



HKGFA
香港綠色金融協會
Hong Kong Green Finance Association

Developing Hong Kong as a leading investment fund hub for green infrastructure financing

Recommendations for the Hong Kong Government

Presented by:

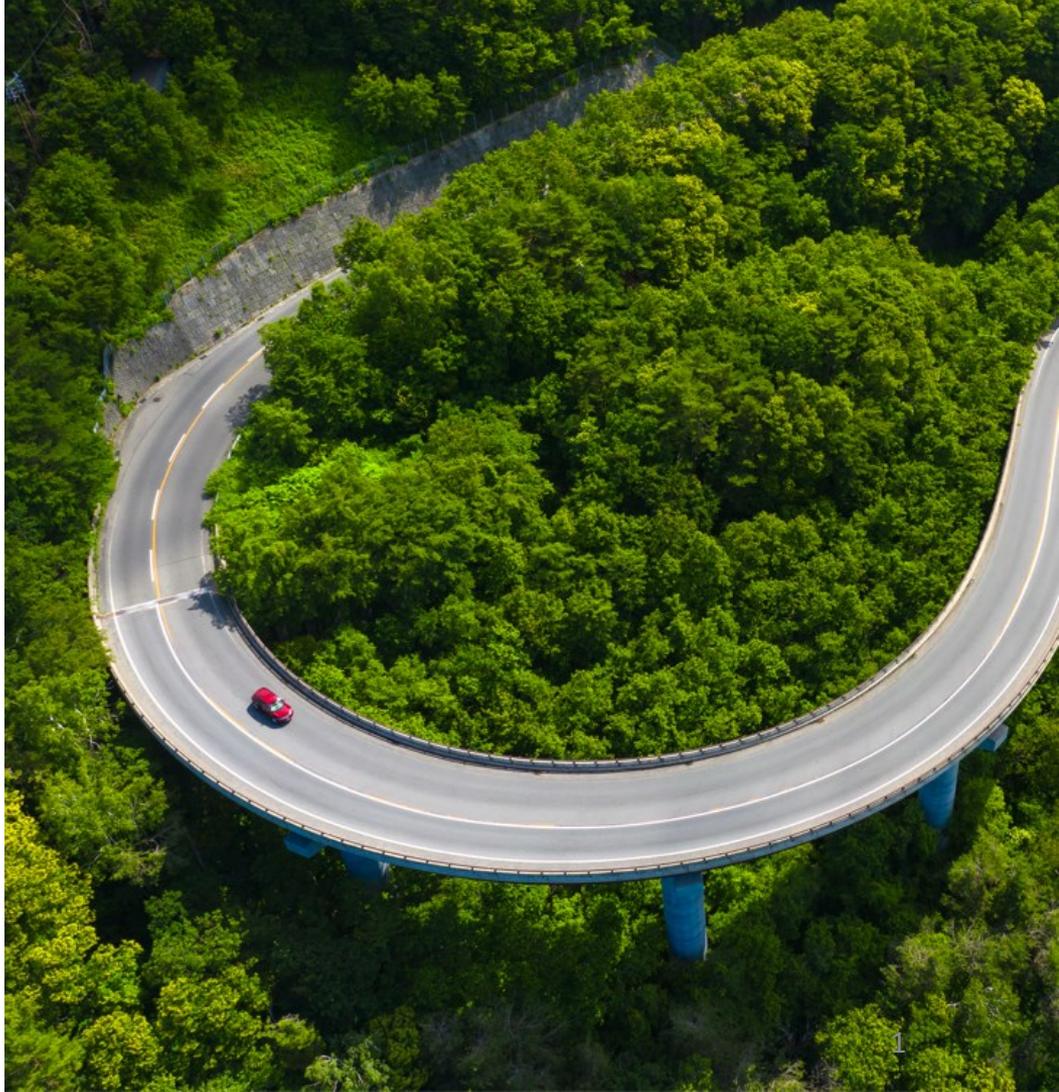
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Background

1

Green infrastructure is critical to realising carbon neutrality, yet how to define such projects is unclear

2

Investment fund is an important vehicle in closing the huge funding gap for green infrastructure financing and achieving global climate goals

3

Hong Kong provides a well-established common law system and attractive fund structures for investors and fund managers

4

Hong Kong's tax regime and incentives can be leveraged to promote green infrastructure financing

Recommendations

1

Revisit and expand the current definition of “infrastructure” in Hong Kong’s tax law for private funds (i.e. UFE)

2

Provide guidance on the identification of green infrastructure projects and emphasise their role in delivering climate goals

3

Further enhance the legal and regulatory environment for investment funds to set up and operate in Hong Kong and facilitate investors and asset owners to invest in green infrastructure projects

4

Review Hong Kong’s tax policy and incentives and take into account the innovative practices in other jurisdictions

Recommendations

1

Revisit and expand the current definition of “infrastructure” in Hong Kong’s tax law for private funds (i.e. UFE)

- a) Expand the definition of “infrastructure” to include data infrastructure and additional asset classes that meet the criteria prescribed in the FAST-Infra Sustainable Infrastructure Label (SI Label) released in November 2021.
- b) Expand the definition of “infrastructure” to include certain additional asset classes that are widely recognised by other jurisdictions, e.g. “new infrastructure”, “green infrastructure”, “sustainable infrastructure”, non-Hong Kong “housing” properties, warehouses and logistic centres, etc.
- c) Expand the definition of “infrastructure” to include “incidental” components of an infrastructure project / asset, e.g. offices, employee dormitories, parking areas attached to the infrastructure.

Recommendations

2

Provide guidance on the identification of green infrastructure projects and emphasise their role in delivering climate goals

- a) Take the lead to emphasise the importance of and provide a clear articulation on the role of green / sustainable infrastructure in delivering environmental and climate goals under the Paris Agreement and Hong Kong's own carbon neutrality target by 2050 (for example through explaining how green / sustainable infrastructure fits with the new Climate Action Plan, and providing guidance on green / sustainable infrastructure definitions to use).
- b) Take the lead in conducting TCFD (Task Force on Climate-Related Financial Disclosures) scenario analysis which could help both public and corporate actors alike in Hong Kong to contribute to greening our infrastructure, and hence building the experience of "greening" infrastructure and attracting more funds into green infrastructure.
- c) Lead by example, such as providing guidance for the construction of infrastructures in the proposed Northern Metropolis and the Lantau Tomorrow Vision development plans as stated in the Chief Executive's Policy Address to ensure these infrastructures satisfy the recommended green / sustainable definitions from the start. Take the lead in conducting TCFD scenario analysis for these infrastructure projects.

Recommendations

2

Provide guidance on the identification of green infrastructure projects and emphasise their role in delivering climate goals

- d) Demonstrate compliance with environmental and social safeguards and risk mitigation measures if promulgation of an exhaustive list of eligible green and sustainable infrastructure project categories is challenging.
- e) Integrate climate risk exposure into new infrastructure plans, accounting for future depreciation of assets due to change in precipitation patterns, temperature increases and extreme weather events.
- f) Collaborate with cities in the Greater Bay Area (GBA) and other cities in Mainland China, as well as the wider international society to facilitate coordinated efforts on strategic infrastructure planning, standard-setting and carbon emissions data collection.

Recommendations

3

Further enhance the legal and regulatory environment for investment funds to set up and operate in Hong Kong in order to help investors and asset owners invest in green infrastructure projects

- a) Expand Hong Kong's subsidy scheme for the set-up of limited partnership funds (LPFs) and the re-domiciliation of offshore limited partnerships to LPFs in Hong Kong, to more specifically cover green investment funds, while vigorously promoting the advantages of Hong Kong as a fund domicile.
- b) Encourage Hong Kong's Exchange Fund and Future Fund (the Funds) to invest in Hong Kong green infrastructure initiatives; this means according priority to assets tied to proper governance and environment protection frameworks and conducting post-investment monitoring to ensure that standards are adhered to. The Funds could also set up dedicated portfolios to invest in early-stage infrastructure projects in the GBA to boost investor confidence and attract funding from global investors through Hong Kong.
- c) Encourage the Mandatory Provident Fund Schemes Authority (MPFA) to consider innovative practices in other jurisdictions so as to promote investments with green impact; this may include mandating fund managers to allocate a certain percentage of their portfolios to ESG or climate-related products, and considering infrastructure as an eligible asset class on the MPF platform.

Recommendations

3

Further enhance the legal and regulatory environment for investment funds to set up and operate in Hong Kong in order to help investors and asset owners invest in green infrastructure projects

- d) Promote Hong Kong as a green / sustainable infrastructure investment fund hub to Mainland China and international sovereign funds where they may appoint local managers to oversee green funds, such as those holding China-based infrastructure-linked assets.
- e) Seek ties with like-minded jurisdictions where investors may cross invest in each other's sustainability-linked instruments.
- f) Introduce policies that further facilitate cross-border green infrastructure investments; for example, with the REITs market becoming more robust in both Hong Kong and Mainland China, investment products such as green infrastructure REITs listed in Hong Kong may be made accessible to Mainland investors and vice versa.
- g) Promote green securitisation as an instrumental vehicle to provide access to capital for small-scale green projects.

Recommendations

4

Review Hong Kong's tax policy and incentives and take into account the innovative practices in other jurisdictions

- a) Revise the definition of “business undertaking for general commercial or industrial business purposes” in Section 20 AM of the Inland Revenue Ordinance and allow an infrastructure fund to engage directly in the construction or acquisition of infrastructure projects / assets, to the extent they satisfy the definition of “infrastructure”.
- b) Expand the scope of “qualifying assets” under the UFE exemption rules to cover private debts financing.
- c) Exclude interest income from the scope of “incidental income” under the UFE regime and treat such interest income as income from qualifying assets.
- d) Extend the Carried Interest Tax Concession Regime to cover carried interest arising from such “qualifying assets”, should the scope of “qualifying assets” be expanded to cover private debts financing.
- e) Expand the scope of assets and expenditures eligible to accelerated tax deduction to include expenditures incurred within the scope of sustainable infrastructure as prescribed in the FAST-Infra Sustainable Label.
- f) As for governments of jurisdictions that are in need of green infrastructure funding, especially from foreign capital, we suggest them to review their current tax policies and incentives to minimise the investment level taxes and withholding tax.

Next steps

1

- Seek understanding, feedback and acceptance of our recommendations by **FSTB, HKMA and other government authorities** by sharing the published report and providing face-to-face explanations **after the report launch in early December 2021** .

2

- Pursue the consideration of our recommendations by the **Financial Secretary of Hong Kong** and the inclusion of these recommendations in the **2022/23 Budget**.

ACKNOWLEDGEMENT

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