
Consultation Report: Prototype for a Green Classification Framework for Hong Kong

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I. Introduction

The Hong Kong Monetary Authority (HKMA) commissioned Climate Bonds Initiative (Climate Bonds) to develop a green classification framework for adoption in the local market. In May 2023, we published a discussion paper on “Prototype of a Green Classification Framework for Hong Kong”. Apart from outlining our thinking on the development of a local green classification framework including the background, potential benefits and core principles, the paper also proposes the structure and core elements of a prototype framework. Based on the paper, a market consultation was conducted to gather feedback from stakeholders on the development and application of the framework. A range of stakeholders including financial sector participants, industry associations, academia, think tanks and non-government organisations (NGOs), were invited to participate in the consultation and relevant outreach sessions.

This report is prepared by the HKMA and Climate Bonds to present the major findings from the consultation, together with our views, recommendations, and proposed way forward in advancing the development of the framework.

II. Responses Received from Market Consultation

2.1. Respondents at a glance

On top of the feedback gathered from the outreach sessions, a total of 38 written responses were received. These responses were provided by a range of respondents as follows:

Type of respondent	No. of respondents
Banks and Development Institutions	17
Industrial and Professional Associations	7
NGOs and Think Tanks	5
Service and Solution Providers	4
Asset Managers	2
Public Organization	1
Energy Company	1
Academic Institution	1
Total	38

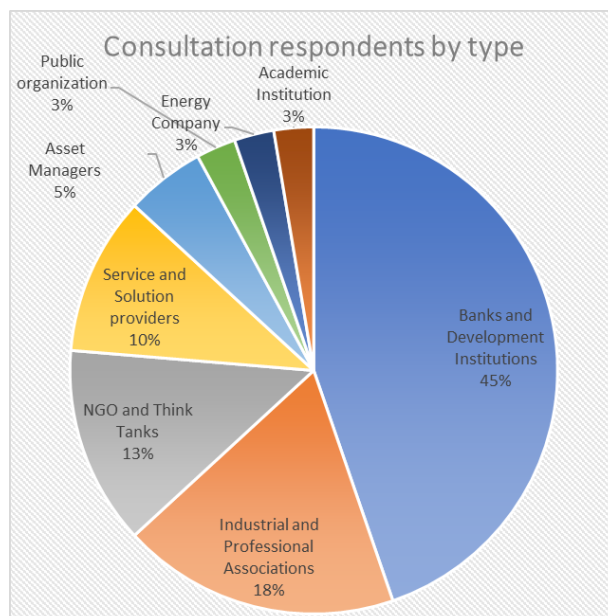


Figure 1: Chart of consultation respondent by type

2.2. Overview of the feedback received

Respondents welcomed the development of a taxonomy for Hong Kong, as it can help bolster our position as an international sustainable finance hub. They were of the view that the Hong Kong Taxonomy could help reduce greenwashing risks, provide a clearer definition of green products, and provide the foundation to enhance interoperability. They also offered a number of suggestions on the design and structure, metrics, Technical Screening Criteria (TSC) and thresholds as well as the next steps for the Taxonomy. More details of the feedback are in Section 2.3 below.

2.3. Summary of feedback and our responses

Consultation questions
Taxonomy design and structure What are your views on the design and structure of the prototype? Do you agree with the principles on which the prototype is built?
Metrics, TSC and thresholds - Do you have any comments on the metrics, TSC and thresholds? If you foresee any operational difficulties in implementing the metrics, TSC and thresholds, please provide specific details of alternative/substitute with supporting information and evidence. - Are there any metrics, TSC and thresholds that could be further adapted in the local context? - Are there any other certification schemes or labels in Hong Kong that can be used as proxies for compliance with TSC?

Next steps

- Do you have comments on any of the elements and activities to be included in the future development of the Taxonomy, such as any new sectors, transitional activities, new environmental objectives and the Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS) criteria?
- Do you have any comments on how the Taxonomy should be used in Hong Kong?

2.3.1. Taxonomy design and structure

	Feedback summary	Our responses
(i)	Respondents in general welcomed the development of the Hong Kong Taxonomy as it can help bolster our position as an international sustainable finance hub. There was broad agreement on the principles built on the prototype.	We appreciate respondents' support for our work on the Hong Kong Taxonomy for Sustainable Finance. The Taxonomy aims to operationalise and align with the Common Ground Taxonomy (CGT), taking into account the context in Mainland China and the European Union (EU). In the prototype, references were made to a number of other taxonomies such as the Climate Bonds Taxonomy (CBT) and ASEAN Taxonomy. In future development, we will endeavour to consider the regional context and other mainstream taxonomies and frameworks as appropriate, taking into account, for example, materiality of banking sector exposures and ease of adaptation under the TSC-based approach.
(ii)	Respondents generally agreed with the TSC-based approach adopted in the Taxonomy.	
(iii)	Some respondents suggested that in addition to Hong Kong's local context, the Hong Kong Taxonomy should take into account the regional context in the Greater Bay Area (GBA) and other jurisdictions. They recommended endorsing projects and activities that have the potential to contribute significantly to the decarbonisation roadmap of Hong Kong, Mainland China, and beyond.	
(iv)	A few respondents recommended aligning the Hong Kong Taxonomy with other widely used reference taxonomies such as the Green Loan Principles and ASEAN Taxonomy to enable market participants to easily understand and match the relevant criteria in the Hong Kong Taxonomy.	
(v)	Many respondents expressed the need for supplementary instructions and guides to help financial market participants understand and use the Taxonomy. For instance, some of them suggested including guidance on the application of Hong Kong Standard Industrial Classification (HSIC) code to the entity's underlying activities, taking into account situations under which the use of proceeds was different from the entity's underlying activities.	Currently, the Hong Kong Taxonomy is intended to be a voluntary tool for the industry (please see 2.3.3(i) for more details). As standardised industrial classification codes (such as HSIC, International Standard Industrial Classification of All Economic Activities (ISIC) and the Nomenclature of Economic Activities (NACE)) provide a systematic hierarchical system to classify different economic activities, they serve as a good foundation for our Taxonomy to map

	Feedback summary	Our responses
		activities and set out relevant TSC. We acknowledge that the actual use of proceeds could be different from the industrial sector of an entity and agree that a precise assessment should be based on the relevant TSC. An illustrative guidance has been prepared to provide users with illustrations to facilitate the understanding and use of the Taxonomy.
(vi)	Some respondents saw a need to establish a governance structure to regularly assess and incorporate changes from reference taxonomies into the Hong Kong Taxonomy in a timely manner to ensure interoperability and comparability.	We agree that there is a need for the Hong Kong Taxonomy to be regularly updated. We will keep in view the latest developments on this front and will also explore establishing relevant processes and structure for the next phase of work in developing the Taxonomy.
(vii)	A piece of feedback recommended that the Taxonomy should provide specific reference to a just and fair transition which includes (i) protecting the interests of financially vulnerable groups of society during the transition process, and (ii) recognising that transition pathways in emerging countries in Asia should reasonably allow for some catch up growth, without assuming that the current utilisation of the carbon budget is fair and equitable.	We note the feedback and will consider the comments carefully, particularly when expanding the coverage of our Taxonomy to include transition activities in the next phase of work.
(viii)	There was a suggestion to include the Global Industry Classification Standard (GICS) code in the Taxonomy.	To support interoperability and ease of comparison with other global taxonomies, in our Taxonomy spreadsheet, each HSIC Industry Class is mapped with the corresponding ISIC and NACE codes. We will explore adding a reference to the GICS code in our future work.
(ix)	There was a concern about the potential gaps between various taxonomies implemented by different regions, such as the EU and Mainland China, and hence a suggestion to explicitly specify the priority for alignment when conflicts arise between these taxonomies.	The major taxonomy referenced in our work is the CGT, and hence the alignment of the Hong Kong Taxonomy mainly follows that of the CGT. Whether the CGT adopts the criteria in EU Taxonomy, Mainland China Taxonomy, or both depends on how the criteria overlap. For example, in a scenario where the EU criteria are more specific or stringent, such criteria are adopted in the CGT.
(x)	A proposal suggested reframing the Taxonomy as a “sustainable” taxonomy, which would broaden its scope to include activities such as nuclear, gas, and other transitional practices that are considered sustainable but may not	We concur with the idea of reframing the Taxonomy as a “sustainable” taxonomy, which aligns with our future work, e.g. the expansion to include transition activities.

	Feedback summary	Our responses
	necessarily align with the specific criteria of being “green”.	
(xi)	A respondent opined that while the Taxonomy adopts a “sum-of-all” approach by combining different taxonomies and industry standards, the differing climate plans among the EU, Mainland China, and Hong Kong could pose a potential obstacle to establishing a clear and consistent green standard for investors. Another respondent agreed on the importance of interoperability but also pointed out the need for greater attention to local-specific circumstances.	Given Hong Kong’s important role in bridging green financial flow between Mainland China and the world, a key feature of the Hong Kong Taxonomy is the interoperability with other taxonomies, and hence references are made to the CGT, EU Taxonomy, Mainland China Taxonomy, ASEAN Taxonomy and CBT. If there are any criteria specific to a market, we have also highlighted them in our work to facilitate users to understand such differences. On local circumstances, our work has also taken into account Hong Kong specific standards. For example, the Building Environmental Assessment Method (BEAM) Plus assessment criteria are adopted in our Taxonomy.

2.3.2. Metrics, technical screening criteria and thresholds

	Feedback summary	Our response
(i)	Respondents proposed certain standards and labels to be incorporated into the Taxonomy, such as the Construction Industry Council green product certification, CarbonCare® Label, Guobiao Standards and the International Electrotechnical Commission Standards, to enhance the applicability of the Taxonomy in the Hong Kong context. In addition, regarding the building sector, respondents highlighted the importance of other green building rating schemes such as LEED and IFC-EDGE for building projects in Hong Kong.	We appreciate respondents’ feedback. We will analyse the proposed standards and labels and will consider incorporating them into the Taxonomy as the coverage of activities increases. On green building rating schemes, we have enhanced the Hong Kong Taxonomy to include LEED and IFC-EDGE.
(ii)	There was some feedback on expanding the existing activities covered by the Hong Kong Taxonomy, for example, to include co-digestion facilities under sewage sludge treatment.	We agree to include co-digestion facilities and have enhanced the Taxonomy accordingly.
(iii)	A respondent provided details on the prevailing industry practices of certain activities and expressed concerns about the challenges of meeting the TSC. For example, for “sewage sludge treatment – anaerobic digestion” and “utilisation / treatment of	We appreciate respondents’ feedback. We will carefully analyse the suggestions and enhance the Taxonomy as appropriate. We also note the need to strike a balance between the practical concerns of market participants and the need to put in place

	Feedback summary	Our response
	domestic waste – anaerobic digestion”, the respondent highlighted the difficulty of measuring total lifecycle methane emissions in quantitative terms. On the other hand, for “collection and transport of non-hazardous waste in source segregated fractions”, the respondent expressed concerns that waste and recyclable bins are commonly made of plastic and metal, while bins made of 100% recycled plastics are rare in practical situations.	green standards on par with international ambitions. In light of the complexities associated with quantifying methane emissions throughout the lifecycle of the activities concerned, we have removed the relevant criterion from the Taxonomy. The criterion was an additional requirement on top of the CGT. The revised TSC of the relevant activity thus remain in line with the CGT after the removal. Separately, in view of concerns on the practicality of requiring waste collection bins to be made from 100% recycled plastics, we have removed the corresponding criterion from the Taxonomy. Similar to the above, the revised TSC of the relevant activity remain in line with the CGT.
(iv)	Several respondents and market participants expressed concerns about the challenges of aligning with the thresholds in energy saving performance in construction of new buildings. They expressed that it takes time for building projects to plan and to factor in additional energy saving requirement on top of BEAM Plus rating.	We appreciate respondents’ feedback. With regards to the threshold on energy saving for the building sector, the 30% energy performance improvement aligns with international ambitions such as CGT, the EU and the Climate Bonds baseline. Detracting from this target would compromise the Hong Kong Taxonomy’s goal of aligning with international best practices. We will further explore the possibility of introducing a transition category to address the concern.
(v)	There were a few suggestions related to specific metrics in the Taxonomy. For example, for transportation, it was recommended to include other industry metrics such as Energy Efficiency Existing Ship Index (EEXI) and Energy Efficiency Design Index (EEDI); and for buildings, there was a suggestion to add metrics of energy intensity per square metre.	We appreciate respondents’ feedback. We will carefully analyse the suggestions and enhance the Taxonomy as appropriate. Regarding the suggestion on EEXI and EEDI, we do not intend to include them at the current phase as there is no consensus within the shipping-decarbonisation industry on the effectiveness of the two indexes in measuring the actual performance of a ship. Regarding the suggestion to include energy intensity metrics per square metre, the Taxonomy may eventually shift away from buildings certification and instead require issuers to provide specific energy intensity units. However, it is currently recognised that such information may not be readily available. This is particularly evident in buildings with mixed ownership and use, where

	Feedback summary	Our response
		data privacy concerns can pose barriers to collecting such information.
(vi)	Some feedback was related to specific TSC. For instance, for “renovation of existing buildings”, there was a suggestion to include the additional requirement in the EU Taxonomy for larger buildings (more than 5000 m ²) to undergo testing for airtightness and thermal integrity; and for “transportation of freight by sea”, there was a suggestion to exclude vehicles dedicated to the transport of fossil fuels.	We appreciate respondents’ feedback. We will continue enhancing the Taxonomy as appropriate. Regarding the suggestion of including the additional criteria of airtightness and thermal integrity for “renovation of existing buildings”, we do not intend to include them since these criteria are specific to “construction of new building” as set out in both CGT and EU Taxonomy. Separately, we agree to exclude the transport of fossil fuels and have enhanced the Taxonomy accordingly.

2.3.3. Next Steps

	Feedback summary	Our response
(i)	Many respondents saw a need to further clarify the intended application, expectations, and timeline for adopting the Taxonomy. Some of them were concerned that the industry may not yet be ready for a comprehensive and mandatory framework based on the Taxonomy. A few respondents suggested implementing the Taxonomy by phase, and that initially the implementation could be voluntary for labelling and screening, alongside product development and disclosures. On the other hand, there were also views calling for disclosure requirements and regulatory mechanisms.	Our current work provides a structure for classifying green and sustainable activities. To formulate any new regulatory requirements for applying the Taxonomy would require an additional set of rules or framework. Such requirements need to be considered carefully, taking into account challenges such as readiness of the industry and availability of data. Therefore, at the current stage, we aim to build a market-oriented tool and to make it available for voluntary use by the industry. This could help raise awareness, promote common understanding, facilitate the building up of experience, and more importantly, provide a foundation for different applications such as product labelling, development and disclosures.
(ii)	Several respondents sought clarification on the level of verification needed. In particular, a few of them opined that a building should undergo independent third-party verification to attain a certified green status.	We appreciate respondents’ feedback. We will take note of the suggestions proposed by respondents when formulating additional guidance on the use of the Taxonomy, taking into account the costs and benefits of verification. Certain TSCs in the Taxonomy have made reference to third-party standards and labels.

	Feedback summary	Our response
(iii)	There were a number of suggestions on new sectors and activities to be included in the Taxonomy, such as consultancy activities, information and communication technologies, manufacturing of cement and steel, and manufacturing of electric vehicles. Several respondents took the view that the Taxonomy should prioritise green and transition activities that are more relevant in the GBA when considering new activities for the next phase. They highlighted that the manufacturing sector is a significant contributor to greenhouse gas (GHG) emissions in the GBA. Examples of suggested new activities received during the consultation period are listed in Annex 1.	We appreciate respondents' feedback and recognise the importance of including transition activities and other environmental objectives. Specifically, we will study transition activities in the GBA and Asian economies and formulate TSC taking into account relevant taxonomies and frameworks. The merits of using a traffic light system would also be considered. Among the various potential environmental objectives, we intend to prioritise climate change adaptation by exploring possible approaches in formulating the TSC. We will also keep in view international developments in the field of taxonomies, particularly that of the CGT, with regard to how other environmental objectives have been included. Activities in Annex 1 will be considered for inclusion in the Taxonomy, with appropriate prioritisation.
(iv)	Many respondents were in favour of including transition activities in the future development of the Taxonomy so as to facilitate decarbonisation efforts across industries in Hong Kong and the region. A few of them suggested to consider including transition activities that relate to the phase-out and conversion of high-emitting assets such as fossil fuel power plants in the next phase. Respondents suggested that the Hong Kong Taxonomy could make reference to other taxonomies when incorporating transition activities, such as declining emissions thresholds with sunset dates for certain activities as in the EU Taxonomy, and the traffic light approach as in the ASEAN Taxonomy.	
(v)	Some respondents highlighted the importance of addressing the stance on natural gas in the Taxonomy to effectively communicate its robustness and credibility to global investors. They were concerned about the challenge of providing transition finance to natural gas facilities that could potentially cause significant harm to climate change mitigation.	
(vi)	Some respondents supported the Taxonomy to include new environmental objectives such as climate change adaptation and resilience, the circular economy, pollution prevention, water	

	Feedback summary	Our response
	management and biodiversity. Specifically, there were views that climate change adaptation and resilience could be more feasible with co-benefits with climate change mitigation. However, some respondents were concerned that other environmental objectives may be more difficult to quantify.	
(vii)	Some respondents expressed the need to include DNSH elements and suggested that the Taxonomy incorporate the EU Taxonomy criteria for DNSH. However, at the same time, some respondents were concerned that the application of DNSH might be complex in practice for investors and financial institutions. They suggested the prioritisation of the development of TSC and focus on capacity building for DNSH and MSS.	We appreciate respondents' feedback. 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.
(viii)	There were concerns that it would be difficult for small and medium-sized enterprises to use the Taxonomy since they may not have the necessary expertise or resources to carry out the assessments.	We will explore the possible ways to facilitate use of the Taxonomy and build capacity.
(ix)	A respondent highlighted the benefits of formulating national and/or regional level pathways and suggested considering interim solutions, such as utilising the decarbonisation pathways provided by the International Energy Agency (IEA) for the energy sector, while these pathways are being developed.	We appreciate respondents' feedback and recognise the importance of considering interim solutions. All the thresholds currently included in the Taxonomy meets the IEA trajectories and evidence by the Intergovernmental Panel on Climate Change on 1.5°C. The Hong Kong's Climate Action Plan 2050 has set a target of achieving carbon neutrality and net-zero electricity generation before 2050. At this stage, only conventional renewable energy technologies, such as solar and wind power, can confidently be considered capable of producing electricity with an emissions intensity commensurate with the Climate Action Plan. They are thus included in the current Hong Kong Taxonomy. Generally, there are three possible methodological approaches to formulate decarbonisation pathways for Hong Kong: 1. Based on actual GHG emissions: a baseline year is set up and a trajectory is drawn to zero in 2050. Trajectories can then be

	Feedback summary	Our response
		designed for both the green and transition components of the Taxonomy. This approach is the most accurate and robust, but it requires the availability of local data, which might be difficult to obtain especially for sectors such as buildings and manufacturing; 2. Trajectories from IEA or other reputable and independent sources such as the Transition Pathway Initiative are used: these trajectories are very good benchmarks, recognised internationally and useful for the purpose of interoperability. However, they tend to be global in scope and may not provide jurisdiction-specific pathways; and 3. Measure-based approach: proxy is used to determine the decarbonisation potential of a specific activity or sector. This approach is generally used for sectors where the availability of data both at the local and global level is a challenge such as mining and aviation. Each of the above approaches presents both challenges and benefits, and hence will be further explored. For the energy sector, in particular for technologies such as natural gas fired power generation, they will be taken into account when formulating relevant criteria.
(x)	Some feedback suggested that the Taxonomy should be applicable across industries to facilitate disclosure and reporting and ensuring better data availability and reliability. Respondents recommended close collaboration, such as forming a steering group specifically on the implementation of the framework, between the HKMA and other regulators in Hong Kong to ensure consistency in the use of the Taxonomy and thus reduce complexity and costs for financial institutions.	The HKMA maintains close dialogue with other financial regulators through the Green and Sustainable Finance Cross-Agency Steering Group (CASG) ¹ . One of the key action items of CASG is to develop a taxonomy for use across the financial sector. The HKMA will continue to work with other CASG members on this matter.

¹ Established in May 2020, the CASG is co-chaired by the HKMA and the Securities and Futures Commission. Members include the Environment and Ecology Bureau, Financial Services and the Treasury Bureau, Hong Kong Exchanges and Clearing Limited, Insurance Authority and the Mandatory Provident Fund Schemes Authority. The CASG aims to co-ordinate the management of climate and environmental risks to the financial sector, accelerate the growth of green and sustainable finance in Hong Kong and support the Government's climate strategies.

III. Way Forward

Based on the feedback from the consultation, we have fine-tuned the framework and published it as the Hong Kong Taxonomy for Sustainable Finance. By publishing the Taxonomy, we hope to provide an infrastructure to facilitate better understanding and early adoption by the market.

We also recommend continuing to enhance and expand the Taxonomy to make it more complete and useful. Taking into account the suggestions received during the consultation period and new market practices that have emerged in the development of taxonomies globally, we outline below key considerations in the future work.

3.1. Future development of the Taxonomy

3.1.1. New sectors and activities

The Taxonomy is based on the prototype framework which currently focuses on 12 specific economic activities in four sectors, namely power generation, transportation, construction, and water and waste management. These activities were selected for their applicability to the specific circumstances of Hong Kong as well as for their ability to serve as good prototype material. In the future, a key focus is thus to expand the sectors and activities of the Taxonomy to have a more comprehensive coverage of green and sustainable activities.

Examples of suggested new activities from the consultation are in Annex 1. We will consider these suggestions and, as a starting point, explore building upon those already in the CGT not currently covered in the Taxonomy, such as storage of hydrogen and green lighting upgrades. Apart from the local context, we will also take into consideration the context of the region, such as the GBA and the ASEAN region when prioritising activities to be covered.

3.1.2. Transition activities

The current Taxonomy covers green activities but not transition activities which include those activities with a decarbonisation pathway towards net zero and the “hard-to-abate sectors” which confront formidable economic and technological obstacles that make their decarbonisation process complex and demanding. Establishing a transitional category for such activities could draw attention and facilitate targeted measures to support their transition. We therefore recommend including transition activities in the future work in order to address the crucial aspect of time-bound progress towards environmental sustainability.

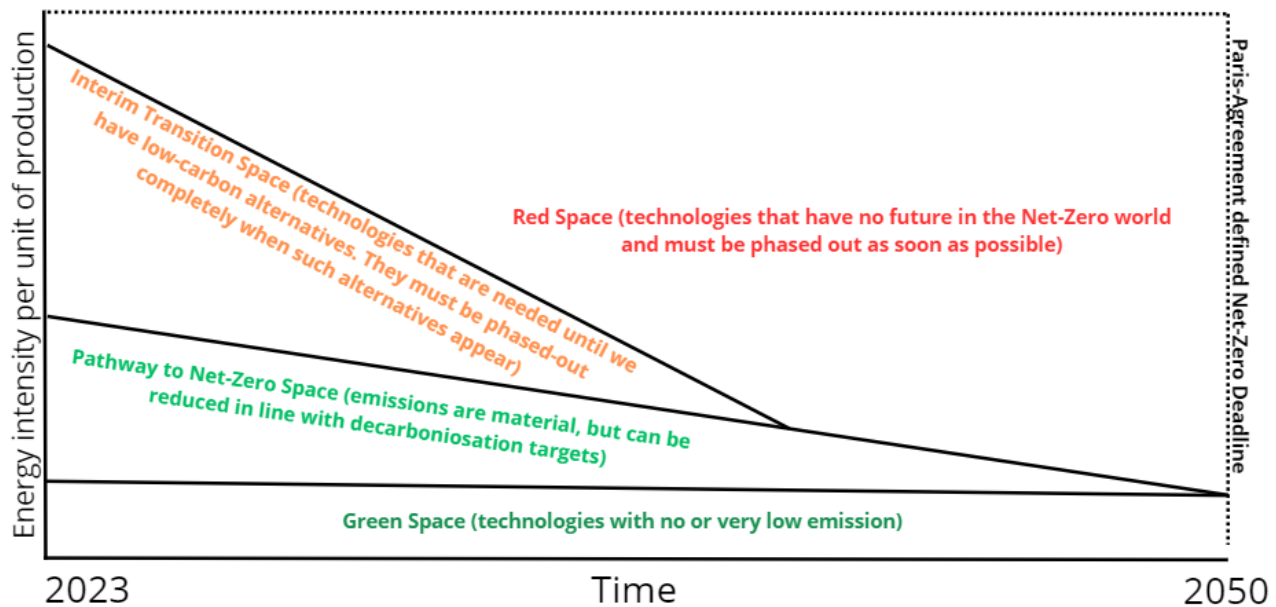
By including a transition category, the Taxonomy would not only address a vital component of the economy but also signal Hong Kong’s dedication to a holistic approach to sustainability. The inclusion of the transition category, encompassing both challenging industrial sectors and time-bound emission reduction goals, enriches the Taxonomy’s effectiveness in guiding fund flows and promoting responsible financial practices aligned with global environmental goals.

As the current Taxonomy mainly covers green activities, establishing a category for transition activities would require a few issues to be addressed. Firstly, we need to explore what is meant by transition activities and define a credible transition pathway, as indicated in Figure 2 below:

- **Pathway to Net Zero Transition** (light-green): if an activity is not currently at or near zero emission, but can technologically become net-zero by 2050, transition for this activity means gradual decrease of emission intensity in line with a prescribed declining threshold.

- **Interim Transition** (amber): if an activity is important for the economy, not in a designated red list of unsustainable activities, but at the same time has no clear pathway to net-zero by 2050, it must be completely phased out at a later date (but no later than 2050). However, if this activity is undergoing technological improvements that decrease its carbon intensity in line with a prescribed pathway, it is considered transitional until the phase-out date (sunset date).

Figure 2. Visual representation of green, transition and non-compliant (red) space in relation to GHG emissions



Climate Bonds established five core principles for transition², which provide the basis for a credible transition pathway for an activity:

- Align with zero carbon by 2050 and nearly halving emissions by 2030;
- Be led by scientific experts and not be entity or country-specific;
- Be sure that credible transition goals and pathways do not count offsets;
- Include an assessment of current and expected technologies which can be used to determine a decarbonisation pathway;
- Be backed by operating metrics rather than a commitment or a pledge.

Secondly, we need to select and prioritise the specific transition activities to be included, taking into account global developments as well as the contexts in Hong Kong, Mainland China including the GBA, and the region. For example,

- **Construction sector transition:** Transition activities within the construction sector pose one of the biggest challenges from the point of view of criteria scientificity and applicability. It may not be feasible for some buildings in Hong Kong to achieve the proposed 30% energy performance improvement threshold due to various constraints and physical limitations. Nevertheless, these buildings are also in need of significant investment and have a role to play in meeting Hong Kong's

² <https://www.climatebonds.net/principles-transition>

decarbonisation objectives. One of the solutions may be to develop criteria that would allow transition for some of the existing buildings.

- **Energy sector transition:** Transitional activities in the energy sector concern the gradual modernisation of the energy system and the transition to clean energy sources. Transition trajectories could be developed considering local and regional policies, and global climate science taking into account emission intensity trajectory ending at net zero in 2050.

Below are some examples of transition activities that have no easy pathway to decarbonisation but have a big role to play in the post-2050 economy, and thus must be decarbonised on a step-by-step basis:

- Manufacture of organic basic chemicals
- Manufacture of iron and steel
- Manufacturing of cement
- Electricity generation from hydrogen

Furthermore, it is important to consider how the design and structure of the Taxonomy should be adapted to incorporate a stand-alone transition category. As the current version of the CGT does not include a transition category, the inclusion of such a category or the adoption of a traffic light system could involve major changes to the Taxonomy and imply certain compatibility issues with the CGT. We will thus explore an approach which on the one hand aims to maintain compatibility with the CGT for activities that are already considered net-zero or on a net-zero pathway, whilst on the other hand devise a transition category for those transition activities (including hard-to-abate activities) that require a specific decarbonisation pathway per sector. The decarbonisation pathways for those hard-to-abate sectors should still be based on global pathways in order to maintain a high degree of interoperability with global taxonomies and could also be tailored to incorporate sunset dates.

3.1.3. New environmental objectives

The Taxonomy should be expanded over time to cover environmental objectives apart from climate change mitigation. It would be pragmatic to include the objective of climate change adaptation with the following considerations:

- **Resilience building:** the inclusion of climate change adaptation and resilience in the Taxonomy would enhance Hong Kong's resilience to the impacts of climate change, reduce vulnerabilities and safeguard its critical infrastructure.
- **Synergy with climate change mitigation:** adaptation efforts would attract environmentally conscious investors, promote broader pool of capital for sustainable finance and support projects that contribute to long-term climate resilience.
- **Policy alignment:** aligning the Taxonomy with adaptation goals would reinforce Hong Kong's commitment to international agreements such as the Paris Agreement, signalling its dedication to both mitigation and adaptation strategies.

3.1.4. DNSH and MSS

On the one hand, the incorporation of DNSH and MSS requirements could help sustainable finance initiatives align with holistic environmental and social considerations. On the other hand, there are concerns that their inclusion might be complex in practice for investors and financial institutions. We would explore the incorporation of both components in the future development of the Taxonomy, bearing in mind the principles of interoperability and usability.

3.2. Implementation

Our prototype framework aims to provide a structure for classifying green activities. Through the publication of the Hong Kong Taxonomy, we hope to facilitate its early adoption by the market by raising awareness, promoting common understanding, building experience, and more importantly, providing a foundation to support and complement specific applications. For example:

- Labelling of **green bonds** – with additional procedures and criteria on the use and management of proceeds, project assessment and selection, and reporting, the Taxonomy could support the labelling of green bonds. Examples of these standards or frameworks in the market include China Green Bond Principles³, the Climate Bonds Standard, International Capital Market Association Green Bond Principles, and the ASEAN Green Bond Standards.
- Classification of **green loans** – similar to those frameworks for green bonds, the Taxonomy could support the issuance of green loans with respect to the various transparency requirements under different frameworks and standards. Noteworthy examples include the Loan Markets Association Green Loan Principles and the Green Finance Guidelines issued by the former China Banking and Insurance Regulatory Commission⁴.
- **Disclosure** – the Taxonomy could also support specific reporting guidelines to enhance comparability to facilitate international capital flows. For example, it enables the determination of the proportion of assets that finance and are invested in green and sustainable activities.

Currently, the Taxonomy could serve as a market tool for voluntary use by the industry, for example, in combination with those market-based frameworks mentioned above. There were different views from the consultation on the implementation. Some support voluntary use because of the readiness of the industry including the availability of data, but there were also suggestions supporting a phased mandatory implementation. We note that there is no common practice and indeed taxonomies in many jurisdictions are for voluntary use. We will keep abreast of the usage of the Taxonomy and challenges facing the industry, and further evaluate the cost and benefit of putting in place mandatory requirements for use of the Taxonomy and the feasibility of mandatory application.

With a view to helping the industry familiarise with the Taxonomy and encouraging its integration with business operations, we issued a supplemental guidance to provide some background based on the discussion paper together with illustrations of how the Taxonomy could be used and responses to some frequently asked questions.

³ <https://www.nafmii.org.cn/ggtz/gg/202207/P020220801631427094313.pdf>

⁴ https://www.gov.cn/zhengce/zhengceku/2022-06/03/content_5693849.htm

Annex 1: Potential Sectors and Activities for Future Taxonomy

Presented below are some suggestions on sectors and activities for incorporation in the next phase of the Taxonomy received during the consultation:

- Construction and operation of rail freight transport and upgrade of existing railways
- Construction, installation and operation of heat pump facilities
- Data processing, hosting and related activities
- Electricity generation from hydropower
- Energy production from natural gas
- Green lighting upgrades
- Installation, maintenance and repair of renewable energy technologies in buildings
- Manufacture of cement
- Manufacture of equipment for the recycling and harmless treatment of food waste
- Manufacture of iron and steel
- Manufacture of low carbon transport fleets and vessel
- Recycling non-hazardous waste
- Professional, scientific and technical activities

Annex 2: List of Abbreviations

ASEAN	The Association of Southeast Asian Nations
BEAM	Building Environmental Assessment Method
CASG	Green and Sustainable Finance Cross-Agency Steering Group
CBT	Climate Bonds Taxonomy
CGT	Common Ground Taxonomy
Climate Bonds	Climate Bonds Initiative
DNSH	Do No Significant Harm
EDGE	Excellence in Design for Greater Efficiencies
EEDI	Energy Efficiency Design Index
EEXI	Efficiency Existing Ship Index
EU	European Union
GBA	Greater Bay Area
GHG	Greenhouse Gas
GICS	Global Industry Classification Standard
HKMA	Hong Kong Monetary Authority
HSIC	Hong Kong Standard Industrial Classification
IEA	International Energy Agency
IFC	International Finance Corporation
ISIC	International Standard Industrial Classification of All Economic Activities
LEED	Leadership in Energy Efficiency and Design
MSS	Minimum Social Safeguards
NACE	Nomenclature of Economic Activities
NGO	Non-Governmental Organisation
TSC	Technical Screening Criteria