

Chief Executive's Message

The need to scale up and accelerate climate action is more urgent than ever. We are nearly mid-way through the critical decade, a decade where we will need to cut global emissions by over 40% if we hope to limit global warming to 1.5°C. Yet greenhouse gas emissions are hitting new highs. The latest climate science tells us that we are “already at the outer limits of possibility for 1.5°C” with a “rapidly closing window of opportunity”. It is clear that we have already been experiencing the impact of a 1.1°C warmer world, with extreme weather events like record-breaking heat waves and droughts, heavy floods and severe storms taking place more frequently and becoming more intense around the world. Closer to home, Hong Kong experienced a ferocious super typhoon, followed by a prolonged record-breaking rainstorm last September. Despite our excellent infrastructure and rapid recovery responses, the impact was devastating, with widespread flooding, traffic disruptions and extensive road damage. All of these serve as a stark reminder of the urgent need for ambitious and resolute actions.

The stakes are especially high in Asia. Asia is facing a steep transition pathway, with a challenging balance between economic development and sustainability. We need credible transition strategies that strike a right balance between climate actions versus economic growth and social inclusion. But it will not be easy. The region produces over half of the world's emissions as a result of its rapid economic and population growth. It is also highly vulnerable to rising sea levels and extreme weather events in view of the high population density and geography. The high degree of diversity in economic development in the region also means that the transition will bring new opportunities for some but daunting challenges on how to finance the transition for others. Significant investment is required, with market estimates of over US\$3 trillion in annual investment over the next three decades in the region. As an international financial centre, Hong Kong has the capacity and responsibility to harness the power of finance to support the transition efforts of the broader region.

At the HKMA, we have been devoting significant efforts to the sustainability agenda, leveraging our roles as a bank supervisor, market facilitator and responsible investor. As you navigate through the subsequent chapters of the report, you will be able to read more about our specific measures and initiatives undertaken throughout the year. Meanwhile, we have established the Green and Sustainability Steering Committee (GSSC) last year to strengthen our internal governance structure and better coordinate our sustainability work across different functional areas. More details about the GSSC can be found in the new *Sustainability Governance* chapter.



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Strengthening banks' climate resilience and supporting banks' financing of the transition

Banks in Hong Kong play a central role in supporting Asia's transition to net zero. Apart from our conventional role of a banking supervisor to ensure banks manage climate risks properly through our day-to-day supervisory activities, we also take on the role of an enabler to support the banking industry in financing the transition. One example is the development of a green classification framework to help banks and other financial institutions identify environmentally sustainable activities, so as to facilitate alignment of business decisions with global climate goals. We released a prototype of the framework in May to gather feedback, and are fine-tuning the framework based on the consultation feedback collected. Amid the increasing calls for more high-quality, globally-comparable sustainability disclosures, together with other fellow regulators, we are also working on a clear roadmap for Hong Kong to adopt the International Sustainability Standards Board (ISSB)'s standards, a comprehensive global baseline for sustainability reporting launched in June.

Our role as an enabler is not confined to setting frameworks and rules. We also endeavour to address the pain points faced by the industry. Recognising that banks have difficulties in conducting physical risk assessment due to data issues, the HKMA will soon be launching a cloud-based physical risk assessment platform that will enable banks to assess the impact of physical hazards on residential and commercial buildings in Hong Kong under different climate scenarios through a simple address input, thereby facilitating banks' climate risk management.

Enhancing the green and sustainable finance ecosystem

As Asia's leading international financial centre and sustainable finance hub, Hong Kong has been channelling international investments to sustainable projects in Asia to support the region's transition. More than one-third of the region's international green and sustainable bond issuances were arranged in Hong Kong in recent years, well ahead of other jurisdictions. Of particular note are the municipal government of Shenzhen and provincial government of Hainan, which had their third and second issuances of green and sustainable bonds in Hong Kong respectively in 2023, reaffirming Hong Kong's important role as a green gateway connecting the Mainland with the rest of the world.

Hong Kong's vibrant sustainable bond activities are in part a result of the demonstrative effect of the Government Green Bond Programme. Since 2019, the HKMA has assisted the Government in issuing around US\$25 billion worth of green bonds targeting both institutional and retail investors. We took the opportunity of each issuance to innovate and expand the suite of green bond features in terms of currencies, tenors and distribution channels, laying the foundation for other public and private sector issuers in the region to follow. We issued the world's largest government retail green bond in 2022, followed by the world's first tokenised government green bond in February 2023. In February 2024, we completed a second tokenised green bond offering in four major currencies in digitally native format, making it the world's first multi-currency digital green bond.



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Meanwhile, we have also been taking active steps to enhance the vibrancy and competitiveness of Hong Kong's sustainable finance ecosystem. These include efforts in the areas of capacity building, data enhancement, green fintech, and transition finance. Notably, on talent, we rolled out a new module on Green and Sustainable Finance under the Enhanced Competency Framework in 2023 to provide a structured programme for banking practitioners to enhance their knowledge and expertise in green and sustainable finance. Another important area is transition finance, which is needed to provide funding for decarbonisation of high-emitting and hard-to-abate industries while avoiding disruptive financial exclusion of those industries. To support its credible development, the HKMA will broaden development of the local green classification framework to cover transition activities. We will also expand the scope of the Green and Sustainable Finance Grant Scheme, which provides subsidies for eligible bond issuers and loan borrowers, to cover transition bonds and loans so as to encourage corporates in the region to raise transition financing in Hong Kong. More generally, we are also fostering dialogue with relevant stakeholders to leverage public-private collaboration and blended finance to crowd in the private sector and mobilise financing for sustainable projects that would otherwise be less bankable. Some of the initiatives require cross-sectoral efforts and are co-ordinated through the Green and Sustainable Finance Cross-Agency Steering Group co-chaired by the HKMA and the Securities and Futures Commission.

Regional collaboration is also crucial. Other than our longstanding partnership with the International Finance Corporation on the Alliance for Green Commercial Banks, the Infrastructure Financing Facilitation Office of the HKMA joined in 2023 the Capacity-building Alliance of Sustainable Investment and Green Investment and Finance Partnership as inaugural members. The Glasgow Financial Alliance for Net Zero also announced its plan to establish a Hong Kong Chapter. Through these partnerships, we aim to promote capacity building and knowledge sharing, and in turn, support the channelling of capital to sustainable projects in the region and beyond. To spur new business development and knowledge exchange, the HKMA also helped organise Hong Kong's first Green Week earlier this year, bringing together over 1,600 participants, including top decision makers in global business and finance from nearly 30 jurisdictions, to discuss solutions and incubate new partnerships for scaling up climate financing in the region.



Mr Eddie Yue, Chief Executive, speaks at the Climate Business Forum: Asia Pacific, the anchor event of the Hong Kong Green Week

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Investing responsibly

We also lead by example as a responsible investor. As the manager of Hong Kong's official reserves and a major global asset owner, we have spearheaded investments in green and sustainable assets since 2015 and have been growing our Exchange Fund's portfolio of ESG and green assets across both public and private markets. Building upon our target of achieving net zero emissions by 2050 for the Investment Portfolio of the Exchange Fund, last year we introduced a new active global public equities mandate that focused on sustainability and climate transition themes, and extended the application of bespoke low carbon equity indices to another public market portfolio. The performance of green, social and sustainability bonds, which the HKMA prioritises for investment, has surpassed the investment benchmark, exemplifying the notion that one can do well alongside doing good. In the private market, we continued to seize green related investment opportunities and committed as an anchor investor in two dedicated Asia-centric transition investment funds.

As at the end of 2022, the weighted average carbon intensity, or WACI, of the Exchange Fund's public equities portfolios, reduced by 6% compared to 2021 and 46% compared to the 2017 level, and has been persistently lower than that of the broader market.

Moving forward as a sustainable organisation

Within the HKMA, we continue to improve ourselves as a sustainable organisation, structuring our aspirations around the three pillars of Environment, People and Social Responsibility.

More specifically, in our low-carbon transition journey, we have been building our climate resilience by measuring our environmental performance and implementing various internal initiatives, ranging from emissions reduction, energy efficiency to waste management, with the ultimate aim of fulfilling our net-zero pledge by 2050. Plans are now in place to completely eliminate Scope 1 emissions in the near future, and we are also making good progress towards our interim 2030 Scope 2 emissions reduction targets.

Apart from our green targets, we also strive to promote the health and well-being of our staff, as we understand the need to attract and retain the best talent to deliver the important functions of the HKMA. Furthermore, we have, through partnering with our stakeholders, worked on advancing financial inclusion, raising financial literacy and enhancing public awareness of financial scams to play our part in fostering a caring society.

Embracing a more sustainable future

The climate challenge is huge, and urgent. As economies around the world move toward a more sustainable future, seismic change is expected regarding how we finance economic activities and how we allocate capital. This brings unprecedented risks as well as opportunities. As the world's leading sustainable finance hub, Hong Kong has the responsibility to spearhead actions to meet such challenges, and is in the best position to capture the opportunities. Here at the HKMA, we will ramp up our proactive efforts to support the industry in financing the transition, to lead by example as a responsible investor and sustainable organisation, and to work together with like-minded peers collaboratively in support of this important global agenda of our generation.



Eddie Yue
Chief Executive

