Annex II

Frequently Asked Questions on
Sale and Distribution of Green and Sustainable Investment Products

Applicability of the Circular

1. Under what circumstances are RIs expected to comply with the expected standards set out in the Circular?

The expected standards (except those on bookbuilding) set out in the Circular are applicable to registered institutions ("RIs") that market or classify an investment product as green and sustainable. As such, provided that the RI does not market or classify the investment product as green and sustainable, even if an RI sells an investment product whose name or other information may contain elements suggesting it as green and sustainable, the RI is not required to comply with the expected standards (except those on bookbuilding) set out in the Circular.

Whether an RI has marketed or classified an investment product as green and sustainable is a question of fact which should be assessed against the circumstances on a case-to-case basis.

For example, merely mentioning the product name (which may contain elements suggesting the investment product as green and sustainable) or providing information on ESG ratings / scores or ESG features based on the offering documents to customers without a representation or the intention that RIs market or classify such product as green and sustainable, is unlikely to fall within the scope of this Circular.

2. Can RIs apply the exemptions for Institutional Professional Investors and Corporate Professional Investors[6]?

RIs may continue to apply the exemptions related to the relevant existing regulatory requirements for Institutional Professional Investors and Corporate Professional Investors.

[6] "Institutional Professional Investors" refer to that defined in the SFC's Code of Conduct. "Corporate Professional Investors" refer to those professional investors where RIs have complied with paragraphs 15.3A and 15.3B of the SFC's Code of Conduct.

3. **Can RIs apply the streamlined approach when dealing with Sophisticated Professional Investors[7]?**

   RIs may apply the streamlined approach related to the relevant existing regulatory requirements for Sophisticated Professional Investors. For avoidance of doubt, with respect to applying the streamlined approach for Sophisticated Professional Investors, the HKMA does not require green and sustainable investment products to form a specific product category.

4. **Is there any streamlined approach for bonds issued by government or sovereign?**

   RIs may continue to adopt the simplified arrangements for bonds that falls under "Eligible bonds" as stipulated in HKMA's circular dated 31 July 2020 on "Simplified Arrangements for Sale and Distribution of Eligible Retail Bonds Issued by Government and Related Organisations".

Product due diligence

5. **Can RIs identify and classify green and sustainable investment products by relying on the relevant information provided by reputable third party service providers, the expertise of their parent company or other entities within the group?**

   While RIs may take reference to the information provided by third party service providers, RIs are expected to have in place clear policies and procedures which should encompass various aspects, such as selection criteria, due diligence and ongoing monitoring of service provider; and governance to ensure the reliability of information obtained.

   While RIs may take into account assessment work of their group company or head/ regional office, where appropriate, RIs should establish proper policies and procedures to ensure that adequate and reasonable assessment is performed taking into consideration the local regulatory requirements and other local circumstances.

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[7] "Sophisticated Professional Investors" refer to those professional investors where RIs have complied with HKMA-SFC's joint circular titled "Streamlined approach for compliance with suitability obligations when dealing with sophisticated professional investors" dated on 28 July 2023.

6. Is an RI expected to request product certification or verification?

To demonstrate reasonable steps have been taken in classifying green and sustainable investment product, RIs are expected to review relevant information, including to the extent applicable, information provided by product providers or issuers, and reviews from external parties. The emphasis is placed on conducting a thorough assessment based on available information, rather than requesting product certifications or verifications.

Customer's sustainability preference

7. Is it mandatory for RIs to make enquiry about a customer's sustainability preference?

It is not a mandatory requirement.

8. If a customer has indicated sustainability preference, is an RI only allowed to recommend investment products which align with the customer's sustainability preference, as the RI might not have such investment products available?

RIs may recommend products with or without sustainability-related features, regardless of the customer's sustainability preference. Nonetheless, if a customer indicates any sustainability preference, RIs should additionally take into account the customer's sustainability preference and may recommend products that align with the customer's sustainability preference, provided that such products are available, while also taking into account other circumstances of the customer.

9. If RIs make enquiry about a customer's sustainability preference, but the customer does not provide an answer or does not indicate any sustainability preference, can RIs still recommend products with sustainability-related features?

RIs may consider the customer as "sustainability-neutral" and may continue to recommend products both with or without sustainability-related features.