

A Sustainable Banking Network (SBN)
Flagship Report
Addendum to SBN Global Progress Report

October 2019

Country Progress Report

China



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1. Country progress summary – China



SBN Member:

- [China Banking & Insurance Regulatory Commission \(CBIRC¹\)](#) (founding member in 2012)
- [China Banking Association \(CBA\)](#) (member since 2014)

SBN Working Group: Co-chair of Measurement Working Group, member of Green Bond Working Group

Key policy documents:

- Green Credit Policy (2007)
- Green Credit Guidelines (2012)
- Green Credit Statistics Reporting Template & Guidance on Calculating Environmental Benefits (2013)
- Green Credit Key Performance Indicators (2014)
- PBOC Notice on Green Bond for Inter-bank Market & Green Bond Endorsed Project Catalogue (2015)
- China Securities Regulatory Commission's (CSRC) Guidelines for Green Bond issuance (2016)
- National Association of Financial Market Institutional Investors' (NAFMII) Guidelines for Green Bond (2017)
- CBA's Green Banking Assessment Plan (Pilot) (2017)
- CSRC's Guidelines for Green Bond issuance for listed companies (2017)
- CBA's Green Banking Assessment Plan (Pilot) (2017)
- People's Bank of China (PBOC) Notice on Evaluating Green Credit Performances (2018)

Key milestones since 2018 SBN Report:

- The PBoC has released a Notice on Evaluating Green Credit Performances (2018)
- The Asset Management Association of China (AMAC) published Green Investment Guidelines (2018)
- The Ministry of Ecology and Environment and CIRC jointly launched the Compulsory Environmental Pollution Liability Insurance Regulation (2018)
- China has now collected data on industry-wide implementation of green banking, thus progressing from "Advancing" to "First-movers" under the "Maturing" stage, as indicated in the "Progression Matrix".

Ambitions for next phase: The PBoC is collecting data on green lending by all banks and deposit taking financial institutions and introducing scoring of green credit performance. The PBoC has also announced its intention to develop a full set of green finance standards.

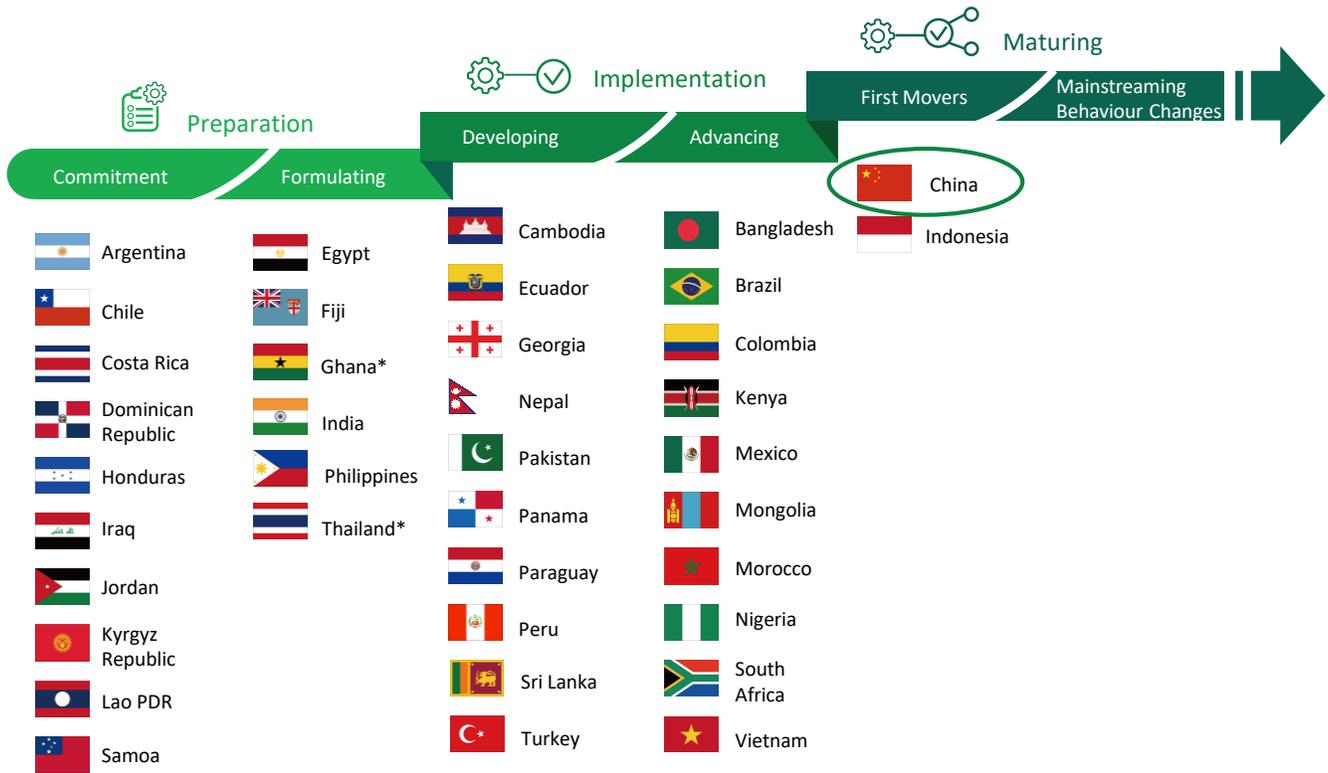
SBN and IFC role: IFC has provided technical support and advisory services to both CBIRC and CBA in relation to policy development, implementation, and capacity building. Through SBN, CBIRC and CBA have shared their experiences with other SBN members and have benefited from the collective SBN knowledge base.

Note:

1. CBIRC was established in 2018 as a merger of two institutions: China Banking Regulatory Commission (CBRC) and China Insurance Regulatory Commission (CIRC).

Figure 1: SBN Progression Matrix with Assessment Results¹

Assessment based on progress up to and as of June 2019²

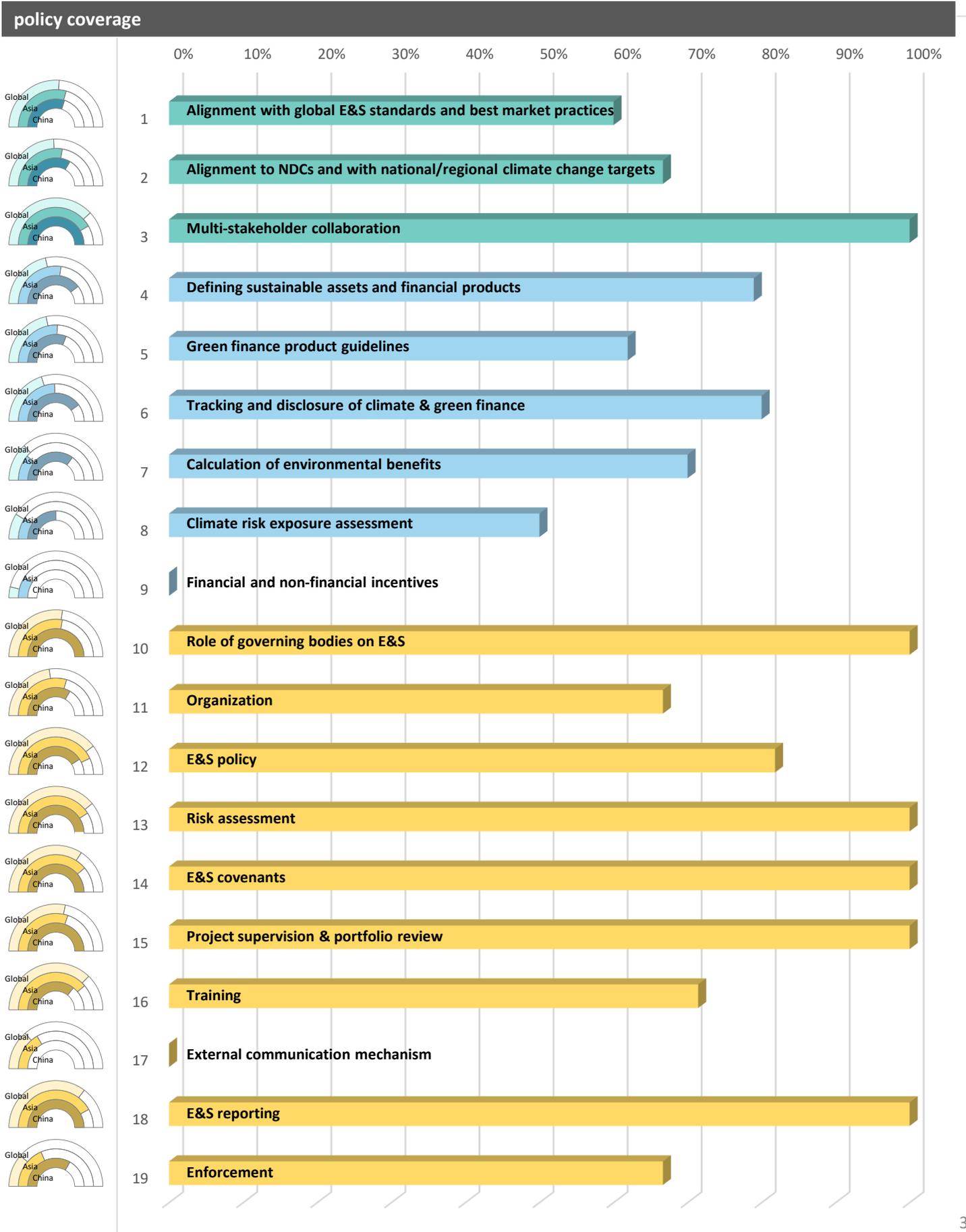


Note:

1. Please refer to the SBN Global Progress Report for an explanation of the Progression Matrix.

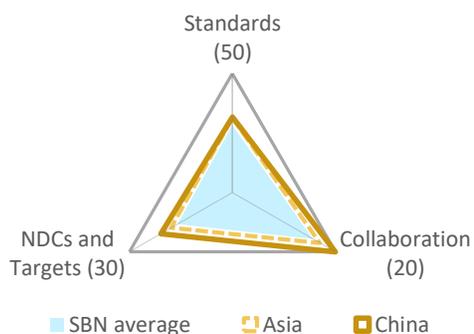
2. Ghana and Thailand launched their policies and principles in August 2019, after the cut-off date of June 2019 for this report.

2. Overview of policy coverage by indicators



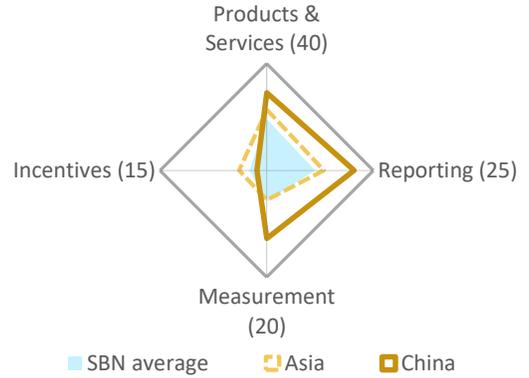
3. Policy coverage developed

Pillar I: Strategic Alignment



Indicator	Policy requirement	Reference
Alignment with global E&S standards and best market practices		
Indicator 1	<p>The Green Credit KPIs encourage overseas lending to be aligned with international standards, including the Equator Principles, Global Compact, or UNEP-FI principles.</p> <p>The CBIRC green credit policy and PBOC & CSRC Guidelines for Green Bond Evaluation and Certification require third party evaluation.</p>	<p>Green Credit Guidelines - Chapter IV, 24; Green Credit KPI -4.21.3; Guidelines for Green Bond Evaluation and Certification (Interim) – PBOC, CSRC (2017)</p> <p>Notice on green banking evaluation scheme (CBA)-2018</p>
Alignment to NDCs and with national/regional climate change targets		
Indicator 2	-	-
Multi-stakeholder collaboration		
Indicator 3	<p>PBOC coordinated with six other ministries and agencies to develop and launch the Guidelines for Establishing a Green Financial System in 2016, including different financial market regulators, the ministry of finance, and environmental regulator.</p> <p>Several green finance policies and guidelines have been jointly developed by different agencies and released. For example, the compulsory environmental insurance policy was a joint effort by the environmental regulator and insurance regulator.</p> <p>As part of implementation support for the Green Credit Guidelines, an information sharing mechanism has been established for banks to have access to environmental compliance data provided by the environmental regulators.</p>	<p>Guidelines for establishing green financial system (PBOC and other 6 ministries)-2016;</p> <p>Compulsory Environmental Pollution Liability Insurance Regulation (MEE,CIRC)-2018</p>

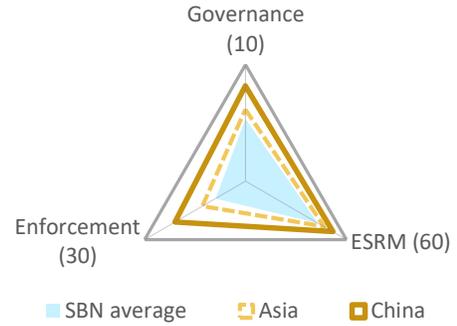
Pillar II: Climate and green finance



Indicator	Policy requirement	Reference
Products and services		
Indicator 4,5	<p>CBRC’s green credit statistics provide green loan definitions (12 categories).</p> <p>The Green Bond Catalogue developed by the Green Finance Committee was adopted by PBOC, CSRC, and NAFMII as green bond definitions (six categories and 31 subcategories).</p> <p>NAFMII and stock exchanges provide streamline process for Green Bond issuance. CSRC, NDRC, and NAFMII support green-related financial innovations.</p>	<p>Article 3, definition, Green Credit Guideline Annex 2, Green Credit statistics</p> <p>Green Financial Bond Project Categories</p> <p>3.12 Green Innovation, Green Credit KPIs Article 3 Incentives, Green Bond Guidelines by NAFMII; Article 4 Incentives, Green Bond Guidelines by CSRC</p>
Climate and green investment reporting		
Indicator 6	<p>Banks are asked to report loan balances and non-performing loan performance based on the green credit statistics reporting templates provided by CBRC.</p> <p>PBoC and CBRC have asked banks to report sub-sector green loan information qualitatively and quantitatively, including balance, growth rate, and percentage of green loans.</p> <p>PBoC, CSRC, and NAFMII require green bond issuers to report annually on the performance and impacts of green bonds, and to include third party verification. PBoC and CBRC have issued specific requirements for green bond certification.</p>	<p>Chapter V, internal control and information disclosure, Green Credit Guideline Annex 1, Green Credit statistics</p> <p>Article 11, reporting and information disclosure; Article 12, verification, Green Finance Bond Guideline Article 11 and 12, reporting and information disclosure; Article 16, verification, Green Bond Guideline by NAFMII Article 7, verification and reporting, Green Bond Guideline by CSRC</p> <p>Green Bond Certification Guideline</p>

Indicators	Policy requirement	Reference
Measurement		
Indicator 7, 8	<p>CBRC's Green Credit Statistics reporting templates provide detailed methodologies for FIs to calculate environmental benefits of green loans through seven parameters: coal consumption, carbon dioxide-equivalent, Chemical oxygen demand (COD), Ammonia Nitrogen emission, sulfur dioxide emission, nitrogen oxides emission, and water saving.</p> <p>Green bond issuers are requested to illustrate the expected environmental benefits and objectives in prospectus or issue registration. NAFMII and PBoC separately provided report templates for Green Enterprises Bond Issue registration and regular information disclosure in the duration of green financial bonds. The request for information on the achievement of environmental benefits was included in these templates.</p> <p>CBRC requires banks to manage risk exposure of sectors with high environmental & social risks at portfolio level. Suggested risk mitigation measures include pre-arranged plans for major risks, stakeholder communication mechanisms, and third-party risk sharing. FIs are supported to treat environmental and climate risks as important drivers in their stress tests for credit risks.</p>	<p>Chapter III, policy building and capacity building, Article 11 and 12, Green Credit Guideline Annex 2 and 4, Green Credit statistics 3.10.3, risk exposure management; 3.11, sub-sector risk management Green Credit KPIs</p> <p>Annex 2, Green Bond Guideline by NAFMII Annex 1,2,3, Notice on Supervision and Administration in the Duration of Green Financial Bonds</p> <p>4.2 information requirements, Green Finance Bond Guideline 4.3 information requirements, Green Bond Guideline by NAFMII Article 5, information requirements, Green Bond Guideline by CSRC</p> <p>Chapter II Green credit Article 10, risk management; Chapter III Securities Market Article 18, investment directions and capacity building, Guidance on Green Finance System Establishment</p>
Incentives		
Indicator 9	<p>PBoC has announced plans to include banks' green credit performance in the macro-prudential assessment. Green bonds are included as acceptable collateral for medium term lending facility (MLF). NDRC adjusted admittance requirements for green bond issuance, and non-public offering was allowed. Responding to the regulations, some local governments have provided financial incentives and support, including specialized guarantee, credit increasing mechanism for green bond issuance, and financial discounts for green credit. The central government will set up a national green development fund.</p>	<p>Chapter III, Article 10, Notice on Green Credit performance Evaluation of banks Article 15, Green Finance Bond Guideline</p> <p>Chapter II audit requirements, Article 2 entry criteria; Article 6 non-Public offering, Green Bond Guideline by NDRC</p> <p>Article 16, Green Finance Bond Guideline</p> <p>Chapter II Green credit, Article 5, incentives; Chapter III Securities Market, Article 13, Reducing the cost of green bonds issuance; Chapter IV Green Funds, Article 19, green funds encouragement, Guidance on Green Finance System Establishment</p>

Pillar III: ESG Integration



Indicator	Policy requirement	Reference
Governance of E&S		
Indicator 10, 11	<p>Green Credit Guidelines and KPIs provide detailed guidance on governance, organization, and capacity for E&S and green financing.</p> <p><u>Board’s role on E&S:</u> The Green Credit Guidelines and KPIs require the FI's board to develop a green credit strategy, and to supervise and evaluate the strategy implementation. The FI audit function should also conduct E&S audits and report to the board.</p> <p><u>Organization:</u> The Green Credit Guidelines and KPIs define roles and responsibilities of dedicated E&S departments/officers and coordination mechanisms within banks. The KPIs provide guidance for banks to recruit or fill positions with the necessary professional experience and background.</p>	<p>Green Credit Guideline-Chapter II Governance Article 6-9, Governance</p> <p>Green Credit KPIs:2.7.1 – 2.7.3 Responsibility of the Board of Directors, FI audit; 2.81-2.8.6, responsibilities of the senior management; 2,9.1 - 2,9.3, dedicated officer and department.</p> <p>Green Credit KPIs-3.14.4 – 3.14.5, Capacity.</p>
E&S risk management		
Indicator 12-18	<p><u>E&S policy</u> The policy requires banks to formalize an E&S policy, set objectives and KPIs for related functions, and disclose E&S policy and implementation status.</p> <p><u>Risk assessment:</u> The policy requires categorization and ESDD for clients and the projects financed. For high-risk projects, external experts are encouraged. Mitigation measures include facility retrofits to improve environmental performance.</p> <p><u>E&S covenants:</u> The policy requires E&S covenants to be included in legal agreements with clients. Templates are provided.</p> <p><u>Project supervision & portfolio review:</u> The policy requires differentiated supervision approaches based on different risk categories. Environmental stress testing is encouraged at portfolio level.</p> <p><u>Training:</u> The policy requires E&S training of senior management and staff.</p> <p><u>External communication mechanism:</u> The policy encourages banks to disclose major E&S risks at project level and provide updates on stakeholder engagement.</p> <p>E&S reporting: The Green Credit Guidelines require FIs to report on E&S performance. CBIRC provides 2 sets of reporting templates for qualitative and quantitative data.</p> <p>CSRC requires ES information disclosure for listed companies.</p>	<p>Green Credit Guidelines - Chapter III, Green Credit KPIs- 10 ,3.10.1-3.10.4 formalize ES policy; 4.21.1-4.21.5 benchmark international standard and best practice for overseas financing; 5.24.1-4 Information disclosure; 5.23.1-3 Objective and KPIs.</p> <p>Green Credit Guidelines - Chapter III, 11, Chapter IV, 15; Green Credit KPIs- 4.5.1-4.15.7 ESDD for client and its project 3.11.1-3.11.5 categorization; 4.17.5 ES risk mitigation measures.</p> <p>Green Credit Guidelines - Chapter IV, 18; Green Credit KPIs-4.8.1-2 & Annex 5 ES covenant requirement and template</p> <p>Green Credit Guidelines - Chapter IV, 18 ,20; Green Credit KPIs-4.20.1-4.20.4 Portfolio management and supervision policy, 4.20.3 Portfolio ES analysis and stress testing</p> <p>Green Credit Guidelines - Chapter III, 14; Green Credit KPIs-3.14.4 Green credit training</p> <p>Green Credit KPIs-5.24.2-3 Information report for major risk project and stakeholder engagement</p> <p>Green Credit Guidelines - Chapter IV, 20; Green Credit KPIs-5.24.1 Information disclosure; Green Credit Statistics; CSRC Amendment on Listco Information Disclosure to include environmental information (2018) & plan for mandatory environmental information disclosure by 2020</p>

Indicator	Policy requirement	Reference
Enforcement		
<i>Indicator 19</i>	<p>Reporting to the CBIRC is mandatory for 21 major banks, others are on a voluntary basis. CBA's Green Credit Committee has led the assessment of 21 banks' green credit performance against green credit KPIs, with third party verification. For the first time, in 2018, a bank was fined for a failure in environmental and social due diligence and the financing of a company with environmental noncompliance.</p> <p>3 listed companies were fined because of incorrect environmental information disclosure</p>	<p>- Notice on Green Banking Evaluation Scheme(CBA)</p> <p>-2018 CSRC annual disclosure on punishment: http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201901/t20190104_349383.html</p>

4. Policy coverage to be developed

Pillar	Sub Pillar	Gaps	Areas for improvement
Pillar I: Strategic Alignment	Alignment with global E&S standards and best market practices	40%	<ul style="list-style-type: none"> ➤ Reference to established international ESRM standards ➤ Reference to established international green finance reporting standards ➤ Reference to international climate finance reporting standards
	Alignment to NDCs and with national/regional climate change targets	33%	<ul style="list-style-type: none"> ➤ Defined main climate risks for local financial sector
	Multi-stakeholder collaboration	0%	-
Pillar II: Climate and Green Finance	Products & services	30%	<ul style="list-style-type: none"> ➤ Definition/examples for social/sustainable assets ➤ Guidelines for green financial assets (excluding green bond)
	Climate & green investment reporting	20%	<ul style="list-style-type: none"> ➤ Encouragement of public disclosure
	Measurement	40%	<ul style="list-style-type: none"> ➤ Taxonomy of potential environmental impacts ➤ Reference to specific climate exposure methodologies ➤ Encouragement of mitigation steps
	Incentives	100%	<ul style="list-style-type: none"> ➤ Incentives for green financial products/services ➤ Financial incentives on green product/services
Pillar III: ESG Integration	Governance of E&S	20%	<ul style="list-style-type: none"> ➤ Requirement to define role competencies
	E&S risk management	15%	<ul style="list-style-type: none"> ➤ Encouragement to go beyond local laws and regulations ➤ Training for front officers, second lines of defense, E&S experts ➤ Requirement to establish and maintain inquiry/complaints mechanism to FI's E&S/ESG practices
	Enforcement	33%	<ul style="list-style-type: none"> ➤ Financial and/or non-financial incentives for setting up ESRM

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