



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B9/81C

9 December 2022

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Due diligence processes for green and sustainable products

I am writing to share with the industry some good practices relating to the development and ongoing management of green and sustainable products offered by authorized institutions (AIs).

The Hong Kong Monetary Authority (HKMA) observes that AIs have expanded their green and sustainable product offerings in recent years for reasons including meeting customer demand, achieving their climate-related commitments, and contributing to the achievement of global carbon neutrality goals. These products range from green deposits, sustainability-linked financing to green and sustainable investment products.

In view of this development, the HKMA has recently undertaken a round of thematic examinations focused on the development and ongoing management of green and sustainable products. The objective is to ensure that the AIs examined have put in place proper systems of control to ensure that these products and the related funds are managed in a way consistent with their climate strategies, thereby reducing any potential exposures to greenwashing risks. Some good practices were identified over the course of this exercise. They are summarised below around the following five high-level principles for reference by the industry:-

1. **Setting up a robust product governance framework for green and sustainable products** – Some AIs supplement their product governance framework with elements that are specific to green and sustainable products such as internal approval policies, reporting procedures, and dedicated committees for product approval or the green-labelling of products and transactions. They have developed internal product-specific guidelines on the design, origination and classification of green and sustainable products,

building on international or industry practices and principles, and have embedded the identification and assessment of climate-related risks in product due diligence processes. Some AIs have also assessed their product programmes against their own climate strategies and sought external verification of the level of greenness of their product programmes.

2. **Conducting comprehensive “greenness assessments” of clients and transaction due diligence for green lending** – Some AIs conduct detailed assessments of clients’ climate-related risk profile and eligibility for green products as part of their know-your-client and credit approval processes. For clients belonging to climate risk sensitive and high-carbon-emitting sectors, additional due diligence is performed pursuant to the AIs’ own sectoral policies. Suitable evidence, such as external verification, is sought from clients in the transaction approval process to indicate the greenness of their projects.
3. **Performing post-offering monitoring and controls to ensure the proper management of green and sustainable products** – Some AIs conduct regular reviews of their green product portfolios, and closely monitor the allocation of proceeds of their green liabilities. An assessment of clients’ use of proceeds or their performance against the pre-agreed key performance indicators and sustainability performance targets is incorporated in the annual credit review process. Some AIs have also put in place specific policies and procedures to handle potential breaches of the terms and conditions of green and sustainable product transactions.
4. **Enhancing transparency and accountability in respect of green and sustainable products** – Some AIs have published product-specific portfolio-level impact reports and issued utilisation or allocation reports of green deposits and green bonds on a regular basis to inform clients of the use of proceeds. Some AIs have also made TCFD-aligned climate-related disclosures to enhance their overall transparency and accountability.
5. **Building appropriate expertise in product development and comprehensive due diligence processes** – AIs have provided relevant training and developed internal guidance notes for staff, supporting them to build up their capabilities in carrying out their functions in the product due diligence processes.

Details of the above good practices with product-specific examples can be found in the Annex. As AIs continue to develop their green and sustainable banking business, they are recommended to take into account these good practices in building up their climate risk management capability.

Should your institution have any questions about this circular, please contact Ms Christie Yee on 2878 1620 or Ms Doris Poon on 2878 1367.

Yours faithfully,

Raymond Chan
Executive Director (Banking Supervision)

Encl