

ESG Series – Green and Sustainable Finance Grant Scheme of Hong Kong

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It has been one year since the launch of the Green and Sustainable Finance Grant Scheme (Scheme) in May 2021¹. The Hong Kong Monetary Authority (HKMA) announced in its Quarterly Bulletin of March 2022² that more than 60 debt instruments had been approved under the Scheme. This article summarizes the core elements of the Scheme and provides tips for applications.

Grant and eligibility of the Scheme

The Scheme consists of two tracks³:

	Track I General Bond Issuance Costs	Track II External Review Costs
Finance instruments	Eligible green and sustainable bonds	Eligible green and sustainable bonds and loans
Applicants	First-time bond issuers	First-time and repeated bond issuers and loan borrowers

¹ <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2021/05/20210504-4/>

² <https://www.hkma.gov.hk/media/eng/publication-and-research/quarterly-bulletin/qb202203/fa1.pdf>

³ <https://www.hkma.gov.hk/media/eng/doc/key-information/press-release/2021/20210504e4a1.pdf>

	Track I General Bond Issuance Costs	Track II External Review Costs
Eligible expenses covered by the grant under the Scheme	Bond issuance expenses, including arrangement, legal, audit, rating, listing and clearing fees	<p>Only expenses of transaction-related external reviews</p> <ul style="list-style-type: none"> ▶ pre-issuance reviews, e.g. certification, second party opinion, verification, ESG scoring/rating, assurance, consultation to develop the bond/loan framework) ▶ post-issuance external reviews or reporting
Grant amount	50% of the eligible expenses, up to (i) HK\$2.5 million where the bond, issuer or guarantor possesses a credit rating by a recognised rating agency, or (ii) otherwise, HK\$1.25 million	100% of the eligible expenses, up to HK\$800,000
Key eligibility criteria	<ul style="list-style-type: none"> ▶ pre-issuance external review provided by a recognised external reviewer ▶ issued in Hong Kong (half or more of the lead arrangers are Hong Kong based) ▶ issuance size of at least HK\$1.5 billion ▶ listed in Hong Kong or lodged with and cleared by the Central Moneymarkets Unit (CMU) operated by the HKMA ▶ issued in Hong Kong to (i) 10 or more persons or (ii) less than 10 persons none of whom is an associate of the issuer 	<ul style="list-style-type: none"> ▶ pre-issuance external review provided by a recognised external reviewer ▶ issued in Hong Kong (half or more of the lead arrangers/lenders are Hong Kong based) ▶ issuance size of at least HK\$100 million (raised from the initial HK\$200 million threshold) ▶ (for bonds only) listed in Hong Kong or lodged with and cleared by the CMU ▶ (for bonds only) issued in Hong Kong to (i) 10 or more persons or (ii) less than 10 persons none of whom is an associate of the issuer

There are currently 14 external reviewers (including Ernst & Young) recognised by HKMA⁴.

A few tips

Because a pre-issuance external review is mandatory in either track, it is advisable for any applicant to consult a recognized external reviewer. The core references adopted by reviewers may include (a) the Green Bond Principles and Social Bond Principles developed by the International Capital Market Association (ICMA Bond Principles), (b) the Green Loan Principles and Social Loan Principles jointly issued by the Loan Market Association, the Asia-Pacific Loan Market Association and the Loan Syndications and Trading Association (LMA Loan Principles), (c) the Catalogue of Projects Supported by Green Bonds (绿色债券支持项目目录) issued by the People's Bank of China, (d) EU Technical Expert Group final report on Sustainable Finance Taxonomy, (e) ISO/FDIS 14030-3 Environmental Performance Evaluation—Green debt instruments—Part 3: Taxonomy and (f) Sustainable Development Goals adopted by the United Nations.

It is essential for the issuer/borrower to formulate the relevant bond/loan framework

in line with the ICMA Bond Principles or LMA Loan Principles. The core elements of the framework should at least include (i) use of proceeds, (ii) process for project evaluation and selection, (iii) management of proceeds and (iv) reporting. Please refer to our earlier article for more details of such 4 elements⁵.

HKMA does not require the eligible projects must be in Hong Kong or the proceeds must be used in Hong Kong.

Eligibility conditions are imposed on bond arrangers, loan lenders and external reviewers, but the Scheme does not require that the issuer/borrower must be a Hong Kong company.

Prior to or after the issuance of the bond/loan, it is desirable to consult the HKMA before submitting the formal application. The HKMA may indicate no-objection to the pre-application consultation if it is satisfied that, based on the preliminary information provided, the Scheme eligibility requirements are met.

A formal application may be made within 3 months after the bond/loan is issued. The HKMA processes applications in monthly batches.

⁴ <https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/bond-market-development/tax-concessions-and-incentive-schemes/>

⁵ https://www.eylaw.com.hk/en_hk/publications/our-latest-thinking/2022/may/principles

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