

# Speech by FS at Earth Forum 2024 (English only) (with photos)

Following is the speech by the Financial Secretary, Mr Paul Chan, at the Earth Forum 2024 today (April 22):

Dr Hua Jindong (Vice-chairperson of International Sustainability Standards Board), Daniel (Vice-Chairmen of the Financial Services Development Council, Mr Daniel Fung, SC), Dr Guo Peiyuan (Chairman of the China Sustainable Investment Forum), Plato (Chairperson, Friends of the Earth (HK), Mr Plato Yip), King (Executive Director of the Financial Services Development Council, Dr King Au), distinguished guests, ladies and gentlemen,

Good afternoon. Thank you for inviting me to this meaningful occasion to discuss the important topic of transition finance on this very important day, Earth Day.

We are witnessing extreme climate events unfolding before our eyes. Indeed, the World Meteorological Organization, or WMO, confirmed that 2023 was the hottest year on record by a clear margin. Here in Hong Kong, 2023 was also the second warmest year on record. As cliché as it may sound, we are all in this together.

## Case for transition finance and its challenges

Countries and governments have set clear goals to reach carbon neutrality and enhance their climate resilience. That, of course, includes our country, China, which has set a clear roadmap to achieving carbon neutrality by 2060. And Hong Kong is determined to achieve that target by 2050.

Net-zero transition warrants a whole-of-economy approach, covering various aspects of economic activities and daily life. It is not just about investing in the green sectors and projects. It is also about assisting carbon-intensive industries in their net-zero transformation, and this is the essence of transition finance.

The International Energy Agency has projected that the global energy transition finance gap will reach US\$3 trillion a year by 2030 and rise to US\$4.5 trillion a year in 2040. According to the World Bank, our country, China, would need to invest approximately US\$14 trillion in additional investments before 2060 in the power and transport sectors alone. The funding gap is huge.

Another challenge is the investment appetite in transition finance. ESG investing has become a mainstream strategy of investors and businesses globally. However, ESG, as a commonly used asset allocation strategy, tends to exclude high-emitting sectors such as fossil fuel-related companies and

heavy-polluting industries like steel, chemicals, cement, and shipping. While this approach has effectively pressured such industries to transform and to invest in less polluting energies and technologies, they also need financing to accomplish the transition process.

For developing countries, the need for transition investment is acute, as their growth may be highly driven by energy and commodity sectors. They need a pathway that does not come at the expense of socio-economic development. They also face changing international policy landscape such as carbon tariffs imposed on imported goods by places like the European Union. Estimates have suggested that energy transition-related investments had exceeded US\$2 trillion in 2023, but only about half of it had gone to developing countries.

### Hong Kong's advantages and opportunities

As an international financial centre, Hong Kong gathers the top-class financial institutions with deep liquidity. We have the expertise, infrastructure and regulatory framework that support international investors and different transition projects. We are the gateway that connects capital flows and green projects not only within our territory but also in the broader region.

With the industry's support, Hong Kong has made significant strides in the space of green and sustainable finance. In the past three years, the average annual green and sustainable debt issued in Hong Kong reached over US\$60 billion, while the relevant bonds accounted for around one-third of the Asian market. Here in Hong Kong, there are around 220 ESG funds, and the asset under management reached about US\$170 billion.

The Government has also been striving to enrich our green investment products and encourage more international issuers to make use of Hong Kong's green fund-raising markets. That includes the Government's issuance of green bonds in multiple currencies and tenures since 2019, now totalling over US\$25 billion. We also take the lead in rolling out innovative products to meet market appetite, such as issuing digital green bonds, and securitised infrastructure projects in different regions.

Separately, we offer subsidies to green bond issuers and loan borrowers to cover their expenses on bond issuance and external review. Just in this year's Budget, we have extended the subsidy scheme to cover transition finance.

I believe we can do more. There is clearly room to explore how Hong Kong could better help channel capital to support the transition of high-emitting sectors and heavy-polluting industries in the region.

For example, to promote transparency across financial markets, and to enable consistent decision making in green and transition investment to avoid "green-washing" or "transition-washing", the Hong Kong Monetary Authority is drawing up a local green classification framework that will align with the

Common Ground Taxonomy adopted by the Mainland and the European Union. The framework will be released soon. And the next phase will focus on the inclusion of transition activities.

Our efforts to align with international standards also include sustainability disclosure. While we all look forward to the speech on ISSB (International Sustainability Standards Boards) standards by Dr Hua, allow me to report the latest progress of Hong Kong in this regard.

In light of the first set of International Financial Reporting Standards published by ISSB last year, we have made an open commitment to developing a roadmap to adopt the ISSB standards. Our target is to launch it within this year. This will put Hong Kong among the first jurisdictions to adopt the ISSB standards. In this regard, the Financial Services and the Treasury Bureau last month launched a vision statement that emphasises our determination to develop a comprehensive ecosystem on sustainability disclosure. That includes driving cross-sectoral observance of the ISSB standards under a phased implementation approach; developing sustainability assurance standards; capacity building to support the financial industries and companies; and facilitating the use of technological solutions in sustainability reporting.

#### Concluding remarks

Ladies and gentlemen, transition finance is not just an investment strategy; it is a catalyst for positive change. Hong Kong has the opportunity to lead in this area, and has positioned ourselves as a hub for sustainable investments. Let us seize this opportunity, embrace the challenges, and work towards a greener, more resilient future for Hong Kong and the planet.

I thank the FSDC (Financial Services Development Council), the China Sustainable Investment Forum and Friends of the Earth for organising this forum, providing a valuable discussion platform for this topic.

I wish you a fruitful event on this special day, and the best of health and green business in the years to come. Thank you.



