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30 June 2023

Banking Policy Department
Hong Kong Monetary Authority
55th Floor, Two International Finance Centre
8 Finance Street, Central, Hong Kong

Dear Sir/Madam,

[RE: DISCUSSION PAPER – PROTOTYPE OF A GREEN CLASSIFICATION FRAMEWORK FOR HONG KONG](#)

CFA Society Hong Kong has reviewed the discussion paper on the proposed prototype of a green classification framework for Hong Kong. We welcome the idea of designing and implementing a local green classification framework (i.e., taxonomy) but caution that it should be built upon a well-defined climate goal. Our responses also highlight the need for consistency in requirements for maintaining the credibility of sustainable finance, and a governance framework that emphasizes clear disclosure requirements and robust regulatory mechanisms to ensure the credibility and effectiveness of Hong Kong's green taxonomy.

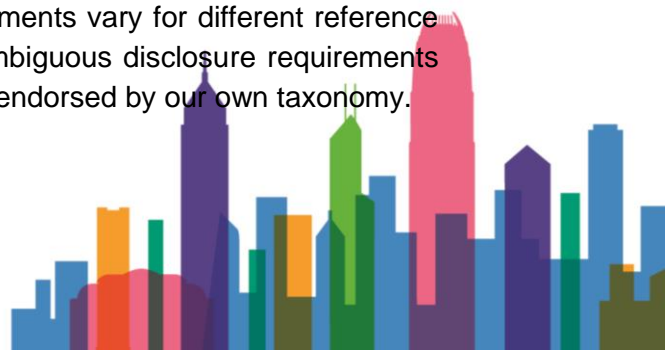
Question 1:

What are your views on the design and structure of the prototype? Do you agree with the principles on which the prototype is built?

We note that the prototype currently adopts a "sum-of-all" approach by first adopting the Common Ground Taxonomy, then the EU or China Taxonomies, plus Hong-Kong specific industry standards. However, the climate plans of the EU, China and Hong Kong are not exactly the same, with China aiming to achieve carbon neutrality by 2060, while Hong Kong and the EU have net-zero targets for 2050, each with their own interim targets.

We believe that a taxonomy should be built upon a well-defined climate goal. As such, we are concerned that such a "sum-of-all" classification framework may not provide investors with a clear and consistent green standard, given the different climate plans described above.

In addition, we note that the discussion paper is silent on disclosure requirements for green activities, including the frequency and granularity of green disclosure, and third party-verification. However, we note that such requirements vary for different reference taxonomies. In this regard, we are concerned that ambiguous disclosure requirements may undermine investor confidence in the green label endorsed by our own taxonomy.





To address the potential issues arising from differences in green standards underlying the reference taxonomies, we suggest the Hong Kong Monetary Authority (“HKMA”) design our own green standard taking into account each reference taxonomy, the specific requirements under their respective green standards, and the unique characteristics and needs of the Hong Kong market.

Question 2:

Do you have any comments on the metrics, TSC and thresholds? If you foresee any operational difficulties in implementing the metrics, TSC and thresholds, please provide specific details of alternative/substitute with supporting information and evidence.

We note that there is variance in the use of proceeds requirements for green bond issuance between China and the EU. Under the proposed “sum-of-all” approach, the variances in requirements may lead to potential greenwashing and undermine the credibility of our green taxonomy.

Particularly, in China, the requirements on use of proceeds vary, for green financial bonds and corporate bonds, 100% of proceeds are required to be invested in green projects, but the state-related entities (i.e., green enterprise bonds) are required for not less 50%¹. It is also worth noting that the major green bonds issuers in China have been state-related entities (Lin & Hong, 2022²).

On the other hand, the recently passed political agreement in the EU requires that at least 85%³ of proceeds to be used for environmentally sustainable economic activities. Thus, the jurisdictions under the reference taxonomies do not have a consistent requirement for the use of proceeds.

We believe that consistency in requirements is crucial for maintaining the credibility of sustainable finance and avoiding greenwashing. As such, we urge the Authority to carefully consider establishing a clear and consistent framework for Hong Kong taxonomy.

¹ 发改委《绿色债券发行指引》规定：“债券募集资金占项目总投资比例放宽至 80%...允许企业使用不超过 50%的债券募集资金用于偿还银行贷款和补充营运资金”。<https://www.ndrc.gov.cn/xxgk/zcfb/tz/201601/W020190905506562769728.pdf> [2023-06-13]

² Lin Lin and Yanrong Hong (2022) *Developing a Green Bonds Market: Lessons from China*, European Business Organization Law Review (2022) 23: 143-185.

³ The European green bond standard: “issuers would need to ensure that at least 85% of the funds raised by the bond are allocated to economic activities that align with the Taxonomy Regulation”.
https://ec.europa.eu/commission/presscorner/detail/en/mex_23_1301 [2023-6-13]



Question 3:

Are there any metrics, TSC and thresholds that could be further adapted in the local context?

No comments.

Question 4:

Are there any other certification schemes or labels in Hong Kong that can be used as proxies for compliance with TSC?

No comments.

Question 5:

Do you have comments on the elements and activities to be included in the future development of the taxonomy, such as any new sectors, transitional activities, new environmental objectives and the DNSH and MSS criteria?

No comments.

Question 6:

Do you have any comments on how the taxonomy should be used in Hong Kong?

Regarding the way forward for the proposed taxonomy, we suggest that the HKMA consider the below two areas: scope of application and governance framework.

i) Scope of Application

We recognize that page 16 of the discussion paper highlights the common use of green taxonomies for labelling green bonds and loans. However, given the rapid evolution of green finance in recent years, we believe it is crucial for Hong Kong's green taxonomy to encompass a broader range of green financial products. This may include green asset-backed securities, green exchange-traded funds, and other green derivatives or financial products that are becoming increasingly relevant in the market.

By establishing a comprehensive green taxonomy and ecosystem applicable to all green financial products issued or traded within Hong Kong's jurisdiction, we can strengthen our commitment to green finance and Hong Kong's status as an international green finance hub.

ii) Governance Framework

The lack of universal classification standards, the quality and availability of ESG data, diverse business practices for product labeling, potential misconduct like greenwashing, and the limited spectrum of ESG investment products and risk management tools are the



main obstacles we must overcome to build a sustainable financial system (Shusong, 2021⁴).

To ensure that Hong Kong is at the forefront of this effort, we advocate for a governance framework that emphasizes clear disclosure requirements and robust regulatory mechanisms. By incorporating these elements into the governance framework, we can protect the authenticity of Hong Kong's green label and foster the growth of green finance market.

Clear disclosure requirements

Echo to The Stock Exchange of Hong Kong Limited's consultation paper on enhancement of climate disclosures of listed issuers, we suggest that the HKMA require green financial products issuers to disclose their environmental impact and sustainability initiatives in a standardized, accessible format. By doing so, we can facilitate comparisons and evaluations by investors, promote transparency and accountability, and enable investors to make informed decisions.

Robust regulatory mechanisms

We believe that robust regulatory mechanisms are critical for ensuring the effectiveness of the governance framework. The design of regulatory mechanisms should consider who enforces the rules (e.g., contracting parties, independent third-party, public enforcer), how compliance is monitored, what penalties and sanctions are available in case of noncompliance, and the enforcement process. Researches have shown that there are various trade-offs among these options, and the appropriate design will depend on factors, such as the nature and maturity of the market and the incentives of the enforcers. For instance, when enforcement is left to the contracting parties, well-functioning courts are of central importance. When enforcement is delegated to a third party such as an auditor or a public enforcement agency, the incentives of the enforcer, and the question of who monitors the auditor or enforcement agency become central issues (Leuz, 2010⁵).

We are concerned that the discussion paper is silent on governance framework, which is essential for overcoming the obstacles in building a sustainable financial system. We urge the HKMA to establish clear disclosure requirements and robust regulatory mechanisms as part of the governance framework to ensure the credibility and effectiveness of Hong Kong's green taxonomy.

⁴ BA Shusong (2021) *Green & Sustainable Finance From vision to market practice*, page xv, HKEx

⁵ Christian Leuz (2010) *Different approaches to corporate reporting regulation: how jurisdictions differ and why*, Accounting and Business Research, Vol. 40. No. 3 2010 International Accounting Policy Forum, pp. 229-256229.



**CFA Society
Hong Kong**

Thank you again for the opportunity to participate in this consultation. Should you have any questions regarding our comments, please do not hesitate to contact me at matthew.chan@cfahk.org or 2530 9200.

Yours faithfully,
For and on behalf of
CFA Society Hong Kong

Matthew Chan
Managing Director



**CFA Society
Hong Kong**