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Hong Kong's Central Banking Institution Directs Banks to Ramp Up Net Zero Transition Planning

October 17, 2023



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The Hong Kong Monetary Authority (HKMA), Hong Kong's de facto central banking institution, **issued a directive** for banks setting out high-level principles on planning for a transition to a net-zero economy. In a "Dear CEO" letter dated August 29, 2023, to all authorized institutions, Daryl Ho, Executive Director of the Banking Policy Division, directed banks to integrate net zero transition into their planning activities by (i) aligning their objectives with net zero, and (ii) incorporating net zero into their internal processes. The HKMA stated that the new principles are geared towards helping banks maintain "safety and soundness in the transition."

The high-level principles set out in the letter are:

- **Setting clear objectives and targets:** These objections and targets can vary from institution to institution. For some, objectives might include development of a transition strategy, whereas others might focus on a risk management process. Targets need to be aligned with the 2015 Paris Agreement.
- **Establishing a robust governance framework and embedding transition considerations into internal processes:** This framework should go beyond basic corporate governance; while board and executive oversight are key, net-zero transition planning should factor into relevant strategies, business models, and the bank's products and services.
- **Operationalizing these objectives through appropriate initiatives and actions:** This principle is more relevant for institutions that have objectives that include a transition

strategy, rather than simply transition risk management. When possible, banks should seek to establish quantifiable milestones.

- **Proactively engaging with clients:** Banks should actively support their clients in a net-zero transition, including by collecting relevant information on risks and opportunities across disparate sectors.
- **Undergoing reviews and making updates to transition plans accordingly:** Reviews should be frequent so that updates can be made to transition strategies in a timely manner.
- **Maintaining transparency:** Whenever possible, banks should seek to increase the transparency of their transition planning processes.

These high-level principles apply to all authorized institutions in Hong Kong, including those that are local subsidiaries or branches of foreign banks. HKMA noted that, while net-zero transition planning is generally conducted by the bank's head office, it is incumbent upon all foreign banks, including local branches, to take net-zero transition planning into account with respect to their activities in Hong Kong.

Three-Phased Approach and Guiding Documents

HKMA relied on several guiding documents and policies in its development of these high-level principles. This effort is part of HKMA's three-phased approach. Phase I featured the development of a common assessment framework. Phase II focused on supervisory requirements, and initial thoughts on the approach to addressing climate-related and broader sustainability issues. HKMA is now in Phase III, in which the HKMA is assessing banks' progress in satisfying supervisory requirements.

With the ongoing implementation of Phase III raising the bar on green and sustainable banking, HKMA has also reviewed the findings and recommendations of several international bodies in the formation of its net-zero transition high-level principles, including the Network of Central Banks and Supervisors for Greening the Financial System (NGFS)'s [“Stocktake on Financial Institutions' Transition Plans and their Relevance to Micro-prudential Authorities”](#) (May 2023), the Glasgow Financial Alliance for Net Zero (GFANZ)'s [“Financial Institution Net-zero Transition Plans: Fundamentals, Recommendations, and Guidance”](#) (November 2022) and the Task Force on Climate-related Financial Disclosures' [“Guidance on Metrics, Targets and Transition Plans”](#) (October 2021).

Taking the Temperature: As we have discussed at length, including recently [here](#) and [here](#), financial regulators are increasingly focused on climate risk management, which has been a key HKMA supervisory focus since 2019. While it may seem that establishing high-level principles on the net-zero transition for HKMA's authorized institutions should have little downside, some commenters have observed that international standards are still in flux. The recent release of HKMA's principles typifies the issue in sustainable banking and the net-zero transition more broadly: stakeholders (and industry) seek clarity, and divergent standards pose challenges for institutions regulated in multiple jurisdictions. HKMA acknowledges that future updates might come from several sources, including The Basel Committee on Banking Supervision, which is the primary global standard setter for the prudential regulation of banks and whose guidance [we have previously discussed](#). It is also likely that continued dialogue within the industry

will prompt updates to HKMA's own guiding principles. Ultimately, HKMA's announcement is a continuation of the trend of frequent jurisdiction-specific updates to net-zero transition planning.