

Hong Kong's Readiness for the Rise of ESG

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The Financial Services Development Council (FSDC)



- A high-level cross-sectoral advisory body
- To engage the financial services industry in formulating policy proposals
- For the betterment of Hong Kong as an International Financial Centre

2013

year of establishment

established by the Hong Kong
Special Administrative
Region Government

3

main objectives

1. Policy research
2. Market promotion
3. Human capital development

100+

industry experts

being engaged through
the Board, Committees and
Working Groups

Policy research



50

research papers

have been published since 2013
(as of Aug 2021)



158+

policy recommendations

have been laid out, key topics include
asset and wealth management,
connectivity, ESG, Fintech



73%

adoption rate

by financial institutions with
our policy recommendations
(as of Mar 2021)

Why is Sustainable Finance Important?

Global Landscape of Sustainable Finance and ESG Investment



The 26th Conference of the Parties (COP 26 meetings)

- All signatories are required to submit their individual climate action plans, Nationally Determined Contributions (NDCs), every five years.
- COP26, as the first opportunity to take stock of NDCs from all countries, will play a crucial role in aligning global efforts
- Four goals are outlined for the conference:

Secure global net zero by mid-century and keep 1.5 degrees within reach

- Strategy to deliver on these stretching targets

Adapt to protect communities and natural habitats

- Protect and restore ecosystems, build defences, resilient infrastructure

Mobilise finance

- Developed countries must make good on their promise to mobilise at least \$100bn in climate finance per year by 2020

Work together to deliver

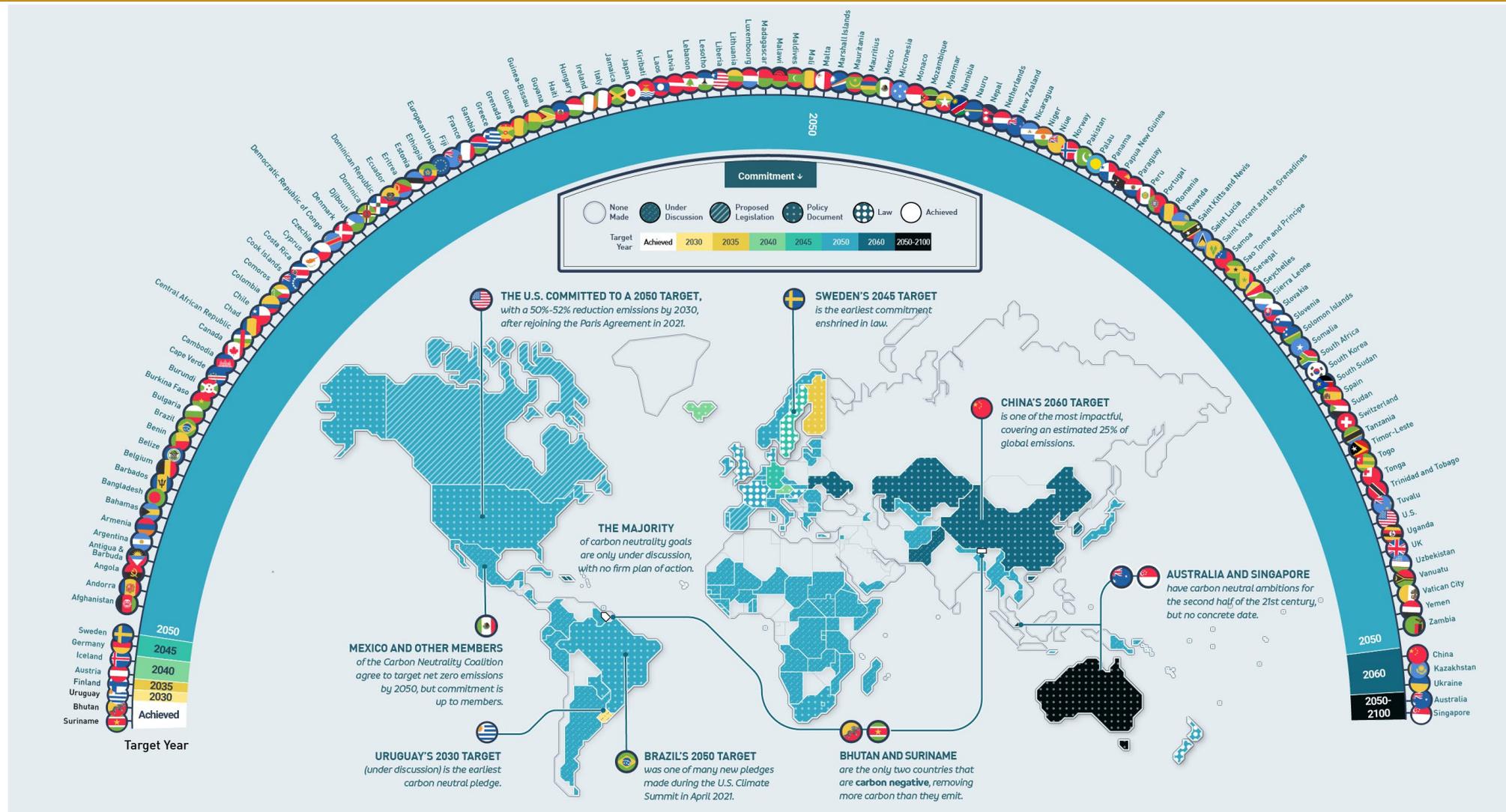
- Finalise the Paris Rulebook
- Accelerate action to tackle the climate crisis through collaboration between governments, businesses and civil society.

• Source: UBS



UN CLIMATE
CHANGE
CONFERENCE
UK 2020
Oct 31 – Nov 12

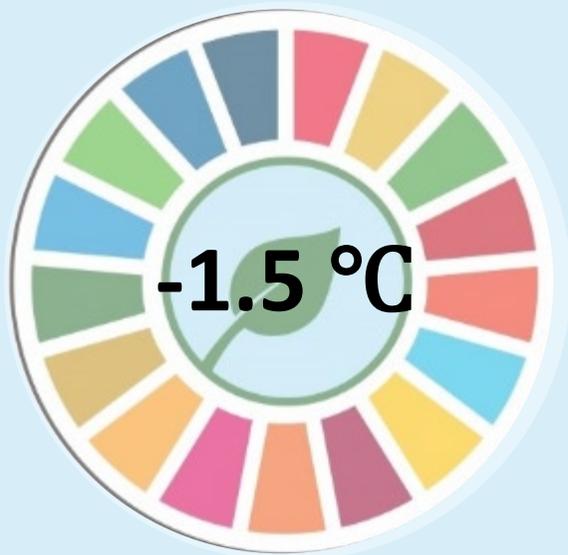
Global race to carbon neutrality



Source: Visual Capitalist

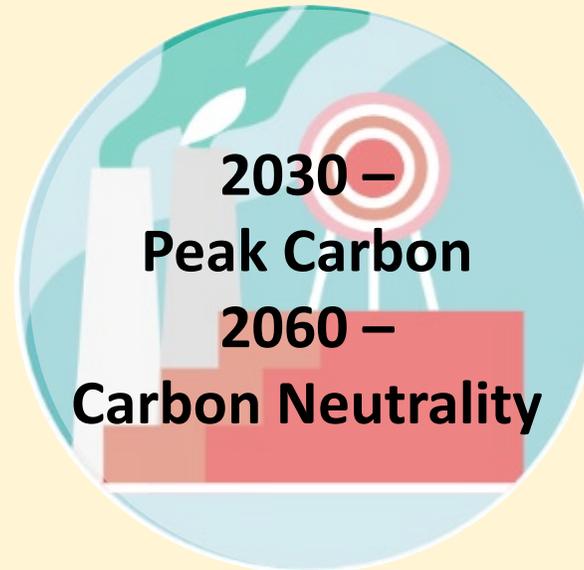
Steering global economic and social development towards sustainability is the global consensus

PARIS CLIMATE AGREEMENT



- **137 countries** have committed to carbon neutrality; most are centered around 2050.
- **~US\$100 tn of green infrastructure investment** is required globally between now and 2030.

CHINA'S CLIMATE-RELATED GOALS



- **China's green projects would require US\$15tn of investments** over the next 30 years.
- **The GBA governments** aims to develop billions of dollars of new public works.
- Possibly **up to 75%** of the funding will have to come from the **private sector**.

HONG KONG'S CRUCIAL ROLE



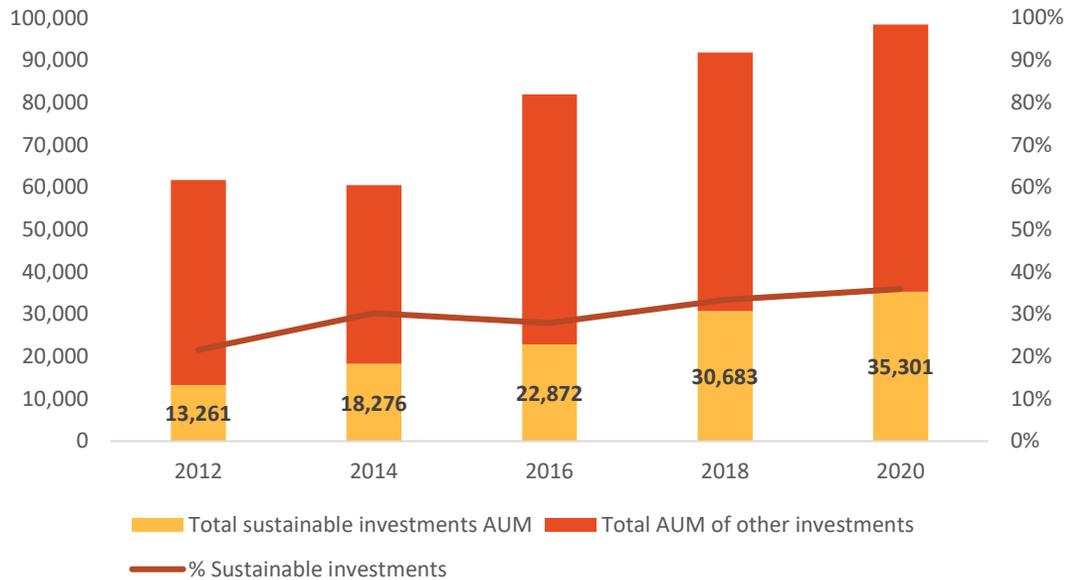
- Supported by national plan, to **leverage its long-standing competency as an IFC** to advance the global mutual cause.
- In particular, **rendering its credibility** to attract international funds and integral role in the GBA.

The global sustainable & ESG investment market is expanding

ESG investments are gaining prominence globally

- According to GSIA, assets managed under sustainable investment strategies in reported countries totalled **US\$35.3 trillion** in 2020, surging **55%** in 4 years time.
- As at the end of 2020, **35.9%** of total assets under management were sustainable investments.

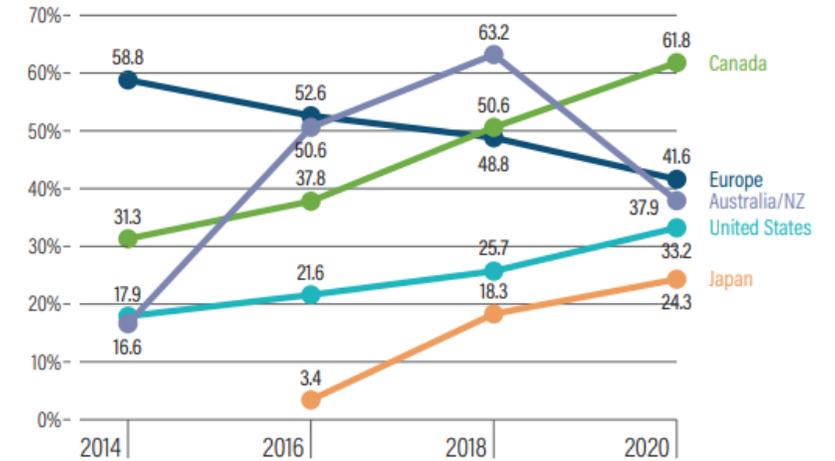
Sustainable investing assets (USD billions)



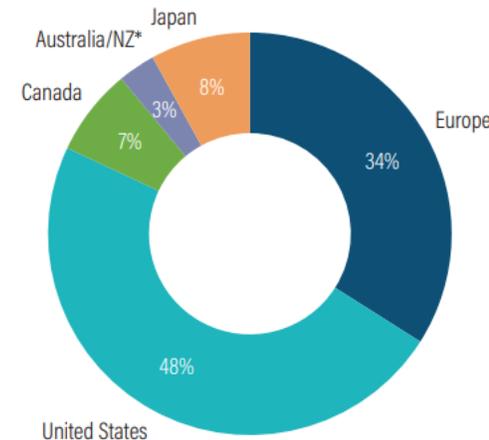
Source: GSIA (2012-2020)

Proportion of sustainable investing assets relative to total managed assets by region 2014-2020

Note: 'Sustainable investment' refers to a broad and inclusive definition of approaches to investment that include environmental, social and governance factors in portfolio selection and management across the seven strategies of sustainable or responsible investment



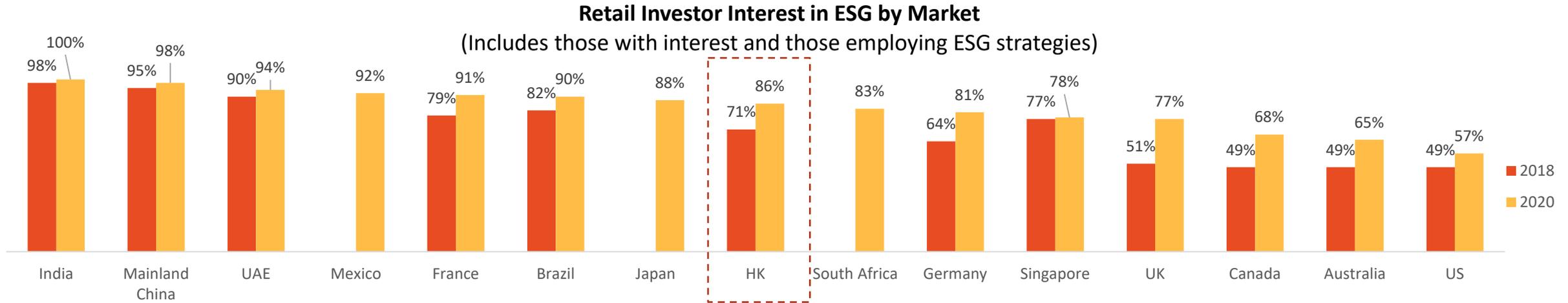
Proportion of global sustainable investing assets by region 2020



* Europe and Australasia have enacted significant changes in the way sustainable investment is defined in these regions, so direct comparisons between regions and with previous versions are not easily made.

Both retail and institutional investors are calling for ESG

Retail investor interest has increased most in the last two years; In terms of the growth in interest, Hong Kong is among the top five



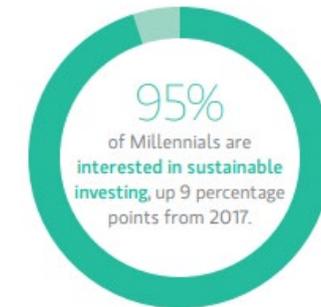
Source: CFA Institute

Rising investor demand

- 77% of professional fund selectors consider ESG as a component of sound investment (*Natixis Investment Managers survey*).
- 79% of investors in Asia-Pacific planned to increase ESG investments “significantly” or “moderately” as a response to Covid-19 (*MSCI survey*).
- 63% of surveyed affluent and HNWI in HK and Singapore agreed that ESG and sustainability factors are key considerations (*St. James’s Place Wealth Management survey*).

Particularly popular among younger generations

- Pursuant to the Morgan Stanley’s third Sustainable Signals survey,



Advocacy from industry leaders



- Putting environmental and social priorities at the forefront of its investment approach
- Updating its global principles and guidelines to reflect its commitment to climate and diversity



- Establishing a bespoke databases that track ESG materiality to integrate ESG factors into its investment analysis and asset management activities



- Offering bespoke ESG discretionary mandate solutions to family office clients
- Incorporating ESG investment approach into the delivery of discretionary mandates



- Formulate a 10-year roadmap of environmental targets to 2030. Aligning efforts with the Paris Agreement
- Integrating ESG in business operations
- Support and participate in green loans



- Integrating ESG risk and opportunity factors into the investment decisions, differentiated by asset classes



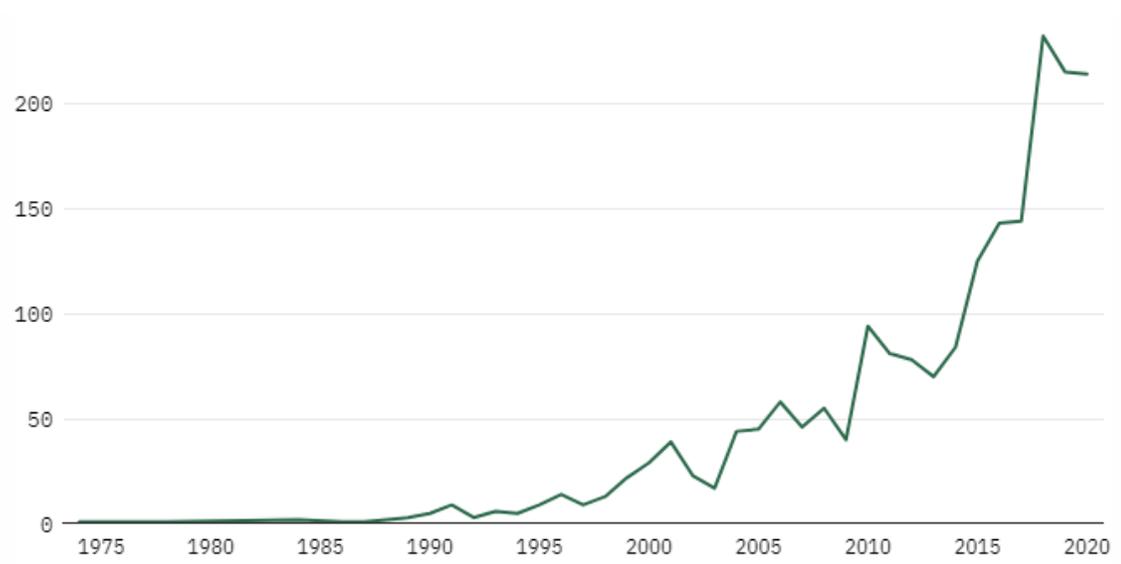
- Being committed to direct at least \$5 billion of client assets in UN Sustainable Development Goals-related impact investments by 2021

ESG job market is heating up

Surging ESG job roles in the financial market

- Among the 25 largest banks by asset size, individuals with ESG titled jobs has been increasing significantly – doubling up from <100 in 2010 to 220+ in 2020.

LinkedIn searches for ESG-related job titles for world's 25 largest banks by asset size

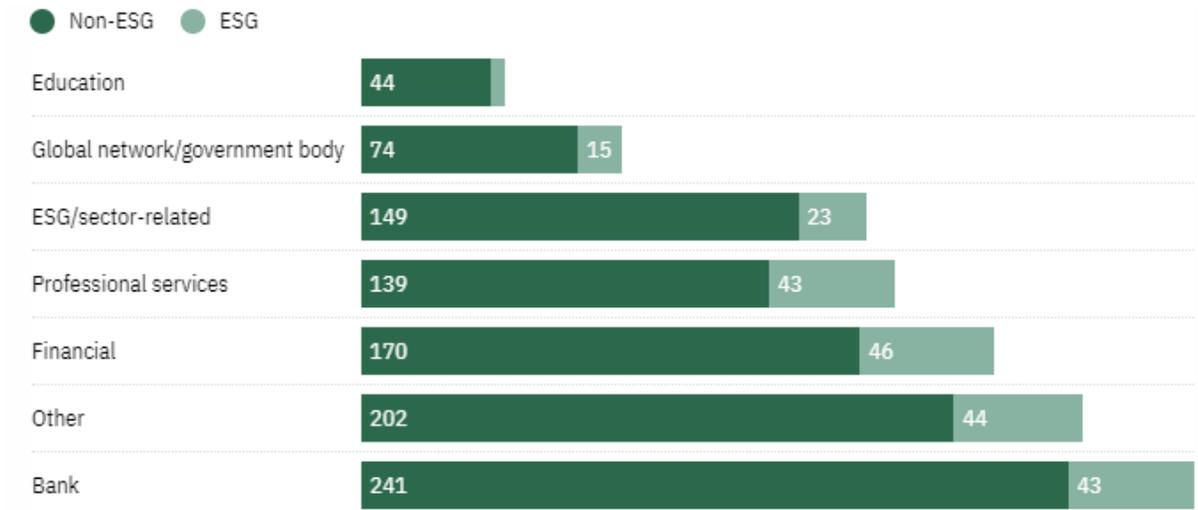


Source: GlobalData, CAPITALMONITOR

Regular bankers dominates the ESG hire in banking industry

- For the interviewed individuals who currently hold a ESG post at a bank, majority of them worked at a bank as well in their previous job.

Previous job categories for 1,238 ESG employees at the world's 25 largest banks by asset size



Source: GlobalData, CAPITALMONITOR

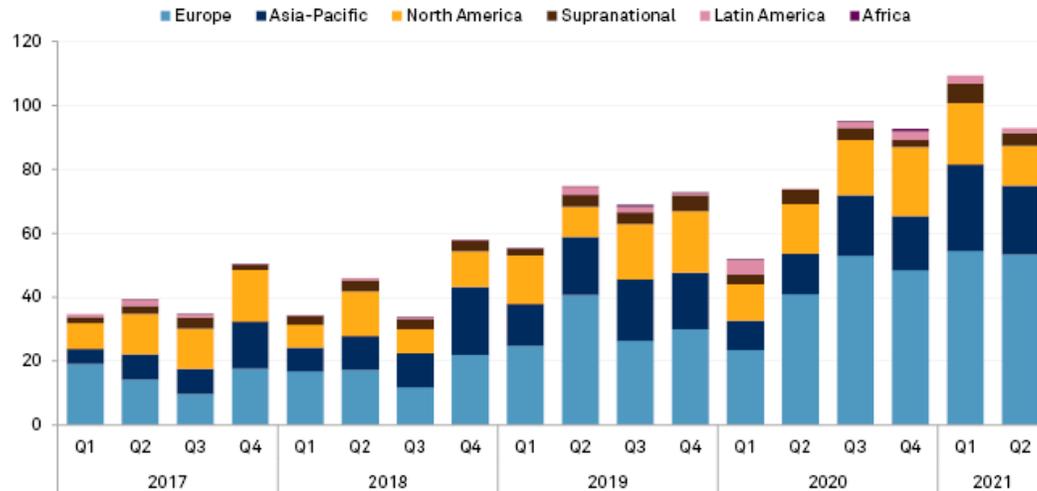
Asia was a laggard, but it presents much room for improvement

Strong momentum in the Asian green bond market

- Europe and North America remain the largest green bond markets in terms of volume and number of issuance, while the Asian market has much room to grow

Regional Breakdown of Green Bond Issuance

By volume of issuance (in USD bn)

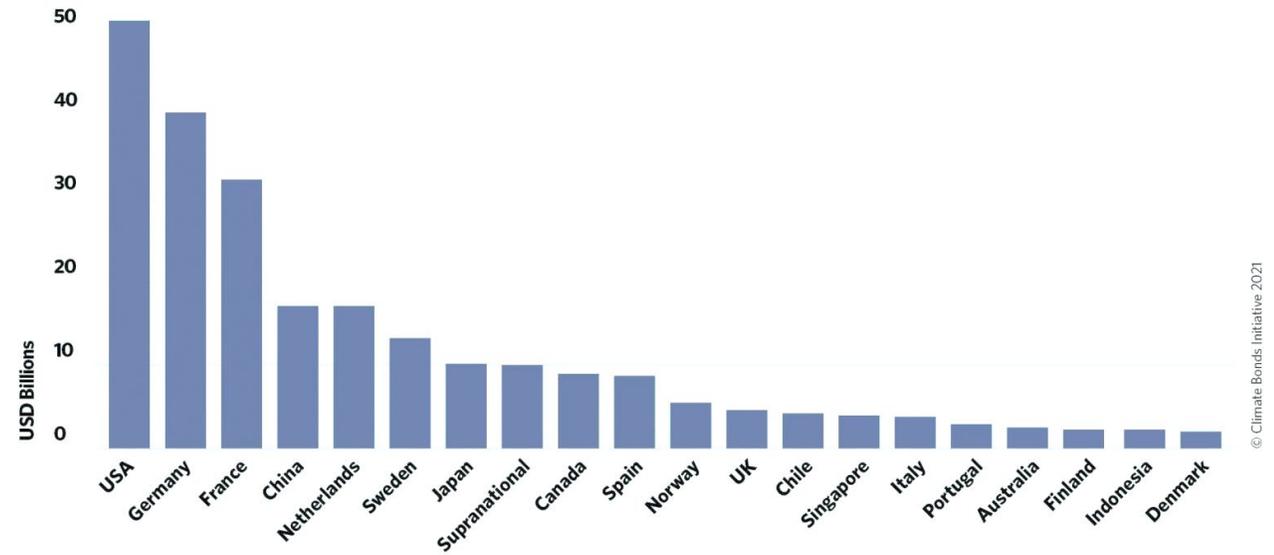


Source: S&P Global

China is one of the world's largest labelled green bond issuers

- The United States, Germany, France and China are the four biggest labelled green bond issuers in 2020
- By 2030, it is estimated that RMB 3 trillion – RMB 4 trillion would be needed annually for green investment in China; and one of the financing tools for such is bond issuance

2020 Global Green Bond Issuance: top



Source: Climate Bonds Initiative

Common challenges across jurisdictions to promote/ maintain green and sustainability development

Absence of a **globally-consistent corporate reporting standard**;
lack of **comparable data**

Lack of **understanding and incentives for private sector** to incorporate ESG factors into the business model, especially the smaller corporations

Notable **shortage of skills and understanding** in the area
– talent & resources

ESG/ Green and sustainable finance is broad-ranging and more stringent regulatory approach alongside the rapid development and rise of new products which **takes time for corporations to adapt**



Hong Kong as the Regional Sustainable Finance and ESG Investment Hub



A cluster of ESG stakeholders in building up in Hong Kong

Asset owners

Asset owners in public and private sectors, including pension funds and sovereign wealth funds, are increasingly integrating ESG strategies in their investment portfolios

Asset and wealth managers and product owners

Asset and wealth managers and product owners (e.g. banks) uncover opportunities, identify risks and generate appealing returns for asset owners and other clients through incorporating ESG factors into their investment strategies and ongoing engagement with investee companies



Investee companies

Enhanced ESG disclosure/ reporting is becoming a commonplace among companies of different sizes, partly due to new regulatory requirements but also enhanced risk-adjusted returns, lower funding costs, and new sources of capital

Government and financial regulators

A combination of 'carrots and sticks' (i.e., incentives and regulations) has been a common approach adopted by governments and regulators in different markets, and Hong Kong is no exception

Academia, civil society organisations and other stakeholders

Universities, non-governmental organisations and professional bodies collaborate to enhance ESG capacity-building. A cluster of stakeholders, including services providers such as index compilers, is critical in ensuring ESG standards and needed support are in place

Rich green product offerings in Hong Kong

Popular venue for green bonds, funds and other sustainability products

- **US\$12 billion** of green bonds issued and arranged in Hong Kong in 2020; a **cumulative total of US\$38 billion** by end of 2020.
- **One-third** of the green bond issuers in 2020 were first time issuers in Hong Kong; sizable issuance of sustainability-linked loans and bonds and transition bonds.
- **108 green/ ESG-related bonds** were listed on HKEX (July 2021).
- **60+ ESG funds** authorised by the SFC (Aug 2021).

Cumulative green debt arranged and issued in HK (in USD bn)



*MDB refers to multilateral development bank

Source: Climate Bonds Initiative

Examples -

Mainland China:
Beijing Capital Polaris Investment Co. Ltd.
CNY630M (2018)/
USD250M (2021)

South Korea:
Hyundai Motor, HKD400M
(2021)

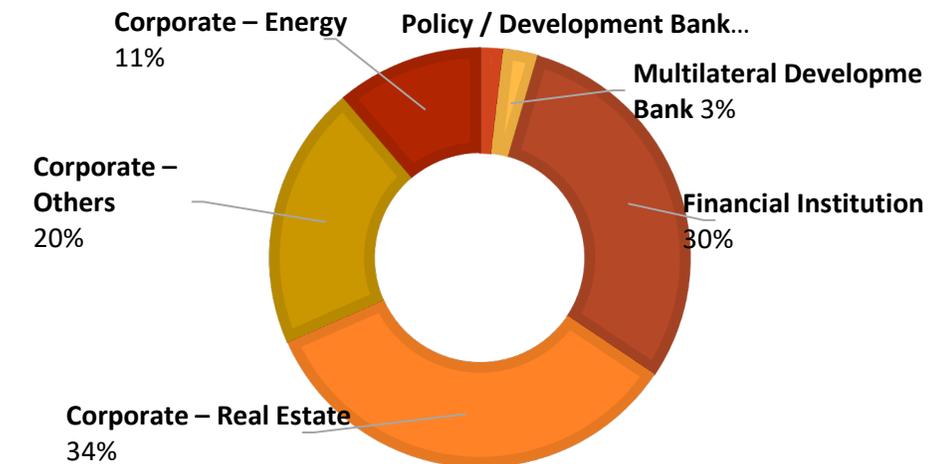
MDB:
European Investment Bank
HKD300M (2021)

KfW (German state-owned
and investment bank)
HKD200M (2021)

Issuance of Government green bonds

- In May 2019, the HKSAR Government's successfully offered inaugural green bond with an issuance size of US\$1 billion and a tenor of 5 years
- In January 2021, the 2nd batch of the HKSAR Government green bonds totaling US\$2.5 billion was issued, among which the 30-year tranche was the longest-tenor USD-denominated government bond in Asia and the world's largest US dollar government green bond deal.

Corporate issuers accounted for 66% issuance in 2020



ESG policies steered by the Government to address the challenges

Recent initiatives introduced by the Government



The Chief Executive's 2020 Policy Address

Developing green finance to boost investments conducive to reducing carbon emissions, build a low-carbon economy which is more resilient to climate change, and enhance public education and publicity



The 2021-22 Budget

Planning to further issue green bonds totalling HK\$175.5 billion within the next five years, having regard to the market situation, to further consolidate and develop Hong Kong's position as a premier green hub in the region



Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Greater Bay Area

Supporting Hong Kong in building a green finance centre in the Greater Bay Area and establishing an internationally recognised green bond certification body



Green Finance Certification Scheme

Hong Kong Quality Assurance Agency (HKQAA) has taken the lead to develop the Green Finance Certification Scheme to provide third-party conformity assessments for Green Finance issuers since 2016



Green Bond Grant Scheme

The Government has launched the Scheme since 2018 to subsidise eligible green bond issuers in obtaining certification under the Green Finance Certification Scheme established by the HKQAA

Green and Sustainable Finance Cross-Agency Steering Group

Established in May 2020

Announced 5 key action points with following aims in Dec 2020:

- Coordinate the management of climate and environmental risks to the financial sector
- Accelerate the growth of green and sustainable finance
- Support the Government's climate strategies

Announced next steps in July 2021

To bolster Hong Kong's position as a leader in green and sustainable finance and help transition the ecosystem towards carbon neutrality; priority tasks include:



Climate-related disclosures and sustainability reporting

- Specifying climate-related disclosures and sustainability reporting standards aligned with the Task Force on Climate-related Financial Disclosures framework, drafting a roadmap and studying feasible implementation plans



Carbon market opportunities

- Assessing the feasibility of developing as a regional carbon trading centre to strengthen collaboration in the GBA



Centre for Green and Sustainable Finance

- the Centre for Green and Sustainable Finance, which coordinates the efforts of financial regulators, Government agencies, industry stakeholders and academia in capacity building, thought leadership and policy development. It will also serve as a repository for resources, data and analytics

Members



Strong support from financial regulators



HONG KONG MONETARY AUTHORITY
香港金融管理局

Hong Kong Monetary Authority (HKMA)

- One of the signatories to the Principles for Responsible Investment (PRI) and a supporter of the TCFD
- Unveiled three sets of measures to support and promote Hong Kong's green finance development in May 2019. Currently at phase II of the approach which implementation will be next step
- Published the White Paper on Green and Sustainable Banking in June 2020
- Partnership with BIS to develop a blockchain based prototype platform for distribution of retail green bonds
- Promote the city as a green finance hub in Asia:
 - Set up the Infrastructure Financing Facilitation Office
 - Co-launched the Alliance for Green Commercial Banks with International Finance Corporation



SECURITIES AND
FUTURES COMMISSION
證券及期貨事務監察委員會

Securities and Futures Commission (SFC)

- As the Vice-Chair of the Sustainability Task Force of the International Organization of Securities Commissions (IOSCO), the SFC leads the Sustainable Finance Working Group of IOSCO's Asia-Pacific Regional Committee
- Introduced the Strategic Framework for Green Finance in September 2018 and published a survey report on integrating ESG and climate risks in asset management in December 2019.



強制性公積金計劃管理局
MANDATORY PROVIDENT FUND
SCHEMES AUTHORITY

Mandatory Provident Fund Schemes Authority (MPFA)

- Issued a circular to encourage Mandatory Provident Fund (MPF) trustees to apply ESG standards in areas such as investment decision-making and disclosure
- To develop a high-level guiding principles for MPF funds by 2021



保險業監管局
Insurance Authority

Insurance Authority (IA)

- Require listed insurance companies to follow the new ESG report requirements imposed by HKEX
- Pilot Insurance-linked Securities Grant Scheme is launched to attract local, Mainland overseas issuers

Concerted effort from other stakeholders

Examples –



The Hong Kong Exchanges and Clearing Limited (HKEX)

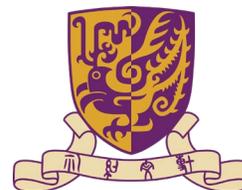
- A partner of the United Nations Sustainable Stock Exchanges Initiative since June 2018
- Requires listed companies to conduct annual ESG reporting
- Launched the Sustainable and Green Exchange (STAGE) in December 2020, which is the Asia's first multi-asset sustainable investment product platform to support the fast-growing global demand for sustainable finance

Hong Kong Green Finance Association (HKGFA)

- Founded in September 2018 with an aim to mobilising both public and private sectors resources and talents in developing green finance policies, as well as to promote green finance business and product innovation within financial institutions



香港綠色金融協會
Hong Kong Green Finance Association



香港中文大學
The Chinese University of Hong Kong

Research Institutes

In 2018, the CUHK established Centre of Business Sustainability (CBS) to promote business sustainability as a viable and profitable business model through conducting innovative research on Corporate Social Responsibility and sustainability management practices in the region



Professional Accreditation

- In 2020, Friends of the Earth together with the European Federation of Financial Analysts Societies (EFFAS) introduced the internationally recognised professional accreditation programme, EFFAS Certified ESG Analyst (CESGA®), to Hong Kong
- UST recently announced the first BSc in Sustainable and Green Finance (SGFN) Program in Hong Kong



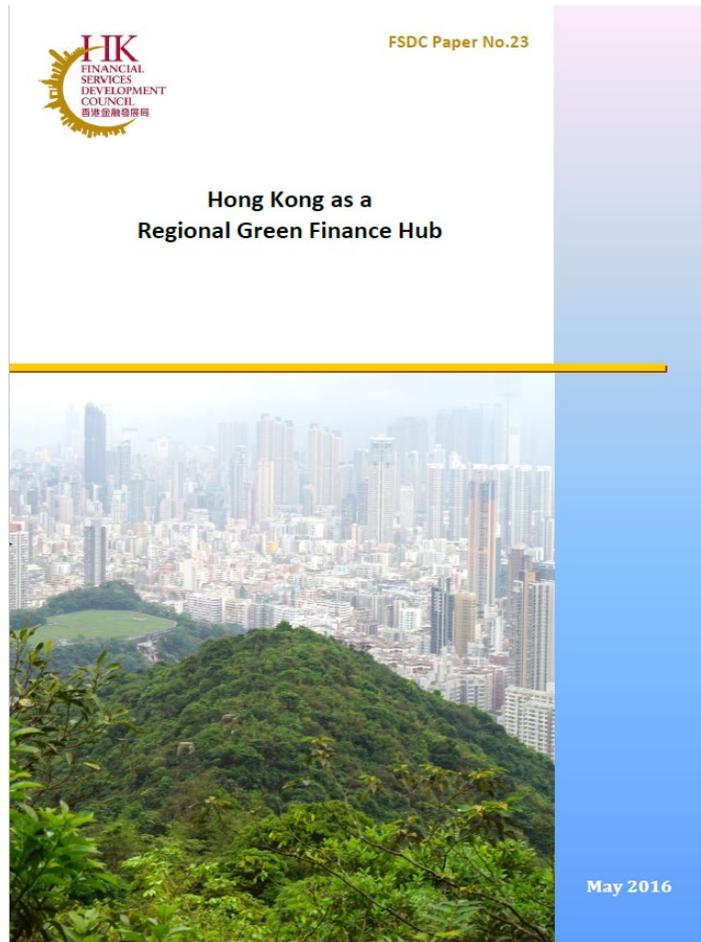
Index Compilers

In 2019, Hang Seng Indexes introduced the HSI ESG Index and HSCEI ESG Index to integrate ESG initiatives with the pre-existing Hang Seng Index and Hang Seng China Enterprises Index

FSDC's Work in ESG



“Hong Kong as a Regional Green Finance Hub” (May 2016)

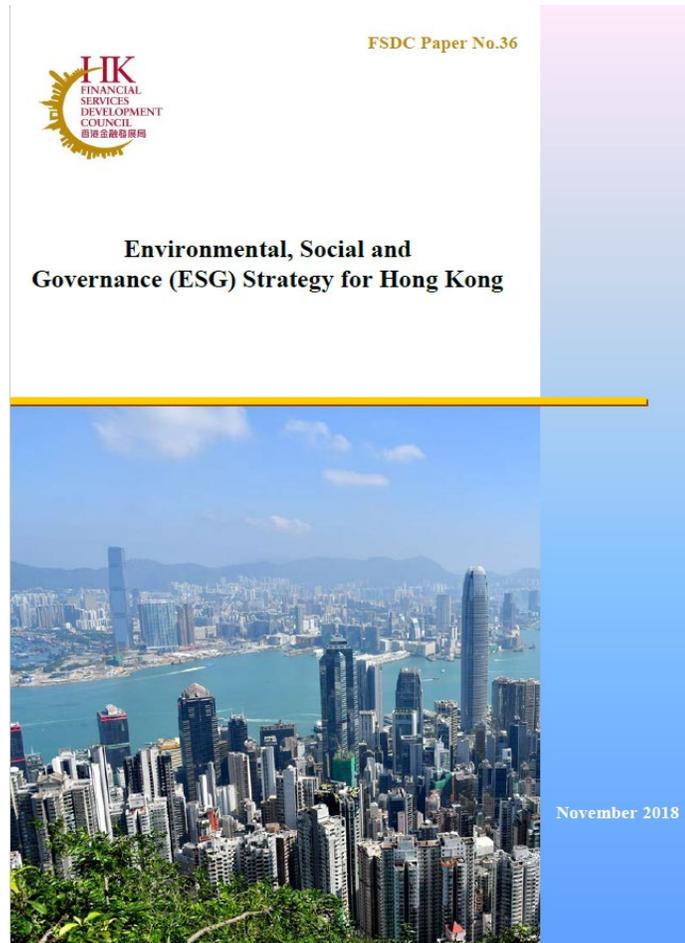


A flourishing green finance business can assist Hong Kong in promoting the development of its bond and project finance markets, as well as providing employment opportunities, boosting growth in the financial industries as a whole. The report makes recommendations to help Hong Kong position itself as a leading centre for green finance in the region.

Recommendations

- The issue by the Government and public-sector controlled issuers of benchmark ‘green bonds’;
- The establishment of a Green Finance Advisory Council or similar body to provide on-going focus and assistance;
- The hosting of a Global Conference on green finance and investment, followed by a seminar series;
- Building a pipeline of green finance professionals, through universities and professional institutions;
- Establishing a Green Labelling Scheme, covering projects and securities, thus attracting issuers and new investors to Hong Kong

“Environmental, Social and Governance (ESG) Strategy for Hong Kong” (November 2018)

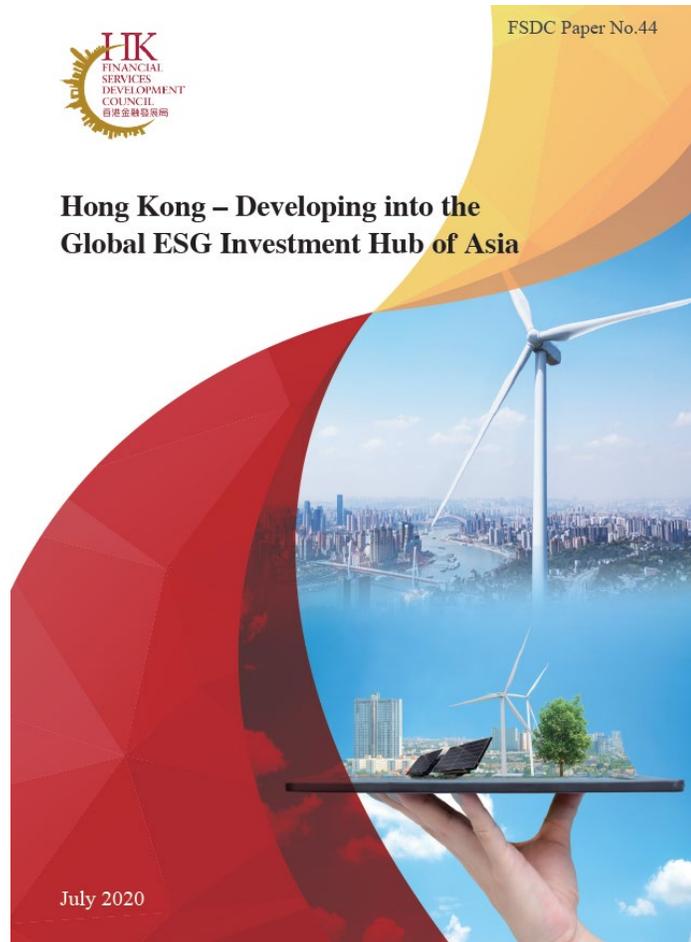


Fostering the development of an ESG ecosystem in Hong Kong represents a need for Hong Kong as other financial centres are also keen on developing this segment. The report seeks to present the value proposition of ESG integration from the perspectives of both financial investors and investee companies. It also makes a number of recommendations on the part of the public sector to further establish Hong Kong as the preferred ESG investment hub.

Recommendations

- **The Government to take the leadership role in encouraging public funds' support for ESG integration;**
- **The HKMA to scale up ESG requirements on their external investment managers;**
- **The MPFA to incorporate ESG factors into its trustee approval and monitoring process and to encourage trustees to take into account international ESG standards;**
- **The SFC to strengthen the emphasis on ESG through upgrading the Principles of Responsible Ownership to at least 'comply or explain';**
- **The SFC and the other regulators to provide more guidance on ESG thematic investment products;**
- **The Stock Exchange of Hong Kong (SEHK) to strengthen the emphasis on ESG for both listing applicants and listed companies**

“Hong Kong - Developing into the Global ESG Investment Hub of Asia” (July 2020)

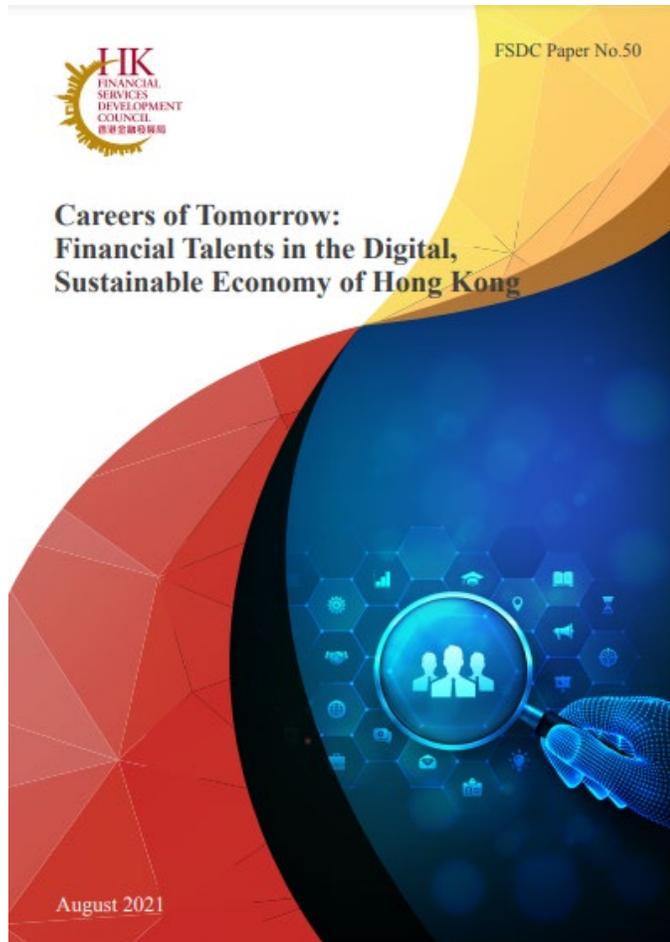


This paper features a summary of views gathered from asset owners, asset and wealth managers, and other corporates towards Hong Kong as an ESG investment hub. It also sets out a number of recommendations for the further development of the city in this regard.

Recommendations

- To promote a coordinated policy environment through an ESG policy roadmap;
- To encourage insurers' disclosures of ESG policies;
- To commence preparatory work on strengthening oversight of non-financial reporting;
- To provide companies with ESG training subsidies;
- To promote best practices through an information-sharing platform

“Careers of Tomorrow: Financial Talents in the Digital, Sustainable Economy of Hong Kong” (Aug 2021)



With the objective of facilitating the cultivation of Hong Kong's local talents in financial technology (Fintech) and environmental, social, governance (ESG), the report sets out recommendations for Hong Kong to enrich its financial talent pool.

Recommendations

- To develop and update the core competency map for different sectors;
- To coordinate and evaluate internship and apprenticeship programmes;
- To facilitate Hong Kong professionals' overseas and Mainland placement through subsidy support;
- To incentivise private Fintech enterprises to participate in curriculum development and application;
- To introduce ESG courses as compulsory learning in finance-related disciplines; and
- To expand CEF reimbursable courses to cover more professional training in Fintech and ESG.

FSDC's Market Promotion and Human Capital Initiatives in ESG



UN Climate Finance and Sustainable Investing Conference 2019

The FSDC supported the UN Climate Finance and Sustainable Investing Conference 2019 co-organised by United Nations Economic and Social Commission for Asia and Pacific and World Green Organisation in October 2019. Addressing an audience of over 400 consisting mainly high-level representatives of the Governments and financial institutions in the region, Mr Laurence Li, Chairman of the FSDC, delivered a keynote speech on how infrastructure financing and the public-private partnership model can support sustainable development.

FSDC Practitioner Speakers Series – Arising Regional Opportunities in ESG and Its Applications in Financial Industry

The FSDC and the Open University of Hong Kong jointly organised an online seminar on “Arising Regional Opportunities in ESG and Its Applications in Financial Industry” in March 2020. Speakers shared how firms have been striving to closely integrate ESG into their business models and how these integrations profoundly have impacted their businesses. Further, they advised students to take advantage of being young and make efforts to equip themselves as financial professionals in order to capture the regional opportunities arising from ESG.



Thank you

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Hashtag

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