8 October 2025

BY email to hongkong.consultations@climatebonds.net

ASIFMA Submission to Prototype of Hong Kong Taxonomy for Sustainable Finance (Phase 2A)

Dear HKMA colleagues,

The Asia Securities Industry and Financial Markets Association ("ASIFMA")[1], on behalf of its members, appreciates the opportunity to provide feedback on the **Prototype of Hong Kong Taxonomy for Sustainable Finance (Phase 2A) ("the Taxonomy")**. We welcome the opportunity for engagement with HKMA and acknowledge Hong Kong's continued efforts towards meeting its net-zero targets.

Our members believe that a well-designed taxonomy is an important tool for promoting cross-border sustainable finance flows. Against this background, we would like to respectfully submit a few key points for your consideration.

Specific answers to consultation questions

1. Taxonomy Design, Structure, and Scope

Question A: What are your views on the design and structure of the Taxonomy?
We commend the HKMA's commitment to developing a robust Taxonomy that harmonizes international standards, while thoughtfully adapting certain elements to reflect the unique characteristics of the Hong Kong market. Establishing a clear and well-defined objective for the Taxonomy is essential to ensuring its effectiveness and utility for all stakeholders.

We further appreciate the clarity and comprehensiveness of the Taxonomy. The inclusion of a comparison with Phase 1, the articulation of principles underpinning the transition framework and thresholds, and the rationale for the climate adaptation framework are all clearly presented. To enhance contextual understanding—particularly for international stakeholders—we recommend

[1] ASIFMA is an independent, regional trade association with over 150 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, professional services firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative and competitive Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

providing an overview of the current energy and emissions landscape in Asia, China, and the HKSAR. Such context would help users better comprehend the rationale underlying the Hong Kong Taxonomy. Hong Kong Taxonomy.

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

We believe the industry would benefit from the inclusion of a dedicated section within each activity card that highlights corresponding activities as compared to other reference taxonomies, such as the Common Ground Taxonomy. This enhancement would significantly improve interoperability and comparability when the Taxonomy is applied. The presentation format used for corresponding activities in the Multi-Jurisdiction Common Ground Taxonomy (M-CGT) serves as an excellent reference point.

Additionally, it may be advantageous for the activity cards to include the closest HSIC/ISIC codes, as well as references to EU, CGT, and China taxonomy-related activities, where feasible—mirroring the approach taken in Phase 1 of the Hong Kong Taxonomy. When structuring sustainable financing frameworks, it is standard practice to reference applicable taxonomies. Providing this mapping upfront for each activity would enhance usability. Furthermore, including the relevant benchmark, taxonomy, or standard used—similar to the Singapore Taxonomy—would clarify where local Hong Kong considerations have been applied.

Question C: Are the graphics clear and comprehensible? If not, how can they be improved?
ASIFMA appreciates the inclusion of visual elements in the Phase 2A Prototype of the Hong Kong Taxonomy, which help illustrate the framework's structure and classification logic. In particular Figure 1 (expansion from Phase 1 to Phase 2A) and Figure 2 (activity classification framework), are helpful and effectively illustrate key changes and concepts.

The graphics, such as the activity cards, sectoral expansion diagrams, and emissions threshold tables, are also helpful in conveying complex concepts. However, there are opportunities to enhance their clarity and accessibility, such as the prototype spreadsheets in Phase 1 which showcased closest taxonomy aligned in the tables. Like the Phase 1 version, the industry would appreciate supplemental guidance and if possible an interactive tool to help users explore the Taxonomy visually.

Question 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 support the gradual expansion of coverage and sectors within the Taxonomy and concur with the phased approach. Regarding the forthcoming Phase 2B, we endorse the areas already identified for further development.

ASIFMA's members wish to emphasize the importance of nuclear energy, which merits careful consideration within the Taxonomy framework. Nuclear power is a proven, large-scale, low-carbon energy source that can play a pivotal role in ensuring a stable and reliable energy supply, thereby supporting Hong Kong's net zero ambitions. Including nuclear energy as an eligible activity in future iterations of the Taxonomy could address existing gaps. While we acknowledge that nuclear energy presents distinct challenges—including public perception, regulatory requirements, and waste management—its contribution to providing continuous, baseload, low-carbon electricity should not be underestimated. A nuanced approach that recognizes both the benefits and challenges of nuclear energy will help ensure the Taxonomy remains practical, science-based, and aligned with Hong Kong's

long-term decarbonization objectives. We look forward to further engagement on this topic and to observing how nuclear energy considerations are incorporated in subsequent Taxonomy updates, as Hong Kong continues to navigate the complexities of energy transition and net zero commitments.

It is also important to clarify Hong Kong's approach to managing natural gas. Singapore permits transition activities involving fossil fuels, such as abated natural gas, to qualify for financing under certain circumstances. Given that natural gas currently accounts for 52% of Hong Kong's electricity generation, it would be beneficial to understand Hong Kong's future strategy in this area. In addition to natural gas, Hong Kong has committed to fully phasing out coal for daily electricity generation by 2035. It would be valuable for the Taxonomy to showcase the ongoing plan and approach for this transition, referencing, for example, the Singapore Taxonomy's criteria for managed phase-out of coal-fired power plants.

With respect to climate adaptation and resilience, considering Hong Kong's heightened vulnerability to typhoons and flooding, we recommend the inclusion of coastal protection facilities as an adapting measure in the next phase.

We appreciate the intention to broaden the Taxonomy to encompass additional sectors and activities. Future inclusions of CCUS, hydrogen, water, air transport, low-carbon transport (including bunkering and storage), cement, iron and steel, basic chemicals, low-carbon liquid fuels, biofuels, food waste, and non-hazardous waste are all critical to the energy transition of Hong Kong, China, and Asia. We hope that further sectors and activities will be incorporated in a timely manner to enhance the comprehensiveness and usability of the Hong Kong Taxonomy.

2. Taxonomy Methodology

Question 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?
We find the framework to be generally credible and clear. The inclusion of transition elements is particularly welcome, as it provides financial institutions with a valuable reference for identifying eligible activities under transition finance. While the definitions are mostly clear, the expertise required to precisely differentiate between Transition Activity and Transition Measure may not be uniformly available across all industries.

Additionally, it would be beneficial to include a decision tree that determines activity eligibility and the application of green and transition classifications. Such a tool could enhance both the applicability and user-friendliness of the Taxonomy (see, for example, the Australian Taxonomy, p.16).

Moreover, taxonomies are increasingly used not only to identify eligible economic activities for green-labelled debt, but also by financial and non-financial corporates and governments to guide investment and strategic asset allocation, demonstrate alignment of business activities with transition-related opportunities, and facilitate the flow of standardized information. We recommend adding illustrative examples of both activity-level and entity-level taxonomy use cases, which would further encourage usability (e.g., Australian Taxonomy, p.19).

We welcome the comprehensive examples of activities provided in newly added categories, such as those for building equipment. In general, we appreciate that the criteria do not refer to appendices, as is the case with some other taxonomies, which can make the Taxonomy more difficult to navigate.

Question 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?

ASIFMA members note that the climate change adaptation component of the Taxonomy represents a new and important area; however, its current scope is relatively narrow, focusing primarily on the water sector and structured around principle-based guidance. The industry welcomes this initial step but emphasizes the need for further clarification and comprehensive guidance as the adaptation framework evolves, including additional measures to the whitelist. We respectfully request that the HKMA provide further clarification on Table 18 (Page 74): specifically, how the HKMA envisions the achievement of 'Adaptation outcomes' through the listed 'Adapting measures'.

Given Hong Kong's heightened vulnerability to severe weather events, ASIFMA believes that adaptation and resilience finance will become a critical driver for sustainable finance flows in the coming years. This presents a unique opportunity for the HKMA to broaden the adaptation taxonomy beyond the water sector and to establish clear, actionable criteria and measures that can support a wider range of sectors in building climate resilience.

We encourage the HKMA to consider expanding the framework in subsequent phases by incorporating additional sectors and providing more detailed guidance and examples. Such enhancements will help ensure the Taxonomy remains relevant and effective in mobilizing capital toward climate adaptation and resilience objectives, while also supporting Hong Kong's leadership in sustainable finance. The development of a citywide adaptation plan, detailing pipelines of projects, would complement the Taxonomy and facilitate its practical application.

Additionally, we suggest that the HKMA take into account adaptation frameworks already developed or in progress within the region, such as the ASEAN Adaptation Guidelines and MARS.

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

Question 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 current sector introduction is clear; however, the level of context and detail could be further enhanced. We recommend increasing the granularity by incorporating graphs and charts that illustrate the share of emissions and transition pathways under various scenarios. For example, within the energy sector, it would be beneficial to include data on the energy structure and emissions profile of Asia, China, and the HKSAR, while also showcasing the current transition pathway in comparison to the 1.5°C/2°C/National Pledges. Such additions would provide valuable context for users.

Question 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.

We generally agree with the selected metrics and technical screening criteria (TSC). For certain activities—particularly those classified under the amber (measures) TSC—activity-level thresholds may not be feasible due to the absence of technologically and economically viable low-carbon alternatives.

Some ASIFMA members believe that the current approach may have been extended too far in pursuit

of comparability with other taxonomies. For example, while adopting the same metrics as the EU Taxonomy (such as grams of CO_2e per kWh) can facilitate comparability, it is crucial to consider locally appropriate thresholds. The EU threshold of 100g CO_2e per kWh was determined based on the specific context and decarbonization trajectory of the EU. Applying this threshold directly to Hong Kong or other Asian markets may not reflect local realities or policy objectives. For instance, under the current Taxonomy, the threshold set for power generation during the transition phase means that unabated gas-fired plants do not qualify as eligible activities. As a result, initiatives such as CLP's and Hong Kong Electric's efforts to phase out coal, along with the government's broader plan to decarbonize the electricity sector, would not be recognized as green or transitional activities within the Taxonomy framework. This highlights the challenge of applying a global pathway that is not specifically tailored to Hong Kong's market context and underscores the importance of developing locally relevant thresholds for the Taxonomy's practical application and effectiveness.

To this end, some members encourage the HKMA to consider developing Hong Kong-specific thresholds, using a transparent and scientific process similar to that employed by the EU. This approach would ensure both scientific equivalence and alignment with the Hong Kong government's decarbonization strategy, while also supporting fairness and practicality for local market participants. They also believe that calibrating thresholds to ambitious levels, but tailored for the local context, would not undermine the credibility of the Taxonomy, provided the calibration process is transparent.

Conversely, other members believe that compromising the technical metrics could potentially harm the credibility of the Taxonomy, particularly with respect to green activities, and suggest that alignment with EU thresholds be maintained.

Additionally, many businesses in Hong Kong leverage public cloud services for computing and storage rather than operating their own on-premises data centers. It remains unclear how the metrics of cloud service providers (e.g., PUE and WUE) would be assessed. As many customers utilize multiple data centers for their IT workloads, we suggest that the HKMA consider global metrics for cloud service providers when assessing the classification of activities (i.e., green or transition activities).

While the criteria have been drafted with reference to global frameworks and taxonomies (e.g., the EU Taxonomy), in some instances, the proposed HK Taxonomy criteria may be perceived as more stringent or demanding, which could present usability challenges. For example, regarding activity B-004 (Transportation of freight by sea), the HK Taxonomy appears to impose more requirements than other taxonomies (e.g., Singapore or Australia) for the activity to be classified as transition. The EU Taxonomy criteria also seem less stringent, although they are only applicable until 31 December 2025.

Question 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.

Firstly, there remains a lack of clarity within the current Taxonomy regarding the distinction between "transition-aligned" and "revenue-aligned" activities. This ambiguity presents practical challenges for industry stakeholders, as clear guidance is essential to ensure consistent interpretation and application of the Taxonomy across various sectors. We recommend that further clarification be provided to delineate these concepts, including illustrative examples and detailed definitions, to enhance the taxonomy's credibility and usability.

Additionally, the current approach to transition plans appears to be limited. We recommend that the role of transition plans be thoroughly discussed among relevant stakeholders prior to their formal inclusion in the Taxonomy framework.

Furthermore, with respect to data center operations, many chiller systems in Hong Kong currently utilize refrigerants such as R134a, which have a significantly higher global warming potential (GWP) than 675. As these refrigerants cannot be replaced until the chiller systems are decommissioned, it would be premature to consider GWP for assessing the type of activity at this stage. Should GWP be considered, it should apply only to new data centers, which retain the flexibility to select the type of refrigerants used.

Question D: Are there any metrics and technical criteria that could be further adapted in the local context?
Please refer to comments in the previous section.

Furthermore, we note that the current approach to sunset dates—specifically the 2035 deadline and the associated glide path—is too rigid for the Hong Kong and broader Asian context. We recommend that the Taxonomy allows for greater flexibility beyond 2035, recognizing that the region may require a longer timeframe for transition and adaptation activities. Additionally, we suggest adopting a broader definition of adaptation, such as that used by the Climate Bonds Initiative (CBI), to ensure inclusiveness and relevance for local market conditions.

It is also important that the Taxonomy's transition approach and technical criteria are aligned with those of mainland China, while remaining responsive to local policy initiatives. Linking government policy objectives to Taxonomy criteria will be key, and careful attention should be paid to avoid unintended consequences. For example, there is a risk that local power companies may not meet either green or transition criteria under a strict taxonomy, which could present a significant hurdle to implementation and market development. We recommend a pragmatic approach that supports both local circumstances and alignment with international best practices.

4. Taxonomy implementation

Question A: What are your suggestions on how the Taxonomy could be used in Hong Kong? What use cases do you consider should be prioritized
We commend HKMA's ongoing commitment and substantial efforts in driving the development and implementation of sustainable finance initiatives. ASIFMA recommends the following strategic measures to enhance the effective implementation and adoption of the Taxonomy:

- **Introduce Incentives:** Implement targeted incentives to encourage voluntary adoption among market participants. These could include regulatory recognition, capacity-building programs, or public acknowledgment for early adopters to drive engagement and uptake.
- **Policy-Driven Yet Credible Approach:** Strive for a balance between policy objectives and the need for a credible, market-accepted framework to ensure the Taxonomy remains both ambitious and implementable.
- **On-Ground Calibration of Thresholds:** Adapt technical thresholds and criteria to the local context through stakeholder consultation and data-driven analysis, balancing policy objectives with market credibility and ensuring thresholds are both ambitious and practical.
- **Consistency of Scientific Gains:** Maintain a commitment to consistent, evidence-based criteria that reflect the latest scientific advancements, thereby safeguarding the credibility and effectiveness of the Taxonomy.
- **Consider the Question of Interoperability:** Assess to what extent interoperability should be sought and determine the best approach to ensure the Hong Kong Taxonomy can be applied alongside leading international frameworks. This will support cross-border capital flows and facilitate decision-making for global investors, ensuring ambitions and financial decisions are

consistent across jurisdictions.

- **DNSH and MSS:** The prototype notes that the role of "Do No Significant Harm" (DNSH) will be explored in future phases. Detailed Minimum Social Safeguards (MSS) are not yet explicitly outlined for general application across all activities. We recognize that inclusion of DNSH and MSS could be complex and may affect the adoption of the HK Taxonomy if included. However, having a clearer stance on DNSH and MSS—whether to include (to align with the EU Taxonomy or other global standards), not to include (with a well-articulated rationale), or to adopt a simplified version (to facilitate issuer adoption)—will provide greater certainty to issuers and global investors.
- **Data Availability and Reliability:** Without robust data availability and integrity, the use of the Taxonomy will be impeded. This challenge has been recognized and addressed by other jurisdictions during the development and implementation of taxonomies, often through the creation of data utilities, support schemes, and capacity-building programs. It is crucial that Hong Kong policymakers develop shared data solutions and encourage private sector contributions to improve the quality and accessibility of data for taxonomy assessments.

ASIFMA members are concerned about the following statement regarding taxonomy adoption*: "In the long run, the incorporation of the Taxonomy into banking supervisory policies will be explored to further strengthen its role in advancing green and sustainable finance."* This appears to suggest that the Taxonomy could be used by supervisory authorities to channel authorized institutions' capital toward green and sustainable finance, which would be outside the HKMA's policy objectives and mandate. Members would also like to emphasize that the Taxonomy, by itself, is not an effective tool to drive the transition of the economy toward low carbon. Transition begins with climate, environmental, and associated industrial policies that drive changes in the real economy. The Taxonomy should serve as an enabler of these policies, not as the primary driver.

In addition to these specific to the implementation of the Hong Kong Taxonomy comments, we would like to bring to your attention AIFMA's second Taxonomy Implementation Survey, which demonstrates how surveyed firms (all multinational banks operation in APAC) use taxonomies. The findings and recommendations from this survey may provide useful background information for consideration.

Question 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?

Taxonomies have demonstrated effectiveness when integrated with industrial policies or incorporated into specific lending criteria and capital charges. For instance, Hong Kong has recently announced risk weights for selected green bonds with new data field that indicates whether a green bond aligns with the Hong Kong Insurance Authority (HKIA)'s new valuation and capital guidelines. This initiative helps insurance firms and other financial institutions comply with regulatory requirements for sustainable investment. Regionally, Japan is advancing transition bonds linked to identified transition activities as part of a comprehensive industrial policy strategy.

Mainland China has conducted provincial trials on approved transition pathways for particular sectors; organizations that comply and deliver are eligible for discounted funding, representing a form of government-supported blended finance. These transition activities are being consolidated into a national transition catalogue or plan, which has not yet been released. Additionally, the People's Bank of China (PBOC) requires banks to disclose the percentage of green-aligned assets among their holdings. This regulation has stimulated demand for green bonds and projects consistent with local green activity lists, thereby incentivizing the implementation of taxonomies and green lists by financial markets.

Building on these examples, a whole-of-government adaptation and resilience strategy—

transparently communicated as a citywide adaptation plan—would provide clarity of policy direction and supplement the adoption of the Taxonomy. In addition, continued capacity building and talent development should be prioritized.

Question 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?
We appreciate that the Taxonomy is a living document, subject to updates based on scientific and technological advancements, evolving international standards, and expansions to new sectors or environmental objectives. While a 2–3 year update cadence is reasonable, a five-year interval may be preferable to allow for a full implementation cycle before subsequent revisions.

In future phases of the Taxonomy, it may be appropriate to consider the inclusion of nuclear energy power generation as an eligible activity, given the growing interest among Asian issuers in financing nuclear projects through green bond proceeds.

For the launch of future iterations of the Taxonomy, it may be beneficial to conduct a webinar presentation—similar to ASFI's approach for the Australian Taxonomy—particularly to explain newly added transition elements. The launch could also be accompanied by supplemental guidance, as provided in Phase 1 or in Singapore's recent guidance document on leveraging the Taxonomy in green and transition financing.

Conclusion

Overall, we believe that an interoperable, voluntary taxonomy could help guide international capital flows to support the green transition. We encourage Hong Kong authorities to continue consulting with the industry, ensuring sufficient transparency and adequate time for stakeholder input.

We thank the HKMA for considering our comments and would be pleased to elaborate on any of the issues raised or to provide further clarification as needed.

If you have any questions, please contact **Ms. Diana Parusheva-Lowery, Managing Director, Public Policy and Sustainable Finance** at dparusheva@asifma.org.

Sincerely,

Best regards,
Diana Parusheva-Lowery
Head of Public Policy and Sustainable Finance
Asia Securities Industry & Financial Markets Association