By Email (hongkong.consultations@climatebonds.net)

7 October 2026

Hong Kong Monetary Authority
55th Floor, Two International Finance Centre,
8 Finance Street, Central, Hong Kong

Dear Sir/Madam,

Re: Prototype of Hong Kong Taxonomy for Sustainable Finance (Phase 2B)

Executive Summary

CFA Society Hong Kong's and CFA Institute's Letter in response to the consultation on the Prototype of Hong Kong Taxonomy for Sustainable Finance (Phase 2B)

CFA Society Hong Kong (the "Society") and CFA Institute (the "Institute") welcome the consultation on the next phase of Hong Kong's Taxonomy, which aims to ensure it remains responsive to market dynamics and evolving practices and expectations.

The comments of the Society and the Institute are primarily from the perspective of investment professionals, including asset managers, asset owners, analysts and other users of corporate information. Our responses therefore focus on how the Taxonomy can produce reliable, comparable information for investment analysis.

The comments have also been made in line with the Institute's long-standing position, which is reflected in our Global ESG Disclosure Standards for Investment Products as well as our mission "to create an environment where investors' interests come first, markets function at their best, and economies grow": a taxonomy exists to help investors and capital allocators make informed, comparable decisions. In practice, we look for:

1. **Investor decision-usefulness and market integrity first:** does the feature help an investor, lender, or capital allocator make a more informed, comparable decision, and does it reduce greenwashing risk?

2. **Simplicity, proportionality and non-duplication:** does the Taxonomy function as a shared dictionary of definitions that complements existing regimes (ISSB/IFRS disclosure, transition plans, product labelling), rather than adding a freestanding compliance burden?

3. **Interoperability over reinvention:** does the design align with, and avoid needlessly diverging from, well-established taxonomies, such as the EU, Mainland China (via the Common Ground Taxonomy), and regionally the ASEAN Taxonomy?

4. **Flexibility over rigid bright lines ("shades of green"):** are graduated, sunset-dated categories used in preference to binary pass/fail thresholds, which our review of the EU experience shows can discourage broader market application?

5. **Predictability and stability:** does the framework give users a predictable basis for long-lived capital commitments, with appropriate transition or grandfathering provisions?

6. **Evidence-based, science-based credibility:** are definitions and thresholds anchored to credible decarbonization and adaptation science, and will they reflect technological innovations over time?

Thank you for your consideration of our views and perspectives. If you have any questions or seek further elaboration of our views, please contact Mr. Matthew Chan, Managing Director of CFA Society Hong Kong, at matthew.chan@cfahk.org, and Mr. Olivier Fines, Head of Advocacy and Policy Research at CFA Institute, at olivier.fines@cfainstitute.org.

Sincerely,

For and on behalf of
CFA Society Hong Kong



Matthew Chan
Managing Director

For and on behalf of
CFA Institute



Olivier Fines, CFA
Head of Advocacy and Policy Research

CFA Society Hong Kong

About CFA Society Hong Kong

CFA Society Hong Kong (the "Society") is a non-profit organization founded in 1992. The Society shares the mission of CFA Institute (the "Institute") in raising the professional and ethical standards of financial analysts and investment practitioners through our advocacy and continuing education efforts. In addition to promoting the CFA® designation in Hong Kong, the Society aims to provide a forum for our members, the Institute, other investment practitioners and regulators for networking and the exchange of industry insights and best practices.

About CFA Institute

CFA Institute is a global, not-for-profit professional association of more than 181,000 members, as well as 160 member societies around the world. The Institute administers the Chartered Financial Analyst® (CFA) Program. Our members include investment analysts, advisers, portfolio managers, and other investment professionals. Our advocacy positions are informed by our global membership, which invests both locally and globally.

Response Section

1. Taxonomy design, structure, and scope

A: Is the current Taxonomy design and structure clear and relevant? If not, how can they be improved?

Yes. The design and structure are clear, and the Taxonomy's phased, additive approach is a particular strength. Phase 2B adds new green and transition activities that address important concepts, including: circular economy, industrial decarbonization, clean transportation and technologies supporting low-carbon transition. The four guiding principles (Science-Based, Scale Up Sustainable Capital Flows, Fit for Context, Impact-Driven) anchor the more technical chapters well. Figure 1 in Chapter I, which tracks which activities were introduced, reclassified, or updated in each phase, demonstrates the cumulative clarity which a multi-phase taxonomy needs. The Phase 2A definition of transition activities and transition measures, and their foundation in an internationally-recognized methodology, is key in giving clarity to an emerging asset class.

That said, market participants may require a clearer roadmap for how the Taxonomy will eventually inform banking supervision, and shape financial product design, such as green bonds or loans. Predictable, staged implementation timelines are essential to market confidence and to avoiding disruptive capital reallocation.

B. Is the Taxonomy easy to navigate across the various chapters and sections? If not, what structural or formatting improvements do you recommend?

Largely yes, aided by the consistent use of tables for Green Activity, Transition Activity and Transition Measure criteria, and by clear section breaks by sector. At over 140 pages of highly technical, sector-specific criteria, though, two changes would meaningfully reduce the burden on the institutions that must apply the Taxonomy day to day:

1. a consolidated **glossary of key terms** (DNSH, sunset date, Process-based Approach, CapEx/OpEx/Revenue alignment) at the front of the document, since these are currently defined piecemeal, wherever they first arise in Chapters II and III;

2. an interactive, bookmarked PDF (or HTML equivalent) with hyperlinked cross-references between the Chapter I/II classification framework and the detailed sector criteria, given how often the document asks readers to move between the two.

C. Are the graphics and diagrams clear and comprehensible? If not, how can they be improved to better communicate the technical framework?

Mostly yes. Figure 1 is a strong example of clear, purposeful design. The use of color-coded phase markers communicate a great deal of information in an efficient manner. Figure 2, the wedge diagram illustrating Green, Transition Activity, Transition Measure and Exclusion, is conceptually effective but its unlabeled emissions axis risks being read as a continuous spectrum, when eligibility is in fact set by discrete, sector-specific

thresholds; **an illustrative numerical example would help** — for instance, overlaying indicative emissions-intensity thresholds for one sector.

The adaptation decision tree in Chapter III is logically sound but visually dense. As a result, it is difficult to scan the terminal category boxes quickly as they pack in too much text. We recommend shortening in-diagram text to short labels, with full detail kept in the accompanying table, and applying Figure 1's color and iconography conventions consistently across Chapters II and III, which currently use different palettes.

D. What are your views on the current scope of the Taxonomy regarding climate change mitigation? Specifically, which sectors, activities, or structural elements should be prioritised for inclusion in future phases?

The current scope in the proposed 2B, which includes Energy, Transportation, Construction, Waste, Manufacturing and ICT appropriately targets Hong Kong's major sources of emissions and sectors, and has added depth (Construction, for example, already covers new-build, renovation, and building equipment maintenance across Phase 1 and 2A). For future phases, we would prioritize the additions HKMA has itself flagged in Chapter I's "Looking Forward" section: electricity generation from natural gas, hydrogen and nuclear energy, together with a Hong Kong-specific grid decarbonization pathway; carbon capture, utilization and storage (CCUS); cement manufacturing, to complete coverage of hard-to-abate industry alongside steel, aluminum and chemicals; and the flagged updates to Construction criteria and the water sector. Thresholds for the newer activities, such as nuclear and CCUS, should be set with the same science-based rigor already applied elsewhere in Chapter II, not assumed eligible by category.

We would also encourage a structural addition: an "enabling activities" concept for mitigation, mirroring the one already built for adaptation in Chapter III, so that manufacturers of low-carbon components and green technology providers can be recognized in their own right rather than only through the activities they support. The EU Taxonomy already provides for enabling activities under Article 16. Such recognition could help broaden the pipeline of activities eligible for sustainable and transition finance. Capital markets can also play an important role in supporting financing towards these activities, consistent with the broader transition finance themes discussed in HKIMR's research. Please also see our response to Q4 for further suggestions on the use and implementation of the Taxonomy.

E. What are your views on the current scope of the Taxonomy regarding climate change adaptation? Specifically, which climate hazards, adaptation measures (whitelist and non-whitelist), or structural elements should be prioritised for inclusion in future phases?

The current scope is a reasonable, proportionate starting point. The Taxonomy already recognizes a broad range of relevant hazards at the hazard-identification stage of the process-based approach, such as heat stress, heat waves, landslides/rockfalls, sea level rise and water stress, which are drawn from Appendix A of the EU Taxonomy Delegated Act. However, the pre-defined whitelist and non-whitelist measures (Tables 31 and 32) currently operationalize only storm damage, flood damage and, to a lesser extent, water stress. Given its importance to the region, we would close this gap for extreme heat first, as it has a direct bearing on public health, labor productivity and energy demand. Next, we could focus on landslip/slope-stability risk, which is

particularly material given Hong Kong's hillside development and has established engineering precedent to draw on (e.g. the Geotechnical Engineering Office's slope safety system). We would also broaden the buildings whitelist, which currently has only two measures (lightning rods, no-return valves) against three for energy and five for water.

On structural elements, standardized Hong Kong-specific hazard and vulnerability reference data (default flood, heat and slope risk maps) would reduce the cost and inconsistency of individual risk assessments, particularly for smaller users without in-house capability. We would also encourage a dedicated enabling-activity treatment for insurance and risk-transfer products, such as parametric insurance and catastrophe bonds given Hong Kong's position as a regional insurance and reinsurance hub.

F. Which environmental objective should be prioritised for development in future phases?

Phase 2B has already named the Taxonomy's full future scope: six environmental objectives, with the four new ones (biodiversity, water, pollution prevention, circular economy) defined at the objective level to anchor future DNSH assessment, even though detailed criteria do not yet exist for them. Given the Greater Bay Area's significant ecological assets, biodiversity, nature and ecosystem protection should come first (e.g. Mai Po wetlands and coastal and marine habitats). The growing weight behind nature-related financial disclosure (TNFD), and its direct relevance to the DNSH backbone the Taxonomy has already established. Water would be a natural second priority, building on the partial technical foundation already available through the adaptation chapter's (Chapter III) water-related measures.

Pollution prevention and circular economy should come last, once international consensus on these objectives, still unsettled even in the EU, develop further. This mirrors what we told HM Treasury in response to its UK Green Taxonomy consultation, that objectives that remain the subject of unresolved international debate are not yet mature enough for confident taxonomy development even within the EU framework.

2. Taxonomy Methodology

A. On climate change mitigation, does the current classification framework, including the principles and definitions for each category (i.e. Green Activity, Transition Activity, Transition Measure), remain clear, relevant, credible, and usable under the expanded Taxonomy? If not, how can it be improved?

Yes. Phase 1 was built to operationalize the Common Ground Taxonomy for compatibility with the EU and Mainland China, and the mitigation chapter's technical thresholds are frequently benchmarked directly against EU Taxonomy criteria. The distinction between Transition Activity (a standalone activity) and Transition Measure (a granular, sub-activity component) is a useful refinement, adding flexibility, in the spirit of the "shades of green" approach the CFAI have continuously recommended, without excessive complexity. The sunset-date mechanism (2030 for Maritime Transport, 2035 for Energy) gives users a predictable planning horizon and, because it sits in one consolidated document, compares favorably to the EU Taxonomy, whose criteria are spread across three separate legal instruments that have collectively been amended several times since 2021.

One refinement would help. The differentiated reporting eligibility (Green: Revenue, CapEx and OpEx; Transition: CapEx and OpEx only) is an important safeguard against overstating transition credentials but currently sits only in a technical table of the consultation document and deserves more explanation.

B. On climate change adaptation, is the expanded adaptation assessment methodology, based on the Process-Based Approach, clear, relevant, credible, and usable? What are your views on the proposed adaptation categorisation and different pathways for assessing adaptation measures?

Yes. The Process-based Approach is clear, credible and practically usable. Its five steps mirror established climate risk management practice and allows users to rely on existing climate risk assessments in lieu of duplicating work already done for other purposes. This is a sensible approach for keeping implementation cost down. The four-category structure (pre-defined whitelist, pre-defined non-whitelist, user-defined whitelist, user-defined non-whitelist) calibrates assessment depth to each measure's novelty and risk, giving the adaptation chapter the same graduated flexibility we favor on the mitigation side.

Two areas need attention. Independent verification is currently only "recommended," not required, for non-whitelist and user-defined measures, and no minimum baseline exists for verification scope or provider independence, which are likely the categories most exposed to inconsistent or self-serving assessment. We would recommend HKMA set out baseline verification expectations, drawing on the data governance standards our joint research with HKIMR identified as critical to credible transition and adaptation finance. Separately, the user-defined categories place significant burden on individual users to set their own metrics and thresholds, which risks inconsistent outcomes and may be disproportionately costly for smaller users. We would encourage HKMA to progressively publish additional reference metrics, following the model already piloted for shoreline protection and flood management, so that user-defined categories become a narrowing exception rather than the default.

3. Sector chapters

The Society and the Institute express no position on Question 3, as the topic falls outside the scope of our professional mandate and market role.

4. Taxonomy implementation

A. What are your suggestions on how the Taxonomy can be used in Hong Kong? What use cases do you consider as the most relevant and impactful and should be prioritised in the near-term? What use cases can be developed in the longer term?

The HK Taxonomy is a valuable classification and reference framework that will create greater transparency. It should become more integral in the HK financial market, and by extension in funding channeled to the Mainland. For this to happen, maximum transparency by users should be encouraged through voluntary reporting of alignment. The Taxonomy could gradually become mandatory for green bonds and loans, in

combination with the ICMA standards. In the longer term, fund labelling, portfolio alignment metrics and Taxonomy-aligned benchmarks could follow once issuer-level data are adequate.

The Taxonomy classifies activities at project level. This is directly useful for project and asset-level investors, such as those in private equity, infrastructure, private credit and use-of-proceeds bonds.

We suggest that transition finance be an important near-term use case. There is no global consensus on defining transition activities, and this uncertainty may contribute to underinvestment in hard-to-abate sectors. Hong Kong is well placed to channel transition capital to the Mainland and the wider region. Taxonomy metrics can also support the assessment of corporate transition plans disclosed under HKFRS S2 / IFRS S2. Investors can use them in engagement to understand whether capital expenditure is directed towards decarbonization. In addition, issuers and lenders can reference the Taxonomy in green and transition bond and loan frameworks, which gives investors a consistent basis for assessing sustainability claims.

B. Given that the Taxonomy is a voluntary tool at this stage, what actions or support can regulatory agencies provide in the near-term to increase its adoption? What actions or support can be provided in the longer term?

We encourage the HKMA, SFC, HKEX and other relevant bodies to coordinate their respective requirements on Taxonomy alignment, so that this information complements existing sustainability disclosure requirements and does not become a separate reporting regime. Wherever possible, incentives contingent on sustainability should be defined in terms of the Taxonomy. For instance, the Green and Sustainable Finance Grant Scheme could cover the costs of external reviews of Taxonomy reporting.

Issuance of green bonds by the HKSAR under the Taxonomy would be an important signal to market participants.

We suggest that adoption remain voluntary until a public evaluation shows that issuer-level data, guidance and market practice are mature enough. Any later move towards mandatory requirements could then be phased and consulted on.

Given the global proliferation of taxonomies, inter-operability is a key investor concern. HKMA should therefore deepen its dialogue with other regulators to establish which taxonomies could be deemed equivalent, and seek convergence in the Asia region.

It would be helpful to publish a mapping to the EU Taxonomy and the Mainland's Green Finance-Supported Projects Catalogue (2025 Edition) (綠色金融支持項目目錄（2025 年版）) as a priority, followed by the Common Ground, Singapore and ASEAN taxonomies. The mapping could show, activity by activity, where definitions and thresholds are equivalent, where they differ and why. Practical support would also help adoption. This could include sector-specific worked examples, decision trees, voluntary templates and a helpdesk with published answers. Pilot transactions and disclosures using the Phase 2B criteria, with the lessons shared, would be useful too. We suggest that regulators consider partnering with professional and industry bodies to promote adoption. The Society and the Institute would be pleased to support this through

practitioner training and continuing professional development; joint events and briefings with regulators; and gathering member feedback on usability to inform later updates.

Over time, existing issuer-level disclosure channels could carry Taxonomy-related revenue and capital expenditure; the main activities or business segments behind the figures; and the methodology used to determine alignment. We suggest that issuer-level disclosure come before portfolio-level aggregation. Simplified pathways and proxies may help smaller issuers assess their own activities. However, it would be difficult for investors to report portfolio alignment that relies heavily on estimates. Where practical, data could be made available in structured, machine-readable formats, supported by an online eligibility checker.

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 support a transparent and predictable review process that keeps the Taxonomy current while preserving stability and comparability over time. As technologies and climate science evolve, so should a taxonomy.

We suggest that updates be driven by defined conditions, and not only by a fixed calendar. An update could be considered when: (i) a new technology or activity reaches commercial viability, or the cost and performance of an existing one changes materially; (ii) Hong Kong's or the Mainland's climate targets change materially, or climate science shifts the relevant decarbonization pathways; (iii) taxonomies or standards that the Hong Kong Taxonomy maps to are significantly revised; or (iv) users find that criteria are unworkable, ambiguous or incorrect, or that data are unavailable. Corrections and clarifications could be made at any time.

We suggest that future expansion be prioritized where: (i) environmental or transition relevance is significant; (ii) investors currently lack consistent and comparable information; (iii) credible technical criteria and transition pathways are sufficiently developed; and (iv) clearer classification could materially improve investment analysis or transition finance. To maintain stability, new sectors and activities can be added when one of the update conditions is met. We suggest that changes to existing definitions and thresholds be less frequent, consulted on and given a clear notice period. Frequent changes raise implementation costs and make comparison between instrument issued under different standards difficult.

At a minimum, a full review should take place in line with the five-year review cycle of Hong Kong's Climate Action Plan 2050. We also suggest a clear grandfathering policy. Instruments and contracts classified under an earlier version could keep that classification for their remaining term, and activities and assets could have a defined transition period to meet tighter criteria. This protects investors and issuers who relied on the earlier rules in good faith and avoids sudden reclassification. Finally, version control and a public change log in English and Chinese would help users follow changes over time.

5. Additional comments

The Society and the Institute do not have any other questions, comments, or suggestions.