

Green Finance

A Glossary of Key Terms

Language has been crucial to human development and progress. At the Hong Kong Green Finance Association (HKGFA) we think this holds as true now, in the face of addressing how finance can help society address the urgent sustainability challenge, as at any point of time in human history. The Green Banking Workgroup (GBW) of the HKGFA has prepared this informal glossary of non-technical terms relevant to the discussion of Green Finance. The HKGFA GBW is a mini United Nations of bankers committed to contribute to the efforts of the finance industry to play its part in supporting the transition to a sustainable future including adapting to unavoidable climate change impacts and mitigating the potentially disastrous impacts of climate change by keeping global temperature rises to below 2C versus the pre-industrialization baseline. To learn more about the GBW, visit: <https://www.hkgreenfinance.org/working-group/green-banking/>.

This glossary is not an attempt to create definitions. The objective is to provide an explanation of key phrases to bankers and other industry stakeholders who might be less familiar with the topic of “Green Finance” and hence to contribute to efficient communications in understanding issues as well as the development of solutions in the limited time available.

The glossary has been written initially in English and we hope you find it useful.

The HKGFA GBW recognizes that the Green Finance discussion is live and evolving and that no one has all the answers. We welcome comments and suggestions and expect to update the glossary from time to time to keep it up-to-date and relevant.

Climate Change Adaptation	Refers to efforts to anticipate and prevent or reduce the negative effects of climate change on human and natural systems (agriculture, forestry and fisheries, water supply, human health, coastal zones & infrastructures).
Climate Change Mitigation	Refers to efforts to reduce or prevent climate change, by reducing the flow of heat-trapping greenhouse gases into the atmosphere. This can be achieved either by reducing the sources of these gases (for instance through using renewable energies, making older equipment more energy-efficient, or changing management practices or consumer behavior) or by increasing the rate at which these gases are removed from the atmosphere (through sequestrations by oceans, forests and soil).
Climate Finance	Climate Finance is financing that supports the transition to a climate resilient economy by enabling mitigation actions, especially the reduction of greenhouse gas emissions, and adaptation initiatives promoting the climate resilience of infrastructure as well as generally of social and economic assets.

Climate Transition	Climate Transition is the pathway supported by targeted policies and initiatives to a climate resilient economy with low greenhouse gas emissions in line with the targets of the Paris Agreement ¹ .
ESG	Refers to Environmental, Social and Governance matters in the context of financing or investment activities. Assessment of ESG factors is often referred to as a measure of the “sustainability” of a financing or investment transaction.
External Review	Review of a green funding programme by a qualified party who is independent from the borrower or issuer. External Review assesses the compliance of the green funding programme against standards, which may be either in the public domain or as established by the reviewer, and result in a certification or opinion / assurance statement being provided.
Financial Stability Board Taskforce on Climate-related Financial Disclosures (TCFD)	An organization established in December 2015 by the Financial Stability Board (FSB), with the goal of developing a set of voluntary and consistent climate-related financial risk disclosures, in order to provide the structure and impetus for companies to inform investors, lenders, insurers, other stakeholders and members of the public about the risks they face related to climate change.
Green	The concept that some activities are beneficial for the physical environment, based on an assessment against an appropriate set of criteria or benchmarks. It is recognized that some activities may have certain environmental benefits and at the same time may result in certain adverse impacts, hence these impacts must be assessed and balanced against the benefits when determining whether an activity can reasonably be considered Green.
Green Bond	A Bond that aligns to the Green Bond Principles ² established by the Green Bond Principles and Social Bond Principles Executive Committee under the secretariat of the International Capital Markets Association. Green Bonds may also align to one or more sets of regulations or guidelines established at a country or regional level. The use of proceeds of a Green Bond are exclusively applied to finance or refinance activities or projects that are Green, i.e. deliver net environmental benefits. The issuer needs to explain in how they evaluate environmental benefits and track proceeds and commit to providing reporting on allocation of proceeds and expected impacts.
Green Finance	Green Finance is broader than Climate Finance in that it also addresses other environmental objectives such as natural resource conservation, biodiversity conservation, and pollution prevention and control.
Green Loan	Any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible Green Projects. Green loans align

¹ Article 2 of the [Paris Agreement](#) refers to “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”.

² <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp>

	with the four core components of the Green Loan Principles ³ , as published by the global Loan Market Associations ⁴ .
Green Standards	A set of technical standards which when applied and satisfied by an activity determine that activity is considered Green.
Green Taxonomy	The categorization of human activities by type and consideration of their environmental impact. An activity is often described as being “in compliance with a Green Taxonomy” if the activity meets specified Green Standards for that activity.
HKMA Common Assessment Framework	A framework for the assessment of “greenness” of Banks in Hong Kong. Part of Phase 1 of a three-phased programme was introduced by HKMA in May 2019 to promote green and sustainable banking ⁵ .
Physical Risk	<p>The risk of financial loss faced by an entity arising, directly or indirectly, from a physical event that may reasonably be considered to be attributed to climate change or natural resource degradation and the consequential social impacts.</p> <p>Examples would include:</p> <ul style="list-style-type: none"> • floods, storms, drought, impacting physical assets of their operations • loss of productivity of natural resources e.g. soil and crops • loss of productivity of human resources due to pollution or temperature extremes
Responsible or ESG Investing	Responsible Investing, also known as ESG Investing ⁶ , refers to strategies and practices that incorporate material ESG factors ⁷ in investment decisions and active ownership with a view to minimize risks and maximize returns ⁸ . It can be pursued by all investors as part of their fiduciary duty on the basis that ESG factors are considered as having a material impact on returns.
Social Bond	A Bond that aligns to the Social Bond Principles ⁹ established by the Green Bond Principles and Social Bond Principles Executive Committee under the secretariat of the International Capital Markets Association. The use of proceeds of a Social

³ https://www.lma.eu.com/application/files/1815/8866/8537/Green_Loan_Principles_V03.pdf

⁴ A group consisting of the Asia Pacific Loan Market Association, Loan Market Association of Europe and Loan Syndication and Trading Association.

⁵ <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2019/05/20190507-4>

⁶ See [Principles for Responsible Investment](#).

⁷ The Principles for Responsible Investment, the UN-supported investor initiative promoting responsible investment, has developed a list of [ESG factors](#).

⁸ Governance risks and opportunities have typically been the core element of the ESG investment due to a positive correlation between good governance and good financial performance as well as governance factors being relatively easier to define, measure and track. The increasing awareness in environmental and social risks and opportunities has also led the market to incorporate these elements.

⁹ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf>

	<p>Bond are applied to support the interests of a disadvantaged section of society, i.e. deliver net social benefits.</p> <p>The issuer needs to explain how they evaluate social benefits and track proceeds and commit to providing reporting on allocation of proceeds and expected impacts.</p>
Sustainability Bond	<p>A Bond that aligns to the Sustainability Bond Guidelines¹⁰ established by the Green Bond Principles and Social Bond Principles Executive Committee under the secretariat of the International Capital Markets Association. The use of proceeds of a Sustainability Bond are exclusively applied to finance or re-finance eligible activities and projects that generate environmental benefits and / or social benefits.</p>
Sustainability Linked Loan	<p>Any type of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) which incentivize the borrower’s achievement of ambitious, predetermined sustainability performance objectives. The borrower’s sustainability performance is measured using sustainability performance targets (SPTs), as set against key performance indicators, external ratings and/or equivalent metrics and which measure improvements in the borrower’s sustainability profile. The Sustainability Linked Loan Principles (SLLP)¹¹ is established by the global Loan Market Associations⁴ to promote the development and preserve the integrity of the sustainability linked loan product by providing guidelines which capture the fundamental characteristics of these loans.</p>
Sustainability-Linked Bond	<p>A Bond that aligns to the Sustainability-Linked Bond Principles¹² and incentivizes the issuer’s achievement of material, quantitative, pre-determined, ambitious, regularly monitored and externally verified sustainability objectives through Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPT). Sustainability-Linked Bonds aim to further develop the key role that debt markets can play in funding and encouraging companies that contribute to sustainability (from an environmental and/or social and/or governance perspective).</p>
Sustainable Activities / Development	<p>Activities that support human development and that do not irreversibly deplete scarce resources nor do other significant harm to the environment and that are fair and just in creating opportunities and wellbeing across broader society.</p>

¹⁰ <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg>

¹¹ https://www.lma.eu.com/application/files/5115/8866/8901/Sustainability_Linked_Loan_Principles_V032.pdf

¹² <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>

Sustainable Development Goals (SDGs)	SDGs ¹³ refer to 17 integrated and indivisible goals with 169 associated targets that form the core of the 2030 Agenda for Sustainable Development adopted by the United Nations on 25 September 2015 to end poverty, protect the planet and ensure prosperity for all. Each goal has specific targets to be achieved by 2030. These goals and targets have been designed for consideration by national governments but have also been increasingly used as appropriate by corporates.
Sustainable Finance	Sustainable Finance supports Sustainable Activities / Development. Sustainable Finance includes the financing of activities that create environmental and social benefits while also adding wider considerations concerning the longer-term economic sustainability of the organizations that are being funded, as well as the role and stability of the overall financial system in which they operate.
Transition Risk	The risk of financial loss faced by an entity arising, directly or indirectly, from the process of transition to a low carbon and sustainable economic system. The risks may be manifested as a sustainability related consequence of any one or more of consumer action, regulatory or policy action, technological developments, financial partner actions.

¹³ [SDGs](#) are: “1) End poverty; 2) Zero hunger; 3) Good health and well-being; 4) Quality education; 5) Gender equality; 6) Clean water and sanitation; 7) Affordable and clean energy; 8) Decent work and economic growth; 9) Industry, innovation and infrastructure; 10) Reduced inequalities; 11) Sustainable cities and communities; 12) Responsible consumption and production; 13) Climate action; 14) Life below water; 15) Life on land; 16) Peace and justice; and, 17) Partnerships for the goals.”