IN-DEPTH

Sustainable Finance Law

HONG KONG

LEXOLOGY

Sustainable Finance Law

EDITION 3

Contributing Editors

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In-Depth: Sustainable Finance Law (formerly The Sustainable Finance Law Review) provides a practical global overview of the current state of sustainable finance and related regulatory efforts across multiple jurisdictions. It also tracks the evolution of sustainable finance and outlines key trends for the near future. Topics examined include sustainable disclosure requirements and taxonomies, sustainable finance instruments and incentives, and much more.

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Hong Kong

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Summary

Introduction

The sustainable finance framework for the Hong Kong market is voluntary. While there are no specific regulatory or legal requirements for sustainable finance, several financial regulators in Hong Kong, including the Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC) and The Stock Exchange of Hong Kong Limited (HKEX), have been spearheading support for sustainable finance and have continued to work on related topics such as increasing environmental, social and governance (ESG) disclosure requirements, publishing the Hong Kong Taxonomy for Sustainable Finance (Hong Kong Taxonomy) and providing guidance on climate-related risk management.

At the regional level, in February 2023, the Asia Pacific Loan Market Association (APLMA), jointly with the Loan Market Association (LMA) and the Loan Syndications and Trading Association (LSTA), issued updates to the principles and guidance on three types of sustainable loans: green loans,[1] sustainability-linked loans (SLLs)[2] and social loans.[3] In 2024, the APLMA also published model provisions[4] for green loans, a sustainability coordinator mandate letter[5] and a term sheet (with sustainability-linked loan appendix).-[6] These updates provide the latest industry standards for sustainable lending within the Asia–Pacific region.

Despite a challenging macroeconomic environment with interest rate volatility, investors' demand for sustainable finance products remains robust. According to S&P Global, it is expected that sustainable bond issuances (which include green bonds) in the whole Asia–Pacific region could rise by approximately 10 per cent in 2024 compared to 2023, reaching a total of US$260 billion.[7] This can be credited to the support and interest from key stakeholders including companies, financial institutions, regulators and the Hong Kong government.

With the aim to develop Hong Kong into a green financial hub in the region, the government has taken a lead role in sustainable finance with the issuance of green instruments, followed by the launch of various sustainable finance-related products by financial institutions. Further, various regulators have published strategic frameworks and created working groups to encourage the development of a sustainable finance ecosystem in Hong Kong. The relevant frameworks, instruments and initiatives are described below.

The Hong Kong green finance market has also encouraged mainland Chinese firms to access offshore sustainable financing. The HKEX remained the most popular destination for offshore Chinese green bond listings in 2023, taking up 43 per cent of the Chinese offshore issuances.[8]

The above summary reflects the prevailing positive attitude in the market towards sustainable finance, which has continued from previous years.

Year in review

Despite the challenging market environment, the Hong Kong sustainable finance market remained strong and continues to grow. Different stakeholders such as the government, regulators and financial institutions have demonstrated their efforts to grow Hong Kong into a green and sustainable finance hub. Various relevant initiatives launched in Hong Kong in 2024 will be discussed below.

A key highlight is the issuance of the world's first-ever multi-currency tokenised green bonds of around HK$6 billion by the government in February 2024, which attracted an overwhelming subscription by global institutional investors.[9] The Hong Kong Mortgage Corporation (HKMC) also issued the second infrastructure loan-backed securities covering 28 projects across the globe, totalling approximately US$423.3 million and with a sustainability tranche of US$107 million.[10]

In addition to an increase in social-based sustainable products in the past few years, ocean-based sustainable finance products have emerged as a new product class. This is expanded upon in the 'Sustainable finance instruments' section.

At the same time, concerns about greenwashing remain although there has not been any significant legal or regulatory action on this front. See the 'Greenwashing and climate litigation risks' section for more details.

To increase the measurability of sustainable projects, the HKMA published the Hong Kong Taxonomy in May 2024. From 1 January 2025 onwards, HKEX's ESG Reporting Code mandates issuers to make climate-related disclosures in phases, with reference to the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and the IFRS S2 Climate-related Disclosures (IFRS S2) (collectively, the Sustainability Disclosure Standards) published by the International Financing Reporting Standards (IFRS).[11] See the 'Sustainable disclosure requirements and taxonomy' section for more details on disclosure standards.

Regulation and policy

Governance regime

China ratified the Paris Agreement in 2016 and, in accordance with the Basic Law of Hong Kong, declared that the Paris Agreement applies to Hong Kong. In September 2020, President Xi Jinping stated that China will aim for peak carbon emissions prior to 2030 and carbon neutrality prior to 2060, which is otherwise known as the '30.60' decarbonisation goal.[12] Hong Kong has a role to help fulfil China's obligations under the Paris Agreement. Hong Kong aims to reduce total carbon emissions by 50 per cent before 2035 (with the 2005 level as a baseline), and to reach carbon neutrality prior to 2050.

The government's commitment is demonstrated by its plan to deploy HK$240 billion over the next 15 to 20 years (from 2021) to combat climate change.[13] The acceleration of sustainable finance and the development of Hong Kong into a green financial hub in the region form part of the strategies and opportunities identified in the government's Climate Action Plan 2050.

Green and Sustainable Finance Cross-Agency Steering Group

In May 2020, Hong Kong established the Green and Sustainable Finance Cross-Agency Steering Group (the Cross-Agency Steering Group), a multi-regulatory steering group co-led by the HKMA and the SFC, which aims to coordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance in Hong Kong and support the government's climate strategies.

The Cross-Agency Steering Group has launched a number of initiatives including the Centre for Green and Sustainable Finance, a cross-sector platform designed to coordinate the efforts of financial regulators, government agencies, industry stakeholders and academia in capacity building and policy development. It serves as a repository for resources, data and analytics and supports the development of a sustainable finance ecosystem.

The Cross-Agency Steering Group working with the government successfully launched the Green and Sustainable Capacity Building Support Scheme (the GSCBS Scheme) in December 2022 (lasting for three years),[14] which aims to subsidise training for and the acquisition of relevant professional qualifications by existing and prospective practitioners. As at early July 2023, 38 reimbursement applications have been approved, involving a total reimbursement amount of over HK$220,000.[15]

In January 2024, the Cross-Agency Steering Group also published its key initiatives to support Hong Kong in capitalising sustainable finance opportunities, which include adopting IFRS Sustainability Disclosure Standards locally as appropriate, leveraging technology to support sustainability reporting and data analysis, and supporting the development of transition finance to stabilise Hong Kong’s role as a leading sustainable finance hub.[16]

Regulators

The main regulators involved in regulating, enforcing and promoting sustainable finance frameworks in Hong Kong are the SFC, HKMA, HKEX and the Mandatory Provident Fund Authority (MPFA). The guidelines and papers issued by these regulators are not directly applicable to sustainable finance, but form part of the regulatory ecosystem that financial institutions operate in.

SFC

The SFC is an independent statutory body responsible for regulating the securities and futures markets in Hong Kong.

In January 2024, the SFC announced its strategic priorities for 2024–2026, in particular, to bolster Hong Kong’s position as a leading sustainable finance hub. The key objectives include:

1. steering the local and regional development of corporate sustainability disclosure standards with a pragmatic approach;
2. being a regional and global leader to bridge the gap between emerging and developed economies;
3. driving growth by bridging the Mainland China carbon markets with international investors;

4. supporting the development of a healthy and integral ESG ecosystem by growing local ESG products and markets;
5. stemming greenwashing;
6. nurturing sustainable finance talent; and
7. reducing the SFC's carbon footprint with its carbon neutrality road map.[17]

The Fund Manager Code of Conduct (FMCC) was amended, with effect from August 2022, to introduce climate-related disclosures. This is discussed in the 'Sustainable disclosure requirements and taxonomy' section.

HKMA

The HKMA is Hong Kong's central banking institution, which is the governmental authority responsible for maintaining monetary and banking stability in Hong Kong.

In June 2020, the HKMA published a white paper on green and sustainable banking,[18] which outlines the HKMA's supervisory approach to climate-related issues for the banking sector. The HKMA issued a set of climate change risk management guidelines for banks in December 2021. Further, the HKMA launched the Sustainable Finance Action Agenda in October 2024, setting out its promise to support sustainable development in Asia and beyond, and further consolidate Hong Kong's position as the regional sustainable finance hub.[19] See the 'Climate change, nature and biodiversity impact' section for details.

HKEX

The HKEX is the stock exchange based in Hong Kong. In December 2020, the HKEX launched the Sustainable and Green Exchange (STAGE). It provides access to a comprehensive database of sustainable and green investment options available in Hong Kong's securities markets as well as a sustainable finance education and advocacy platform.

To promote transparency and disclosure, the HKEX's listing rules (Listing Rules) include ESG reporting requirements, which will be updated to take into account the latest requirements set out in the IFRS Sustainability Disclosure Standards.[20] See the 'Sustainable disclosure requirements and taxonomy' section for details.

MPFA

The MPFA is in charge of supervising the provision of the Mandatory Provident Fund (MPF) retirement scheme, which is a compulsory retirement savings scheme for Hong Kong residents. In November 2021, the MPFA introduced Principles for Adopting Sustainable Investing in Investment and Risk Management Processes of MPF Funds (MPFA Principles).[21] The MPFA Principles outline a high-level integration of ESG considerations for trustees of the MPF. The MPF system has seen ESG fund assets grow by 388 per cent from HK$3.554 billion in 2021 to HK$17.329 billion in 2024.[22] The government also plans to earmark a certain proportion of future issuances of government green bonds for priority investment by MPF funds.[23]

Hong Kong Quality Assurance Agency

Although not a regulator, the Hong Kong Quality Assurance Agency (HKQAA), a non-profit public organisation established by the government, is a key player in fostering green and sustainable finance in Hong Kong and promoting good management practices and sustainability in the Greater China region. The HKQAA provides third-party compliance assessments for sustainable requirements of finance instruments with its Green and Sustainable Finance Certification Scheme.

Sustainable finance instruments

Green bonds and sustainability-linked and green loans are the most popular types of sustainable finance debt instruments. Climate Bonds[24] has noted that Hong Kong's sustainable debt market has achieved its largest growth yet, where the aligned volume of green, social, sustainability and sustainability-linked bonds (GSS+) debt originating from Hong Kong reached US$18.2 billion, representing a year-on-year increase of 236 per cent.-[25] Hong Kong's included green bonds volume in 2023 achieved global top 10 for the first time with an impressive year-on-year growth of 173.3 per cent, where 92 per cent of the green bond volume came from the government and the rest from financial corporations. The government was the fourth largest source of aligned government green bonds in 2023 and the fifth largest cumulative government green bond issuer.[26]

In the 2024–25 budget, the government expanded the scope of the existing Government Green Bond Programme, and renamed it as the Government Sustainable Bond Programme (GSBP) to cover sustainable projects. In May 2024, the Legislative Council approved a new borrowing ceiling totalling HK$500 billion for GSBP and a new Infrastructure Bond Programme. As of 31 August 2024, the government has successfully issued almost HK$220 billion worth of green bonds under GSBP.[27]

Financial institutions continue to encourage the development of sustainable finance. HSBC boosted the size of its Greater Bay Sustainability Fund to US$9 million in 2023 from its initial outlay of US$5 billion in May 2022 to fund projects that aim to reduce carbon emissions within the Greater Bay Area region.[28] Hang Seng Bank Limited also launched a HK$80 billion Sustainability Power Up Fund in 2024, offering diversified green and sustainable financing solutions.[29]

Social-based sustainable finance continues to gain traction in Hong Kong. In October 2024, the HKMC issued its third social bond of around HK$23.8 billion, which marked the largest social bond issuance in the Asia–Pacific region and broke the record set by itself when it launched its second social bonds of almost HK$20 billion in September 2023.[30] The net proceeds from the issuance will mainly be used to finance or refinance the loans under the Special 100% Loan Guarantee under the SME Financing Guarantee Scheme, which was launched in April 2020 to alleviate cash flow pressure of SMEs in Hong Kong during the covid-19 pandemic. Despite the expiry of the application period for the Special 100% Loan Guarantee in March 2024, it has benefited more than 40,000 local SMEs and 400,000 related employees up to September 2024.[31]

Apart from social-based debt instruments, a new type of sustainable finance investment product that focuses on ocean-friendly projects known as 'blue finance' has emerged in the Asia–Pacific region. Blue finance, including blue bonds, is growing in importance among investors and policymakers due to the region's dependence on coastal and marine resources.[32] An array of blue bonds have been issued in Hong Kong.[33] In September 2023, the People’s Government of Hainan Province issued a 1 billion yuan blue bond in Hong Kong.[34] In November 2023, Fujian Zhanlong Group issued US$500 million blue bonds in Hong Kong through the Central Moneymarkets Unit of the HKMA.[35]

Sustainable disclosure requirements and taxonomy

A mix of mandatory and 'comply-or-explain' disclosure requirements exists in Hong Kong for listed companies and financial institutions as summarised below.

Listed companies

Previous position

Prior to 1 January 2025, HKEX's ESG reporting guide (within the Listing Rules) contained limited disclosure obligations for listed companies on the Main Board and on the Growth Enterprise Market (GEM). Firstly, there were mandatory board governance disclosure requirements, such as disclosure of the board's oversight of ESG issues. Second, there were 'comply-or-explain' requirements that covered key performance indicators across 12 areas of environmental and social issues ranging from emissions to supply chain management.[36]

Paragraph 28(2)(d) of Appendix D2 of the Main Board Listing Rules also requires the listed company's directors' report for a financial year to contain a business review as prescribed in Schedule 5 of the Companies Ordinance (Cap. 622). The business review must include, among other things, a discussion on the company's environmental policies and performance to the extent necessary for an understanding of the development, performance or position of the company's business.

Consultation exercise

HKEX issued a consultation paper in April 2023 that proposed enhancing the climate-related disclosures required for listed companies to align with the IFRS Sustainability Disclosure Standards, which was in draft form at the time the consultation paper was published. In addition, the proposed amendments also upgraded climate-related disclosures from the 'comply or explain' approach to mandatory disclosures.

Recognising the difficulties that issuers may face, certain proportionate measures and time-limited transition reliefs have been included in HKEX's proposals. For example, a two-year interim period has been proposed for the disclosure of quantitative financial effects of climate-related risks and Scope 3 carbon emissions data.[37]

The consultation period ended in July 2023 and consultation conclusions were published in April 2024. The Inaugural Jurisdictional Guide for the adoption or the use of ISSB Standards was also published in May 2024.[38]

Current position

Consequently, a new Part D was added to the ESG reporting guide (within the Listing Rules) effective from 1 January 2025. This addition entails an expanded scope of disclosure in addition to an increased disclosure threshold in relation to climate risks and opportunities. Note that other than for Scope 1 and Scope 2 greenhouse gas (GHG) emissions, which are required to be disclosed on a mandatory basis, Main Board issuers (other than LargeCap issuers) still would only be required to report the new climate requirements on a 'comply or explain' basis, and the GEM issuers are able to report on such requirements on a voluntary basis.[39]

Part D categorises disclosures into four core pillars: (1) governance, (2) strategy, (3) risk management and (4) metrics and targets. A brief summary of the required disclosures is as follows:

1. Governance: issuers to set out responsibilities of the governing bodies or individuals, as well as controls and procedures to monitor and manage climate risks and opportunities.
2. Strategy: issuers to disclose the impact of climate risks and opportunities on its business operations, as well as its responses and transition plans in order to cope with the impact.
3. Risk management: issuers to disclose the process undertaken to assess and manage climate-related risks and opportunities.
4. Metrics and targets: issuers to disclose Scope 1, 2 and 3 GHG emissions, cross-industry metrics, internal carbon price, remuneration and industry-based metrics.

In addition, issuers who face reporting challenges may be granted implementation reliefs, which replace the interim provisions in the proposals. These include the (1) reasonable information relief, (2) capabilities relief, (3) commercial sensitivity relief and (4) financial effects relief.

Reasonable information relief allows issuers to use all reasonable and supportable information available to them to make certain disclosures, without undue costs or effort. Capabilities relief allows issuers who do not have the skills, capabilities or resources to not provide quantitative disclosures or any disclosures that are not commensurate with such capabilities. An issuer may also omit disclosures that may be commercially sensitive under the commercial sensitivity relief, while disclosing that it has used this exemption. Finally, the financial effects relief enables issuers to not provide quantitative information about current or anticipated financial effects if such effects are not separately identifiable, or that there would be uncertainty involved in estimating those effects such that the resulting information would not be useful.

HKEX also published implementation guidance alongside the consultation conclusions to assist the implementation of this new framework.[40]

Financial institutions

SFC's FMCC was amended in 2022 to require fund managers of collective investment schemes to take climate-related risks into consideration in their investment and risk management processes and make the appropriate disclosures. At a minimum, annual disclosures should be made regarding climate-related governance, risk management and investment management.[41] Large fund managers[42] must make efforts to collect and disclose Scope 1 and Scope 2 GHG emissions data if climate-related risks are assessed to be relevant and material, whereas smaller fund managers are not required to comply with this requirement.

HKMA's Supervisory Policy Manual GS-1 on Climate Risk Management requires financial institutions to incorporate climate risk considerations into their strategic frameworks and make climate-related disclosures aligned with the TCFD recommendations.[43]

With regard to investment products, the SFC issued guidance on 29 June 2021 on the disclosure standards of ESG funds through a circular to management companies of SFC-authorised unit trusts and mutual funds involving ESG factors. It requires a fund's offering documents to provide information necessary for investors to make an informed judgement about the investment, including the fund's ESG focus, ESG investment strategy, expected proportion of ESG investment (in terms of net asset value), any reference benchmark and related risks.[44] The guidelines require ESG fund managers to conduct periodic assessments of the attainment of their ESG focus and to disclose the results through effective means such as annual reports.

The MPFA Principles require MPF trustees to disclose ESG integration strategies and report implementation progress regularly and disclose metrics, describe how ESG factors are factored into the relevant investment strategies and disclose metrics and targets adopted by investment managers where possible.

Hong Kong taxonomy

In May 2024, the HKMA published the Hong Kong Taxonomy to facilitate informed decision-making on green and sustainable finance and relevant finance flows. It enables easy navigation among the Common Ground Taxonomy, China’s Green Bond Endorsed Projects Catalogue and the European Union’s Taxonomy for Sustainable Activities, and currently encompasses 12 economic activities under four sectors – power generation, transportation, construction, and water and waste management. In the future, the HKMA seeks to expand the coverage of the taxonomy to include more sectors and activities, including transition activities.[45]

ESG data, ratings and reporting

See the 'Sustainable disclosure requirements and taxonomy' section for a discussion on reporting requirements.

There are two main challenges in the ESG data reporting regime.

First, there are challenges surrounding data availability. At present, reporting is only required for a narrow range of entities such as financial institutions, listed companies and companies that issue ESG funds. Many SMEs would not have the financial means or access to the technology to disclose ESG data, which affects the availability of the sector's data to financial institutions and investors. However, in December 2022 the Cross-Agency Steering Group collaborated with the CDP (formerly known as the Carbon Disclosure Project), a not-for-profit charity, to launch an SME Questionnaire.[46] In April 2024, CDP rolled out the dedicated SME corporate questionnaire. Its purpose is to incentivise SMEs to engage in disclosure and to begin their sustainability reporting journey, while providing sufficient flexibility to meet SMEs at their current maturity level.

Second, even where data is available, it may not be sufficiently granular to fully evaluate a particular ESG metric. HKEX has previously emphasised that there is no one-size-fits-all approach for ESG reporting frameworks.[47] While this is true, difficulties may also arise regarding which reporting standard to adopt and the breadth and depth of the reporting done by each company, which can lead to difficulties when comparing the disclosed data between industries and markets. The finalisation of the IFRS Sustainability Disclosure Standards and the strong support it has received globally may help to mitigate this problem going forward.

In October 2024, the SFC published a voluntary code of conduct for ESG ratings and data products providers (VCOC).[48] The VCOC was modelled on international best practices recommended by the International Organization of Securities Commissions (IOSCO), and will establish a benchmark for the provision of high-quality, reliable and transparent ESG information to combat greenwashing in Hong Kong's growing green and sustainable finance ecosystem.

Sustainable finance incentives

One of the most notable incentives that the government has implemented is the Green and Sustainable Finance Grant Scheme (the GSFG Scheme), which supports issuers in Hong Kong in accessing sustainable financing.[49] The GSFG Scheme consists of two tracks. Track I covers general bond issuance costs (such as arrangement, legal, audit and listing fees) for eligible first-time green and sustainable bond issuers. Track II covers external review costs (such as pre-issuance external review, post-issuance external review and reporting) for eligible green and sustainable bond issuers and loan borrowers.[50] As at August 2024, around HK$260 million worth of grant has been approved under the GSFG Scheme for 440 green and sustainable debt instruments issued in Hong Kong, involving a total of underlying debt issuance of about US$120 billion.[51]The GSFG Scheme is further extended by three years to 2027 to cover transition bonds and loans, and to incentivise industries in the region to utilise Hong Kong's transition financing platform.[52]

In June 2024, the government launched the new Green and Sustainable Fintech Proof-of-Concept Funding Support Scheme. It aims to endorse early-stage funding to technology companies and research institutes, to encourage cross-collaboration with local enterprises in co-developing new green fintech projects that address the industry pain points.[53]

Carbon markets and carbon trading

On 28 October 2022, the HKEX launched Core Climate, an international carbon marketplace for the trading of voluntary carbon credits and instruments. The Core Climate platform enables parties to source, hold, trade, settle and retire voluntary carbon credits. Projects listed on the platform will be verified against international standards such as the Verified Carbon Standard. On 1 August 2024, the HKEX included the Gold Standard's Verified Emission Reductions (GS-VERs) on Core Climate. GS-VERs, as one of the world's most widely adopted carbon credit certification programmes, is introduced as a carbon offset that can be traded on the voluntary market for carbon credits (where each GS-VER represents one tonne of CO2 emissions).[54] Core Climate now offers carbon credits from over 50 internationally certified projects and with more than 80 participants across three continents.[55]

On 11 December 2024, the Financial Services Development Council (FSDC) released its report on 'Internationalising China's Carbon Market: The Role of Hong Kong as an International Financial Centre', highlighting Hong Kong's support for internationalisation and its expertise in offering corresponding policy recommendations, including:

1. stimulating the market demand for carbon credits;
2. setting up a Carbon Connect scheme to facilitate cross-boundary carbon trading;
3. establishing a non-governmental-run carbon registry to enhance international recognition and governance of carbon credits;
4. providing legal certainty on carbon credits to stimulate carbon demand; and
5. developing a vibrant carbon market ecosystem characterised by strong carbon-related professional services and supported by advanced technologies to facilitate carbon trading.[56]

Green technology

Hong Kong's start-up community is actively involved in the development of green technology as one of the Hong Kong Science Park's five core technology clusters. The government has provided funding to support environmental technology-related research and development (R&D) projects under the Innovation and Technology Fund (ITF). As of October 2024, the ITF has approved over 260 environmental technology-related projects, with a total funding of over HK$629 million.[57]

In addition, in 2020, the government established the Green Tech Fund (GTF), totalling HK$400 million, to support R&D projects that can help Hong Kong decarbonise and enhance environmental protection. As of December 2023, the GTF has approved 30 projects from local universities, designated research institutes and private enterprises, involving a total funding of around HK$130 million.[58]

Climate change, nature and biodiversity impacts

Hong Kong's initiatives have yielded positive results in its aim to reach carbon neutrality before 2050. The figures of Hong Kong's GHG emissions in 2022 were lower than those in 2021 and on a par with total emissions in 2020.[59] However, climate change is increasingly evident in our living and working environments. Accordingly, a more cohesive and global approach is required to effectively combat climate change.

In December 2021, the HKMA published the results of a climate risk stress test (CRST) on banks. The test indicated that the Hong Kong banking sector should remain resilient to climate-related shocks given the banks' strong capital buffers. However, the use of simplified assumptions and historical data could mean that the potential impact may be more serious than predicted.[60] In April 2023, the HKMA issued guidelines for a second round of CRST,[61] which enhanced the 2021 CRST by providing a broader set of scenario variables and assumptions to support more granular assessments of the banks' exposures to climate risks. To reduce the reporting burden on the banks, the second round of CRST will be undertaken over an extended period from June 2023 to June 2024.[62]

In response to the risks identified from the 2021 CRST, the HKMA published the Supervisory Policy Manual GS-1 (see the 'Sustainable disclosure requirements and taxonomy' section),[63] and issued a circular in June 2022 to lay out its two-year plan to integrate climate risk management into its supervisory processes and agenda.[64] Given the increasing focus on banks' integration of climate risk management, in August 2023, the HKMA issued a circular setting out some high-level principles to assist banks in planning for a net zero transition.[65]

On 22 August 2024, the HKMA issued a letter to all authorised institutions in relation to good practices on climate-related risk governance, which can be categorised into three main areas: (1) fostering and overseeing the effective development and implementation of climate strategy, (2) exercising appropriate oversight of climate risk management and (3) cultivating a strong organisational climate risk culture.[66]

Further, in October 2024, the HKMA published the Sustainable Finance Action Agenda, which categorised eight goals in four areas,[67] including:

Area	Goals
Banking for net zero	All banks to strive to achieve net zero in their own operations by 2030 and in their financed emissions by 2050 All banks to enhance transparency on climate - related risks and opportunities
Investing in a sustainable future	

	Achieve net - zero emissions for the Investment Portfolio of the Exchange Fund by 2050 Support transition in the region through investment
Financing net zero	Develop Hong Kong into the go - to sustainable financing platform of the region and beyond Catalyse innovation in sustainable finance
Making sustainability more inclusive	Support high - quality and comprehensive sustainability disclosures Close talent and knowledge gaps in sustainable finance in the region

Aside from the banking industry, in June 2023, the Green Building Council launched Hong Kong's first 'Climate Change Framework for Built Environment' to facilitate Hong Kong building sector's transition to carbon neutrality by 2050 by setting net zero carbon goals, reporting ESG achievements, justifying green finance requirements and disclosing climate risk strategies.[68]

Greenwashing and climate litigation risks

Given the dramatic growth of sustainable finance in the local market, greenwashing is a growing concern. In December 2022, the HKMA issued a circular on due diligence processes for green and sustainable products where it identified good practices to implement to reduce greenwashing risks.[69] In addition, the HKMA released a research report in November 2022, entitled 'Greenwashing in the Corporate Green Bond Markets',[70] which noted that about one-third of global corporate green bond issuers may be reaping the benefits of issuing green bonds without cutting down their GHG emissions. In a circular in November 2023, the HKMA sets out its expected standards for the sale and distribution of green and sustainable products by registered institutions, which include product due diligence, customers' sustainability preference, disclosure, governance and controls, staff training and book-building activities.[71]

New legislation is not required for greenwashing claims to be commenced in Hong Kong. Existing causes of action under common law such as the tort of misrepresentation, and statutory causes of action pursuant to legislation, such as the Trade Descriptions Ordinance (Cap. 362) and the Securities and Futures Ordinance (Cap. 571) can form the basis of a greenwashing claim. However, restrictions around representative actions and the prohibition against contingency fees mean the likelihood of these claims is likely to be lower in the Hong Kong courts as compared to other jurisdictions, such as the United States. Nonetheless, reputational risks will remain a material consideration for companies.

Hong Kong has a history of environmental public interest litigation, including environmental cases, with mixed success. It is not uncommon for Hong Kong courts to hear judicial review cases brought by parties who seek to challenge the Town Planning Board's planning permissions on environmental grounds.[72]

Since mandatory climate-related regulations are new and relatively limited, there has not been any noteworthy climate-related litigation or enforcement action in Hong Kong. Nonetheless, with HKEX's implementation of the new climate disclosure requirements effective on 1 January 2025, a listed issuer's duty to give climate-related disclosure has been considerably expanded. Regulatory checks on compliance with the new ESG disclosure and reporting requirements are expected and may lead to the first such enforcement action in the near future. In addition, the global trend of increased shareholder and NGO activism as a result of greenwashing concerns is likely to apply in Hong Kong as well.

Outlook and conclusions

The 2024–25 Budget Speech by the Financial Secretary of Hong Kong highlights an overarching theme of a green future. By accelerating the promotion of high-quality sustainable development in Hong Kong, the Financial Secretary foresees Hong Kong’s budding transformation into an international green finance centre. To support this, the government plans to issue HK$20 billion green and infrastructure bonds in the financial year 2024–25.[73] The Financial Secretary has also earmarked HK$100 million for the coming year to promote sustainable development, signifying Hong Kong’s commitment to a low-carbon economy.[74]

Ongoing regulatory developments will further enhance Hong Kong’s ESG ecosystem. The roll out of the Hong Kong Taxonomy and the completion of the VCOC for ESG service providers will help to reduce greenwashing risks, improve investor confidence and attract international capital. Likewise, the HKEX’s introduction of mandatory climate-related disclosure requirements for listed companies would increase the availability of ESG data for investors.

At the same time, significant market challenges remain. First, the novelty of harmonised sustainability definitions and classification systems in the market may affect the credibility of sustainable finance products. To enable market participants’ effective usage of the Hong Kong Taxonomy, supplemental guidance[75] and consultation reports[76] have been published. Additional phases of the Hong Kong Taxonomy will also need to be developed to cover more sections and types of financing (such as transition financing).

Another challenge is the shortage of talent to meet demands in the sustainable finance market. To address this issue, the government seeks to attract ESG professionals from abroad and build capacity locally. Experienced professionals in ESG have been added to the Talent List of Hong Kong, which lists the professions that are most needed in the immediate to medium term for Hong Kong's economic growth. These professionals are entitled to receive preferential residency treatment.

Overall, we believe that Hong Kong's sustainable finance ecosystem will withstand the current challenging macroeconomic landscape, grow and go from strength to strength over the coming years. The steady increase of sustainable finance locally within Hong Kong and regionally within the Greater Bay Area and China, the increasing global demand for sustainable finance products and Hong Kong's commitment to fulfil its climate goals by 2050 collectively reflect Hong Kong's potential as an international sustainable finance hub.

Endnotes

1 APLMA/LMA/LSTA Green Loan Principles and Guidance on Green Loan Principles. ^ Back to section

2 APLMA/LMA/LSTA Sustainability-Linked Loan Principles and Guidance on Sustainability-Linked Loan Principles. ^ Back to section

3 APLMA/LMA/LSTA Social Loan Principles and Guidance on Social Loans. ^ Back to section

4 APLMA/LMA/LSTA Model Provisions for Green Loans. ^ Back to section

5 APLMA/LMA/LSTA Sustainability Coordinator letter. ^ Back to section

6 APLMA/LMA/LSTA Term Sheet. ^ Back to section

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9 Paul Chan (Financial Secretary of Hong Kong) (Budget Speech 2024–2025 delivered on 28 February 2024). ^ Back to section

10 HKMA, HKMC's second infrastructure loan-backed securities issuance (press release) (September 2024). ^ Back to section

11 HKEX, Implementation Guidance for Climate Disclosures under HKEX ESG reporting framework (April 2024). ^ Back to section

12 Climate Bond Initiative, Green and Sustainable Debt Market Briefing 2022 (Hong Kong) (report) (June 2023). ^ Back to section

13 The Government of the Hong Kong Special Administrative Region, 'Government announces Hong Kong's Climate Action Plan 2050' (press release) (8 October 2021).- ^ Back to section

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