

ESG IN CREDIT SERIES: GREEN, SOCIAL AND SUSTAINABILITY BONDS

Presenters:

Mary Leung, CFA, Head, Advocacy, Asia-Pacific, CFA Institute

Mervyn Tang, CFA, Senior Director and Global Head of ESG Research, Fitch Ratings

Kenneth Hui, Head, Market Development, Hong Kong Monetary Authority

Giorgio Valente, Head, Hong Kong Institute for Monetary and Financial Research

Sean Kidney, CEO, Climate Bonds Initiative

CFA Institute x Fitch Ratings - ESG in Credit Webinar Series

Part 1



FitchRatings

ESG in Credit Webinar Series -
ESG in Fixed Income



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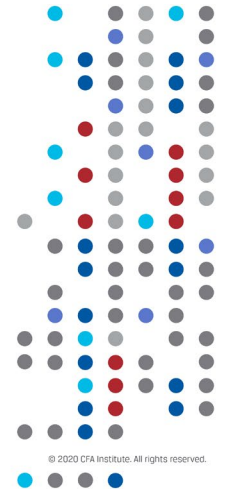


Part 2



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ESG in Credit Webinar Series -
**ESG integration in Fixed Income
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PRESENTATION

GIORGIO VALENTE

Head

Hong Kong Institute for Monetary and
Financial Research





Green, Social, and Sustainability Bonds: International Trends and Hong Kong's Developments

Giorgio Valente

Hong Kong Institute for Monetary and
Financial Research (HKIMR)

March 2021

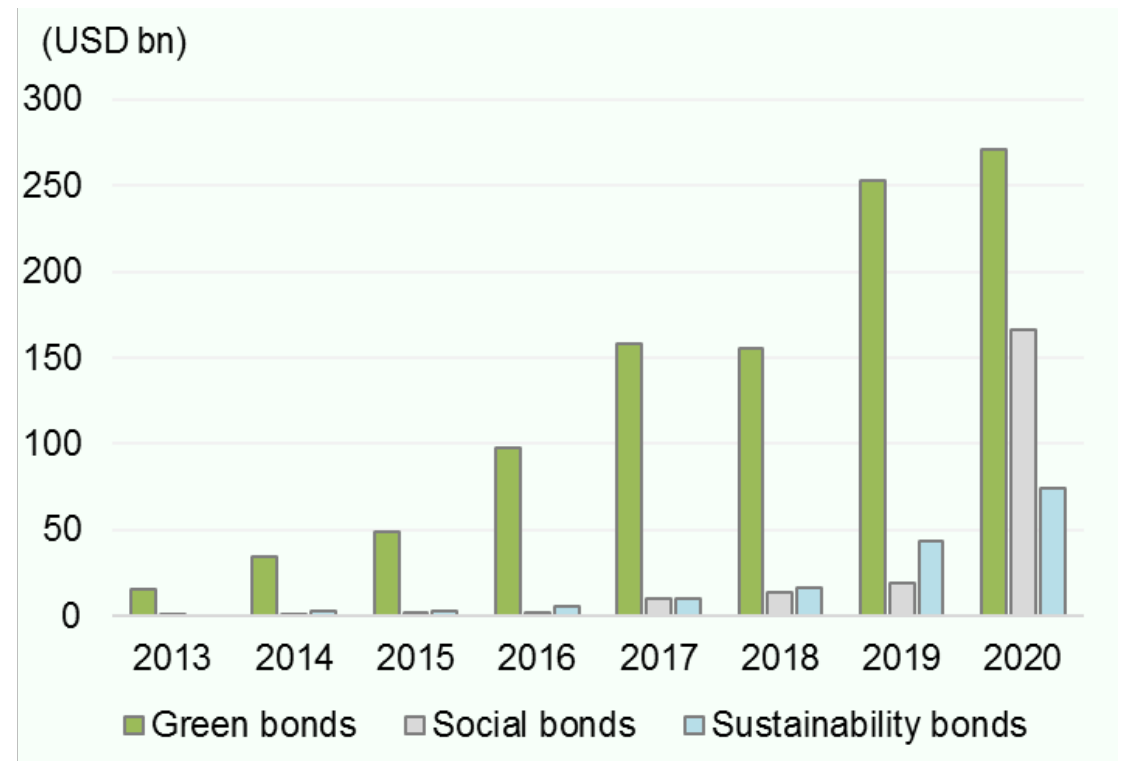
Green, Social, and Sustainability Bonds

- **Green bonds** raise funds for projects aimed at bringing about **environmental** benefits.
- **Social bonds** raise funds for projects aimed at bringing about **social** benefits.
- **Sustainability bonds** finance a combination of **green and social** projects.
- **Sustainability-linked bonds** finance the general operations of the issuer, with sustainability targets linked to the bond's coupons.

Green, Social, and Sustainability Bonds: International Trends

- The total issuance amount of green, social and sustainability bonds **exceeded USD 500bn in 2020**.
- **Green bonds** have been dominating the fixed income products in the ESG universe.
- **Social and sustainability bonds** also recorded rapid growth in 2019 and 2020.
- The first **sustainability-linked bond** was issued in 2019.

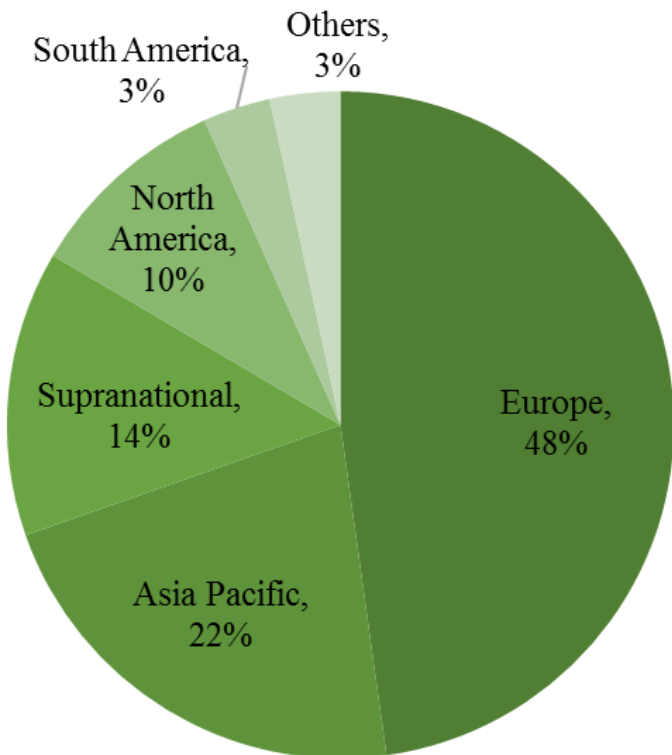
Issuance of Green, Social, and Sustainability Bonds



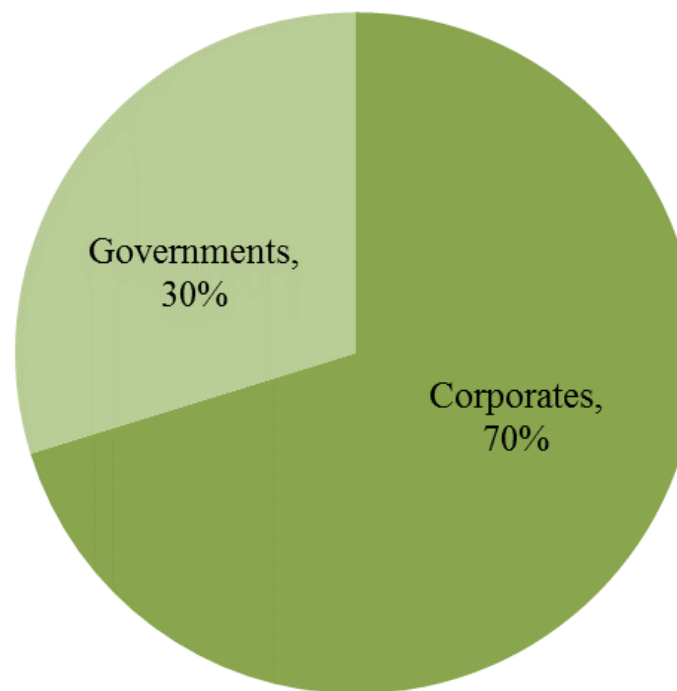
Source: Bloomberg

Green, Social, and Sustainability Bonds: Breakdown

Breakdown by jurisdiction



Breakdown by type of issuers



Source: Bloomberg (based on issuance amount from 2007 to date)

Opportunities and Challenges for Issuers and Investors

For issuers:

Opportunities	Challenges
<ul style="list-style-type: none">• Reputational benefits• Cost advantages (especially with external reviews)	<ul style="list-style-type: none">• Heterogeneous standards• Verification or certification costs

For investors:

Opportunities	Challenges
<ul style="list-style-type: none">• Higher resilience in downturns (e.g. the Covid-19 pandemic)• Satisfy ESG investment mandates	<ul style="list-style-type: none">• Market liquidity, bond sizes• Greenwashing

Sources: OECD/Bloomberg Philanthropies (2015), Moinas et al. (2020), Chava et al. (2020), Albuquerque et al. (2020), Moinas and Bao (2020) and HKIMR staff compilation.

Mitigating Greenwashing Concerns for Green Bonds

- **Greenwashing** refers to the risk that the underlying use of proceeds does not yield to the expected environmental benefits.
- Mitigation via **Standards** (i.e. **Green Bond Principles** and the **Climate Bonds Standard**) and **Taxonomies**. Efforts are being made to harmonise the standards and taxonomies.
- **External reviews** (such as verification and certification) by independent third parties before and after issuance are also important
- Investors **do** care.



The Green Bond Market in Hong Kong

Developing a Robust Ecosystem for Sustainable Growth

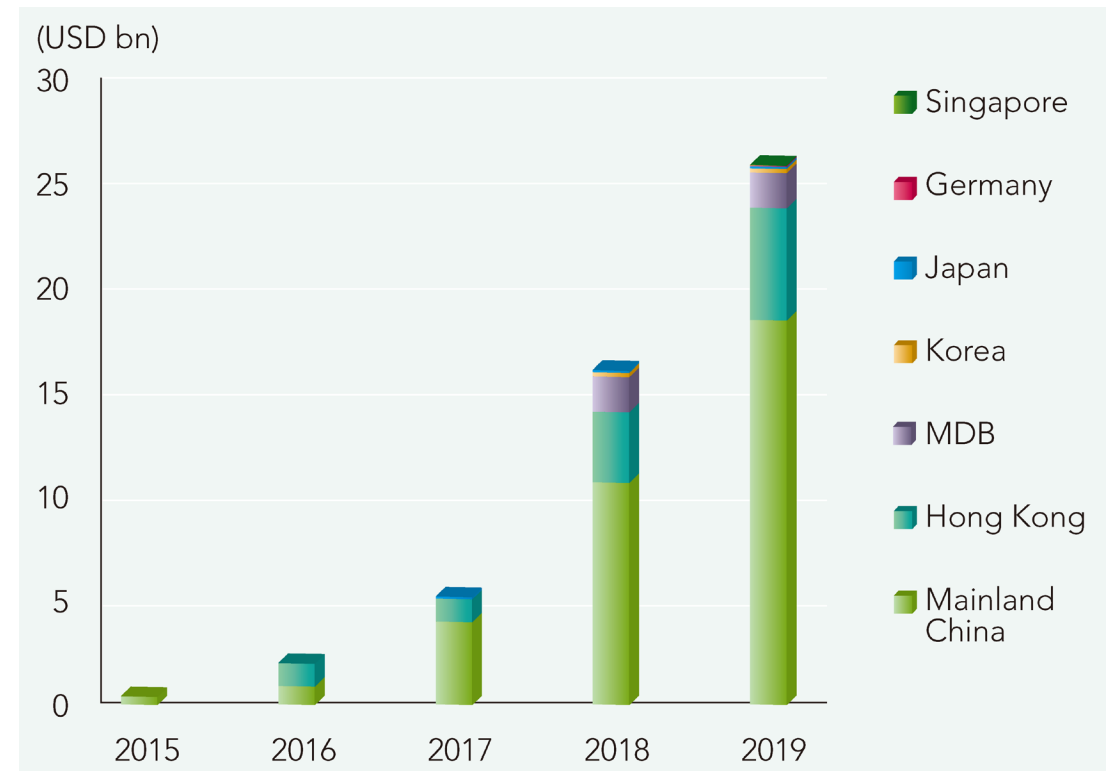
November 2020

HKIMR Applied Research

Green Bonds Arranged and Issued in Hong Kong

- **Cumulative issuance** in Hong Kong amounted to **USD 26bn** by the end of 2019.
- **Around half** of green bonds in 2019 were issued by **financial institutions**.
- **Mainland entities** were the largest issuers, followed by local issuers and issuers from the rest of Asia and Europe.

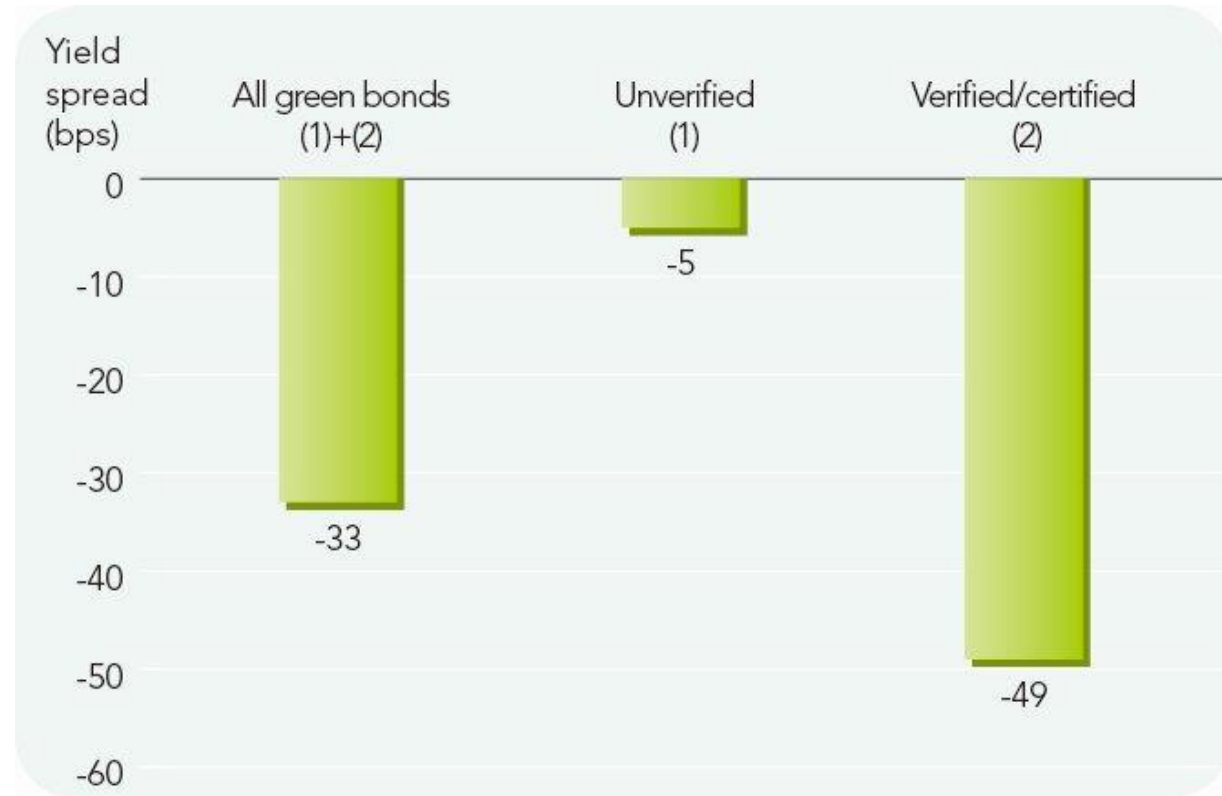
Green bonds arranged and issued in Hong Kong



Source: HKIMR compilation based on HKMA definition.

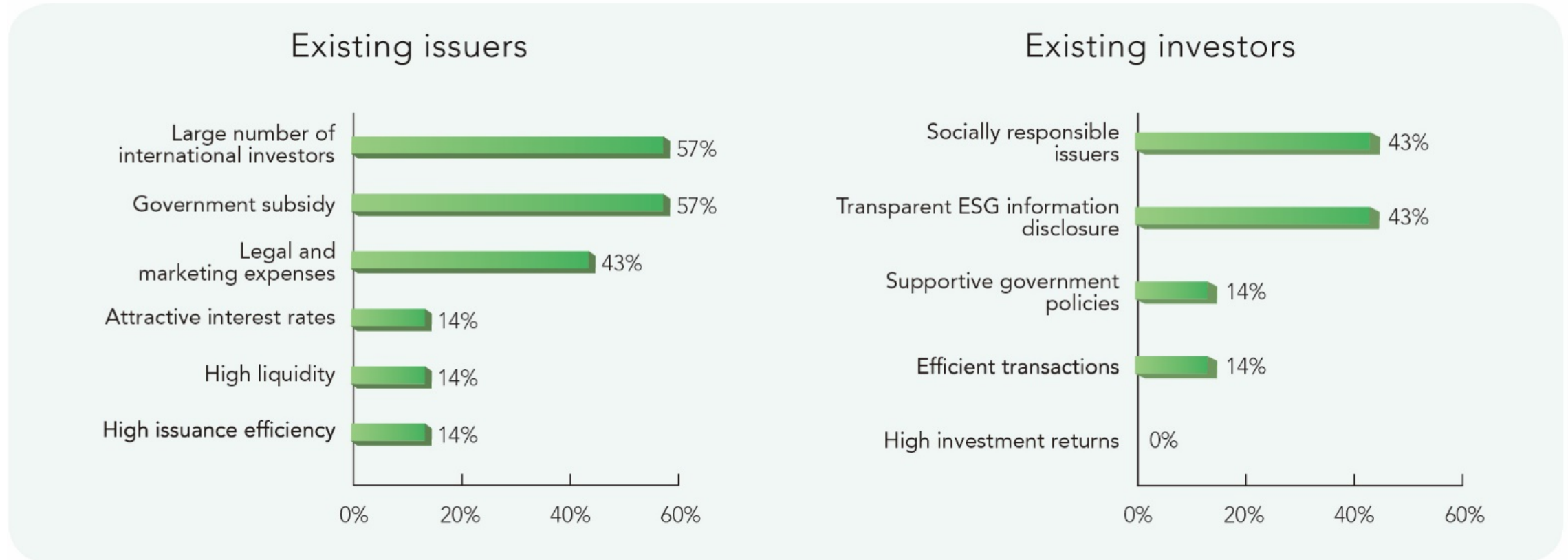
Verified/Certified Green Bonds Enjoy Lower Cost of Borrowing

- Green bonds generally enjoy a **lower cost of borrowing**.
- The cost reduction is **tangible if they are verified or certified**.



Sources: Moinas and Bao (2020) and HKIMR staff compilation.

Advantages of the Hong Kong Green Bond Market: Participants' views



Source: HKIMR staff calculations based on the Green Bond Survey.

Challenges and Strategies for Sustainable Growth

- Perceived challenges:
 1. Low public awareness about the green bond market
 2. Financial and time costs involved in the verification and certification procedures
 3. Lack of unified international green bond taxonomy and standards
- The report proposes strategies to **encourage broader market participation** and **perfect the green infrastructure** in Hong Kong.
- Some strategies have been considered in the Strategic Plan of the **Green and Sustainable Finance Cross-Agency Steering Group**

PANEL DISCUSSION



Mary Leung, CFA
Head,
Advocacy,
Asia-Pacific,
CFA Institute



Mervyn Tang, CFA
Senior Director &
Global Head of
ESG Research,
Fitch Ratings



Giorgio Valente,
Head,
Hong Kong Institute of
Monetary and Financial
Research



Kenneth Hui,
Head,
Market Development,
Hong Kong Monetary
Authority



Sean Kidney,
CEO,
Climate Bonds Initiative



POLLING QUESTION 1

Have you invested in green, social and sustainable (GSS) bonds before?

- A. Yes, I have invested in all three types of GSS bonds _____
- B. Yes, but only in green bonds _____
- C. No, I am still learning about the asset class _____
- D. No, because supply is limited _____
- E. No, the valuation is not justified _____

Polling Results	
	6%
	9%
	72%
	9%
	3%



POLLING QUESTION 2

What are the most important aspects when evaluating a GSS issue?
(Select all that applies)

- A. Adherence to a global framework / taxonomy _____
- B. Objectives and impact of the projects that the proceeds are funding _____
- C. Independent certification and verification _____
- D. Availability of ongoing, periodic reporting _____
- E. Credit rating and repayment capabilities of the issuer _____
- F. Pricing, liquidity and ease of entry / exit _____

Polling Results	
	41%
	63%
	45%
	39%
	50%
	48%



POLLING QUESTION 3

What should governments do to promote GSS bonds as an asset class?
(Select all that applies)

- A. Create a top down, holistic strategy on sustainability _____
- B. Set up new rules and taxonomies _____
- C. Work with others on harmonisation and convergence _____
- D. Become an active issuer of GSS bonds _____
- E. Become an active investor in GSS bonds _____
- F. Provide tax and other incentives _____
- G. Do nothing – let the market take care of it _____

Polling Results
3 rd
5 th
2 nd
4 th
6 th
1 st
7 th



THANK YOU

