CATCHING THE WAVE:
HONG KONG AS A REGIONAL GREEN FINANCE HUB?

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Event Summary Report

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EVENT BACKGROUND

The concept of "green" has increasingly gained attention in the world of financial markets and investments. As more and more people acknowledge the long-term impact of climate change in the future economy, more and more countries in the region have also been actively working towards a low-carbon transformation. Hong Kong, having had success in becoming a recognized regional financial center since riding the wave of opportunities from the opening up of China's market 25 years ago, is sensibly being placed in the limelight, this time, against the increasing need to finance these environmentally sustainable developments today.

The Civic Exchange, as an independent public policy think tank, brings together valuable resource speakers from the government, financial institutions, and the academia to explore this second wave of opportunities along with Hong Kong's capacity to take advantage of its unique position in advancing green finance in the region. The Green Forum entitled "CATCHING THE WAVE: Hong Kong as a Regional Green Finance Hub?" is co-hosted by the Hong Kong University of Science and Technology, and provides a platform for the key speakers to share their expertise and thoughts on current green finance developments, with the view to influence research and engage the public and various stakeholders towards enabling Hong Kong to catch and ride on this significant wave of globally sustainable proportions.

Please visit HKUST website to download post-event materials: https://goo.gl/Yc6mcU

PROGRAM

Time	Item	Speakers	
8:15	Registration with coffee/tea		
8:30	Opening remarks	Winne Cheung, Civic Exchange CEO	Video
8:35	"Overview of Hong Kong's Policies for a Green Financial Hub"	Joseph H.L. Chan, Under-Secretary, Financial Services and Treasury Bureau (FSTB)	Video
8:50	Panel discussion: "Transforming the Landscape" Moderator: Henny Sender, Columnist, Financial Times		
	"Capital Trends and ESG"	Alex Ng, Chief Investment Officer, Asia Pacific, BNP Paribas Asset Management	Video
	"Integrating Risk and Strategy in insurance"	Dr Norman Cheung, HKUST Senior Lecturer	Video
	"New Findings in Financial Performance"	Prof Entela Benz, HKUST Adjunct Associate Professor	Video
	"Disclosure, Carbon Pricing and Catching the Wave"	Paula DiPerna, Civic Exchange Visiting Fellow	Video
9:40	Q&A with the audience		Video
9:55	Closing remarks	Winnie Cheung, Civic Exchange CEO	Video
10:00	Networking with coffee/tea		

SPEAKERS & MODERATOR (in alphabetic order)

Dr Entela Benz is an Adjunct Associate Professor at the HKUST Department of Finance. Since 2007, she has undertaken various academic and industry related projects on ESG Investing and Impact Measurement field. A quantitative analyst by training, she previously worked for UBS Investment Bank in Hong Kong.

Joseph H.L. Chan is the Undersecretary for Financial Services of the Hong Kong Government. He was previously Managing Director in the Global Markets Division of Credit Agricole Corporate & Investment Bank, and was a Managing Director in Financial Markets of Standard Chartered Bank. Mr Chan was also formerly a member of the Central & Western District Council.

Dr Norman Cheung is a climatologist by training and a Senior Lecturer at the HKUST Division of Environment and Sustainability. He has also worked as a Senior Catastrophe Analyst for SCOR, a reinsurance company.

Winnie Cheung, Civic Exchange's CEO, has a unique background which combines deep experience in finance, as well as leadership at Hong Kong's top environmental think-tank. Ms Cheung was formerly Chief Executive of the Hong Kong Institute of Certified Public Accountants.

Paula DiPerna is a visiting Fellow at Hong Kong's Civic Exchange, and a Special Advisor to CDP. She is a widely known expert on trends in environmental finance. She has served in various leadership roles, including as President of the International Division of the Chicago Climate Exchange (CCX), which spearheaded the creation of the Tianjin Climate Exchange (TCX), the first of China's pilot emissions trading markets.

Alex Ng has more than 30 years of international investment experience. Mr Ng first joined the ABN AMRO Group in 1988. In 1991, he established the Hong Kong office of ABN AMRO Asset Management (Asia) Ltd ("AAAM") which went on to become BNP Paribas Asset Management. By 1995, he had transformed AAAM into the company's global asset management centre for Asian investments. He is currently Chairman of the Children's Medical Foundation, a Hong Kong based charitable organisation.

Henny Sender is chief correspondent for international finance at the Financial Times, based in Hong Kong. She was part of a team at the Wall Street Journal that won a Loeb award for coverage of the meltdown of Amaranth hedge fund.

EVENT HIGHLIGHT

With the government of China, the world's largest emitter of greenhouse gases, capable of financing only 15% of the annual capital needed by China to meet its environmental goals, it would need funds from outside sources to meet the over one trillion US dollars it needs for the next five years. This is an example of green financing.

On Tuesday, April 17, we were honoured to co-host the presentations of five distinguished speakers of Civic Exchange's Green Forum, *Catching the Wave: Hong Kong as a Regional Finance Hub?*. One by one, they talked about green finance from their professional perspective, the challenges and opportunities they see in terms of business integration, ESG analysis and reporting, insurance product development, business engagement, strategy execution, and financial training, among others.

Green finance was further defined during the seminar as inclusive of "financing the low carbon and climate-resilient infrastructure as well as practices that fully embed sustainability, environmental and climate issues across business and in the financial services industry."

Chief Executive Officer of Civic Exchange, Winnie Cheung, opened the program by highlighting Hong Kong's history in turning itself into a major capital market to help fund China's emerging enterprises and opportunities as it opened up in 1993.

She underscored that the present opportunity for Hong Kong--this "second wave"-- expands the role of financial markets from sheer GDP growth and profit-generation to building sustainable investments. This role becomes especially valuable in light of the Asian Development Bank's report estimating that 1.7 trillion US dollars is needed to fund climate-smart infrastructures in emerging Asia alone.

This is a very important role for the human race, according to Cheung, and while investments designed for better climate adaptation secures economic survival in the long run, it needs to be done with thoughtful risk management to prevent significant financial losses.

Citing the known inclusion of green finance in the government agenda, she invited Joseph Chan, Under-Secretary of the Financial Services and Treasury Bureau (FSTB), to discuss the financial market development plans of the Hong Kong government in relation to green finance.

Turning Potential to Real Business Opportunities

Joseph Chan began his presentation by reiterating the timeliness of the seminar's topic with regards the current administration's key policy initiatives. Looking outside Hong Kong, he mentioned the increasing worldwide prominence of green finance among governments and regulators, citing the green initiatives under the 2015 Paris agreement, the 80% growth of green bond issuance in 2017 from previous year, and the launch of China's G20 Green Finance Study Group in 2016—a particularly critical development that facilitated the mainstream presence of green finance concepts.

Chan built on Cheung's earlier introduction regarding Hong Kong's position as a regional green finance leader, reporting that the 2017 green bond issuance in mainland China was reported at 13.6 billion US dollars, a figure that is over 20% of the global issuance volume (169.4B US dollars).

He also highlighted Hong Kong's robust asset management industry relative to its Asian counterparts, as an investment attraction to international investors increasingly looking for sustainable investment strategies.

The government's green finance-committed initiatives shared by Chan included the development of a government green bond program aimed at creating a reserve to fund the green public works projects of the government, the establishment of a green finance certification scheme by the Hong Kong Quality Assurance Agency, with a planned green bond grant scheme to subsidize qualified green bond issuers using the HKQAA certification scheme; and the participation of Hong Kong in the first-in-Asia Social Bond Principles conference, to

be co-hosted by the Hong Kong Monetary Authority with the International Capital Markets Association (ICMA), which will promote Hong Kong's green finance regional leadership.

While green bonds and green loan transactions continue to grow in Hong Kong, Chan mentioned that on top of the government plans, there are more exciting things ahead, calling the experience a "hi-speed train" and enjoining everyone to board and contribute to these continued developments.

Responsible Investments through ESG Transparency

Moving beyond green finance, Alex Ng was asked to bring the concept of ESG (Environmental, Social, and Governance) to the discussion. In his talk, he tackled the various guidelines through which responsible investment is currently being espoused by governments across the world.

He began by sharing the importance of clarifying the roles of investors, which was a theme cited in a recent publication ("Accelerating Green Finance" by the UK Green Finance Taskforce) he also shared with the audience. According to him, as regulators ensure that fiduciary duty clearly communicates the importance of ESG issues, the industry becomes more guided as to what fiduciary duty should and should not incorporate.

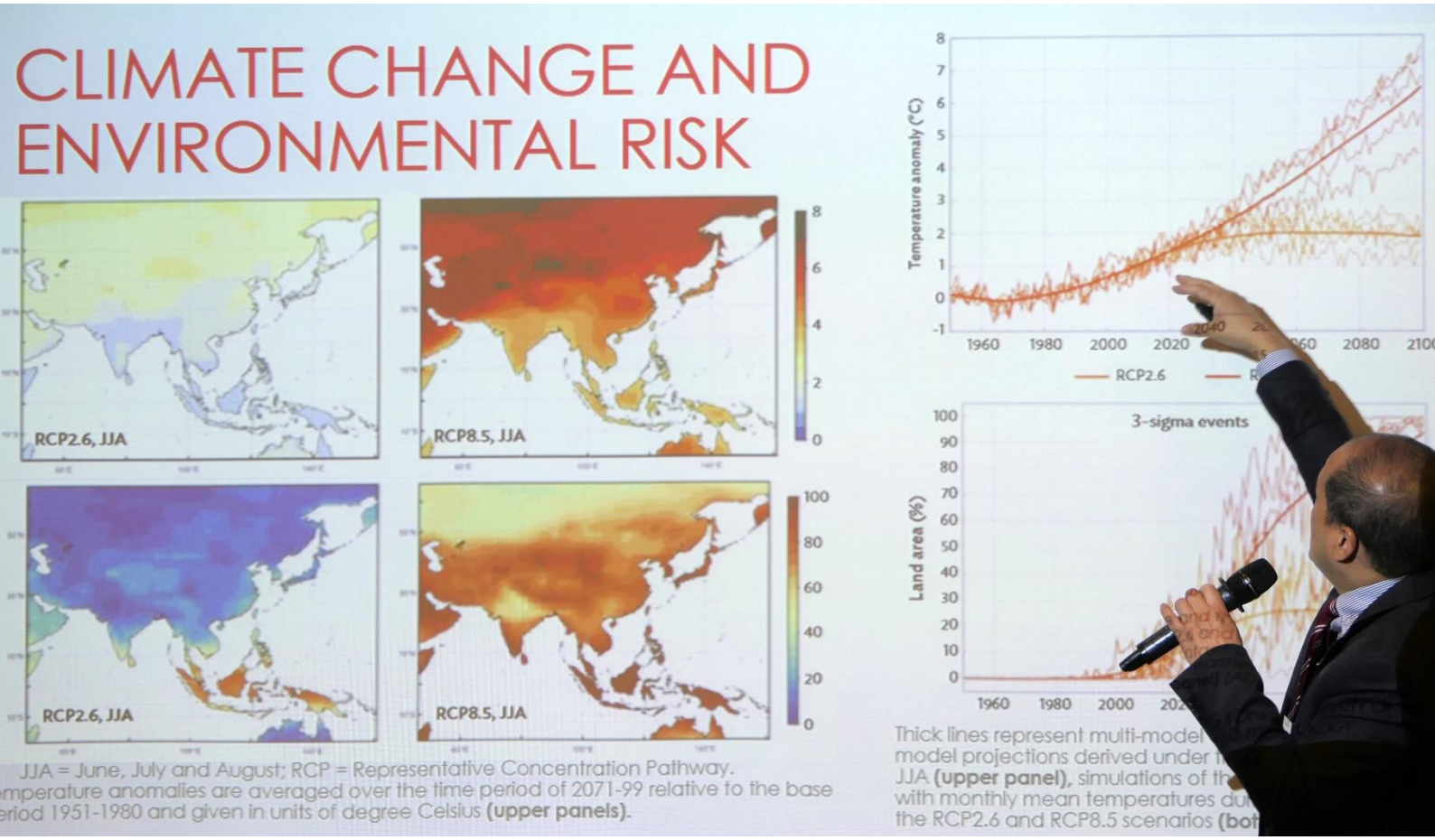
In addition, asset owners were recognized by Ng as critical drivers of ESG as they are the ones who can demand inclusion of ESG in the investment decision process.

Another element he shared was the requirement among institutional investors to align investment policies with national strategy for energy and ecological transition, an item reflected in the French Energy Transition Law.

These "demands," according to Ng, move asset managers to prepare investment fund reports that cover sustainable factors such as waste and emission reduction, and energy conservation or generation. He further reported studies suggesting a positive relationship between sustainability practices and operational performance, including stock performance.

Echoing the earlier discussion of Chan, he acknowledged the anticipated growth of Asia including China's green bond market, and Hong Kong's advantage to fully capitalize on this growth.

He further noted recent developments in Hong Kong such as the upgrading of the ESG guide by the HKex to “comply or explain” for listed companies, and the current 23 Hong Kong-based signatories for the UN-supported Principles for Responsible Investment (PRI).



Understanding Environmental Risks in the Green Finance Hub

Illustrating the environmental risks posed by climate change, Norman Cheung cited the varying intensity and frequency of tropical storms, which are environmental problems that cannot be underestimated by Hong Kong, and which the insurance sector is paying close attention to.

For one, the rise in sea surface temperature and in the tropical cyclone intensity equate to an increased Annual Average Loss (AAL). On the other hand, the changing tracks of tropical cyclones due to global warming also, equates to an increased Risk Load.

According to Cheung, an increase in the AAL and the Risk Load would result in an increased Premium as well, something that is difficult to do in the face of the soft market.

Moreover, changes in the air and water quality contribute to environmental risks that are causing problems for the insurance sector. Developing and selling insurance products, therefore, would entail properly estimating the catastrophe risk in the region where it was not exposed to in such an extent in the past.

Cheung shared that these problems may be addressed in support of Hong Kong as a green finance hub, by soliciting the participation of three parties: the Insurance Authority from the government side, the insurance sector from the business side, and the academia. He believes that doing more research will provide more data to better guide risk assessment. Apart from this collaboration, he cited the adoption of an environmental risk management system for China's external investments, and the mandating of an environmental pollution liability insurance.

ESG Investing as a Disciplined Risk Management

Calling to mind once again the concept of ESG, as discussed by Alex Ng in an earlier presentation, Professor Entela Benz presented the concept of ESG investing in Asia, distinguishing it from ESG reporting and CSR.

Entela shared the good news that ESG investing in Asia is yet to grow with only 0.2% of total ESG AUM managed in Asia, excluding Japan.

She also illustrated how ESG investing moves from risk management to opportunities, with innovation and cost-savings playing a key role in the transformation. Entela referred to this as a natural path of ESG integration into the business model, which should be taken into account.

Moreover, she highlighted that since ESG is risk management, ESG analysis needs to follow a structured framework, starting with identification of KPI indicators, to identification of financially relevant indicators, until performance of a stress-test/analysis.

Governance, according to her, is the most important driving factor within the ESG framework, adding that focusing on "G" already captures "E" and "S," except for China where ESG is a top-down policy. Citing a Robeco study, she stressed that Governance is a leading performance indicator in Asia, with improvement in Governance reporting increased stock price return, increased future P/E ratio, reduced volatility, and lower beta.

Furthermore, Entela advocated for developing ESG strategy along with other financial indicators, instead of developing it in isolation, to avoid obtaining mixed results.

Fueling the Carbon Market Momentum

Paula DiPerna envisioned Hong Kong as a future research center with focused trainings at the executive level. She shared how bottleneck research can help accelerate the pace towards this vision.

Momentum, according to her, is very critical, and there is evidence of momentum in the availability of data, client demands on responsible behavior or companies, and reports such as the increasing amount of money being screened for ESG.

She expressed the decade-long lost opportunity, due to the US' non-entry into a national cap-and-trade in 2010, to create a global system that can actively address the six greenhouse gases through the Chicago Climate Exchange. The point of the carbon market, she underscored, is not just to trade carbon but to set a price signal. The carbon price provides the tangible expression through which ESG tools can assess risk. Since the Chinese system has not launched yet, the role of Hong Kong, according to DiPerna, remains unclear.

She called on the world to go on a carbon diet; otherwise, the ultimate goal of capping and reducing emissions will not be met. Carbon trading just needs its momentum.

The 5 P's in DiPerna's Hub of the Hub referred to the Products, which asset owners can filter down to those relevant to reducing emissions; Practitioners, which refers to championing Hong Kong as a magnet for talents committed to green finance; Policy, which would require those living in Hong Kong to be critical about the level of engagement, creativity, and even imagination in these policies; Price, which is essential for risk and cost evaluation; Purpose, which asks the question, "What is the purpose of money?"

DiPerna ended her presentation with a thought-provoking reminder on how people value expensive lifestyles over the "cosmic penthouse" that prevents us from burning up. "If Hong Kong can flip that and become the center of asking the question of what is the purpose of money, I think it really will be the hub of green finance," she concluded.

Closing Remarks

In her closing remarks, Winnie Cheung acknowledged the diversity in the room, and extended her excitement towards the next phase of the financial market.

She emphasized the human purpose of Hong Kong becoming a green finance hub, achieving a long-term sustainability with all environmental, social, and sustainable governance factors, discussed during the panel, all working together for a greener economy.

Panel Discussion

Following the insightful presentations was a panel discussion, moderated by Henny Sender, Columnist for the Financial Times.

Questions raised by both Sender and the audience included getting the priority for environmental solutions among policy-makers, government constraints, challenges in ESG investing, dealing with huge ESG data volume, and exact and quick action steps for Hong Kong to catch the wave, among others.

Here are some of the key takeaways shared by the panelists during the session:

- The government acknowledges these environmental problems, yet there could still be "doubters" that hinder policies towards addressing climate change. While this is a real problem that affects the business, it reinforces the value of research and the academia in terms of clearly communicating, and in getting the policy-makers and the government to be better aligned with our environmental needs.

- We can draw on the power of the public in vocally supporting environmental initiatives. Promoting the positive initiatives being done across the world can mobilize the community to openly address any lack of programs that do not blend in well with environmental drives that surround them, ultimately moving them to ask the question: "Why are we not doing this?" in their respective communities.

- We need a percentage of assets to be ESG-focused. We also need to take an active approach in engagement--which serves a big push for ESG in Asia. If we want companies to improve or integrate ESG factors into the analysis, we have to tackle the "G" which goes through engagement. We need to move from Alpha engagement to Beta engagement. Beta engagement is when the asset manager works closely with a manager, changing the way the company is looking at ESG and trying to integrate ESG

into their business model. They start to look at quality, competence, diversity across the board, and adopt a comprehensive approach to improving the company performance.

- If the Hong Kong public acknowledges and supports the long-term impact for our environment of the year-on-year variations on returns, it will end a strong message to the authorities on the significance of incorporating ESG.

- The keeper of the flame for the public (in reducing emissions, cleaning water) has to be the government.

- Public policy is slow because issues have become overly complicated. Environmental issue has to be redefined as a core question, and not a side dish. It is not separate from your daily operations. Evidence is there (i.e. capital markets have developed products that are showing performance, growing ESG departments in major financial institutions of the world in the pension funds) as well as momentum. Capital markets have gotten in front of policy. The public policy role now it to bring the public along.
- One role for Hong Kong is a green financial literacy institute to bring the public along. We have not required the vision to say that the alternative is to lose out on public health, see more pandemics, etc. All these other non-financial factors. The public needs to look at them as financial.

- In terms of having a proliferation of data. There is lack of data and then there's availability of reliable data, and too much data. How can we use big data to our advantage? If you have a lot of data coming in from various sources, you can also use it to cross check information that's coming across. Nothing beats engagement with the companies to better understand, because we see exclusion as the failure of engagement. We need to engage companies to ensure that we are moving in the right direction.

- If the SFC can make it easier for the companies to report on key financial material on ESG, that's already a big step because then the company can see what is important for their core business.

- Another helpful way is to get companies to disclose more. If we have more data on a governance, that's already very helpful for the asset owners and asset managers as well to engage the company, as well for the investors.

- To drive green bonds, we can also make the certification program easier, more robust and more compliant to the international standards, so more Chinese companies will list in Hong Kong. It's already an attraction point for that.

- It may not be a framework that's necessary but perhaps a consortium approach where you identify ten needed items. It may be just trying to link up better things that are going on and to identify the breakthroughs necessary to broadcast those things.

- There is going to be a Hong Kong Green Finance Association that will be established, and the association would work very closely with China as well.

The views expressed in this summary report are those of the speakers and moderators, and do not necessarily represent the opinions of the event organizers.