance underwriting²⁷.
- **EU Green Bond Standard usability guide published:** In June, the Technical Expert Group (TEG) on Sustainable Finance proposed that the EC create a voluntary non-legislative EU Green Bond Standard to encourage issuance and investments in EU green bonds. The TEG drew from stakeholder feedback from over 100 organizations to develop best practices that reflect a wide array of perspectives²⁸.
- **NGFS published several reports on climate scenarios and monetary policy:** In June, the NGFS released a report and guide on climate scenarios for central banks and supervisors and research priorities in relation to the impacts of climate change on macroeconomic and financial stability²⁹.
- **The UK delays pledge to follow EU green finance rules:** In June, the UK Treasury issued a letter that raised the prospect of a split on sustainable finance from the EU. The UK has held off on fully committing to the EU rules until after Brexit³⁰.
- **The UK sets out post-Brexit plans on carbon pricing:** In June, the UK government laid out plans for a national emissions trading system (ETS) after Brexit with proposed cap on emissions that is tighter than the UK’s EU quota and left open the possibility of linking to the EU ETS³¹.

²² <https://www.theacmf.org/initiatives/sustainable-finance>

²³ <https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200520~0795c47d73.en.html>

²⁴ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_status_report.pdf

²⁵ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_for_supervisors.pdf

²⁶ https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1112

²⁷ <https://www.unepfi.org/psi/wp-content/uploads/2020/06/PSI-ESG-guide-Global-announcement-final-17-Jun-2020.pdf>

²⁸ <https://greenfinanceplatform.org/resource/report-eu-green-bond-standard>

²⁹ <https://www.ngfs.net/en/liste-chronologique/ngfs-publications>

³⁰ <https://www.ft.com/content/f1623027-26fb-4d73-8161-19e40f1f7eb2>

³¹

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/889037/Government_Response_to_Consultation_on_Future_of_UK_Carbon_Pricing.pdf

2. Green Financial Innovation

- **Ecuador issues world’s first Sovereign Social Fund:** In January, Ecuador issued a US\$400M social bond to provide access to housing for over 24,000 families and mobilize approximately US\$1.36B in investments³².
- **Sustainability-Linked Bonds Principles by International Capital Market Association:** In June, the ICMA published SLB guidelines that recommend structuring features, disclosure and reporting applicable to all types of issuers and any type of financial capital market instrument³³.
- **Singapore launched a FinTech Innovation Challenge:** In June, the Monetary Authority of Singapore set up a S\$1.75M competition to seek innovative solutions to aid financial institutions' response to COVID-19 and spur the development of green finance³⁴.

³² <https://www.iadb.org/en/news/ecuador-issues-worlds-first-sovereign-social-bond-support-idb-guarantee>

³³ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>

³⁴ <https://www.mas.gov.sg/news/media-releases/2020/mas-launches-sgd-1-75-mn-fintech-innovation-challenge>