December 2020

Case Study:

First ESG-linked rates derivative in Asia

Hysan Development Company Limited (Hysan), a real-estate developer, issued the first-ever sustainability-linked hedging solution in the Greater China region.

Details of the derivative

The 14.9 year USD 125 million cross-currency swap with Hysan is embedded with five year ESG features and contributions, making it the longest ESG KPI commitment duration executed in Asia. This innovative green solution will help enhance Hysan's commitment to reducing its carbon footprint.

Hysan will not benefit directly from achievements in the KPIs. However if Hysan fails to achieve its KPIs it will make financial contributions to impact-driven local projects or charities via an international bank.

Under the terms of the sustainability-linked hedge, Hysan commits to two ESG KPIs:

- Remain included in the Hang Seng Corporate Sustainability Benchmark Index, which ranks the top 20% of Hong Kong companies according to their sustainability performance, for the period of 2021-2024.
- Reduce its emissions by 20% by 31 December 2024.

Transaction summary

Derivative instrument:	Cross currency swap
Tenor:	14 years and 10.5 months
Currency pair:	USD/HKD
USD fixed rate:	3.55% p.a.
Notional:	USD 125 million
Start date:	30 July 2020
Maturity:	16 June 2035

ESG-related features

ESG Feature I

Inclusion of Hysan as a member of the Hang Seng Corporate Sustainability Benchmark Index, being monitored each year from 2021 to 2024, both years inclusive.

ESG Feature II

Hysan to achieve an average of 20% reduction in purchased electricity by 31 December 2024, compared to its 2005 baseline as defined in its sustainability report.

For failure to achieve, Hysan will contribute, via an international bank, a pre-determined percentage per annum to one or more of local impact-driven projects or charities approved by the international bank's CSR committee.

ESG significance of the transaction

The transaction references the Hang Seng Corporate Sustainability Benchmark Index, which gauges the performance of companies with outstanding sustainability practices in the Hong Kong market. Constituent selection is based on a robust process that includes consideration a sustainability assessment that looks at seven core areas including Governance, Environment, Labour Practices, and Community Involvement. Using the index as one of the KPIs in the deal further ensures Hysan will continue to pursue comprehensive sustainability practices.

The second sustainability target is to achieve an average of 20% reduction in purchased electricity across their portfolio. According to the Hong Kong Environment Bureau, buildings account for about 90% of the electricity used in Hong Kong and more than 60% of the carbon emissions. Therefore, achieving this KPI is critical to address the building sector's impact on Hong Kong's climate action.

Key takeaways

- An innovative instrument, this sustainability-linked derivative hedging solution allows companies in high carbon sectors such as real estate to reduce their carbon footprint and improve their overall ESG performance.
- Companies which do not have an immediate financing need can consider issuing sustainability-linked instruments to help execute their green and sustainable strategy.
- Sustainability-linked instruments vary depending on what predefined sustainability/ESG objectives an issuer wishes to achieve. Issuers are explicitly committed (in transaction documentation) to future improvements in sustainability outcome(s) within a predefined timeline. The most common ones in the market include sustainability-linked bonds or loans.

Hong Kong Exchanges and Clearing Limited
8/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong
info@hkex.com.hk (t) +852 2522 1122 I (f) +852 2295 3106 hkexgroup.com I hkex.com.hk