

## Hong Kong building a Greater China Carbon Market Gateway



Hong Kong is pursuing a ground-breaking plan to develop market structure and regulatory models for global investors to access mainland China's carbon markets.

The potential is unsurprisingly immense. As Hong Kong's Green and Sustainable Finance Cross-Agency Steering Group noted in a preliminary feasibility assessment report in March 2022, investment demand in carbon credits as an asset class is set to head north. For example, interest in voluntary carbon markets (VCM), one of two key carbon markets, has surged on the back of a potential European Union carbon tax on imported goods, as well as rising CSR activity. Case in point? Over 200 global asset managers with US\$57 trillion in AUM have committed to meet net-zero targets. Further, over 300 companies have signed onto The Climate Pledge<sup>1</sup>, a global initiative that aims to achieve net-zero carbon emissions by 2040 via decarbonisation policies and offsetting remaining emissions with carbon credits. The Hong Kong Stock Exchange's Net-Zero Guide<sup>2</sup> and enhanced ESG reporting criteria will also likely drive listed companies in the city to decarbonise.

In the other key carbon sector, namely compliance markets, global cooperation is expected to be fueled by mainland China's "Dual Carbon" goals, as well as the country's intention to build an emission rights trading and financial services platform in the Greater Bay Area that will be open to qualified foreign investors.

No blueprint is, however, without potholes. Those here include the potential regulation of VCM, which are now largely unsupervised. Provisions of carbon credits, emission allowances and carbon derivatives could be included in current legislation e.g. the Securities and Futures Ordinance, or set up in a separate regime, the report added. From an accounting standpoint, a lack of international standardisation for recording carbon credits and emission allowances in financial statements may also understandably affect interest in carbon trading, in the event that the market is unable to fully comprehend their impact on balance sheets.

For now, Hong Kong's Carbon Market Workstream has engaged with financial and environment authorities in mainland China and industry stakeholders to discuss opportunities. They include the development of an on-exchange VCM for high quality carbon credits aimed at local, international and mainland China investors, as well as to develop Hong Kong into mainland China's offshore risk management centre for carbon market development. Hong Kong may also compile carbon trading indices and develop carbon-themed ETF products. A bona fide carbon market can also boost fintech development, the report added, through, say, a digital platform that features smart contracts for the automated generation and trading of carbon credits.

While the initiative remains in its early days, there is no doubting the potential of its ambition. Stay tuned for further developments and feel free to contact us to see how this may fit with your investment plans.

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<sup>1</sup> [The Climate Pledge | Net-Zero Carbon by 2040](#)

<sup>2</sup> [HKEX-Net-Zero-Guide\\_E.pdf](#)

## Get in touch



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Penny is one of Hong Kong's leading funds lawyers who counts among her clients the region's top asset managers. She is consistently sought after for both direct expertise and keen market intelligence. Penny focuses on the structuring, establishment and regulations of investment funds of all types (hedge, venture capital, private equity, real estate, credit, QFI and hybrid funds).

She has expertise and experience with a range of fund vehicles, including companies, limited partnerships and unit trusts in multiple jurisdictions, such as the Cayman Islands and BVI, as well as the open-ended fund company (OFC) and limited partnership fund (LPF) in Hong Kong, and the variable capital company (VCC) in Singapore.

Her years of providing legal leadership advice to such clients extends naturally to advising on compliance and regulatory requirements, discretionary management agreements, derivatives documentation (including ISDA and prime brokerage agreements) and negotiating limited partnership agreements and side letters. Her clients include some of the largest asset managers in Hong Kong, China and Singapore.

Penny kickstarted the firm's Asia ESG initiative and was instrumental to the firm joining the Hong Kong Green Finance Association. As a leading funds practitioner and corporate/social responsibility advocate, Penny is dedicated to ESG issues affecting asset managers in the region.

Named in the Legal 500 and IFRL1000 lists of the city's top funds solicitors.

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