



Asia Investor Group on Climate Change (AIGCC)

Submission to Hong Kong Monetary Authority (HKMA) on Public
Consultation on Prototype of Hong Kong Taxonomy for Sustainable
Finance (Phase 2A)

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AIGCC's Response to the Public Consultation on the Prototype of Hong Kong Taxonomy for Sustainable Finance (Phase 2A)

1. Taxonomy design, structure, and scope

A. What are your views on the design and structure of the Taxonomy?

The structure is organized in an easy-to-follow manner, and the design provides clarity in explaining the contents of the taxonomy.

B. Is the Taxonomy easy to navigate across its chapters and sections? If not, how can it be improved?

The Taxonomy is easy to navigate across the chapters and sections.

C. Are the graphics clear and comprehensible? If not, how can they be improved?

The graphics, particularly Figure 1 (expansion from Phase 1 to Phase 2A) and Figure 2 (activity classification framework), are helpful and effectively illustrate key changes and concepts.

D. What are your comments on the current scope and coverage of the Taxonomy? What other sectors, activities, environmental objectives, and elements, etc. would you recommend to be included in subsequent phases of the Taxonomy?

We welcome and support the inclusion of Climate Change Adaptation as an objective, and this initial inclusion of the water sector. It is also an important step to add the 13 new categories, including transmission, low-carbon transport infrastructure, and district heating and cooling. We welcome and recommend future phases to include (i) new sectors including buildings, energy and infrastructure, (ii) new coverage of hazards of priority to Hong Kong including floods, typhoons and heat stress, and (iii) an increase in eligible whitelisted measures within each sector.

As the principle of “Do No Significant Harm” has been integrated in other taxonomies, including the EU and ASEAN taxonomies, it would be critical to also incorporate this broadly across activities in the taxonomy. The lack of DNSH in this prototype is concerning as the principle has already been integrated in other taxonomies.

As outlined in the prototype, it would be impactful to include new areas and sectors being considered for future development. Inclusion of the sector for carbon capture, utilization

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and storage and another sector for water to cover activities related to water and wastewater treatment are crucial as both sectors are likely to become core focus areas as the climate crisis continues. As guidance within the taxonomy for the energy sector would be crucial while Hong Kong advances its energy mix goals, it will be vital to include natural gas-fired power, nuclear energy, and hydrogen for electricity generation alongside a comprehensive inclusion of relevant renewable sources in Phase 2B. It is likewise important to include those other areas considered under the transportation, manufacturing, construction, and waste sectors. These inclusions should try to ensure both 1.5-alignment and compatibility with global taxonomies.

While the prototype taxonomy mainly considers two objectives: mitigation and adaptation, other taxonomies have a wider scope of objectives. For example, the EU taxonomy has six objectives covering mitigation, adaptation, sustainable use of water and marine resources, the transition to a circular economy, pollution prevention, and the protection of biodiversity and ecosystems. The ASEAN Taxonomy for Sustainable Finance Version 3 likewise includes a wider scope of objectives, including mitigation, adaptation, ecosystem and biodiversity protection, and resource resilience along with a transition to a circular economy. The Hong Kong Taxonomy for Sustainable Finance could likewise include objectives for biodiversity and nature and the transition to a circular economy.

As institutional investors are becoming more concerned about just transition and ensuring that social equity is considered while the energy transition is pursued, it would be impactful to include social considerations in the taxonomy, as done by the ASEAN taxonomy. To help understand elements of just transition to consider, the drafting committee could refer to AIGCC's [Place-Based Just Transition report](#), which provides an overview of policy baselines and case studies for just transition among several markets in Asia.

2. Taxonomy methodology

A. On climate change mitigation, what are your comments on the classification framework, such as the principles and definitions for each category (i.e. Green Activity, Transition Activity, Transition Measure)? Is the framework credible, usable, and clear?

The classification framework provides clarity on what constitutes green activity, transition activity, and transition measures. While some taxonomies also following this approach of distinguishing between transition activities and transition measures, other global

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taxonomies tend to incorporate transition/transitional activity rather than both transition activity and transition measures. As this could present confusion, an illustrative mapping to the ASEAN taxonomy and EU taxonomy's transitional activity framings would be advisable. Institutional investors greatly value international comparability as they often invest in countries across various jurisdictions. It is essential for taxonomies to promote international harmonization by enabling comparability across jurisdictions. The HKMA may want to consider capacity building and offering training for users of the taxonomy to promote understanding of the difference between transition activity and transition measures.

It is important that the taxonomy exhibits principles for transition, as provided.

B. On climate change adaptation, what are your comments on the adaptation framework, such as the core principles and proposed adapting measures? What are your views on the development of subsequent phases, including the approach for classification and scope of activities?

Recognising the early stages of adaptation planning and understanding within the private sector, we support the four core principles in particular the need to adopt a building block approach localized for Hong Kong and adjacent regions.

However, while the graduated whitelist is a pragmatic approach, it may limit potential to include adaptation measures that can demonstrate impact based on criteria. Rationale should be provided on which activities can be whitelisted and which require criteria-based assessment of effectiveness.

As adaptation measures and activities will largely be implemented by real asset and infrastructure owners at the property-level outside of the public sector, future work on adaptation can establish risk, resilience and vulnerability criteria and metrics focusing on buildings and infrastructure. Synergies and co-benefits with mitigation activities (e.g., construction and building retrofits; green infrastructure) should be described.

Exclusion list: For future phases, similar to mitigation, an exclusion list in addition to the whitelist could be considered to provide greater clarity particularly on measures that are potentially maladaptive or risk greenwashing. Guidance around maladaptation can be provided (drawing upon related frameworks such as in the case of the ASEAN taxonomy), while case studies on adaptation implementation can be provided.

Expansion of scope: We welcome the future scope to include adaptation measures across buildings, energy and infrastructure sectors, and greater coverage of hazards. Greater clarity of the distinctions, overlaps and/or interdependencies across sectors (e.g. water sector across buildings) may be required with the expansion.

‘Adapting-measures focused’: We would suggest greater clarity of the framing of ‘Adapting-measures focused’, as it currently appears to suggest that it is a foundational and fixed core principle for the present and future iterations of the Adaptation Framework. The coverage of eligible measures and activities including adaptation-related investments in future iterations can be elaborated upon.

Linkages with science-based risk assessments: Eligible adaptation measures should be linked to risks that are identified from comprehensive, forward-looking climate risk assessments at asset-level that account for appropriate long-term horizons and include low-regret scenarios.

Linkages with key policies: For future phases, ensuring that the taxonomy draws links to key policies such as the Climate Action Plan 2050, Green Bond Framework and Biodiversity Strategy, and that it provides clarity for how resilience-enhancing activities can be classified and tracked would help financial institutions and intermediaries channel capital towards projects and investments that contribute to adaptation objectives.

Roadmap for adaptation financing: The Adaptation section of the Taxonomy should be complemented with the development of a roadmap for adaptation financing in Hong Kong and the Greater Bay Area. A pipeline of adaptation projects, mapped to the city’s overall adaptation plan together with a person in charge, implementation responsibilities, timelines, and evaluation criteria, to stimulate action and unlock private financing.

3. Sector chapters (For the following questions, please specify the sector and economic activity concerned.)

A. Is the sector introduction clear and the level of context and detail sufficient? If not, are there other sources or related information that can be referenced? Please include the document link(s).

The sector introductions clearly outline the amount of emissions attributed to each sector and provides a logical flow of activity classification for each.

B. What are your comments on the metrics and technical criteria, including their credibility, usability, clarity, interoperability with global taxonomies, and level of ambition, etc.? Please provide specific suggestions for improvement.

Mitigation

In consideration of interoperability with global taxonomies, the prototype references the EU taxonomy explicitly when setting the lifecycle emissions for green activity thresholds to be below 100 gCO₂e/kWh. However, the threshold within the prototype is missing the EU's requirement that the transition activity results in GHG emission reductions of at least 55% over the lifetime of the newly installed production capacity.¹ While the sunset date for transition activity in the prototype is set to be 2035, this is different from the EU taxonomy, which requires that the transitional activity ensures “a full switch to renewable or low-carbon gases by 2035.”²

The prototype taxonomy references the TPI Well Below 2 Degrees scenario that transition activities must adhere to and introduces more stringent technical thresholds starting in 2035. References to the TPI scenario and to 2035 for more stringent targets are also present in the Singapore taxonomy. Although this does not necessarily conflict with other taxonomies, the prototype is missing DNSH and presents minimum safeguards different than how they are outlined in the EU taxonomy. In the EU taxonomy, transitional activity must have no economically or technologically viable low-carbon alternatives, GHG levels correspond to the highest performance within the sector, there is no hampering of low-carbon alternatives, and the activity does not result in carbon lock-in. The prototype taxonomy does address each of these, but it considers best-in-class performers only when a specific decarbonization pathway is unavailable. It also appears that the framing of these minimum safeguards in the prototype taxonomy as principles are less rigid than the mandatory tests for each as presented in the EU taxonomy.

For other transition activities that are being considered for later inclusion in the taxonomy, it will be important to ensure threshold alignment with global taxonomies (e.g., renewable hydrogen to have at least 70% GHG savings with third-party verification, as mandated by the EU).³

As the prototype highlights the importance of interoperability with the EU taxonomy, it would be advisable to illustrate comparability with the EU thresholds to provide clarity on international harmonization for investors and issuers.

¹ In reference to gas-related activity that does not meet the criteria for the life-cycle emissions threshold of 100 g CO₂e/kWh, as stipulated in the Complementary Climate Delegated Act

² Also in reference to such gas-related activity, as stipulated in the Complementary Climate Delegated Act

³ As defined in the EU Renewable Energy Directive

As done in the existing version of the taxonomy and in the Common Ground Taxonomy (CGT), this prototype could refer to the International Standard Industrial Classification (ISIC) system, could provide clarity on sector-level classification comparisons.

Adaptation (Water Sector)

For Adaptation, we welcome the expansion of the whitelist approach. We would recommend outlining an enhanced description of hazard impacts (beyond asset value loss or net revenue loss) to account for the range of impacts from flood damage and water stress. This can include direct repair costs to assets, the inability to access to workplaces and disruption to supply chains. A list of explanatory indicators for physical vulnerability or adaptive capacity can be provided or expanded upon.

C. What challenges do you foresee in implementing the metrics and technical criteria? Please provide specific details on how these challenges can be addressed with supporting information and evidence.

Further clarification may be needed when it comes to revenue-alignment as outlined in the classification under transition category. This could be clarified with illustrative examples and expanded definitions.

For the sectoral benchmarking included in the taxonomy, it will be important to ensure alignment on reference years. The IPCC has referred to 2019 as the baseline for emission reduction targets. Benchmark alignment will be important for ease of comparability and alignment.

D. Are there any metrics and technical criteria that could be further adapted in the local context?

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E. Please provide any feedback on specific sectors/activities, along with evidence to support your recommendations.

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4. Taxonomy implementation

A. What are your suggestions on how the Taxonomy could be used in Hong Kong? What use cases do you consider should be prioritised?

As Asia is in need of credible transition finance for its hard-to-abate sectors and sustainable finance requires credible frameworks for promoting such decarbonization, Hong Kong could benefit greatly from this inclusion of transition activities in the sustainable finance taxonomy. The taxonomy could be used to promote issuances of transition bonds. The taxonomy could also set the foundation for sector-specific guidance and sectoral transition roadmaps that promote granular needs (e.g., transmission, energy storage, generation targets) to support transition by outlining transition financing targets and needs. The prototype already mentions that “In the future, as more granular details on Hong Kong’s decarbonization plan for the energy sector becomes available, a localized decarbonization pathway tailored specifically for Hong Kong may be considered for incorporation in the Taxonomy.” A taxonomy-aligned sectoral transition roadmap for the energy sector could help clearly outline plans for Hong Kong’s unique energy landscape while integrating climate commitments and best practices.

Investors may use taxonomy alignment to gauge transition plans of companies, particularly capital allocation of industries such as utilities or real estate.

As jurisdictions like Singapore have released expanded guidance for implementation of the taxonomy in the financial and corporate sectors, Hong Kong may also want to consider similar guidance that is tailored for financial institutions.

Similarly, by integrating adaptation and resilience in the taxonomy, this can promote the issuance of bonds and loans for adaptation and resilience, bolstering Hong Kong’s status as a green financial hub and helping it to position itself as a leader on adaptation financing.

B. Given that the Taxonomy is a voluntary tool at this stage, what actions or support do you think regulatory agencies can provide to increase its adoption?

Capacity building will be a key challenge of the taxonomy implementation overall. The adoption of the taxonomy should be supported by strong capacity building efforts targeted at companies and financial institutions.

On Mitigation

1. As mentioned in the previous response, Hong Kong could support companies in formulating their own transition plans and associated investment strategies by

publishing sectoral transition roadmaps that incorporate the transition elements presented in the taxonomy.

2. Expand integration of industrial policies to incorporate specific lending criteria and amount of capital (e.g. required disclosures by banks on % of green aligned assets)
3. To encourage corporates to commit to green and transition-related activities, it would be impactful for Hong Kong to develop its own **Emissions Trading System (ETS)**, which could have a phased-in approach, starting with voluntary participation and evolving to become mandatory. By ensuring that companies consider carbon pricing, this could support the substantial adoption of the taxonomy by many.
4. As offshore wind farms are slated to begin operation in the coming years, an **offshore wind roadmap** containing details on zoning, tenders, and financing mechanisms could guide market participants and promote deployment.
5. Additional **transparency on long-term plans for renewable and nuclear energy** acquired from the region could also help to better inform the market as they consider energy-related investments.
6. While hydrogen is a promising tool for decarbonization, it is critical to ensure it is utilized efficiently in the **most suitable industries/sectors** for emission reduction.

On Adaptation

1. **A Whole-of-Government adaptation and resilience strategy** would usefully provide clarity of policy direction and supplement the Taxonomy adoption. The **development of a roadmap for adaptation financing and pipeline of adaptation projects in Hong Kong and the Greater Bay area**, mapped along with implementation responsibilities, timelines, and evaluation criteria, can stimulate action and unlock private financing.
2. In addition, given the nascent understanding of adaptation, Bureaus and Departments⁴ can communicate Hong Kong's risks and efforts on adaptation and resilience more proactively through the following means:
 - a. **Creation of a government-led risk data platform that provides sufficiently updated and granular, asset-level data on the physical risks of assets, including critical infrastructure, that encourages action on adaptation and resilience across stakeholder groups.** This information should be made available to and accessible by broader real economy stakeholders beyond

⁴ Including the Development Bureau, Environment and Ecology Bureau, Transport and Logistics Bureau, Civil Engineering and Development Department, Drainage Services Department, Highways Department, the Hong Kong Observatory and others as relevant.

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the banking sector including financial institutions, insurers, developers, and infrastructure operators. This data can comprise hazard assessments, forward-looking flood risk maps, sectoral-level risk heat maps, and infrastructure protection standards at the district and at the asset-level.

- b. **Facilitation of a regular engagement channel or forum among financial institutions, corporations, academia and the government focused on addressing the impacts of physical risks and coordinating adaptation and resilience responses across the economy**, led by a dedicated coordinating body such as the existing Climate Change Working Group on Infrastructure (CCWGI). This forum should convene all relevant government departments or bureaus that should be involved in assessing physical climate risk impacts, undertaking planning and examining opportunities for financing within and beyond Hong Kong systemically. This forum should also proactively share current and future priorities to address physical risk and resilience, and outline opportunities for the participation of stakeholders including financial institutions, insurance companies and corporations.
3. **Sector-specific and targeted guidance on physical climate risk and resilience assessment and reporting** can be developed in tandem with taxonomy implementation to assist corporates, particularly real asset and infrastructure owners, in enhancing their resilience efforts and ensure greater transparency of risks.
4. **Future government green bond issuances can consider the financing of adaptation measures** in alignment with the HK Taxonomy. An example observed in the region is the Philippine Government's use of proceeds for adaptation from the issuance of sustainable global bonds, underpinned by its Sustainable Finance Framework. Greater involvement from key government asset owners such as HKMA and Hong Kong Investment Corporation (HKIC) on how physical risks are evaluated in the investment process, as well as investment strategies related to adaptation financing will provide financial institutions with better direction.

C. The Taxonomy is a living document. How often would you like to see updates and expansions to the Taxonomy? Are there specific sectors or activities that you consider should be prioritised for more frequent updates? Do you have any other feedback on Taxonomy implementation and maintenance?

As conveyed in prior engagement forums, AIGCC and our investor members remain available to provide inputs or support capacity building during the review or testing of

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subsequent phases of the Taxonomy. Visibility on the timeline of the taxonomy's development and input or review phases, where possible, would be welcomed.

Contact Us

Please do contact us for any clarification or assistance on the submission. We look forward to continued engagement on the taxonomy in Hong Kong SAR.

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About AIGCC

AIGCC is the leading network of investors in Asia focussing on risks and opportunities in climate and nature.

Our 80+ members have a combined AUM of \$36 trillion and have headquarters in 11 markets across the region.

We were founded by institutional investors as a not-for-profit to drive action on climate, and bring an evidence driven, long-term focus on climate, nature, and investment across Asia.

Our work is underpinned by science, economics, and a highly effective theory of change that channels the influence of powerful Asian and international institutional investors, integrated across finance, business and policy making towards systemic impact.

We bring deep knowledge and familiarity with Asian markets and dynamics, and play a founding role in global initiatives, making us a trusted force in driving climate-aligned finance across the region and globe.