May 2021

Climate Bonds Initiative

HONG KONG

Green Bond Market Briefing 2020

Green Bond-HK issuers: Cumulative issuance USD9.2bn: FY 2020 USD2.09bn, down 18% on FY 2019

Green debt arranged and issued in HK: USD38bn overall; USD12bn in 2020 (of which USD1.3bn were green loans)[1]

Low-Carbon Buildings remain dominant theme but Low-Carbon Transport not far behind

2020 Hong Kong market analysis

2020 marked by highest number of deals thus far

Although 2020 saw the highest number of deals, the total volume has decreased by 18% - due to small sized issuance. There were 15 aligned green bonds and one green loan[2] from four entities, all of which are seasoned issuers/borrower.[3] The largest deal in 2020 was from MTR Corp, with a USD1.2bn green bond issued in August. MTR was also the most prolific issuer, both in terms of number of bonds (7) and issue volume (USD1.5bn) - all issued between March and August. In terms of issuer types, 2020 volumes were dominated by the government-backed entity, MTR, with small volumes from non-financial and financial corporates.

HSBC was the only eligible financial corporate issuer of the year, and it issued two 6-month Green Certificates of Deposit following the bank's green bond framework.

Climate Bonds' approach to determining the country of a bond and a loan

Climate Bonds refers to the following rules to determine how to assign a country to each bond.

For unsecured bonds, the country is determined by the domicile of the issuer. If it is a fully owned subsidiary, this becomes the domicile of the parent or group.

For secured bonds, the location of the assets being used as collateral is considered. However, a parent guarantee or other recourse to a parent company in another domicile would influence the determination.

For loans, the domicile country of the borrower is used.

We do not take currency denomination, listing venue or similar factors into account to determine the country.

Changing diversity of issuer type in Hong Kong

Source: Climate Bonds Initiative

Swire Properties has brought three eligible green bonds and a green loan (HKD1bn/USD129m) to the market, all financing green buildings.

Apart from the green bonds that are in line with Climate Bonds green definitions, there was one deal that has been considered as not aligned and therefore has not been included in the analysis: the USD350m Transition Bond by Castle Peak Power Finance Company that finance gas projects.[4]

We expect green and sustainability bond issuance from Hong Kong to increase in the future, taking advantage of the recently-announced Green and Sustainable Finance Grant Scheme that would subsidise eligible bond issuers and loan borrowers on their bond issuance and external review expenses .[5]

Low-Carbon Buildings category retains top spot and Waste gets record-high allocation

Appropriate allocation of proceeds is crucial to meet Hong Kong's 2050 net zero carbon emissions target, and 2020 marked a significant change compared to 2019. The mix of proceed allocations was quite varied in 2020 with allocations relatively spread across seven categories, unlike 2019 when Buildings dominated outright. While Buildings continued to be in the top position this year, their share dropped to 36% (USD745m) from 61% (USD1.6bn) in 2019.

Allocations to Buildings continue to represent just under half (45%) of the total cumulative amount issued. In addition to property developers Swire Pacific (parent company of Swire Properties) and Hang Lung Properties who have brought six green bonds and one green loan in total (USD552m), MTR's bonds have also financed buildings that receive LEED, BEAM, BREEAM and ISCA and other appropriate and equivalent standards in the relevant jurisdictions where MTR has its operations.

Transport came in at a close second, with 26% of the issue volume (USD550m) allocated to it. The largest allocation by volume came from the Transport category of an MTR green bond (USD438m), which would go towards low carbon electric rail system and energy efficient equipment, among other projects. Waste was a standout category this year, with more than 19% amount allocated (USD394m from two issuers), its highest yet. Both HSBC and MTR have waste collection and recycling in their frameworks, with HSBC specifically mentioning waste disposal methods like methane capture. It was followed by Water and Energy at 9% each and finally Land Use and Unallocated A&R[6], both at 0.3%.

The diverse range of proceeds allocation was driven by HSBC, whose Green Bond Framework listed all categories except Industry and ICT as eligible and MTR whose seven bonds financed Energy, Buildings, Transport, Water and Waste.

All 2020 green bond and loan issuance carries a form of external review

100% of the 2020 green bond and loan volume benefits from external review in the form of SPOs, repeating the achievement of 2019. Sustainalytics was the top reviewer in 2020, providing SPOs to Swire Properties (3 bonds and one loan), Hang Lung Properties and its Special Purpose Entity HLP Finance (a total of 3 bonds) and MTR Corp (7 bonds), while the two deals from HSBC followed the framework that had been reviewed by CICERO. In terms of volume, 98% of the issuance amount (USD2.04bn) was reviewed by Sustainalytics, up from 28% market share last year, with CICERO reviewing the remaining USD50m from HSBC.

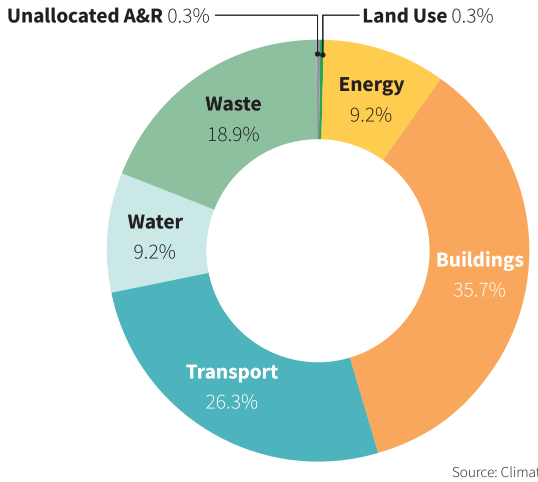
HKEX remains most popular listing venue in the region

Hong Kong Stock Exchange (HKEX) remained the largest venue for China's offshore green bond listing. In addition to Hong Kong's local issuance, such as MTR's USD1.2bn green bond, there are USD3.9bn worth of green bonds from eight mainland China-domiciled issuers listed on HKEX. Examples include Bank of China, China Construction Bank, CIFI Holdings and Zhenro Properties Group. The multilateral development bank EBRD (European Bank for Reconstruction and Development) also listed a HKD100m (USD12.9m) green bond on HKEX. In terms of upcoming changes in 2021, it will be interesting to see the response to HKEX's mandatory ESG reporting regulation for listed companies and how, if at all, it will impact green bond disclosure in the future.

The broader universe of sustainable finance products

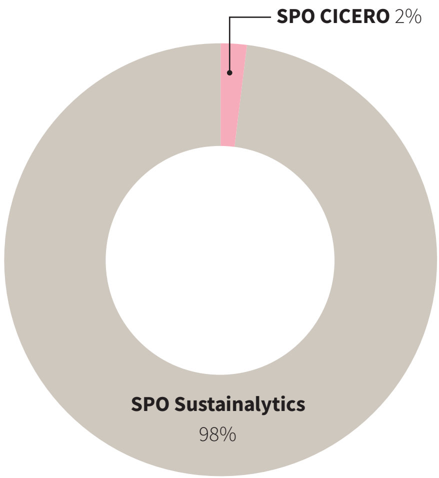
The Covid pandemic has prompted the world to rethink sustainability and our relationship with natural ecosystem. In 2020, the global sustainable debt market that includes green, social and sustainability (GSS) - themed bonds hit a new record, with USD700bn worth of GSS instruments issued, almost double the prior year which stood at USD358bn.[7]

Over a third of green bond proceeds allocated to Low-Carbon Buildings



Source: Climate Bonds Initiative

All green debts in 2020 had an SPO



Source: Climate Bonds Initiative

In Hong Kong, social and sustainability themed issuance as well as related innovative products also bloomed in 2020. Repeat green bond issuer MTR expanded its financing tools by issuing USD60m sustainability bond. Industrial Bank placed through its Hong Kong Branch a USD385m pandemic bond, which was health-related and hence sat under the social theme.

Additionally, Hong Kong real estate sector has been increasingly leveraging sustainability-linked loans (SLLs) and pioneering in hedging solutions. SLL are a non-use-of-proceeds type of debts where funds raised are not earmarked or ringfenced, and interest margin depends on the borrower's performance against predetermined environmental, social and governance (ESG) targets. Hang Lung Properties signed its inaugural SLLs worth USD193m (HKD1.5bn) and Fortune REIT secured its first SLL worth USD129m (HKD1bn) in 2020,[8,9] while Hysan Development and New World Development hedged their risk exposures with innovative sustainability-linked cross-currency swap and interest rate swap linked to the United Nations Sustainable Development Goals (UNSDGs) respectively, both were first of its kind in Hong Kong.[10,11] These broader sustainable finance products are not included in the Climate Bonds green bond & loan figures and the above-mentioned deals have not been screened in line with Climate Bonds Green Bond Database criteria but are noted here for completeness.

Market dynamics from a broader perspective: green bonds arranged by banks in Hong Kong

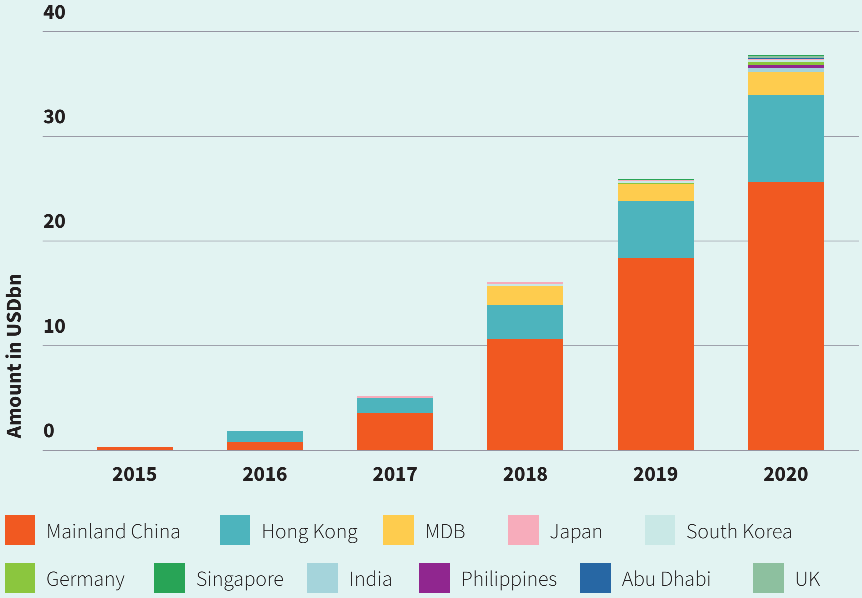
To reflect the size of Hong Kong as an international financial centre for green bond issuance, the Hong Kong Monetary Authority (HKMA) adopts a different methodology to Climate Bonds (as described on p.1) in measuring the green bond market size.

The HKMA considers a green bond as arranged and issued in Hong Kong if a majority of its arranging activities take place in Hong Kong. Bond arranging activities comprise originating and structuring, legal and transaction documentation preparation, and sale and distribution. There is a **distinction between Climate Bonds' and HKMA's approach to measuring market size**. This section analyses at the Hong Kong green bond market using HKMA's methodology.

Although Climate Bonds and HKMA use different approaches to determine market size, all the green bonds and loans captured by the HKMA are aligned to Climate Bonds green definition.

Hong Kong's green debt market continued to grow in size and diversity. In 2020, USD12bn of green debt was arranged and issued in Hong Kong, of which USD1.3bn were green loans. Cumulative green debt issuance amounted to over USD38bn by the end of 2020.

Cumulative green debt arranged and issued in Hong Kong amounts to over USD38bn



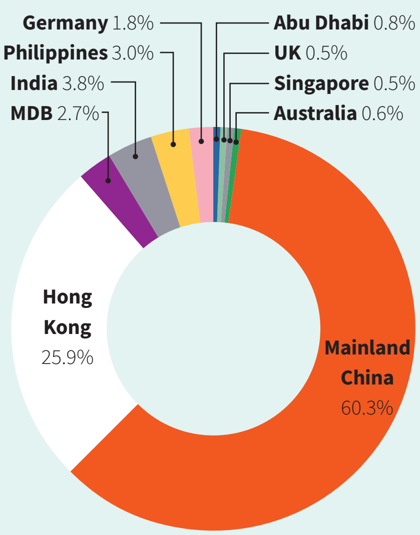
Mainland entities continued to drive the market, with green debt issuance totalling USD7bn in 2020, or 60% of the total. Local Hong Kong issuers were the second largest issuer group, making up nearly 26% of the market. The rest of the market comprised issuers from a broad range of countries in Asia Pacific, Middle East and Europe.

Corporates, notably the real estate sector, led the issuer universe, making up 66% of total green debt issuance in 2020, overtaking financial institutions for the first time. Still, financial institutions (FIs) contributed nearly 30% of the market, with some notable issuances including the first HKD green bond by a Middle East issuer (First Abu Dhabi Bank[12]), Asia's first blue bond by Bank of China, as well as HSBC's inaugural green institutional certificates of deposit.[13]

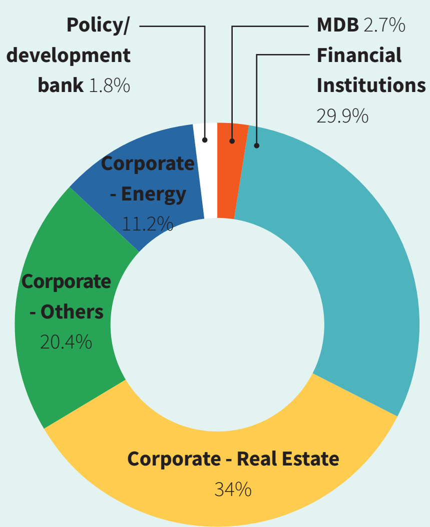
69% of total green debt by volume was denominated in USD, a decline from 81% in 2019. HKD was the second most popular currency, accounting for over 20% of total issuance by volume. EUR and CNY contributed similar shares, of 5% each.

There were positive signs of wider adoption of green and sustainable financing, in terms of issuers and product types: **one-third of the green bond issuers in 2020 were first time issuers in Hong Kong,** and we saw sizable issuance of sustainability-linked loans and bonds and transition bonds.[14]

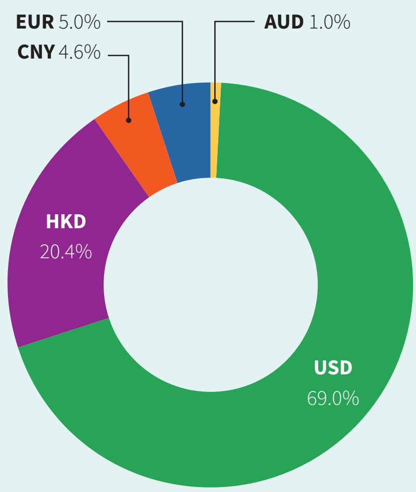
Mainland issuers led green debt issuance in 2020



2020: Corporate issuers account for 66% issuance

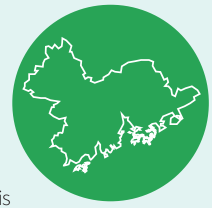


Mix of currencies with USD leading



All graphs: HKMA, according to HKMA methodology

Greater Bay Area: Green bond issuance slows down amid the global pandemic



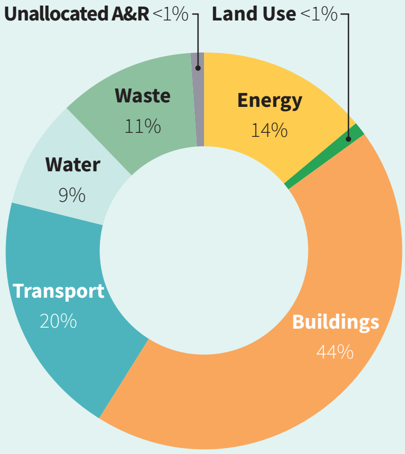
The Greater Bay Area (GBA) includes two Special Administrative Regions of Hong Kong and Macau, together with the nine cities in Guangdong Province. It is included here because of the regions increasingly important collaboration, following the State Council's announcement of the "Outline of the Guangdong-Hong Kong-Macau Greater Bay Area Development Plan" in early 2019, which places heavy emphasis on green development and low-carbon transition, along with a series of policy measures from governments on both central and local levels thereafter.

Eligible green bonds from the GBA-domiciled issuers in 2020 amounted to USD3.1bn, a 51% decline year-on-year, a similar trend is observed in China's green bond market. Aligned green bonds from Guangdong totalled USD603m (versus USD2.9bn in 2019), which were brought by Dongguan Rural Commercial Bank, China Resources Leasing Co. Ltd., Guangzhou Transportation Group and Guangdong Power Development. A total of USD3.1bn worth of green bonds by Guangdong-domiciled issuers are not aligned, mostly due to issuers allocating proceeds to general working capital (rather than specific green projects) – this is not in line with the Climate Bonds Green Bond Database criteria.

Following the inaugural green bond placed in Macau by Bank of China in 2019, the bank tapped the debt capital market through its Macau branch again in 2020, with a USD442m blue bond. It was Asia's first blue bond with proceeds allocated to offshore wind energy and marine-related integrated sewage treatment projects. (Note: Bank of China is a China-domiciled issuer, hence it is included in the Climate Bonds Initiative's China green bonds tally, instead of being classified as a bond issued by Macau-domiciled issuer, the bond is noted here for completeness).

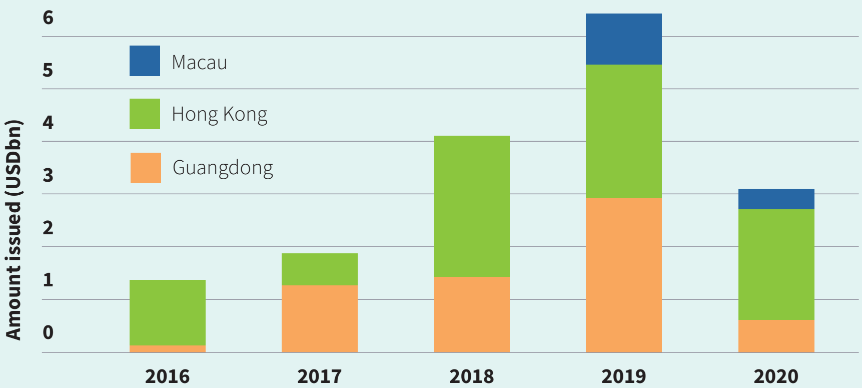
Buildings were the dominant theme of GBA green bonds in 2020, accounting for 44% of the total volume, driven by the green buildings-related issuance in Hong Kong. Transport (20%) and Energy (14%) were the next largest use of proceeds categories of GBA green bonds.

Buildings remained the dominant theme in GBA



Source: Climate Bonds Initiative

Green bond issuance in GBA slowed down amid the global pandemic



Source: Climate Bonds Initiative

Wider market developments in Hong Kong

Transforming into a climate-resilient financial system with multidimensional policy actions

Scaling up investments for climate action and sustainability requires unwavering policy support. In 2020, Hong Kong rolled out a series of policy actions that aim at bolstering the development of green and sustainable finance in different dimensions:

Climate pledge to carbon neutrality by 2050

In November, Hong Kong Chief Executive Carrie Lam announced Hong Kong's 2050 carbon neutrality goal in her 2020 Policy Address. To this end, the government will also update the "Hong Kong's Climate Action Plan" and set out more proactive strategies as well as measures to reduce carbon emissions.[15]

Green prudential measure

In May 2020, the Hong Kong Monetary Authority (HKMA) announced the details of the Common Assessment Framework, a self-assessment framework that collects information surrounding six categories, namely governance, corporate planning and tools, risk management process, business policies, products and services, performance and resources, disclosure and communication. It serves as a tool to evaluate financial institutions' capacity to address climate (both physical and transition) and environmental-related risks.[16]

Climate-risk disclosure becomes part of Fund Manager Code of Conduct

In October, the Securities and Futures Commission (SFC) launched a consultation on the proposed amendment of the Fund Manager Code of Conduct, requiring fund managers to factor climate-related risks into their investment and risk management processes. In view of growing demands for climate risk information on investment, SFC also proposed to set out baseline requirements for fund managers, to improve disclosure quality and comparability.[17]

Green and sustainable finance prompts cross-departmental collaboration

In May 2020, the Green and Sustainable Finance Cross-Agency Steering Group was convened, with HKMA and SFC as co-chairs, and other members including the Environment Bureau, the Financial Services and the Treasury Bureau, Hong Kong Exchanges and Clearing Limited (HKEX), the Insurance Authority and the Mandatory Provident Fund Schemes Authority. In December, the Steering Group unveiled its strategic plan for strengthening Hong Kong's green and sustainable finance ecosystem, spanning six long-term focus areas. Five near-term action points were also set out - the Steering Group intends to require adoption of Task Force on Climate-related Financial Disclosures recommendations across relevant sectors by 2025, and adopt the Common Ground Taxonomy, which will be developed in 2021 by the International Platform on Sustainable Finance (IPSF) Working Group on Taxonomies co-led by China and the EU.[18]

A look ahead to 2021 – upping the ante on financing for low carbon transition

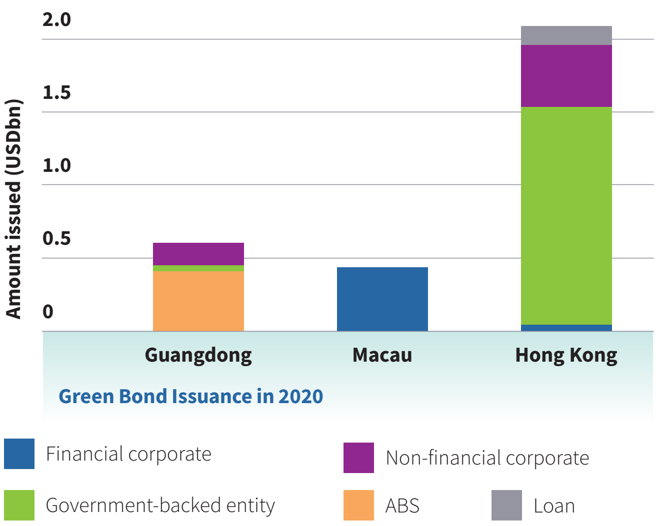
Closer collaboration with the Greater Bay Area

The Hong Kong Green Finance Association (HKGFA) celebrated the official launch of the Guangdong-Hong Kong-Macau Greater Bay Area Green Finance Alliance ("GBA-GFA") at the inaugural launch ceremony in Guangdong last September. The Alliance aims to promote research and incubate green investments that will benefit the GBA by leveraging the vast green investment demand in Guangdong and green finance capacities in Hong Kong and Macau. The Alliance is already supporting six green finance-related projects: the Green Building Project, Blockchain Solar Project and Carbon Connect will be led by Hong Kong, the Solid Waste Disposal will be led by Shenzhen and the Green Supply Chain Financing Action Guide will be led by Guangdong. The GBA deep decarbonisation research is the latest project newly added to the platform, aiming to provide detailed carbon neutrality pathway and to scale up transition financing in the Greater Bay Area.

Within the short space of time, the Green Building Project has already released two landmark reports on financing the decarbonisation of the buildings industry. "Green Building Rating System Energy Benchmarking Report" and "Buildings Policy Decarbonisation Report" state that energy saving requirements must be clearly set for all Green Building Rating Systems. The reports also suggest that a building sector decarbonisation roadmap should be developed with steps to achieve net-zero by 2050. A dedicated Cross-Agency Body will be necessary to implement the decarbonisation roadmap. The second GBA-GFA annual forum is expected to take place in Shenzhen in the 2nd half of 2021.

Closer collaboration between Hong Kong and other GBA cities would facilitate coordinated effort on strategic sectoral planning, standard setting and carbon emission data collection for a more comprehensive approach of decarbonisation. Apart from green buildings, there is also a huge potential for growing green securitisation in the GBA, as green ABS remains a common issuer type for green bonds in Guangdong, cumulative issuance reached USD2.4bn (or accounted for 38%) since 2016, and it is instrumental in improving access to capital for small-scale green projects. Hong Kong is well positioned to serve as a financing hub in channelling international capital into GBA's green ABS.

Green ABS is common in Guangdong



Source: Climate Bonds Initiative

News and events

HKEX announced its plan to launch Sustainable and Green Exchange (STAGE) in June 2020, Asia's first multi-asset sustainable investment product platform and an online product repository. In December, when STAGE was officially launched, 29 sustainable-themed products from leading Asian corporates were featured, a variety of sectors including utilities, transportation, property development and financial services as well as ESG-related exchange traded products.[19]

In June, **the HKMA issued the White Paper on Green and Sustainable Banking** to give an overview on climate change and sustainability issues, and discuss the implications of these issues on the banking sector. The regulator's initial thoughts on supervisory expectations and requirements were also presented.[20]

In November, **International Finance Corporation (IFC) and HKMA signed a new partnership** to support commercial banks in Asia on their green transition and address climate change- the Alliance for Green Commercial Banks. The HKMA serves as the founding member and first regional anchor for the new Alliance. The HKMA and IFC will jointly set up targeted initiatives and campaigns providing practical guidance for banks to plan for mainstreaming of green finance and revamp existing green financial products and services.[21]

Working towards Hong Kong's net zero carbon future

Subsequent to the commitment of carbon neutrality by 2050 , the HKSAR government is expected to announce the revamped "Hong Kong's Climate Action Plan" in the middle of 2021, with more aggressive carbon reduction strategies and measures.

Turning pledges to intended outcomes requires a holistic approach with coordinated efforts between the government, regulators, banks, investors and private sector in devising decarbonisation strategies and action plans at sectoral level, underpinned by a series of effective policy (including monetary, macroprudential and fiscal) and financing tools.

The HKSAR government has issued USD3.5bn worth green bonds thus far (including the inaugural USD1bn in 2019 and USD2.5bn in February 2021), leading the sovereign green bond space in Asia. In early 2021, it announced to issue about USD23bn (HKD175.5bn) green bonds in next five years, having regard to the market situation, aiming to cover a larger variety of project types and bond features.

Working towards achieving a carbon neutrality target, will entail not only promoting the green industry, but also supporting traditional, carbon-intensive industries to embark on "brown- to-green" transition, i.e., decarbonising the high emitting and hard-to-abate sectors. Demonstration issuances by the HKSAR government that finance ambitious transition pathways could allow deeper engagement between various governmental bureaus, ensuring funding allocation matches with decarbonisation strategies and sectoral priorities, and the city will be gradually moving away from the current fossil-fuel-reliant energy mix.

Demonstration issuance would also benefit the market by giving clear guidance on domestic decarbonisation pathways and best practices on target setting and disclosure requirements, thereby strengthening Hong Kong's role as Asia's sustainable finance hub.

Credible and ambitious transition finance can support Asia's carbon neutrality goals

Addressing climate change requires fundamental and rapid transformation across all sectors of the economy. The question is no longer why or whether the global economy needs to move towards a low carbon, climate adapted, sustainable model, but rather how rapidly the required transition can be financed and operationalised.

Transition finance and the understanding of sufficiently ambitious transition pathways are still at a nascent stage. Hong Kong could play a crucial role in lending a voice of support and contemplating how regulation could assist in incentivising the Asian market to scale. **The robust development of transition finance hinges on credibility and ambition,** as the transition strategies and pathways set out by issuers will come under even greater scrutiny than other instruments.

In Asia, transition finance is taking shape with a growing number of issuers raising funds from transition bonds or loans. While the first movers have played a vital role in bringing attention to this space, the link between individual deals and wider transition pathways to net zero by 2050 has been limited thus far.

Science-based sector-specific transition pathways are essential for issuers to understand what is eligible to be financed. While these are being developed, issuers could look to available guidance in the Transition Bond Principles and Climate Bonds "Financing Credible Transitions" Whitepaper (see below).[22]

To attract more transition finance deal flows, Hong Kong policymakers will have to take a proactive role in leading the collaborative effort with investment community, scientists, subject matter experts and intermediaries in reinforcing the idea of an ambitious and robust transition model. In the "Financing Credible Transition" Whitepaper published in last September, Climate Bonds highlights that transition has to be science-based and in line with 1.5-degree global warming outcomes, i.e., it should not be a transition to transition.

Hong Kong's leadership in aligning to a robust framework and coordinating actions across the financial system to support economy-wide transition, as advocated by the Glasgow Financial Alliance for Net Zero (GFANZ)[23] , would be pivotal in raising awareness of the climate emergency in lead up to United Nations COP 26 this November and beyond.

Endnotes

1. HKMA figures capture green bonds and green loans, of which majority of debt arranging activities take place in Hong Kong. See p. 3
2. Climate Bonds identified at least six other eligible green loans worth USD899m by Hong Kong entities in 2020, however, due to confidentiality, these deals are not included in the figures in this report nor the Climate Bonds database.
3. Climate Bonds records the borrower's name rather than the lender's name for a green loan.
4. https://www.climatebonds.net/market/green-bond-database-methodolgy
5. https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2021/20210504e4a1.pdf
6. A&R stands for adaptation and resilience, for bonds with proceeds allocated to A&R but without mentioning the sector, then at Climate Bonds, we allocate the % of Use of Proceeds to Unallocated A&R.
7. Climate Bonds is now expanding our renowned tracking and coverage of the green bond market to data including other thematic debt instruments – particularly sustainability and social bonds, as we believe Green, Social and Sustainability (GSS) debt market is key to the transition to low-carbon, sustainable, and resilient economies across the world.
8. https://www.hanglung.com/en-us/media-center/press-releases/2020/20201208
9. https://www.dbs.com/newsroom/Fortune_REIT_secures_its_First_Sustainability_Linked_Loan_of_HK1_Billion_from_DBS
10. https://cib.bnpparibas/asian-real-estate-embraces-sustainable-financial-solutions/
11. https://www.theasset.com/article-esg/42303/new-world-dbs-complete-interest-rate-swap-linked-to-unsdgs
12. https://www.bankfab.com/en-ae/about-fab/group/in-the-media/fab-issues-hkd750-million-five-year-green-bond
13. https://www.about.hsbc.com.hk/-/media/hong-kong/en/news-and-media/200310-institutional-green-cd-en.pdf
14. These broader sustainable instruments (e.g. sustainability-linked deals and transition bonds) were not included in the green debt figures above.
15. https://www.policyaddress.gov.hk/2020/eng/pdf/PA2020.pdf
16. https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2020/20200513e1.pdf
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20. https://www.hkma.gov.hk/media/chi/doc/key-information/guidelines-and-circular/2020/20200630c1a1.pdf
21. https://www.hkma.gov.hk/eng/news-and-media/press-releases/2020/11/20201109-4/
22. https://www.climatebonds.net/transition-finance/fin-credible-transitions
23. The Glasgow Financial Alliance for Net Zero (GFANZ) is a financial services industry-led and UN-convened alliance set up in April 2021, which is made up of over 160 world's largest banks with the aim to facilitate strategic and technical coordination to accelerate the transition to a net zero economy. https://unfccc.int/news/new-financial-alliance-for-net-zero-emissions-launches

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