

An overview of the Hong Kong Taxonomy for Sustainable Finance

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The Hong Kong Monetary Authority (HKMA) published the Hong Kong Taxonomy for Sustainable Finance (**Hong Kong Taxonomy**) in early May 2024 as a green classification framework to enable informed decision making on green and sustainable finance in the local market.

In this briefing, our Sustainable Investment Consulting team compares it to other national and regional taxonomies and explains more about its implementation.

Comparability with national and regional taxonomies

The development of the Hong Kong Taxonomy has been guided by the principles of interoperability, comparability and inclusiveness. It is formulated by reference to certain national and regional taxonomies, such as the Common Ground Taxonomy (CGT), EU Taxonomy, Mainland China Taxonomy and the Climate Bonds Taxonomy, in which CGT is the major reference.

Unlike the EU Taxonomy which covers six environmental objectives, Hong Kong Taxonomy focuses on the environmental objective of climate change mitigation and has not yet incorporated Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS).

"We would explore the incorporation of DNSH and MSS criteria in the future development of the Taxonomy, bearing in mind the principles of interoperability and usability," the HKMA noted.

Hong Kong Taxonomy implementation

Currently, the Hong Kong Taxonomy encompasses 12 economic activities under four sectors namely power generation, transportation, construction, and water and waste manage. It can

help banks and other financial institutions originate and structure green products and help investors identify opportunities that comply with sustainability criteria. Examples of the implementation include labelling of green bonds, classification of green loans, and disclosure of green and sustainable activities. It serves as a market tool for voluntary use by the industry in combination with market-based frameworks, such as International Capital Market Association Green Bond Principles for green bond and Loan Markets Association Green Loan Principles for green loans.

Mr Eddie Yue, Chief Executive of the HKMA, said, "By providing a common language and framework for sustainable finance, we are equipping market participants with an important tool to make informed decisions, drive impactful cross-border investments, and contribute to global efforts in combating climate change."

Way forward

To demonstrate Hong Kong's dedication to a holistic approach to sustainability and to draw attention to facilitating transition activities, the HKMA will expand the Hong Kong Taxonomy over time to cover environmental objectives apart from climate change mitigation, transition activities with a decarbonisation pathway and sectors that are already in the CGT.

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Meet the Author



Shirley Lo

Manager, Sustainable Investment Consulting

Hong Kong

E: shirley.lo@ogier.com

T: +852 3656 6186

Key Contacts



Leonie Kelly

Head of Sustainable Investment Consulting

Hong Kong

E: leonie.kelly@ogier.com

T: +852 3656 6169



Hardik Shah

Client Director

Singapore

E: hardik.shah@ogier.com

T: [+65 9645 9008](tel:+6596459008)



Kasia Zatorska

Senior Manager, Sustainable Investment Consulting

Hong Kong

E: kasia.zatorska@ogier.com

T: [+852 3656 6164](tel:+85236566164)

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