

Hong Kong

Green Bond Market Briefing
May 2020

Green Bond-HK issuers: Cumulative issuance USD7.1bn: FY 2019 USD2.6bn, down 5% on FY 2018

Green bonds arranged and issued in HK: USD26bn overall; USD10bn in 2019*

Low-Carbon Buildings remain dominant theme, new government green issuance and support measures

The Hong Kong green bond market in 2019 was characterised by the Government's continued support, notably the inaugural government green bond, coupled with measures from the city's financial regulators. Total issuance by Hong Kong-domiciled entities was down slightly to USD2.6bn (HKD20bn)¹, a decrease of 5% or USD140m on 2018, offset by increasing diversification of issuer types and project categories funded by green bonds.

Issuance from real estate developers remained one of the key drivers for the domestic green bond market. Newcomer Hysan MTN Limited tapped the market with four green bonds (USD197m) in 2019. A growing number of real estate developers opted for green loans to finance projects in 2019, including The Wharf Holdings, Hang Lung Properties and Capital Court Limited (a subsidiary of Lai Sun Development).²

2019 marked by most diversity and first government green bond

Six Hong Kong issuers came to market in 2019. Only the Hong Kong Special Administrative Region (HKSAR) Government and Link REIT issued benchmark-sized deals in 2019, with a USD460m green loan to Capital Court Limited coming close. Despite being the smallest issuer by volume (USD197m), market debutant Hysan was the most prolific with four deals from January to May.

In terms of issuer types, the mix changed significantly in 2019. Hysan was the only Non-Financial Corporate of the year - the other three green deals from Non-Financial Corporates are classified as loans. The drop in issuance from this issuer type was compensated by Hong Kong's first government deal as well as the first deal from a Financial Corporate since 2016 (the same issuer, Link REIT). 2019 was also the first year with no issuance from Government-Backed Entities. Overall, there were four different issuer types, making 2019 the year with most diversity so far.

Low-Carbon Buildings reach record-high of 61%

While the mix of proceed allocations was quite varied in 2019 with eight categories financed, the share of Buildings grew to almost two-thirds (61%), the highest yet. Allocations to Buildings now represents just under half (48%) of the total cumulative amount issued.

All nine deals from 2019 were intended to finance Buildings to some degree, and four only funded this category. The three largest allocations by volume came from the Buildings category, Link REIT (HKD4bn/USD510m), Capital Court Limited (HKD3.6bn/USD460m) and The Wharf Holdings (HKD2bn/USD255m), respectively. The next largest category was Waste (8%), followed by Industry, Transport, Water, Land Use all at 6% and Energy at 5%. This range was driven by HKSAR's Government's deal, whose Green Bond Framework listed all categories except ICT as eligible. Waste additionally benefitted from allocations from Hysan's four bonds, which also financed Buildings, Adaptation and Energy Efficiency across sectors.

* Note: HKMA figures capture green bonds only, for which a majority of bond arranging activities take place in Hong Kong. See p. 3.

Climate Bonds' approach to determining a bond's country

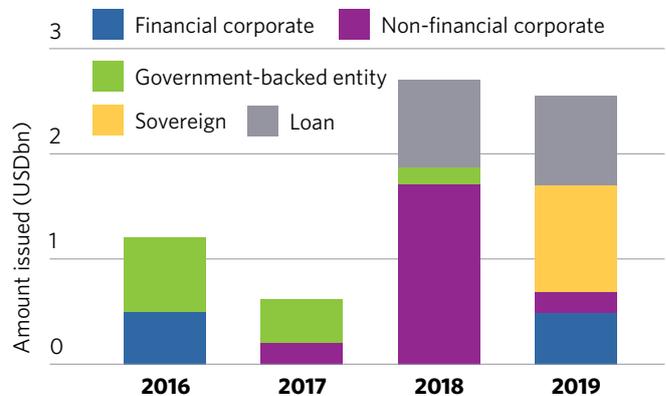
Climate Bonds uses the country of risk to determine how to assign a country to each bond.

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

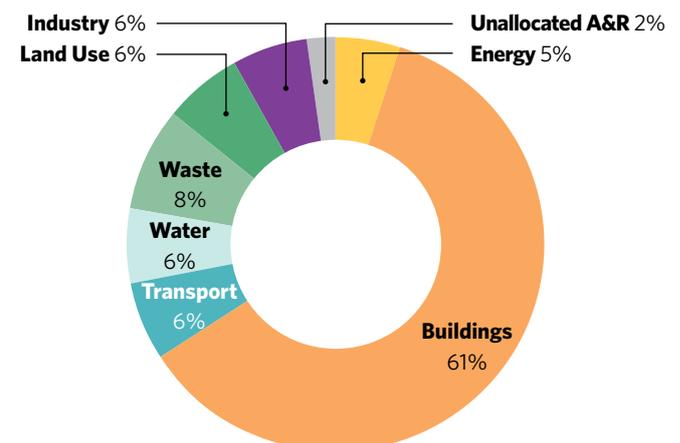
For secured bonds, the country where the assets used as collateral are located is considered. However, a parent guarantee or other recourse to a parent company in another domicile would influence the determination.

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

Increasing diversity of issuer types in Hong Kong



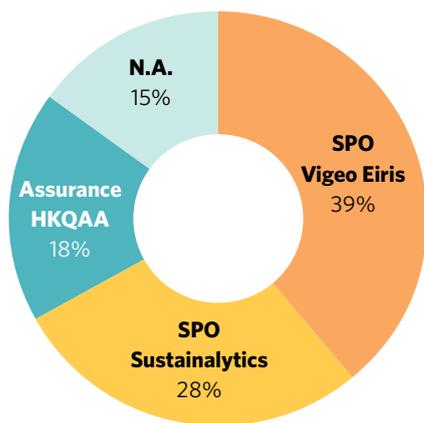
Nearly two-thirds allocated to Low-Carbon Buildings



External reviews are common

A significant share (85%) of 2019 green issuance volume, and 100% of 2019 green bond issuance volume in Hong Kong benefits from at least one type of external review. 67% carries a second party opinion (SPO). Vigeo Eiris was the top external reviewer in 2019 benefiting from the USD1bn inaugural green bond from HKSAR Government. This is followed by Sustainalytics with 28% market share, composed of two deals from two Hong Kong property companies - Hysan and Link REIT. 18% of the 2019 issuance carries assurance from Hong Kong Quality Assurance Agency (HKQAA). The remaining 15% that do not have any form of external reviews are green loans.

85% of issuance has at least one type of external review



Denomination in local currency on the rise

While in 2018 USD-denominated deals dominated (66%), 2019 saw HKD-denomination rising strongly with eight deals from five issuers accounting for 61% of the volume. The remaining deal was the HKSAR Government green bond, denominated in USD.

2019 was the first year in which the majority of volume was denominated in local currency, and the first year since 2016 with denomination in only two currencies (USD and CNY in 2016).

HKEX remains the most popular listing venue

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 the USD1bn government green bond, there are USD7.3bn worth of green bonds from ten mainland China domiciled issuers listed on HKEX. Examples include Jiangxi Provincial Water, Wuhan Metro, ICBC Financial Leasing, and the GBA-themed deals from Agricultural Development Bank of China (ADBC) and Zhuhai Da Hen Qin Investment.

Greater Bay Area green bonds on the rise

In addition to the Hong Kong green deals, there were USD2.9bn worth of green bonds from Guangdong-based issuers in 2019. The USD963m green bond placed by Bank of China through its Macau Branch marked inaugural issuance in Macau SAR.³ Total volume of green bonds from Greater Bay Area (GBA)-domiciled issuers reached USD6.4bn in 2019, a 54% increase year on year.

In addition to Zhuhai Da Heng Qin Investment as a local issuer who brought a GBA-themed green bond financing green buildings in the region, the Industrial and Commercial Bank of China and ADBC have also issued GBA-themed green bonds with proceeds dedicated to green development in the area.

GBA green bonds grew 54% in 2019



81% of HK green bonds carry post-issuance disclosure

Post-issuance reporting allows investors to track the allocation of green bond proceeds during the life of the assets or projects financed. It provides transparency and enhances the credibility of green bonds, contributing to market integrity. The Climate Bonds Standard requires compulsory reporting on proceeds allocation at least annually for Certified Climate Bonds; the Green Bond Principles (GBP) and other local guidelines also encourage issuers to report to investors on the indications given at issuance regarding the use of green bond proceeds and, ideally, also project or portfolio impact.

In 2019, Climate Bonds conducted a survey of 48 of the largest Europe-based fixed income asset managers, with total assets under management (AUM) of EUR13.7tn. The survey found that green credentials and transparency are highly valued by investors. The majority of respondents stated that poor post-issuance reporting would (55%) or could (30%) lead to bond sale, while only 15% stated they would hold the bond regardless.

Given that most guidelines encourage annual reporting, we allowed time for a year to lapse with a grace period for reporting to be made public. Climate Bonds analysed green bonds issued up to 31 December 2018 and excluded bonds that had matured before the cut-off date. Of the USD4.5bn worth of green bonds from 12 issuers since 2016, 81% (or USD3.6bn) carries disclosure on the proceeds allocation at post issuance stage. The absence of public disclosure is common among privately placed deals.

Best practice example

Government-Backed Entity: MTR

MTR publishes an annual standalone Green Finance Report, which details the company's green finance portfolio and the project portfolio funded, alongside an assurance report confirming its compliance with the GBP.

As per the 2018 Green Bond Report, the green finance portfolio of MTR consisted of nine green bonds and one green loan. MTR gives a breakdown of how the green finance proceeds were allocated to different projects. A description of each green project is also included in the report.

In terms of the environmental benefits, MTR provides the GHG emissions avoided in tonnes CO₂e for low carbon transportation projects and energy conservation (estimates) in kWh (MWh) for energy efficiency projects. The methodology for estimating environmental benefits of railway lines is given in the appendix of the report.

Distinction between Climate Bonds' and HKMA's approach to measuring market size

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 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.

Albeit Climate Bonds and HKMA use different approaches to determine market size, all the green bonds captured by the HKMA are aligned to Climate Bonds green definition. While Climate Bonds includes green loans and green panda bonds issued in mainland China by Hong Kong entities in its figures (given the domicile of the issuer), HKMA does not include them in its green bond tally.

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

In 2019, USD10bn of green bonds was arranged and issued in Hong Kong. This compares to USD11 bn in 2018. Cumulative green bond issuance amounted to USD26bn by the end of 2019.

Cumulative green bonds arranged and issued in Hong Kong amounted to USD26bn by 2019



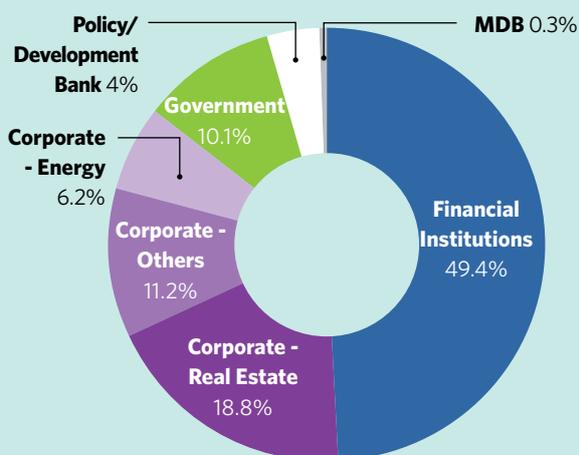
Hong Kong's robust green bond platform, supportive government policies and strong expertise and investor base attracted many new issuers to the market, with more than half (55%) of issuers in 2019 being first-time issuers in Hong Kong.

Mainland Chinese entities continued to drive the market, with an issuance size totalling USD8bn in 2019, or 79% of the market, representing a year-on-year growth of 10%. Hong Kong has long been the preferred offshore fundraising centre for Mainland enterprises. Given their familiarity with the infrastructure, policies and bank expertise in Hong Kong, as well as the growing community of green consulting and accreditation services, most Mainland issuers regard Hong Kong as their first destination to raise offshore funds.

Financial institutions (FIs) contributed almost half of the green bond issuance in Hong Kong, including Industrial and Commercial Bank of China and China Construction Bank etc.

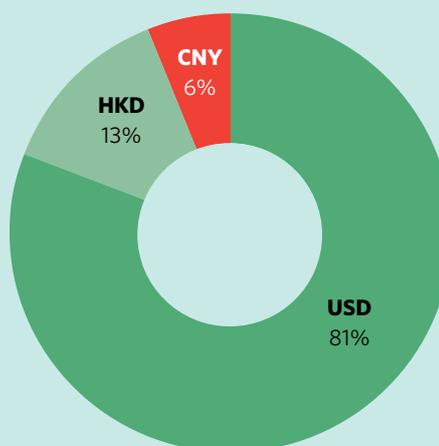
Corporates were the second largest issuer type, making up 36% of the total market, including real estate companies, energy firms and others. The rest of the issuances came from government, development/ policy bank and MDBs.

2019: Issuers come from diverse sectors



USD green bond dominated the universe, accounting for 81% of issuances by volume. This mostly reflects the landscape of the broader international bond market in Asia, in which USD predominates. HKD ranked a distant second, accounting for about 13% of total issuance volume and CNY accounted for 6% of the issuance, mainly by Mainland financial institutions.

81% of the issuance are denominated in USD



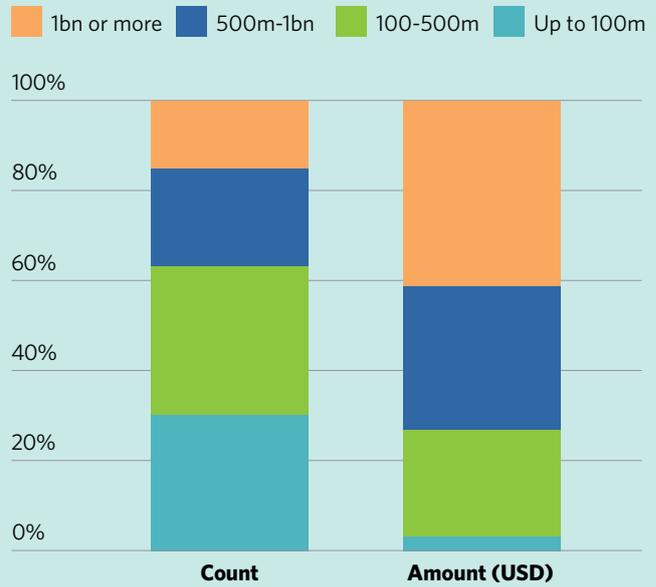
In terms of tenor, the majority (98%) of issuances by volume in 2019 were in the short (up to 5 years) and medium-term (5 to 10 years) space. 67% of short-term deals are from FIs. Medium-term deals are popular amongst corporates (46% of 5-10Y issuance) and FIs (33%). Only local real estate companies have issued longer-dated bonds, with maturity of 10 years or above.

Short to medium term tenors are popular



Deal size was quite even across the board, with 37% of the total number of deals being USD500m or more in size, 33% in the USD100-500m range, and 30% being up to USD100m in size.

Breakdown of deals in size



All graphs: HKMA, according to HKMA methodology

Case Study: HKSAR Government's Inaugural Green Bond Issuance

Size: USD1bn

Date of pricing: 21 May 2019

Tenor: 5 years

External review: Vigeo Eiris, the Hong Kong Quality Assurance Agency (HKQAA)

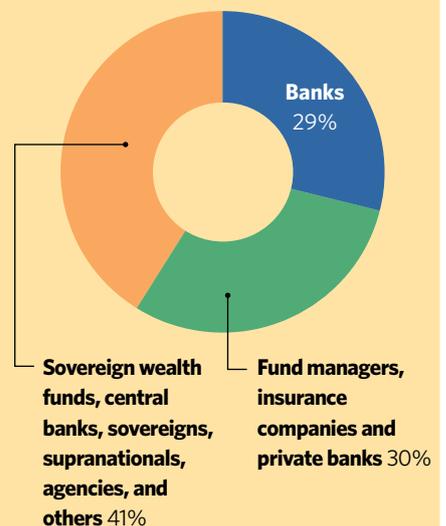
Eligible Project Categories under the Green Bond Framework: renewable energy, energy efficiency and conservation, pollution prevention and control, waste management and resource recovery, water and wastewater management, nature conservation/ biodiversity, clean transportation, green buildings

Strong interest from investors and price tightening

The deal attracted strong interest from a diverse group of conventional and green investors. Orders exceeding USD4 bn - more than 4 times the issuance size, were received from over 100 global institutional investors, and 50% of the green bond was distributed to Asia, 27% to Europe and 23% to the United States. By investor type, 29% was distributed to banks, 30% to fund managers, private banks and insurance companies, and 41% to sovereign wealth funds, central banks and supnationals.

The strong demand led to pricing being tightened by 17.5 basis points from the initial price guidance to 2.555% (32.5 basis points over 5-year US Treasuries).

Investor type breakdown



Government and regulators as key enablers for development of Hong Kong as a green finance hub

While the HKSAR Government supported the market momentum and liquidity with its inaugural green bond offering, financial regulators in Hong Kong also ramped up efforts in enabling the robust development of green finance in 2019. Looking ahead, Climate Bonds expects that the Government and regulators will continue to support accelerating any green and climate finance initiatives in Hong Kong, and bolster Hong Kong's positioning as a green and sustainable finance hub for the region.

Securities and Futures Commission (SFC)

In April 2019, the SFC issued a circular to provide guidance on enhanced disclosures for green or ESG funds, a fund should demonstrate to the SFC that at least 70% of its total net asset value is invested in securities and other investments reflecting the stated green or ESG related investment focus. The SFC set up a dedicated webpage late last year to increase the visibility of the SFC-authorised green or ESG funds that are compliant with the requirements set out in the circular.

Hong Kong Monetary Authority (HKMA)

In May 2019, the HKMA launched three sets of measures that revolve around green and sustainable banking, responsible investing, as well as capacity building in green finance, to support the development of sustainable finance in Hong Kong.

The HKMA takes a three-phased approach to promote green and sustainable banking - in Phase I, the HKMA would develop with the banking industry a common framework for green baseline assessment, which would examine the environment risk of the bank's lending and other businesses; in Phase II and III the HKMA will be focusing on deliverable setting, and implementation, monitoring and evaluation respectively.

As the manager of the Exchange Fund, the HKMA has committed to support responsible investment, by further growing green bond

portfolio, participating in ESG-themed public equities investments and prioritising investment in buildings with green accreditation for the real estate portfolio.

The HKMA has also set up the Centre for Green Finance (CGF) under the Infrastructure Financing Facilitation Office (IFFO) for capacity building and experience sharing.

Hong Kong Stock Exchange (HKEX)

In December 2019, the HKEX announced key changes to the ESG Guide and related Listing Rules, requiring disclosure of significant climate-related issues that have impact on the issuer and relevant environmental targets. Changes will be effective for financial years commencing on or after 1 July 2020.

News and events

The HKSAR Government becomes the first signatory of Green Bond Pledge from Asia

In May 2019, the HKSAR Government signed the Green Bond Pledge and became the first signatory from the Asian region. By signing the Green Bond Pledge, governments, international agencies and private sector companies agree that all infrastructure and capital projects will need to be climate resilient and where relevant, support the reduction of greenhouse gas emissions. Also, signatories of the Green Bond Pledge agree to support the rapid growth of a green bonds market consistent with global best practices and will issue bonds for infrastructure as green bonds whenever applicable.

The Green Bond Pledge is a joint initiative developed by international climate finance and sustainability groups, including the Climate Bonds Initiative.

The HKMA becomes a member of the NGFS

In Q2 2019, the HKMA joined the Central Banks and Supervisors Network for Greening the Financial System (NGFS), which is a group of central banks and supervisory authorities that are willing to exchange experiences, share best practices, contribute to the development of environment and climate risk management in the financial sector, and to mobilise mainstream finance to support the transition toward a sustainable economy.

HKMA CGF and IFC host seminar on Greening Financial Institutions

In October 2019, the CGF and the International Finance Corporation (IFC), co-organised a seminar on "Greening Financial Institutions", which brought together over 300 senior executives, comprising bankers, corporate treasurers, project developers and operators, and professional service providers.

The Seminar highlighted how financial institutions are increasingly factoring in climate-related risks in various aspects, and the various principles and tools for corporates to transition their businesses and financing strategies, as they consider how their lenders and investors view their commitments on Environment, Social and Governance (ESG).

HSBC issues Asia's first green retail certificates of deposits in HK

In December 2019, HSBC offered its Hong Kong retail and commercial customers the first green retail certificate of deposit. The annual coupon rate of the three-month Green CD was fixed at 1.71%, with a minimum deposit amount of USD10,000. Proceeds will go towards financing eligible businesses and projects that promote the transition to a low-carbon, climate resilient and sustainable economy as defined by the HSBC Green Bond Framework.

Three major trends to watch in 2020

Greater synergies among the Greater Bay Area cities

China's State Council unveiled details of the Outline Development Plan for the Guangdong-Hong Kong-Macau Greater Bay Area in February 2019. The Plan identifies the role of Hong Kong, Macau and the nine other cities in the Guangdong Province in national economic development. Under the Plan, Hong Kong is the designated green finance centre, Macau and Guangzhou are tasked with building a RMB-denominated green finance platform and developing a pilot green finance innovation zone, respectively. The Plan is expected to give fresh impetus to the development of green finance in the region.

The Hong Kong Green Finance Association (HKGFA) announced a plan to establish the Greater Bay Area Green Finance Alliance (GBA-GFA) to facilitate the greening of the region in September 2019. In collaboration with the Guangzhou Green Finance Committee, Shenzhen Green Finance Committee and Macau Association of Banks, this platform will host research projects and incubate green investment projects in five key areas: greening the supply chain, enhancing major waste treatment facilities, promoting green building

"As a rapidly growing green finance market, Hong Kong will play a key role in the green development of the Greater Bay Area, including by assisting on green bond issuance and project financing. The Government's blueprint for the Greater Bay Area provides a golden opportunity for the green finance sector in the region, and will stimulate further knock-on growth for Hong Kong's banking, investment management, insurance and private equity industries."

Ma Jun, Chairman and President of the HKGFA

projects, as well as scaling up blockchain solar and carbon trading. The projects will benefit the GBA and leverage the vast green investment demand in Guangdong along with the green finance capacities of Hong Kong and Macau.

The first GBA-GFA pre-launch meeting successfully took place on 12th January 2020, where 60 leaders and subject matter experts from four respective cities (i.e. Hong Kong, Guangzhou, Shenzhen and Macau) agreed on a key operating arrangement of the Alliance. The official launch date is targeted for second half of 2020.

Green finance and climate-related risk disclosure

Enhancing the climate-related risk and financial disclosures of companies has been gathering momentum across the globe since the Task Force on Climate-Related Financial Disclosures (TCFD) published its recommendations in mid-2017. In Hong Kong, companies such as Swire Pacific and New World Development have started to report against TCFD recommendations, in which green bond issuance forms a part of the narrative when it comes to the disclosure of a company's climate change mitigation strategy – one of the four pillars of the TCFD framework.

As regulators in mainland China and Hong Kong ramp up efforts to improve listed companies' ESG reporting - for example, the SFC supporting TCFD recommendations and the HKEX enhanced ESG disclosure requirements – it is expected that more and more companies will revisit their existing businesses. Green finance plays a pivotal role in enabling the decarbonisation strategies of those companies that strive to achieve net zero carbon targets.

Green transition – the opportunity of the decade

Despite the global green bond market recording rapid growth with cumulative issuance exceeding USD700bn in 2019, the market has seen contributions from a relatively limited universe of investment grade issuers, mostly government-related entities, financial corporates and utility companies.

To address the imminent climate crisis, companies across all sectors will be involved in low carbon transition. Transition bonds, KPI-linked bonds and loans can play an important part in ensuring finance supports for companies that seek a brown-to-green transition of their businesses.

Investors are showing growing appetite for fixed income products that reflect the transition towards sustainability. A broader range of issuers, a wider credit spectrum and expanded use of proceeds can cater to investor demand to enhance yield and sector diversification within their sustainable investment portfolios.

The world has embarked on a decisive decade of tackling climate issues. Ambitious action aimed at delivering 45% greenhouse gas (GHG) reductions by 2030 is indispensable for meeting the Paris-aligned net zero goal by 2050.⁴

For Hong Kong to support this outcome, the Government can act as a facilitator for collaboration between the local and mainland China authorities to bring about a brown-to-green transition in a number of sectors that are vital for the future low carbon economy.

Decarbonising the shipping and aviation sectors could be assisted by leveraging Hong Kong's core advantage as a regional logistics and finance hub.

Additionally, Hong Kong is set to update its climate action plan in 2020.⁵ Clear commitments in the city's 2050 decarbonisation strategy, will add incentive to the private sector to seek green and transition aligned investment opportunities.

Endnotes

1. The 2018 green bond tally is adjusted to reflect the re-classification and bonds update in the Climate Bonds Initiative Green Bond Database, where USD390m worth of issuance is added.
2. Several green loans from Hong Kong-domiciled entities are not included in the 2019 total issuance amount due to insufficient disclosure of deal size or use of proceeds.
3. In Climate Bonds Initiative Green Bond Database, the deal is categorised as from a mainland China issuer since Climate Bonds looks at the country of risk at parent company level. However, for the purpose of showing GBA issuance, the bond is considered as a Macau issuance in this report.
4. Intergovernmental Panel on Climate Change (2018) [Online]. Available at <https://www.ipcc.ch/2018/10/08/summary-for-policymakers-of-ipcc-special-report-on-global-warming-of-1-5c-approved-by-governments/>
5. Environment Bureau (2017) [Online]. Available at <https://www.enb.gov.hk/sites/default/files/pdf/ClimateActionPlanEng.pdf>



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