China

Country Progress Report

DECEMBER 2021

SUPPLEMENT TO THE 2021 GLOBAL PROGRESS REPORT OF THE SUSTAINABLE BANKING AND FINANCE NETWORK

Sustainable Banking and Finance Network

IFC International Finance Corporation WORLD BANK GROUP

Creating Markets, Creating Opportunities

Acknowledgements

This Country Progress Report was developed by the SBFN Secretariat under the leadership of the SBFN Measurement Working Group and with guidance from the SBFN Asia Regional Coordinator Wei Yuan. Data are provided by the China Banking and Insurance Regulatory Commission (CBIRC) and verified by SBFN. The team is grateful for the support and guidance of CBIRC representatives who provided data, participated in interviews, and reviewed and provided comments to this report, in particular Mr. Yanfei Ye, Senior Advisor of the Policy Research Bureau, and Ms. Xi Lan, Policy Research Bureau.

About SBFN

Established in 2012, SBFN is a voluntary community of financial sector regulators and industry associations from emerging markets committed to collectively advancing sustainable finance in line with international good practice and national priorities. As of October 2021, SBFN members represented 63 institutions, 43 countries, and $43 trillion (86 percent) of the total banking assets in emerging markets. Members are committed to i) improving the management of environmental, social, governance, and climate change risks in financial sector activities, and ii) increasing capital flows to activities with positive environmental and social impacts, including climate change mitigation and adaptation. For more information, visit www.sbfnetwork.org.

About IFC

IFC—a member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. IFC works in more than 100 countries, using its capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2021, IFC committed a record $31.5 billion to private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity as economies grapple with the impacts of the COVID-19 pandemic. For more information, visit www.ifc.org.

Contents

1. Overall country progress – China

1.1 SBFN member institutions:

China Banking and Insurance Regulatory Commission (CBIRC)	Member Since: 2012	**Working Groups:** Measurement Data and Disclosure (Co-Chair)
China Banking Association	Member Since: 2014	**Working Group:** Sustainable Finance Instruments
Ministry of Environment and Ecology (MEE, formerly the Ministry of Environmental Protection)	Member Since: 2012	

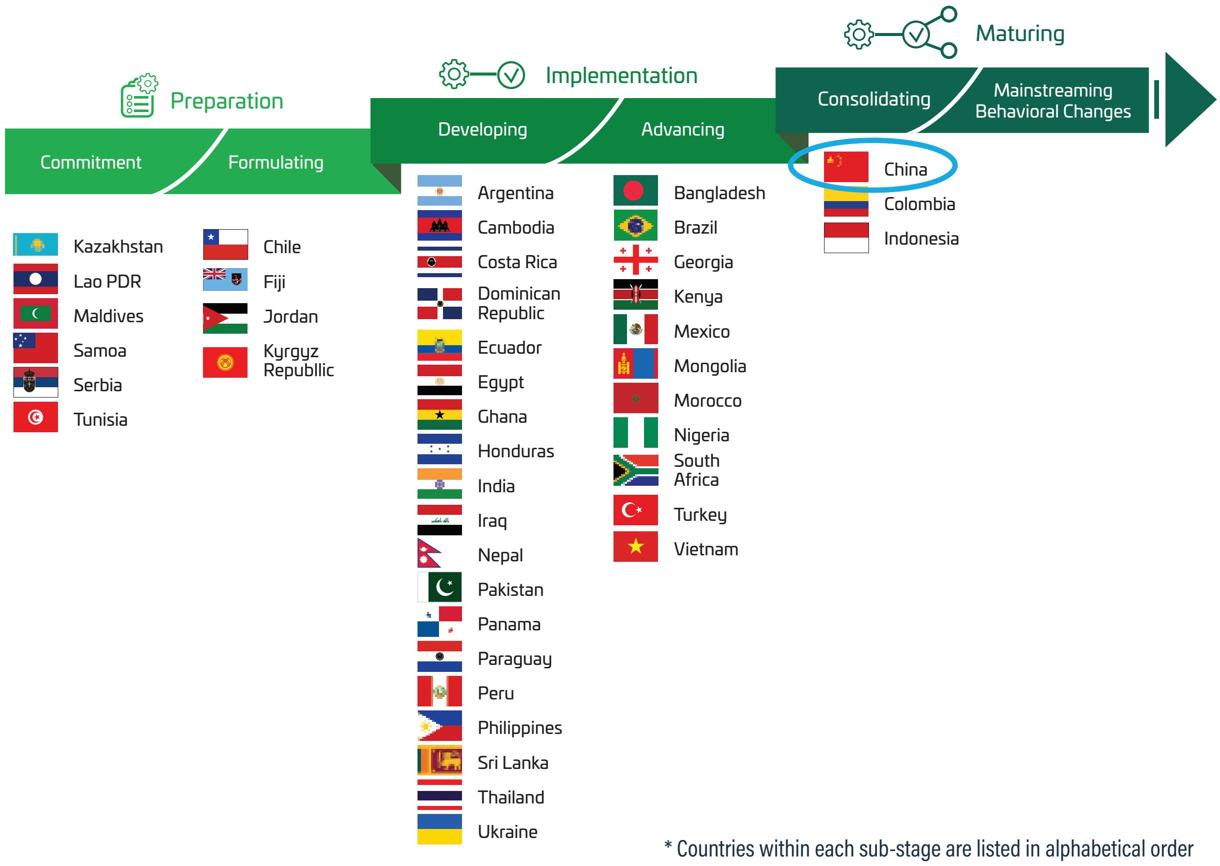
1.2 Other key institutions and national initiatives promoting sustainable finance

People's Bank of China (PBoC)
Ministry of Finance (MOF) of the People's Republic of China
National Development Reform Commission (NDRC)
China Securities Regulatory Commission (CSRC)
National Association of Financial Market Institutional Investors (NAFMII)
Green Finance Committee of China Society of Finance and Banking
Asset Management Association of China (AMAC)

1.3 Overall progress

China has **continued to make progress in the "Consolidating" sub-stage of the "Maturing" stage.** China's national sustainable finance framework started with banking and has expanded to cover the whole financial sector ecosystem, including insurance, capital markets, and asset management. The framework features clear supervisory expectations for financial institutions (FIs) to integrate environmental, social, and governance (ESG) risk management and increase green finance flows. This is supplemented by detailed implementation guidelines and tools, as well as robust monitoring mechanisms. Consistent and authoritative data on ESG risk management and sustainable finance flows are reported and assessed annually within the banking sector, resulting in insights into the financial performance and environmental benefits of sustainable banking activities. With China's announcement in September 2020 to peak carbon emission by 2030 and achieve carbon neutrality by 2060, climate risks are becoming a focus for market-wide capacity building and potential regulatory action.

Figure 1: SBFN Progression Matrix - Overall Country Progress



* Countries within each sub-stage are listed in alphabetical order

1.4 Country sustainable finance journey

Figure 2: China's sustainable finance journey

Policies, principles, regulations, and guidance

Research and engagement

Examples of market actions and impacts

2012

CBIRC issues Green Credit Guidelines

CBIRC & MEP join SBFN as founding members

2013-2016

Multi-agency collaboration (PBoC, CBIRC, MOF, NDRC, MEE, and CSRS) results in Guidelines for Establishing the Green Financial System (2016)

CBIRC issues Green Credit Statistics Reporting Template; Guidance on Calculating Environmental Benefits, and Key Performance Indicators for the Implementation of Green Credit

PBoC issues Notice on Green Bond for Inter-bank Market; and the Green Bond Endorsed Project Catalogue

During China's G20 Presidency in 2016, the G20 Green Finance Study Group was launched and co-chaired by China and UK

2017

CSRC publishes Guiding Opinions on Supporting the Development of Green Bonds

CBA issues China Banking Industry Green Bank Evaluation Implementation Plan

2018-2019

CBIRC issues Guiding Opinions of the China Banking and Insurance Regulatory Commission on Promoting the High-quality Development of the Banking and Insurance Industry

PBoC releases Green Credit Performance Evaluation Plan for Deposit-Type Financial Institutions in the Banking Industry

2020

Multi-agency collaboration consisting of MEE, NDRC, PBoC, CBIRC, and CSRC publishes guidance on Promoting Investment and Financing to Address Climate Change

CBIRC issues Notice on Work Related to the Statistical System for Green Financing and publishes Corporate Governance Guidelines for Banking and Insurance Institutions (Draft for Comment)

PBoC publishes the updated Catalogue of Green Bond-Supported Projects and issues the Banking Sector Financial Institution Green Finance Assessment Plan

As of the end of 2020, 21 major Chinese banks' green loans stood at RMB11 trillion ($1.8 trillion)

Cumulative Green bond issuance to the value of $124.4 billion as of 31 December 2020

2021

China becomes Co-Chair of the G20 Sustainable Finance Working Group

70% of banking assets (valued at $32 billion) covered by ESG integration requirements and banks report their ESG activities and performance regularly to CBIRC and PBoC

Initiative launched to develop a national carbon market, starting with the power industry (to begin trading in 2022)

1.5 COVID response

CBIRC has extended specific financial instruments to support small and medium-sized banks as these institutions tend to support small businesses. In 2020, Bank of China Macau Branch issued China's first social bond in the offshore market to support SMEs in Macau to access financial resources and reduce financing costs in response to COVID-19. The transaction comprised a 4 billion Hong Kong dollar ($514 million) 1.95 percent bond due 2022 and a 1 billion Macanese pataca ($125 million) 1.90 percent bond due 2022. Both notes are aligned with the International Capital Market Association Social Bond Principles.

1.6 Ambitions for the next phase

CBIRC is updating its green credit guidelines to cover both the banking sector and insurance sectors. Built on the existing green loan categorization introduced in 2013 and updated in 2019, CBIRC plans to develop a statistical classification system for green insurance activities. This will combat the lack of clear definition of green insurance in China. China has committed to achieving peak carbon emissions by 2030 and carbon neutrality by 2060. Supported by CBIRC, CBA launched an industry initiative to develop collective understanding and capacity for the role of banks in meeting those targets. The initiative will focus on climate disclosure, stress testing, climate finance product innovation, and assets allocation.

1.7 SBFN and IFC role

IFC has been a technical partner to CBIRC, CBA, and MEE since 2007 for their sustainable finance initiatives and capacity building. Through SBFN, CBIRC and CBA have actively shared their experiences with other SBFN members and benefited from the collective SBFN knowledge base.

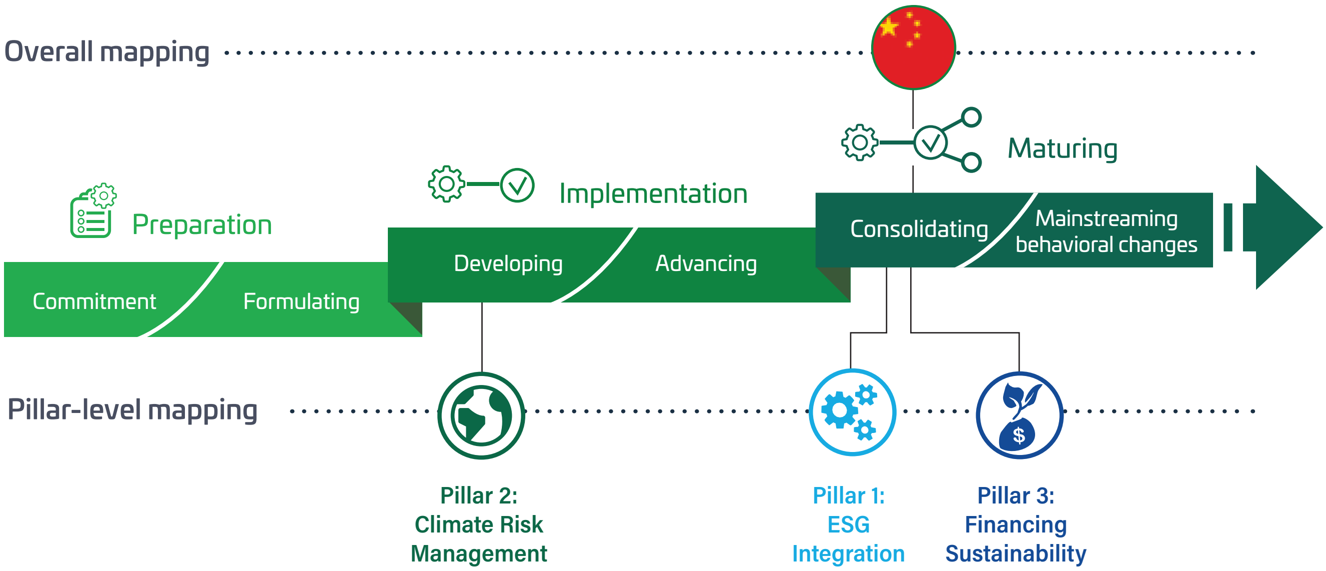
> SBFN Global and Country Reports enable countries to share good experiences and best practice, promoting mutual exchanges between member countries. This framework can be transformed into some very detailed formats and tables. Regulatory authorities or financial institutions can use this instrument to monitor their own progress. This is very important, and I believe SBFN's impact will be larger and larger in the future.

Mr. Yanfei Ye
Senior Advisor

China Banking and Insurance Regulatory Commission

2. Progress by three pillars

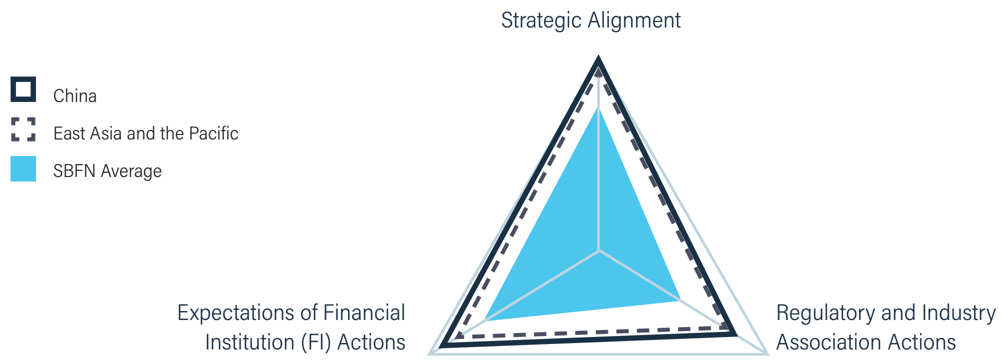
Figure 3: Mapping of overall country progress and individual pillar progress



Pillar 1: ESG Integration

Pillar Progress: Consolidating

China is mapped under the **"Consolidating" sub-stage of the "Maturing" stage** for the ESG Integration Pillar. Its national framework extends beyond the banking sector and promotes ESG integration across the financial sector ecosystem. In addition to ongoing activities to raise awareness and build capacity, implementation tools and initiatives are in place, and consistent and comparable data are available about the ESG implementation practices of banks. Extensive collaboration among agencies has resulted in frameworks that are well aligned with national strategies and international good practice.



Sub-pillar 1: Strategic Alignment

- China's national sustainable finance framework for the banking sector and non-banking sector, including its Green Credit Guidelines (2012) and Guiding Opinions on Supporting the Development of Green Bonds (2017), sets out expectations for integrating the consideration of ESG risks and performance in the operations and activities of FIs.
- China's approach to ESG integration in the financial sector is aligned with international good practices and standards. For instance, the Key Performance Indicators for the Implementation of Green Credit (2014) make reference to the Equator Principles, UN Global Compact, and UNEP Finance Initiative. The framework has been developed and implemented in close

consultation with the financial sector. CBIRC issued the Green Credit Key Performance Indicators and instructed China Banking Association (CBA) to establish a professional committee for green credit business. CBA issued the China Banking Industry Green Bank Evaluation Implementation Plan in 2017.

Sub-pillar 2: Regulatory and Banking Association Actions

- China's sustainable finance framework is supported by implementation guidance and technical tools, such as i) the Green Credit Statistics System for banking institutions when categorizing green credit portfolios, and ii) Green Credit Key Performance Indicators for banking institutions when carrying out self-assessment of green credit implementation.
- Implementation is regularly monitored by CBIRC, supported by data collection through the Green Credit Statistics System. Twenty-one major banks in China, covering 70 percent of national banking assets, have established internal ESG governance structures and policies, and report regularly to CBIRC on their ESG performance and activities.
- In 2020, CBIRC updated its Green Credit Statistics System, adding indicators on financing for climate change mitigation and adaptation.
- In 2021, CBIRC invited public comments on a draft Corporate Governance Code for Banking and Insurance Institutions, which, among other things, encourages banks and insurers to pay attention to ESG factors such as environmental protection and social responsibility.

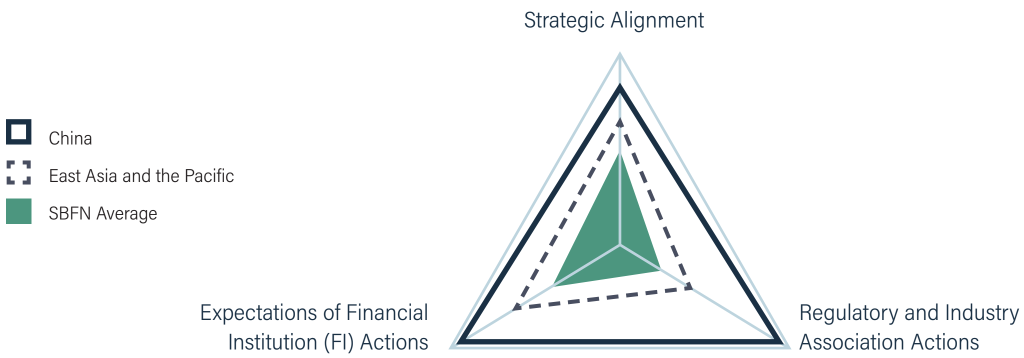
Sub-pillar 3: Expectations for FI Actions

- The Green Credit Key Performance Indicators require FIs to develop policies and procedures to manage ESG risks and performance, undertake regular review and monitoring of ESG risks, and report publicly on their ESG performance.
- In 2020, CBIRC unveiled Guiding Opinions on Promoting the High-quality Development of the Banking and Insurance Industry. Among other things, the Guidance calls for China-based banks and non-banking financial institutions to i) establish and improve environmental and social risk management systems, ii) incorporate ESG requirements into their entire credit granting process, and iii) strengthen ESG-related information disclosure, reporting, and interaction with stakeholders. It also encourages the establishment of green finance franchised institutions, and development and innovation in green financial products. ESG management is taken as a universal principle for the high-quality development of the banking industry.

Pillar 2: Climate Risk Management

Pillar Progress: Developing

China is in the **"Developing" sub-stage of the "Implementation" stage** of the Climate Risk Management Pillar. Climate change is one of the environmental factors to be considered under national ESG frameworks, and there are significant research and capacity building efforts underway by regulators, industry associations, and FIs to develop deeper understanding of climate risks and strengthen climate risk management approaches. There is ongoing regulator-industry collaboration, including a joint initiative on carbon neutrality by CBIRC and CBA to raise awareness and build capacity of FIs regarding new expectations for climate risk management.



Sub-pillar 1: Strategic Alignment

- Addressing climate change risks is a national priority as indicated in China's Nationally Determined Contribution (NDC) to the Paris Agreement and national climate policies, including China's commitment to carbon neutrality before 2060.
- In the financial sector, PBoC and CBIRC, in conjunction with other regulatory agencies, have undertaken research and issued regulatory guidelines, including the Green Credit Guidelines (2012), the Guidelines for Establishing the Green Financial System (2016), and Guidance on Promoting Investment and Financing to Address Climate Change (2020), that include elements of climate risk. They are also contemplating more specific guidelines for the management of climate risk in the financial sector.

Sub-pillar 2: Regulatory and Banking Association Actions

- The Green Credit Guidelines (2012), issued by CBIRC, include climate change in the list of environmental issues to be managed by banks. The Guidelines require banks to establish governance, policies, and procedures to manage these risks at transaction and portfolio levels, and they establish CBIRC reporting and supervision requirements.
- The Guidance on Establishing the Green Financial System (2016) calls for regulators to support FIs to treat environmental risks as drivers in stress tests for credit risks; evaluate exposure to loans, assets, and sectors in areas of high environmental risk, and quantify the potential credit and market risks to FIs under different scenarios. The 2016 guidance also calls for enhanced analytical capacity among institutional investors on environmental risks and carbon intensity of their investments, and for conducting stress tests of the impact of environmental and climate factors on institutional investor portfolios.
- China's multi-agency Guidance on Promoting Investment and Financing to Address Climate Change (2020) encourages climate mitigation and adaptation efforts, including controlling greenhouse gas emissions, enhancing carbon sinks, adaptation across sectors, and disaster relief as priorities to achieve China's NDC and to prevent and resolve climate investment and financing risks.
- Although supervisory expectations on climate risk management are yet to be specified, industry initiatives are in place for FIs to expand climate risk disclosure, conduct climate risk scenario analysis, and apply international good practices.
- In 2021, CBIRC and CBA announced a joint initiative on carbon neutrality representing approximately 80 percent of the Chinese banking sector. It will include development of a climate risk management framework to be integrated

into existing regulatory systems for the financial sector.

- PBoC is a founding member of the Network for Greening the Financial System and a number of institutions in the Chinese financial sector are supporters of the Taskforce for Climate-related Financial Disclosures (TCFD).

Sub-pillar 3: Expectations for FI Actions

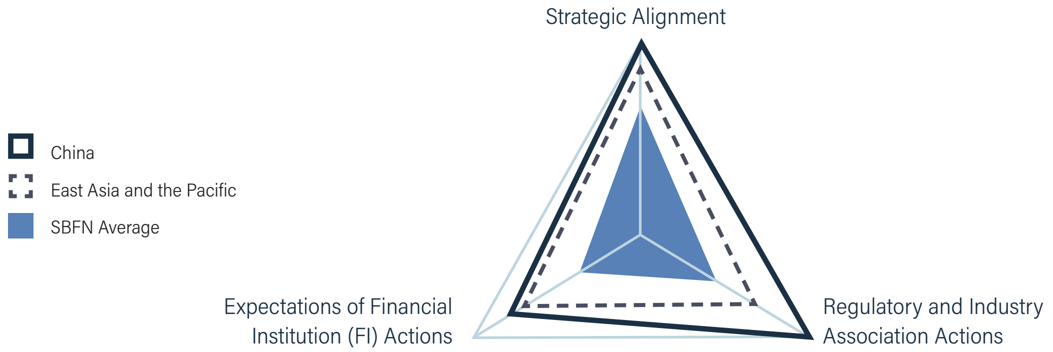
- CBIRC requires banks to evaluate and manage risk exposure of sectors with high environmental and social risks at portfolio level and supports FIs to integrate environmental and climate risks as key drivers in stress tests for credit risks. For example, Industrial and Commercial Bank of China (ICBC) [1] and China Construction Bank (CCB) have undertaken stress tests on the credit quality of thermal power and chemical sector loans in response to transition risk as reflected in carbon price factors and environmental protection policies.
- The 2021 CBIRC-CBA carbon neutrality initiative will provide a basis for future progress on regulatory elements, such as climate risk metrics, climate stress testing methodologies, and carbon disclosure approaches that reflect international practices, such as TCFD.
- As part of the 2020 Notice on Relevant Work of Green Financing Statistical System, 21 major domestic banks submitted green credit risk and environmental benefit data, including greenhouse gas emissions, to regulatory authorities every six months.

1 Industrial and Commercial Bank of China (ICBC), Impact of Environmental Factors on Credit Risk of Commercial Banks

Pillar 3: Financing Sustainability

Pillar Progress: Consolidating

China is in the **"Consolidating" sub-stage of the "Maturing" stage** for the Financing Sustainability Pillar. The national framework is well aligned with international good practice in innovation in green, social, and sustainability-focused loans, bonds, and other investment strategies. A comprehensive national initiative is in place, aimed at promoting sustainability-focused finance across the financial system. The framework extends beyond banking to include capital markets. Consistent and comparable data is being collected by regulators about implementation of sustainable finance practices by banks and other FIs, including measurement of benefits. In 2021, PBoC, China's Development and Reform Commission, and CSRC jointly issued the 2021 Green Bond Catalogue after expert and public consultation. The updated Catalogue aims at expanding and harmonizing China's green bond market and helping achieve carbon neutrality.



Sub-pillar 1: Strategic Alignment

- China's national framework for financing sustainability covers the banking sector (Green Credit Policy by CBIRC), capital markets (Green Bond Guidelines by PBoC), and asset management (Green Investment Guidelines by AMAC).
- The financial sector's approach to promoting financial flows into green and sustainability-focused projects and sectors is aligned with international good practices and standards, such as the UN Sustainable Development Goals, the International Capital Market Association's Green and Social Bond Principles and Sustainability Bond Guidelines, and the EU Green Bond Standard.
- The financial sector's approach to financing sustainability is also aligned with China's national goals and strategies, such as the Nationally Determined Contributions to the Paris Agreement and the five-year development plans. It also identifies key stakeholders and promotes engagement. In 2021, CBIRC and CBA jointly launched the Chinese Banks Carbon Peak & Net Zero Initiative, the first market-wide carbon neutrality initiative for banks supported by regulators.
- Based on the Notice of Green Credit Performance Evaluation, PBoC, China Development Bank, and other policy banks have an inter-agency data sharing system to stimulate and monitor sustainable finance flows.

Sub-pillar 2: Regulatory and Banking Association Actions

- China recently updated its national Green Bond Catalogue (previously the PBoC Green Bond Endorsed Catalogue) after public consultation. PBoC updates this list regularly to ensure it reflects the latest regulations and technology. The latest version removes clean coal and adopts the EU Taxonomy's "Do No Significant Harm" (DNSH) principle, which requires that activities with specific environmental objectives don't also result in harm to other environmental objectives.
- PBoC issued the Notification of Green Credit Performance Evaluation of Deposit-taking Financial Institutions in 2018 with detailed evaluation indicators and methods. The evaluation results are incorporated into banks' overall performance evaluations.
- Based on its Notice on the Submission of Green Credit Statistics (2013), CBIRC has been conducting biennial data consolidation and aggregated disclosure on green credit statistics based on submissions from FIs, which includes data on green lending activities. Consistent and continuous data have become available, showing evidence of links between green lending and lower credit risk, among other things.
- China's regulators are committed to aligning national sustainable finance frameworks with international good practices. This is reflected in China's co-chairing with

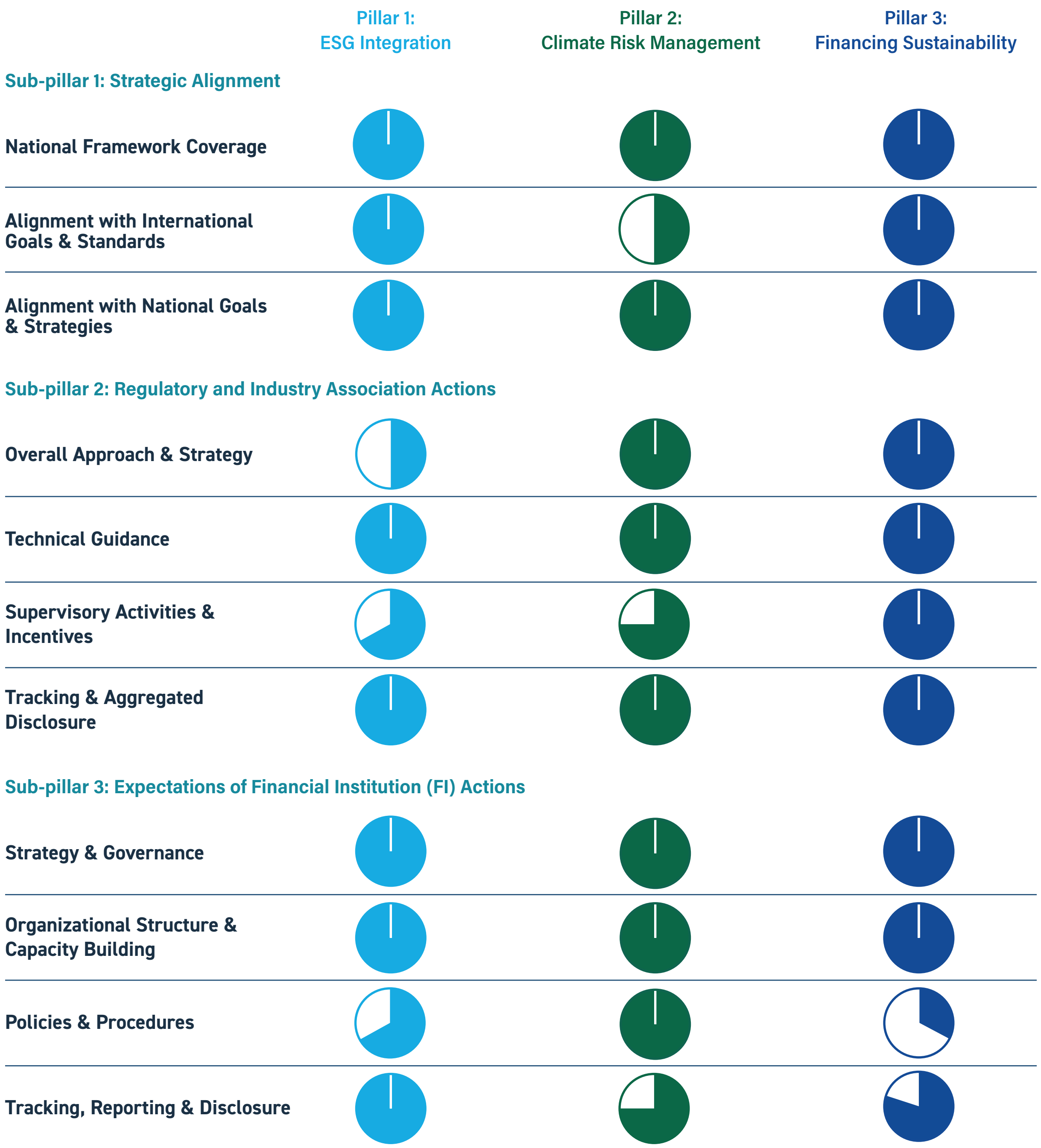
the EU of an international taskforce to develop a global 'Common Ground' taxonomy for green finance.

Sub-pillar 3: Expectations for FI Actions

- The China Green Credit Guidelines, together with the Key Performance Indicators, require FIs to establish a strategy, governance, and procedures for ESG integration and promoting green credit growth, and to develop and maintain internal staff capacity on green banking through regular training.
- Banks and FIs are required by PBoC and CBIRC to report their green loans and investments quarterly and biennially, with detailed reporting templates including both qualitative and quantitative data. PBoC has indicated an intention to include banks' green banking performance in Macroprudential Assessment (MPA).
- PBoC's Green Bond Guidelines require FI issuers to arrange external reviews of the green credentials of bonds.
- In June 2021, PBoC issued the Banking Sector Financial Institution Green Finance Assessment Plan, which includes green bonds in the annual assessment of major financial institutions, in addition to green loans. PBoC will grade financial institutions according to their green bond holdings and how they implement national and local green financing policies.

3. Progress by three sub-pillars and 11 indicators

Figure 4: Overview of China's sustainable finance coverage in three framework areas



4. Library of national sustainable finance framework documents

National strategies, roadmaps, policies, voluntary principles, regulations, guidelines, research, templates, and tools that provide an enabling framework for sustainable finance

- Guidelines on Environmental Information Disclosure for Financial Institutions (PBoC, 2021)
- Banking Sector Financial Institution Green Finance Assessment Plan (PBoC, 2021)
- Updated Green Bond Project Catalogue (PBoC, NDRC, and CSRC; 2021)
- Notice on Evaluating Green Credit Performance of Banking Deposit-Type Financial Institutions External Circular 028 of 2020 (PBoC, 2020)
- Guiding Opinions of the China Banking and Insurance Regulatory Commission on Promoting the High-Quality Development of the Banking and Insurance Industry: No. 52 (CSRC, 2019)
- Policies and Actions for Addressing Climate Change (MEE, 2019)
- Green Industry Guiding Catalogue (NDRC, 2019)
- Green Investment Guidelines (Asset Management Association of China, 2018)
- Compulsory Environmental Pollution Liability Insurance Regulation (Ministry of Environmental Protection and CBIRC, 2018)
- The Green Investment Principles (GIP) for the Belt and Road Initiative (Green Finance Committee, 2018)
- Notice on Evaluating Green Credit Performance of Banking Deposit-Type Financial Institutions (PBoC, 2018)
- Green Banking Assessment Plan (Pilot) (CBA, 2017)
- Guidelines for Green Bond Issuance for listed companies (CSRC, 2017)
- Institutional Investors Guidelines for Green Bond (NAFMII, 2017)
- Impact of Environmental Factors on Credit Risk of Commercial Banks (Industrial and Commercial Bank of China, 2016)
- Notice on Green Bond for Inter-bank Market & Green Bond Endorsed Project Catalogue (PBoC, 2016)

Guidelines on the Issuance of Green Bonds

(NDRC, 2016)

Guidelines for Establishing the Green Financial System

(CBIRC, 2016)

Notice on Green Bond for Inter-bank Market & Green Bond Endorsed Project Catalogue

(PBoC, 2015)

Green Credit Key Performance Indicators

(CBIRC, 2014)

Green Credit Statistics & Reporting Template

(CBIRC, 2013)

Green Credit Guidelines

(CBIRC, 2012)

Green Credit Policy

(CBIRC, 2007)

Download framework documents and check for updates at www.sbfnetwork.org/library

5. SBFN measurement framework and methodology

About SBFN

Established in 2012, the Sustainable Banking and Finance Network (SBFN) is a unique, voluntary community of financial sector regulatory agencies and industry associations from emerging markets committed to advancing sustainable finance in line with international best practice. SBFN is facilitated by IFC as secretariat, and supported by the World Bank Group.

As of October 2021, SBFN comprised 43 member countries representing over US$43 trillion and 86 percent of total banking assets in emerging markets. Members are committed to collectively driving measurable change.

Why a measurement framework?

In 2016, members requested a systematic comparison of country approaches to developing national sustainable finance frameworks. The SBFN Measurement Working Group was established to convene member inputs on the design of a common framework to benchmark country progress and accelerate peer-to-peer knowledge exchange. The Framework is designed to inform the biennial SBFN Global Progress Report.

An evolving framework

The SBFN Measurement Framework reflects the activities, strategies, and tools that members use to promote sustainable finance in their countries. It evolves to match advances in country initiatives. It also incorporates the latest international standards and best practices identified by members as important to their efforts.

A member-led approach

The Framework was designed with extensive member input under the leadership of the Measurement Working Group and Co-Chairs. Updates to the Framework are guided by the Measurement Working Group and agreed by all SBFN Members.

Data collection in partnership with members

As of 2021, data collection for the SBFN Global Progress Report relies on member country reporting in line with the updated Measurement Framework. Information is supported by evidence, which is verified by the SBFN secretariat in collaboration with third-party service providers. Evaluation and milestones are objective and transparent. Members approve the final Global and Country Progress Reports.

The Framework can be used as:

- a **mapping tool** to capture the dynamic interaction of collective insights, market-based actions, and policy leadership demonstrated by SBFN members as they move their financial markets toward sustainability;
- a **benchmarking tool** for SBFN members to learn from and compare peer approaches, track and review progress against global benchmarks, develop common concepts and definitions, and leverage innovations and strengths; and
- a **forward planning and capacity building tool** to identify future policy pathways and capacity building needs.

The Measurement Framework is based on three intersecting themes in sustainable finance. For each theme, it assesses regulatory guidance, supervision strategies, disclosure requirements, and voluntary industry approaches.

ESG Integration refers to the management of environmental, social, and governance (ESG) risks in the governance, operations, lending, and investment activities of financial institutions.

Climate Risk Management refers to new governance, risk management, and disclosure practices that financial institutions can use to mitigate and adapt to climate change.

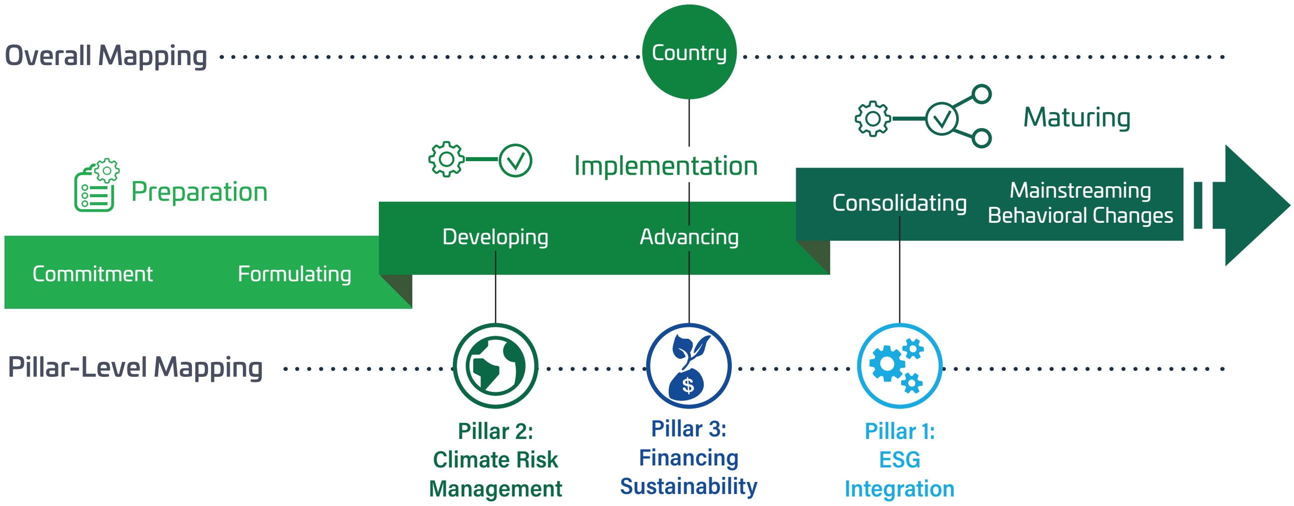
Financing Sustainability refers to initiatives by regulators and financial institutions to unlock capital flows for activities that support climate, green economy, and social goals. This includes new products like green bonds and sustainability-linked loans. Initiatives include definitions, guidance, taxonomies, monitoring, and incentives.

The Measurement Framework consists of three complementary components:

1. Progression matrices

Drawing on SBFN members' common development paths and milestones, the **SBFN Progression Matrix** provides an overview of market-wide progress for all SBFN countries across three typical stages of development. It allows each SBFN member to review its own progress and identify the strengths and weaknesses of its approach.

The stage mapping is based on qualitative milestones and quantitative analysis related to (i) progress in developing and implementing national policies and principles, and (ii) industry uptake and practices. In the 2021 report, in addition to the Overall Progression Matrix, three pillar-level matrices are added to reflect a country's development process in each of the pillar areas.



2. Pillar benchmarking

A dynamic assessment is conducted across several priority pillars of sustainable finance, using qualitative and quantitative datapoints to assess progress and allow comparison across countries. Three pillars, three cross-cutting sub-pillars, 11 cross-cutting indicators, and 75 underlying datapoints are used to objectively assess a country's sustainable finance framework(s), according to clarity, depth, and alignment to international good practice.

	Pillar 1: ESG Integration / Pillar 2: Climate Risk Management / Pillar 3: Financing Sustainability
Sub-pillar 1: Strategic Alignment	• National framework • Alignment with international goals and standards • Alignment with national goals and strategies
Sub-pillar 2: Regulatory and Industry Association Actions	• Overall approach and strategy • Technical guidance • Supervisory activities and incentives • Tracking and aggregated disclosure
Sub-pillar 3: Expectations of Financial Institution (FI) Actions	• Strategy and governance • Organizational structure and capacity • Policies and procedures • Tracking, reporting, and disclosure

3. Sector data and case studies

In 2021, data collection included an exploratory request for quantitative data points — where available — for the number and percentage of financial institutions that are implementing ESG integration as well as climate risk management and disclosure; and the total value of green, social, and sustainability bond issuance. Detailed case studies were also collected of innovative approaches by regulators and industry. Case studies will be published in a new on-line case study catalogue.

SBFN on-line case study catalogue
Coming soon

SBFN Measurement Framework pillars, sub-pillars, indicators, and underlying datapoints

Sub-pillar	Indicator	No.	Underlying datapoint
Pillar 1: ESG Integration			
Strategic Alignment	National framework[1] (e.g. policies, roadmaps, guidance, regulations, voluntary principles, templates, or tools)	1	Has the regulator or industry association published a national framework ("Framework") for the banking sector that sets out expectations for integrating the consideration of environmental, social, and governance (ESG) risks and performance?
		2	Has the relevant regulator or industry association published a Framework for capital markets, investment, insurance or other non-lending FIs that sets out expectations for integrating the consideration of ESG risks and performance?
	Alignment with international goals and standards	3	Does the Framework make reference to international sustainable development frameworks or goals?
		4	Does the Framework make reference to established international ESG risk management standards and principles for FIs?
	Alignment with national goals and strategies	5	Does the Framework make reference to specific national development objectives, plans, policies, goals, or targets?
		6	Does any cooperation exist between agencies or between the regulator and industry association with respect to policy design and/or implementation related to ESG integration?
		7	Does any inter-agency data sharing currently exist related to ESG integration by FIs?
Regulatory and Industry Association Actions	Overall approach and strategy	8	Does the Framework provide guidance on the role of the regulator or industry association with regard to assessing and managing ESG risk and performance in the financial sector?
		9	Has the regulator or industry association undertaken market assessment to identify systemic ESG risks through analysis of the portfolios of supervised entities/members and published the results?
	Technical guidance	10	Does the Framework provide technical guidance or tools to support implementation of ESG risk and performance management by the financial sector?
	Supervision activities and incentives	11	Is the implementation of the Framework regularly monitored and/or information regularly collected from FIs by the regulator and/or industry association?
		12	Does the regulator or industry association provide any financial or non-financial incentives for FIs to manage ESG performance as part of the Framework?
		13	Does the regulator or industry association apply any disincentives/penalties for non-compliance by FIs in terms of expectations from the regulator and/or industry association related to ESG risk management as part of the Framework?
	Tracking and aggregated disclosure	14	Has the regulator or industry association established a data collection approach and database to track or regularly publish data related to ESG integration by FIs as part of the Framework?
Expectations of FI Actions	Strategy and governance	15	Does the Framework require/ask the FI's board of directors (or highest governing body) to approve an ESRM and/or ESG integration strategy, and to supervise its implementation?
	Organizational structure and capacity	16	Does the Framework require/ask FIs to allocate resources/budget commensurate with portfolio ESG risks and define roles and responsibilities for ESG integration within the organization?
		17	Does the Framework require/ask FIs to develop and maintain the ESG expertise and capacity of staff commensurate with portfolio ESG risks through regular training and learning?
		18	Does the Framework require/ask FIs to create incentives for managers to reduce the ESG risk-level of the portfolio over a specified timeframe?
	Policies and procedures	19	Does the Framework require/ask FIs to develop policies and procedures to identify, classify, measure, monitor, and manage ESG risks and performance throughout the financing cycle at the client level and/or the transaction/project level?
		20	Does the Framework require/ask FIs to undertake a regular review and monitoring of ESG risk exposure at aggregate portfolio level?
		21	Does the Framework require/ask FIs to establish and maintain an external inquiry/complaints/grievance mechanism for interested and affected stakeholders in relation to ESG practices?
	Tracking, reporting, and disclosure	22	Does the Framework require/ask FIs to report ESG risks and performance to the regulator or industry association?
		23	Does the Framework require/ask FIs to report on ESG integration publicly?
		24	Does the Framework require/ask FIs to track credit risk (e.g. loan defaults) and/or financial returns in relation to ESG risk level?
Pillar 2: Climate Risk Management			
Strategic Alignment	National framework	25	Has the regulator or industry association published a national framework ("Framework") for the banking sector that sets out expectations for integrating the consideration and management of climate risks and their impact in the national economy?
		26	Has the relevant regulator or industry association published a Framework for capital markets, investment, insurance, or other non-lending FIs that sets out expectations for integrating the consideration and management of climate risks and their impact in the national economy?
	Alignment with international goals and standards	27	Does the Framework make reference to international agreements or frameworks to address climate?
		28	Does the Framework recognize or align with established regional or international good practice for climate risk management and disclosure by FIs?
	Alignment with national goals and strategies	29	Has the regulator or industry association aligned the Framework with national goals to address climate change in line with the country's Nationally Determined Contributions (NDCs) to the Paris Agreement?
		30	Does any cooperation exist between agencies, or between government and industry association, with respect to policy design or implementation related to climate risk management?
		31	Does any inter-agency data sharing currently exist related to climate risk management by FIs?

1 **National framework** refers to the collective set of policies, roadmaps, guidance, regulations, and/or voluntary principles issued by national regulators or industry associations in relation to each pillar of sustainable finance. SBFN recognizes that national frameworks for sustainable finance vary from country to country and are influenced by national priorities and characteristics. They are also often interdependent with other national roadmaps, policies, and regulations. Countries vary in their starting points and the types of documents to kickstart the enabling framework. For instance, initial frameworks could choose to focus on ESG risk management and/or sustainable finance opportunities such as green bonds. They could also focus on banking, capital markets, or institutional investors. The variety of SBFN frameworks provides a rich source of inspiration for peer learning and collaboration.

Regulatory and Industry Association Actions	Overall approach and strategy	32	Has the regulator or industry association undertaken research on historical impacts to the economy and financial sector from climate change, and/or future expected impacts resulting from physical and transition climate risks?
		33	Does the Framework identify key sources of GHG emissions – such as in particular sectors – as priorities in the proactive management of climate risks by the financial sector?
		34	Does the Framework incorporate the conservation/restoration of natural carbon sinks (such as oceans, forests, mangroves, grasslands, and soils) as an important part of reducing climate change risks (e.g., through guidelines, scenario analysis, targets, or incentives for FIs)?
		35	Has the regulator or industry association developed an internal strategy to address climate risk, and/or embedded climate risk management into its governance, organizational structures, and budget as part of the Framework?
		36	Has the regulator or industry association undertaken any activities to expand and deepen analytical understanding of national and/or cross-border physical and transition climate risks, and to raise awareness as to how these risks may transmit to, and impact, the financial sector?
Regulatory and Industry Association Actions	Technical guidance	37	Has the regulator or industry association developed risk assessment approaches, methodologies, or tools to understand and assess the financial sector's exposure to climate risk as part of the Framework?
	Supervisory activities and incentives	38	As part of the Framework, has the regulator clarified supervisory expectations with regard to climate risk management by FIs, including consideration of international good practices?
		39	Has the regulator started to explicitly embed climate-related risk in supervisory activities and review processes as part of the Framework?
		40	Is the implementation of the Framework regularly monitored and/or information regularly collected from FIs by the regulator and/or industry association?
		41	Are there any financial or non-financial incentives to encourage FIs to establish climate risk management systems?
	Tracking and aggregated disclosure	42	Does the regulator or industry association regularly collect and/or report market-level and/or FI-level data on climate-related financial sector risks as part of the Framework?
Expectations of FI Actions	Strategy and governance	43	Does the Framework require/ask FIs to establish a strategy for climate risk management with responsibility at the board of director level (or highest governing body)?
	Organizational structure and capacity	44	Does the Framework require/ask FIs to define the roles and responsibilities and related capacities of the FI's senior management and operational staff in identifying, assessing, and managing climate-related financial risks and opportunities?
	Policies and procedures	45	Does the Framework require/ask FIs to expand existing risk management processes to identify, measure, monitor, and manage/mitigate financial risks from climate change?
	Tracking, reporting, and disclosure	46	Does the Framework require/ask FIs to report on their overall approaches to climate risk management in line with international good practices (e.g. TCFD), or establish a timeline by which FIs should begin to align their reporting with such practices?
		47	Does the Framework require/ask FIs to identify, measure, and report on exposure to sectors which are vulnerable to transition risk and physical risk?
		48	Does the Framework require/ask FIs to adopt and report on performance targets to reduce portfolio greenhouse gas (GHG) emissions on a regular basis?
		49	Does the Framework require/ask FIs to adopt and report on performance targets to reduce exposure to climate change risks at the portfolio level on a regular basis?
Pillar 3: Financing Sustainability			
Strategic Alignment	National framework	50	Has the regulator or industry association published a national framework ("Framework") for the banking sector that sets out expectations for integrating the consideration of instruments, goals, and standards for financing sustainability, including requirements for ensuring credibility and managing and measuring resulting impacts in the national economy?
		51	Has the relevant regulator or industry association published a Framework for capital markets, investment, insurance, or other non-lending FIs that sets out expectations for integrating the consideration of instruments, goals, and standards for financing sustainability, including requirements for ensuring credibility and managing and measuring resulting impacts in the national economy?
	Alignment with international goals and standards	52	Has the regulator or industry association developed a strategy, regulations, or set of frameworks for stimulating the allocation of capital to sustainable assets, projects, and related sectors in line with global goals, such as the Sustainable Development Goals (SDGs)?
		53	Does the Framework recognize and/or align with existing standards, voluntary principles, or market good practices related to sustainable finance instruments?
	Alignment with national goals and strategies	54	Does the Framework enable the achievement of stated national objectives by guiding capital to sectors, assets, and projects that have environmental and social benefits in line with national sustainable development priorities, strategies, targets, and the size of sustainable investment needs, and taking into account the local barriers to scaling-up sustainable finance?
		55	Does any cooperation exist between agencies or between the regulator and industry association with respect to policy design or implementation related to sustainable finance flows?
		56	Does any inter-agency data sharing currently exist related to stimulating and monitoring sustainable finance flows?
Regulatory and Industry Association Actions	Overall approach and strategy	57	Does the Framework require/ask the regulator or industry association to establish mechanisms to identify and encourage the allocation of capital to sustainable sectors, assets, and projects?
	Technical guidance	58	Does the Framework provide definitions, examples, and/or a taxonomy (catalogue and guidelines) of sustainable finance assets?
		59	Does the Framework provide guidelines for extending green, social, or sustainability-focused loans (excluding bonds)?
		60	Does the Framework provide guidelines for issuance of green, social, or sustainability bonds?
		61	Does the Framework require/ask for external party verification to ensure the credibility of sustainability instruments?
	Supervisory activities and incentives	62	Does the regulator or industry association monitor information reported by FIs related to green/social/sustainability investment, lending, and other instruments to prevent greenwashing and social-washing?
		63	Are there any financial or non-financial incentives for FIs to develop and grow green, social, or sustainability finance instruments?
	Tracking and aggregated disclosure	64	Does the regulator or industry association collect and/or publish data from FIs or other sources about allocation of capital to green/social/sustainability assets, projects, or sectors?

Expectations of FI Actions	Strategy and governance	65	Does the Framework require/ask FIs to establish a strategy, governance, or high-level targets, including at the Board of Directors level, for capital allocation to sustainable assets, projects, or sectors?
	Organizational structure and capacity building	66	Does the Framework require/ask FIs to define internal staff roles and responsibilities to encourage finance flows to green, social, and/or sustainability-focused investments?
		67	Does the Framework require/ask FIs to develop and maintain internal staff capacity on green, social, or sustainability products through regular training and learning?
	Policies and procedures	68	Does the Framework require/ask FIs to put in place policies and procedures for defining, issuing, managing proceeds, tracking performance, and reporting on green, social or sustainability-focused products?
		69	Does the Framework require/ask FIs to appoint an independent external reviewer to confirm that the FI's internal framework meets the requirements of the recognized national framework and regulations, or aligns to international standards?
		70	Does the Framework require/ask that FIs create incentives for managers to increase sustainable loans or investments in the portfolio?
	Tracking, reporting, and disclosure	71	Does the Framework require/ask FIs to publish annual updates on the performance and impacts of the sustainability instruments in compliance with relevant national and/or international standards?
		72	Does the Framework require/ask FIs to obtain and disclose independent review of metrics reported annually in relation to the social and environmental outcomes and impacts achieved through the sustainability instruments?
		73	Does the Framework require/ask FIs to report to the regulator(s) or industry association(s) on allocation and/or outcomes of green, social, and/or sustainability loans?
		74	Does the Framework require/ask FIs to report to the regulator(s) or industry association(s) on green, social, and/or sustainability bonds or other positive impact investments?
		75	Does the Framework require/ask FIs to report publicly on their green, social, and sustainability-focused finance activities and positive outcomes or impacts (i.e. not only to the regulator or shareholders)?

Figure 5: Overall Progression Matrix Milestones

Preparation		Implementation		Maturing	
Commitment	**Formulating**	**Developing**	**Advancing**	**Consolidating**	**Mainstreaming Behavioral Changes**
The financial sector regulator or industry association has announced a formal commitment to achieve progress on Sustainable Finance in the next two years. Initial steps have been taken, such as a kick-off meeting or workshop with key stakeholders and industry.	A formal initiative — led by a financial sector regulator or industry association or both — is in progress to develop a national roadmap, framework, policy, or voluntary industry principles on Sustainable Finance. Preparations include research, surveys, multi-stakeholder engagement, and/or awareness raising for the financial sector.	A first national roadmap, framework, policy, regulation, or set of voluntary industry principles on Sustainable Finance has been formally launched. A formal taskforce or dedicated unit is leading implementation efforts — either within the regulator or industry association, or as a multi-stakeholder working group or platform. The Sustainable Finance initiative is acknowledged or supported by both regulators and industry. Awareness raising and capacity building have been conducted.	Implementation tools and initiatives are in place, such as guidance, guidelines, reporting templates, training, online tools, and supervisory instructions. The national Sustainable Finance framework covers multiple parts of the financial system. Financial institutions report on their implementation of the roadmap, framework, policy, or voluntary principles in line with consistent reporting instructions or templates provided by the financial sector regulator or industry association.	A comprehensive set of national Sustainable Finance initiatives and frameworks are in place, covering all parts of the financial system. The national frameworks are aligned with international good practice across all three pillars of Sustainable Finance. Consistent and comparable data is being collected by the regulator as part of supervision — or by the industry association, about implementation by financial institutions.	There is an established ecosystem of Sustainable Finance initiatives and frameworks that align and integrate with each other. Financial institutions are required or encouraged to report publicly on their implementation of Sustainable Finance across risk and opportunity. The regulator or industry association has multi-year data on implementation by financial institutions — including both risk and opportunity. Data includes information on the benefits of Sustainable Finance.

Figure 6: Progression Matrix Milestones – Pillar 1: ESG Integration

Preparation		Implementation		Maturing	
Commitment	**Formulating**	**Developing**	**Advancing**	**Consolidating**	**Mainstreaming Behavioral Changes**
The financial sector regulator or industry association has announced a commitment to develop a policy, regulation, guidelines, or voluntary principles for the financial sector on integrating the management of environmental, social, and governance (ESG) risks and performance (ESG Integration). A first event or workshop has been held to engage relevant financial sector stakeholders on the topic of ESG Integration for the financial sector.	A formal initiative is in progress to develop a policy, regulation, guidelines, or voluntary principles on ESG Integration for the financial sector. Preparations include research, surveys, multi-stakeholder engagement, and/or awareness raising for the financial sector.	A first national policy, regulation, guidelines, or set of voluntary principles has been formally launched that sets out requirements or recommendations for financial institutions on ESG Integration. A formal taskforce, working group, or institution is tasked with implementation and/or supervision and is supported by regulators and industry. Activities include awareness raising and capacity building for financial institutions on the new expectations for ESG Integration.	Implementation tools and initiatives are in place, such as guidance, guidelines, reporting templates, training, online tools, and supervisory instructions. The ESG Integration expectations cover multiple parts of the financial system. Financial institutions report on their implementation of ESG Integration in line with consistent reporting instructions or templates provided by the financial sector regulator or industry association.	A comprehensive national initiative or set of frameworks are in place that promote ESG Integration across all parts of the financial system. The national frameworks cover all three cross-cutting areas of ESG Integration: 1. strategic alignment, 2. regulatory and industry association actions, and 3. expectations of financial institution actions. Consistent and comparable data are becoming available on trends in the practices of financial institutions in relation to ESG Integration and the resulting benefits.	The national frameworks for ESG Integration are aligned with international good practice and national regulations; and are consistent across different parts of the financial sector. Local financial institutions demonstrate that they have embedded the requirements for ESG Integration and are reporting on their efforts. Extensive data are becoming available on trends among financial institutions regarding practices in ESG Integration and the resulting benefits.

Figure 7: Progression Matrix Milestones – Pillar 2: Climate Risk Management

Preparation		Implementation		Maturing	
Commitment	Formulating	Developing	Advancing	Consolidating	Mainstreaming Behavioral Changes
The financial sector regulator or industry association has announced a commitment to develop a policy, regulation, or voluntary principles on Climate Risk Management for the financial sector. Initial awareness raising and knowledge sharing is being organized by the regulator or industry association.	A formal initiative is in progress to develop or refine a national policy, regulation, guidelines, or voluntary industry principles on Climate Risk Management for the financial sector — either as part of an existing ESG framework or as a standalone framework. Preparations include research, surveys, multi-stakeholder engagement and/or awareness raising for the financial sector.	A national policy, regulation, guidelines, or set of voluntary industry principles is in place that includes requirements and/or recommendations for the financial sector to manage climate risk — either as part of ESG Integration or as a standalone framework. A formal taskforce, working group, or institution is taking the lead with implementation and/or supervision, and is supported by regulators and industry. Activities include awareness raising, research, guidance and/or capacity building for financial institutions on managing climate-related physical and transition risks in line with the new expectations in the national framework.	Implementation tools and initiatives are in place, such as guidance, guidelines, reporting templates, training, online tools, and supervisory instructions to help the financial sector manage climate-related physical and transition risks. Financial Institutions report on their approach to Climate Risk Management in line with consistent reporting instructions or templates provided by the financial sector regulator and/or industry association and reflecting international practices.	A comprehensive national initiative or set of frameworks are in place aimed at supporting all parts of the financial system to manage climate risk. The national frameworks cover all three cross-cutting areas of Climate Risk Management: 1. strategic alignment, 2. regulatory and industry association actions, and 3. expectations of financial institution actions. Consistent and comparable data are becoming available on trends in the practices of financial institutions in relation to Climate Risk Management and the resulting benefits.	The national frameworks for Climate Risk Management are aligned with international good practice expectations and national climate change commitments; and are consistent across different parts of the financial sector. Local financial institutions demonstrate that they have embedded the requirements for climate risk management and are reporting on their efforts. Extensive data are becoming available on trends among financial institutions regarding climate risk management and the resulting benefits.

Figure 8: Progression Matrix Milestones – Pillar 3: Financing Sustainability

Preparation		Implementation		Maturing	
Commitment	Formulating	Developing	Advancing	Consolidating	Mainstreaming Behavioral Changes
The financial sector regulator or industry association has made a public commitment to develop a policy, regulation, guidelines, or voluntary principles to promote financial flows to green or sustainability-focused projects and sectors. Initial awareness raising and knowledge sharing is being organized by the regulator or industry association.	A formal initiative is in progress to develop a policy, regulation, guidelines, or voluntary principles to promote financial flows to green, social, or sustainability-focused projects and sectors. Preparations include research, surveys, multi-stakeholder engagement and/or awareness raising for the financial sector.	A national framework is in place that includes regulations or guidance for the financial sector to promote financial flows to green, social, or sustainability-focused projects and sectors. A taskforce, working group, or institution is tasked with implementation and/or supervision and is supported by regulators and industry. Activities include awareness raising and capacity building for financial institutions on the new expectations for Financing Sustainability.	Implementation tools and initiatives are in place, such as guidance,guidelines, taxonomies, reporting templates, training, online tools, and supervisory instructions to help the financial sector promote financial flows to green, social, or sustainability-focused projects and sectors. Financial institutions report on their approach to Financing Sustainability in line with consistent reporting instructions or templates provided by the financial sector regulator or industry association.	A comprehensive national initiative or set of frameworks are in place aimed at supporting all parts of the financial system to promote financial flows to green, social, or sustainability-focused projects and sectors. The national frameworks cover all three cross-cutting areas of Financing Sustainability: 1. strategic alignment, 2. regulatory and industry association actions, and 3. expectations of FI actions. Consistent and comparable data are becoming available on trends in the practices of financial institutions in Financing Sustainability and the resulting benefits.	The national frameworks for Financing Sustainability are aligned with international good practice expectations and national sustainable development plans; and are consistent across different parts of the financial sector. Local financial institutions demonstrate that they have embedded the requirements for Financing Sustainability in their operations, portfolio, products, and services and are reporting their performance publicly. Extensive data are becoming available on trends among financial institutions regarding Financing Sustainability and the resulting benefits.

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