

Advisory Services

# HONG KONG GREEN INVESTMENT AT A GLANCE



## Global-regional Investment Trends, Greater-bay-area Government Incentives and Regulatory Frameworks

### What green investment is

Green Finance Study Group (G20) specifies that 'green finance refers to the financing of environmentally beneficial investments in the context of promoting environmental sustainability'. In addition to bringing environmental benefits, green finance also helps promote the technological innovation of green industries and create potential business opportunities for the financial sector.<sup>[i]</sup> Terminologies of "green finance" or "green investment" vary among different stock exchanges or institutions. To a certain extent, sustainability investments, responsible investments, and even environmental-social-governance ("ESG") themed investments are also considered green investments.



### Global green investment market and trend



#### The debt market

Research by BloombergNEF indicated that green-bonds contributed almost 50% of issue value among all sustainable debts in 2020. Others include social bonds, green-loans, and sustainability-linked-loans. The total value of newly issued sustainable debts leapt five times from US\$145 billion in 2015 to US\$732 billion in 2020. Although the outbreak of the COVID-19 delayed issuances of sustainable debts in 2020, its momentum continued and recorded a growth of 29% from 2019.<sup>[ii]</sup>



#### The equity market

Bloomberg Intelligence suggested that global ESG assets are going to exceed US\$50 trillion in the world by 2025, representing more than one-third of the projected US\$140.5 trillion in total global assets under management.<sup>[iii]</sup> By September 2020, the US Principles for Responsible Investment Organisation had received 3,300 signatures from 561 asset owners to publicly demonstrate its commitment to responsible investments, which is equivalent to a quarter-on-quarter growth rate of 12.3%.<sup>[iv]</sup>

### Green investments in Hong Kong



#### The debt market

The Hong Kong green bond market recorded the largest number of deals in 2020. 15 internationally aligned green bonds and 1 green loan were issued, raising altogether about US\$2.1 billion. The HKEX has already raised US\$26 billion of green bonds from 2020, and it is ranked the most popular listing venue in the Asian region, with 77 green bonds listed in October 2021.<sup>[v]</sup>



#### The equity market

Hong Kong has been focusing on green bond development in the past few years, with a limited track record of well-known sustainability equity funding issuers or products. In October 2021, only 3 green exchange-traded funds with an investment focus on clean energy were listed on the HKEX.<sup>[vi]</sup>

## Greater-bay-area government incentives



### The People's Republic of China

According to the Guidance on Supporting the Development of Green Bonds of the China Securities Regulatory Commission ('CSRC'), i.e. 中國證監會關於支持綠色債券發展的指導意見<sup>[vi]</sup>, those green bonds defined in the Green Bond Supported Projects Catalogue (2021 Edition), i.e. 綠色債券支持項目目錄 2021 年版, are eligible to enjoy regional government support in forms of interest subsidies, financial subsidies and establishment of green corporate bond, etc. The following table lists the green bond projects that are supported.

**Table 1. Green bond projects that are supported by the CSRC**

Environmental-protection industry	Clean production industry	Eco-environmental industry
Green infrastructure improvement	Green services	Technical know-how certification and promotion

Source: Green Bond Supported Projects Catalogue (2021 Edition), the People's Bank of China, the CSRC



### Hong Kong Special Administrative Region

Hong Kong is an issuing hub for green and sustainable finance in the region, and the Government is supportive of facilitating the issuance of Green and Sustainable Bonds ('GSB') and other green finance activities. The Green and Sustainable Finance Grant ('GSFG') scheme of the Hong Kong Monetary Authority<sup>[vii]</sup> is in place to provide subsidies to recognised GSB issuers and borrowers in two tracks: (1) **expenses for bond issuance**; and (2) **external review services expenses for eligible bond issuers and borrowers**.

#### Track 1 – Expense for bond issuance

For first-time GSB issuers who have not issued GSB in HK in the rolling 5-year period prior to the pricing date of the GSB, the grant amount for each GSB issue is equivalent to half of the eligible expenses up to the following limits:

- (1) **HK\$2.5 million** with the bond, its issuer or its guarantor(s) possesses a credit rating by a Recognised Rating Agency ('RRA'); or
- (2) **HK\$1.25 million** where **none** of the bond, its issuer or its guarantor(s) possesses a credit rating by an RRA.



In order to be an eligible GSB issue, other conditions apply. Further details could be found on the GSFG [website](#). The tables below summarise the type of expenses eligible for reimbursement and the rating agencies that are recognised under the scheme:

**Table 2. Hong Kong-based credit agencies:**

SFC Credit Rating Agencies with CE Reference	Name	Address	RRA under GSFG Track 1/ Maximum Subsidy Amount
AXH072	A.M.Best Asia-Pacific Limited	Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong	No HK\$1.25 million
AZE668	China Chengxin (Asia Pacific) Credit Ratings Company Limited	Suites 1904-1909, 19/F, Jardine House, 1 Connaught Place, Central, Hong Kong	No HK\$1.25 million
AXH635	Fitch (Hong Kong) Limited	19/F Man Yee Building, 68 Des Voeux Road, Central, Hong Kong	Yes HK\$2.5 million
BOM510	FrancXav Asia Ratings Limited	Unit 03-04, 14/F, Capital Centre, 151 Gloucester Road, Wan Chai, Hong Kong	No HK\$1.25 million
BMN499	Lianhe Ratings Global Limited	Room 2401, Tower 2, Lippo Centre, 89 Queensway, Hong Kong	No HK\$1.25 million
AXG247	Moody's Investors Service Hong Kong Limited	24/F One Pacific Place, 88 Queensway, Admiralty, Hong Kong	Yes HK\$2.5 million
AZN584	Pengyuan Credit Rating (Hong Kong) Company Limited	1002, 10/F, Prosperity Tower, 39 Queens Road Central, Hong Kong	No HK\$1.25 million
AXG916	S&P Global Ratings Hong Kong Limited	Unit 801, 804-805, 8/F, 9 Queen's Road Central, Hong Kong	Yes HK\$2.5 million
N/A	Rating and Investment Information	N/A	No HK\$1.25 million

Source: Guideline on the Green and Sustainable Finance Grant Scheme, Hong Kong Monetary Authority

**Table 3. GSFG scheme Track 1 recognised expenses**

Fees to Hong Kong-based rating arrangers	Fees to Hong Kong-based legal advisors	Fees to Hong Kong-based auditors and accounts
Fees to Hong Kong-based rating agencies	SEHK listing fees	CMU lodging and clearing fees

Source: *Guideline on the Green and Sustainable Finance Grant Scheme*

**Track 2 – External review costs**

For all first-time and repeating GSB issuers and loan borrowers, the total cost of eligible expenses paid to recognised external reviewers is subsidised, which is capped at HK\$800,000 per bond issuance/ loan. The table below summarises the expenses eligible for reimbursement:

**Table 4. GSFG scheme track 2 recognised expenses (pre-/post-issuance external costs)**

Certification	Second-party opinion	Verification	ESG scoring/ rating
Assurance	Consultation to develop green and sustainable bond/ loan framework	Post-issuance review or reporting	

Source: *Guideline on the Green and Sustainable Finance Grant Scheme, Hong Kong Monetary Authority*

**Regulatory compliance and support****Securities and Futures Commission ('SFC')**

The SFC published the strategic framework for green finance in September 2018 (the 'Strategic Framework')<sup>[viii]</sup>. The Strategic Framework identifies international regulatory developments geared towards supporting green finance. Examples include the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD') set up by the Financial Stability Board and mainland China's targeted introduction of a mandatory requirement for listed companies to disclose environmental information by 2025 ('Mandatory Requirement'). The TCFD recommends the following climate-related financial data to be disclosed:

**Table 5. Recommendations on the disclosure of climate-related financial data**

Governance	Strategy	Risk management	Metrics and targets
The organisation's governance around climate-related risks and opportunities	The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	The processes used by the organisation to identify, access, and manage climate-related risks	The metrics and targets used to access and manage relevant climate-related risks and opportunities

Source: *Task Force on Climate-related Financial Disclosures*

**Green and Sustainable Finance Cross-agency Steering Group ('Steering Group')**

In May 2020, the SFC and HKMA initiated the establishment of the Green and Sustainable Finance Cross-agency Steering Group ('Steering Group'). Other members of the Steering Group include the Environment Bureau, the Financial Services and the Treasury Bureau, the Hong Kong Exchanges and Clearing Limited, the Insurance Authority and the Mandatory Provident Fund Schemes Authority.<sup>[ix]</sup>

The Steering Group aims to co-ordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategies through:

- Examining policy and regulatory issues in green and sustainable finance, particularly those which may have a cross-sectoral impact;
- Facilitating policy direction and coordination to ensure Hong Kong has a cohesive and comprehensive green and sustainable finance strategy;
- Addressing technical cross-sectoral issues by, for example, forming technical working groups and consulting with different experts and stakeholders;
- Tracking international and regional trends, issues and developments in green and sustainable finance, and considering how Hong Kong should better position itself and provide leadership in the region and globally; and
- Identifying areas where Hong Kong can promote its strengths and thought leadership on green and sustainable finance regionally and globally.



### Sustainable and Green Exchange ('STAGE')

In December 2020, the HKEX launched the HKEX Sustainable and Green Exchange named 'STAGE', which is the first multi-asset sustainable investment product platform in Asia. It is established to support the fast-growing global demand for sustainable finance. Through STAGE, investors will have access to a comprehensive database of sustainable and green investment options available in Hong Kong. STAGE will also act as an education and advocacy platform that facilitates knowledge sharing and stakeholder engagement in sustainable finance. Issuers with products that meet international standards or principles and provide post-issuance reports annually are invited to join STAGE for free to display their products on the platform.

### Hong Kong listing requirements for green bonds

In Hong Kong, the listing requirements and listing process are currently the same for green bonds and professional-investor-only conventional bonds. Starting from September 2019, all the HKEX-listed green bonds are issued under Chapter 37 of the Main Board Listing Rules of the HKEX ('Listing Rules').



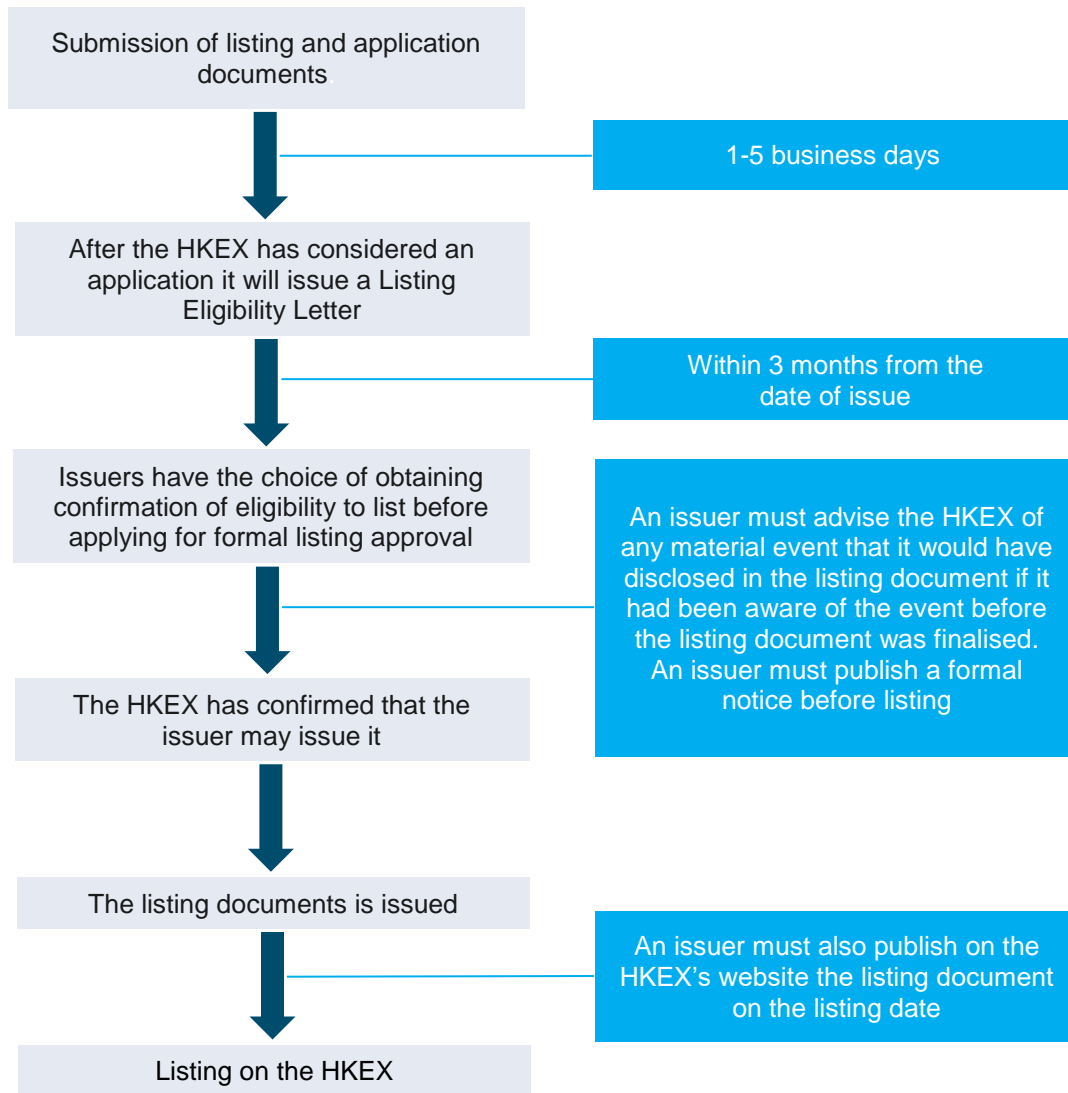
**Table 6. Key requirements for listing green bonds in Hong Kong under Chapter 37 of the Listing Rules.**

Requirements for green bond listing	Eligibility requirements of green bond listing
<b>Eligible issuers</b>	An issuer can be: <ol style="list-style-type: none"> <li>1. a body corporate;</li> <li>2. a State (which includes any government, agency, authority, central bank, department, ministry or public or statutory person of, or of the government of, a state or any regional or local authority thereof);</li> <li>3. a Supranational (i.e. any institution or organisation at a world or regional level specified as such by the HKEX); or</li> <li>4. a trust.</li> </ol>
<b>Eligibility requirements for corporate issuers</b>	A corporate issuer will be qualified for listing if it has: <ol style="list-style-type: none"> <li>1. net assets of HKD\$100 million. This is not required for companies whose shares are listed either on the HKEX or another stock exchange, or for issuers which are Supranational, State Corporations, or special purpose vehicles ('SPVs') formed for listing asset-backed securities); and</li> <li>2. audited accounts for the 2 years before the listing application. This is not required for issuers whose shares are listed on the HKEX, or which are Supranational, State Corporations, or SPVs formed for listing asset-backed securities.</li> </ol> <p>If a company does not meet these eligibility criteria, it can issue guaranteed green bonds if:</p> <ol style="list-style-type: none"> <li>1. it is wholly owned by a State, a Supranational or a company that meets the eligibility criteria under paragraph (b) above;</li> <li>2. its owner guarantees its obligations; and</li> <li>3. it and its owner agree to comply with the Listing Rules.</li> </ol>
<b>Green bonds eligible for listing</b>	The green bonds must be freely transferable and have a minimum denomination of at least HK\$500,000 or an equivalent amount in foreign currency. This condition is aimed at limiting retail investors' access to the professional bond market.
<b>Convertible green bonds</b>	Convertible green bonds must be convertible into: <ol style="list-style-type: none"> <li>1. shares that are, or will be, listed on the HKEX or another stock exchange;</li> <li>2. depositary receipts that are, or will be, listed on the HKEX or another stock exchange; or</li> <li>3. other assets that the HKEX has agreed in writing are acceptable.</li> </ol> <p>If the green bonds are convertible into shares that have not yet been issued, the issue and listing of the shares must have been validly authorised.</p> <p>Green bonds which are convertible into shares or depositary receipts must have a term providing for appropriate adjustments to the conversion terms on a change in the capital of the issuer of the shares into which the green bonds are convertible or of the shares underlying the depositary receipts into which the green bonds convert. The HKEX treats green bonds with non-detachable warrants to subscribe for equity securities or other assets as convertible green bonds.</p>
<b>Authorised representative</b>	Two authorised representatives must be appointed by the issuer to communicate with the HKEX, but they do not have to be resident in Hong Kong (Listing Rules 37.54). The authorised representatives should generally be either two directors or a director and a company secretary of the issuer. The issuer must notify any change of representative or to their contact details to the HKEX in a timely manner by completing the authorised representative form and sending it to <a href="mailto:debt@hkex.com.hk">debt@hkex.com.hk</a> .
<b>Target investors</b>	Professional investors only
<b>Listing fees</b>	HK\$7,000 to HK\$90,000 depending on issue size and tenor. The listing fee is a one-off payment: there are no annual fees.

Source: Listing Rule Chapter 37, Securities and Futures Commission



The flowchart below summarises the listing submission procedure and document application workflow to list a green bond on the HKEX according to Listing Rule Chapter 37.



Source: Main Board Listing Rule Chapter 37, Securities and Futures Commission

## How we can help?

At Moore, we have a team of professionals with practical and solid knowledge and experience. Our members are charter holders or members of professional bodies such as CFA, CAIA, FRM, RICS and HKICPA.

We have extensive sector knowledge to provide customised advice to suit each client taking into account size, capabilities and goals. Backed by our international network, we are able to provide clients with all solutions and expertise they require, wherever they wish to do business.

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### References:

- <sup>i</sup> Green finance, Legislative Council of the Hong Kong Special Administrative Region of the People's Republic of China
- <sup>ii</sup> BloombergNEF, Sustainable Debt Breaks Annual Record Despite Covid-19 Challenges
- <sup>iii</sup> Bloomberg, ESG Assets Rising to \$50 Trillion Will Reshape \$140.5 Trillion of Global AUM by 2025, Finds Bloomberg Intelligence
- <sup>iv</sup> ESG Investor, PRI Signatories Now Exceed US\$100 trillion AUM
- <sup>v</sup> HKEx, Product Repository
- <sup>vi</sup> People's Bank of China, Development and Reform Commission Securities & Regulatory Commission of PRC, China Securities Regulatory Commission's Guidance on Supporting the Development of Green Bonds
- <sup>vii</sup> HKMA, Guideline on the Green and Sustainable Finance Grant Scheme
- <sup>viii</sup> Securities and Futures Commission, Strategic Framework for Green Finance
- <sup>ix</sup> Green Finance Platform, Green and Sustainable Finance Cross-Agency Steering Group



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