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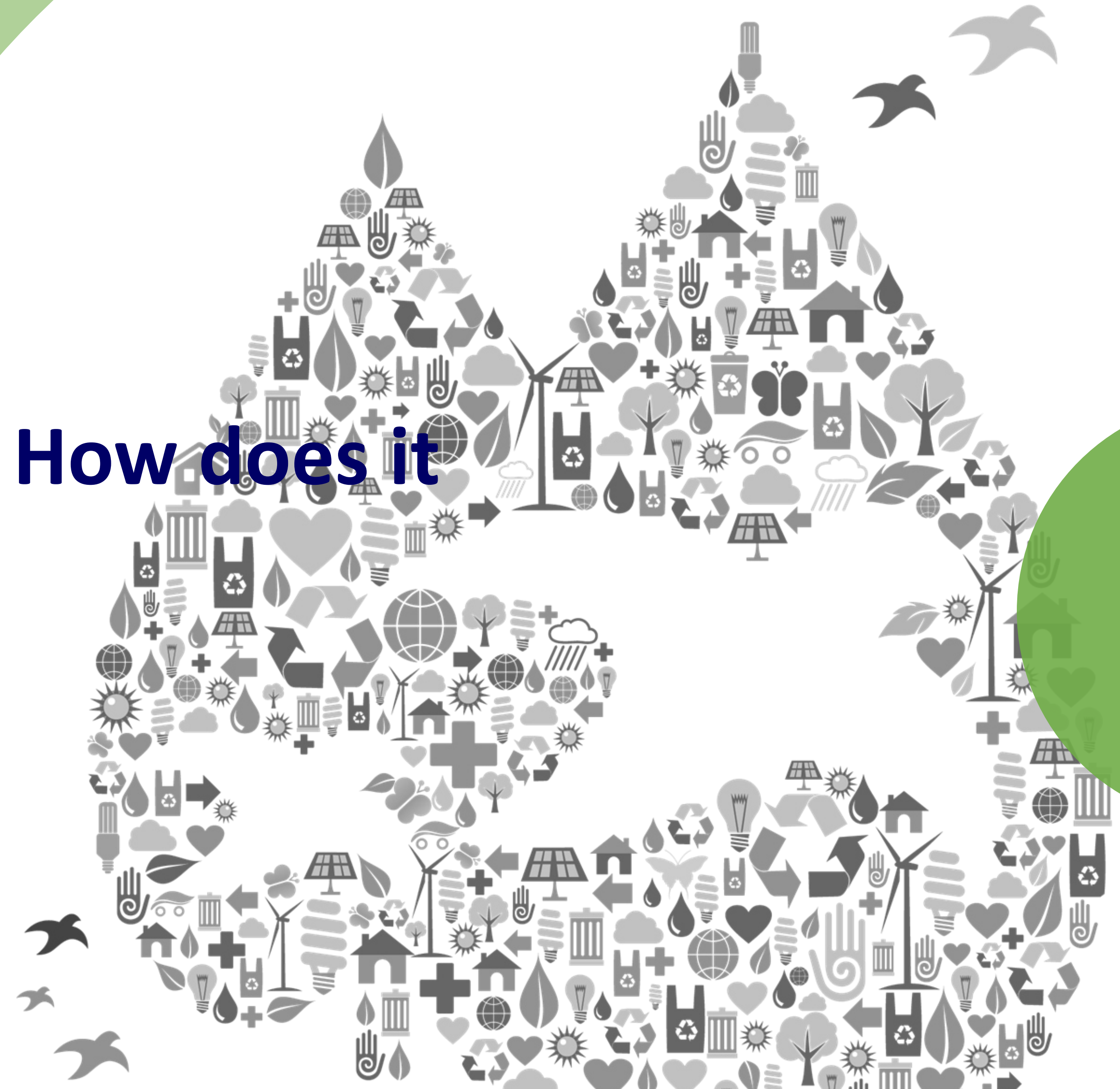
Webinar:
Climate Change Risk Issues: How does it affect business?



Financing the Transition to a low carbon economy

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Financing the Transition to a Low Carbon Economy

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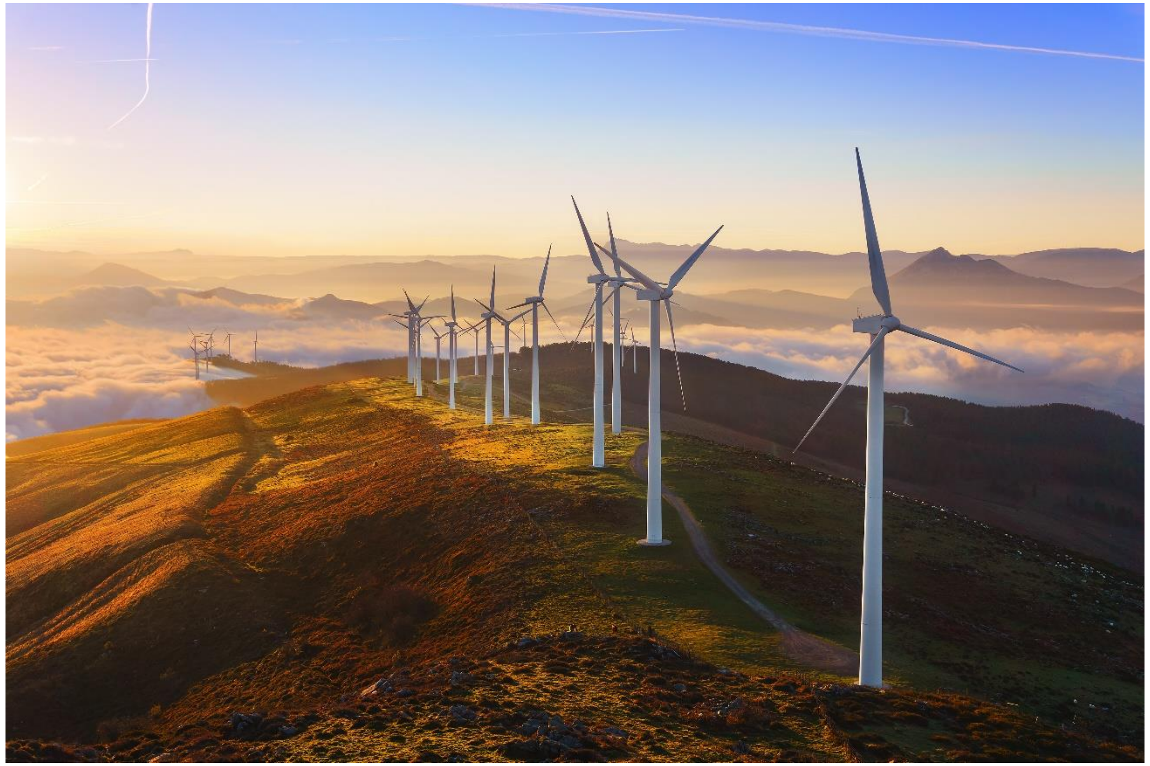


HSBC

Introduction

The Challenge

- Intergovernmental Panel on Climate Change (IPCC): last chance to heed the wake-up call for the planet. **Human activity has given rise to weather and climate extremes, and to sea level rise.**
- We have only about **10 years** before we exhaust the carbon budget consistent with 1.5 degrees C.
- Asia **financing gap**: a total regional investment demand is estimated at $66 Trillion.

COP26

- **Crucial negotiations** take place in Glasgow in November, with many loose ends to tie up after the pandemic-related delay.
- **Policy clarity is critical** for investors and businesses as climate change increasingly shapes decisions and regulations.

Hong Kong

- Hong Kong has to **lead the way**, locally and globally, to address the risks posed by climate change.
- Cross-Agency Steering Group is coordinating the work globally and across the region in **addressing the key challenges**, such as lack of globally aligned standards, and data and capacity constraints.

What does transition mean for the Finance Industry?

For the Finance Industry, the transition is ultimately about serving out clients. To do that well, we need to take an informed view of the future state of the world based on what governments and regulators are saying and committing to.

Four critical areas of developments:

Market Trends

- Expectations of clients and asset owners

Net-zero commitments and our own transition

- Stranded assets
- Risk appetite
- Innovation in products and industry codes

More Detailed Guidance from Regulators

- Building climate risk into credit risk and decision making
- Stress tests

Wider legislative developments

- Phasing out new sales of combustion engine vehicles
- Efficiency standards for new build homes
- COP26 and trade agreements

FAST-Infra

Challenge

- Rapid urbanization and population growth, as well as ageing infrastructure networks, have led to an infrastructure gap.
- One of the key obstacles for sustainable infrastructure development is not the lack of projects per se, but lack of bankable projects that are given investment grade status by credit rating agencies.

Proposed Solution

- Transforming sustainable infrastructure into a mainstream liquid asset
- FAST-Infra - a public-private initiative to raise private investment in developing world sustainable infrastructure.
- Globally applicable labelling system for investments in sustainable infrastructure assets.

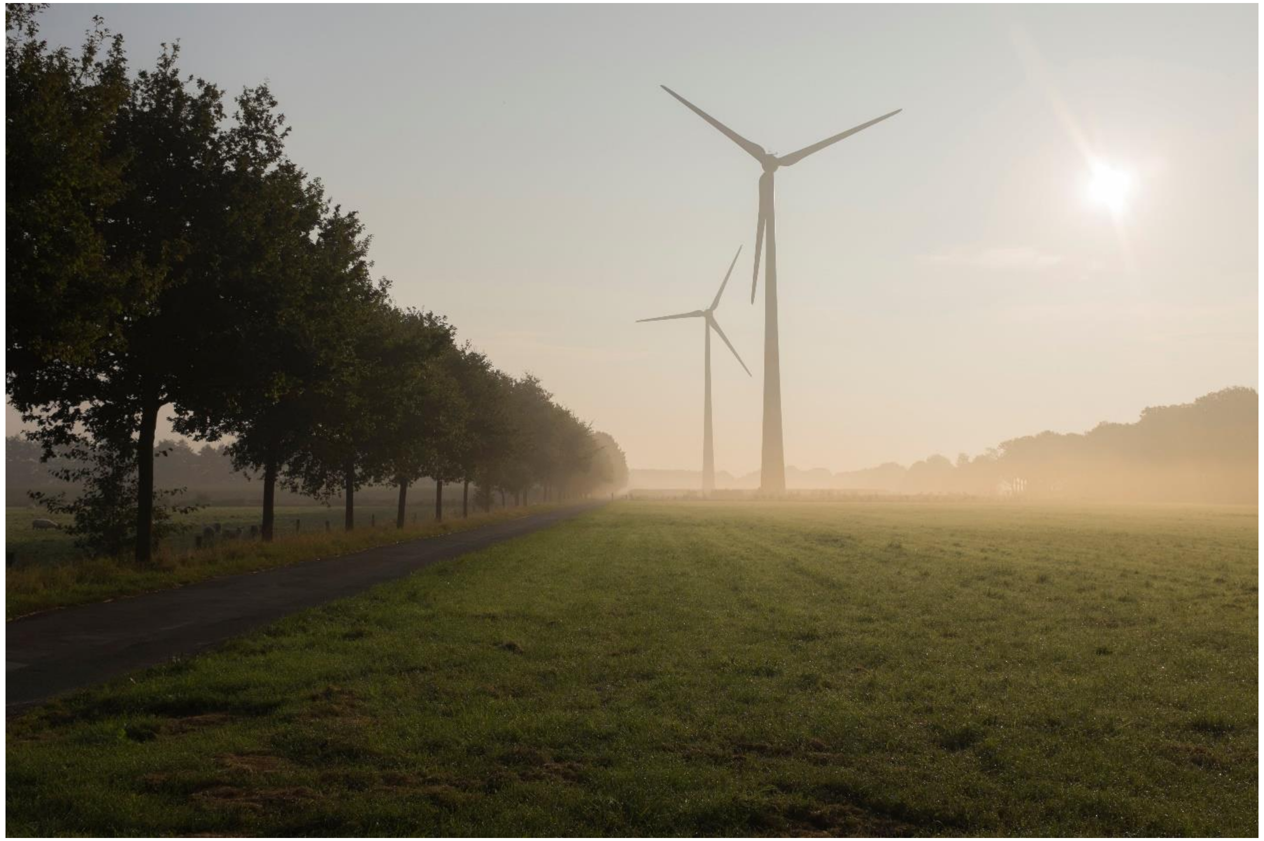
Key Participants

- Conceived by Climate Policy Initiative (CPI), HSBC, the International Finance Corporation (IFC), OECD and the Global Infrastructure Facility.
- Over 50 global entities, representing governments at all levels, the financial sector, investors, DFIs, insurers, rating agencies and NGOs are now participating in developing the initiative.
- FAST-Infra has been taken up by the UK government team working on COP 26.

HSBC + Temasek Partnership

Debt financing platform dedicated to sustainable infrastructure projects with an initial focus on Southeast Asia, as part of efforts to reduce climate change.

- US$150 million to catalyse financing of marginally bankable sustainable infrastructure projects
- Seeks to scale up to US$1 billion of loans within 5 years to support commercial development of the region's sustainable infrastructure sector
- Asian Development Bank and Clifford Capital Holdings will support the platform as strategic partners
- The platform will apply internationally recognised ESG best practices, including the FAST-Infra Sustainable Infrastructure
- The platform will target renewable energy and storage, water and waste treatment and sustainable transport to help meet carbon reduction targets and build resilience to offset the impact of climate change.



What does this mean for how we help the real economy transition ?

Transition will look different in different countries and sectors depending on the degree of decarbonisation burden share. But directionally, some things seem clear.

Transition and Uptake of Technologies

Major international firms and large corporates are already thinking through their approach to transition and uptake of new technologies.

As suppliers of finance, we need to be part of that discussion

Science-based targets

Science-based targets are being developed for major emitting sectors.

Players in these industries will need to show a high degree of alignment with the sectoral glidepaths that are constructed.

Wider Economy

This will trickle through to the wider economy through supply chain management

SMEs

It may be less immediately clear for SMEs in terms of the size and form of contribution they will be expected to make.

The market will drive this together with practical government initiative, on energy efficiency for example.

What is the role of finance in transition?

Capacity Building	• Train and educate staff • Helping the industry build capacity more widely
Updating Governance	• Training the board members on what to expect and what, therefore, to be asking of executives
Transparency and Disclosure	• Reliable high quality data on key metrics • Government-mandated
Carbon Pricing	• Expect mixture of compliance and voluntary carbon markets • Must be credible and interoperable
Cooperation	• Working with policymakers to develop credible transition pathways • ASEAN Transition Standards work • Danger of failing to put a plan out there

Opportunity for finance to be part of the transition; and for Hong Kong to become a green financial centre looking outward to the Asian region and northwards to mainland China, particularly GBA.

Closing Remarks

We all have a role to play - as individuals, as corporations, and as governments.

The cost of the transition cannot be borne by the public purse alone. Cooperation between public and private sector is key, covering:

1. Setting of clear and realistic targets
2. A common understanding of what a credible transition looks like
3. Legislation that requires firms to make progress on data, disclosure and incentivizes transition
4. Innovation in the financial sector to develop markets and new products
5. The blending of public and private sector balance sheets where the risks would otherwise be outside commercial appetites.