CLIFFORD CHANCE

GREATER CHINA REGION
THE DEVELOPMENT OF THE GREEN BOND MARKET

GROWING THE GREEN ECONOMY

JUNE 2020

17. GREATER CHINA REGION THE DEVELOPMENT OF THE GREEN BOND MARKET

The governments and agencies within the greater China region have continued at their respective pace with the advancement of China's green financing. Over the course of the past five years, regulators in the greater China region, including those of Mainland China and the Special Administrative Regions of Hong Kong and Macau, have announced and implemented a number of policies and guidelines in support of the overall policy direction on green financing.

Mainland China

In 2015, the first clear policy direction concerning the implementation of a green financial system in China was outlined under China's 13th five-year plan. In support of this policy direction, key PRC regulators such as the People's Bank of China (**PBoC**) and the National Development and Reform Commission (**NDRC**) published guidelines relating to the issuance of domestic green bonds by Chinese corporations and financial institutions in the same year as the 13th five-year plan was announced (see below). In August 2016, the PBoC published its Guidelines for Establishing the Green Financial System. The PBoC guidelines were developed with the approval of the Chinese State Council and had the aim to "promote the sustainable development of the economy, establish a sound green financial system, improve the function of the capital markets in allocating resources… and support and promote the development of an ecological civilisation". In June 2017, the Chinese government formally launched five pilot zones within China to promote domestic green finance through the provision of various incentives and funding from PRC financial institutions to climate-friendly businesses operating within these pilot zones. Further, also in 2017, two key financial regulators of China, the National Association of Financial Market Institutional Investors (**NAFMII**) and China Securities Regulatory Commission (**CSRC**), each issued further guidelines concerning domestic green financing carried out by PRC non-financial enterprises and PRC onshore listed companies respectively (see below).

In 2018, each of the Shanghai Stock Exchange (**SSE**) and the CSRC issued clarifications concerning disclosure requirements for PRC onshore-listed companies seeking to raise domestic green financing. Specifically, the SSE issued a "Q&A" targeted at onshore listed companies clarifying queries relating to the regulatory requirements for domestic green corporate bonds and green asset-backed securities, while the CSRC issued a set of Guidelines for Corporate Governance of Listed Company outlining the scope of environmental, social and governance (**ESG**) information-related disclosure that onshore listed companies are expected to publish. Correspondingly, the PBoC also put forward several initiatives towards the improvement of the existing domestic green finance framework as applicable for PRC onshore banks and financial institutions, such as permitting the inclusion of green bonds or green loans as forming part of the eligible Medium Lending Facilitation (**MLF**) and recognising green bonds and green loans as being part of the "Green Credit Performance evaluation results" to be assessed within the Macro Prudential Assessment (**MPA**) that onshore banks and financial institutions are subject to.

In January 2019, the State Council of China published a Government Work Report which expressly prioritised the need for the country to "strengthen [its] pollution prevention and control, enhance[e] [its] ecological improvement, and [to] make big advances in green development" as one of the ten key tasks that the government should focus on. In support of the objectives expressed in that report, the NDRC released a Green Industry Catalogue (the **NDRC Catalogue**) which defined the types of assets and activities that would constitute "green assets" and "green activities" respectively, and from which local governments and regulators could further formulate applicable policies and measures relating to domestic green finance (see below).

Hong Kong SAR (HKSAR)

In 2016, the HKSAR Government via the Hong Kong Quality Assurance Agency (**HKQAA**) formally launched a Green Finance Certification Scheme, establishing an independent certification framework for entities seeking to raise green financing within the HKSAR region. Under the Green Finance Certification Scheme, the HKQAA is able to reference a number of recognised standards on green finance, including international standards such as the ICMA Green Bond Principles (**ICMA GBP**) and national standards such those established by the PBoC Announcement [2015] No. 39 and the NDRC Catalogue. To further promote the Hong Kong Green Finance Certification Scheme, the HKSAR Government announced its first-ever Hong Kong Green Bond Grant Scheme in 2018 (see below). In 2018, Hong Kong's key securities regulator, the Hong Kong Securities and Futures Commission (**SFC**) also issued the Strategic Framework for Green Finance (see below). In 2019, the HKSAR government formally established its first Government Green Bond Programme and carried out a green bond issuance under the established programme. The HKSAR government also participated in establishing a government-backed non-profit organisation, the Hong Kong Green Finance Association, with the aim of promoting the development of green finance in Hong Kong. Most recently, in May 2019, the Hong Kong Monetary Authority (**HKMA**) introduced three sets of key measures on sustainable banking and green finance (see below).

Macau SAR

Under the impetus of the Guangdong-Hong Kong-Macau Greater Bay Area (**Greater Bay Area**), Macau has recently begun to take steps towards transforming the region into a green financial exchange platform between China and Portuguese-speaking countries and a new green financing leasing platform operating within the region.

In December 2018, the NDRC signed an arrangement with the government of the Macau SAR regarding the participation and reinforcement of infrastructure development under the Belt and Road Initiative (國家發展和改革委員會與澳門特別行政區政府關於支持澳門全面參與和助力"一帶一路"建設的安排, the **Arrangement**). In February 2019, the PRC CPC Central Committee and the State Council of China jointly published the Outline Development Plan for the Guangdong-Hong Kong-Macau

Greater Bay Area (the **Plan**). Under the Arrangement and the Plan, it is expected that the Mainland Chinese government and authorities will support Macau SAR to further study the feasibility of establishing a green finance platform denominated and cleared in Renminbi in the region.

Key green bond policies and guidelines

Mainland China

PBOC Announcement [2015] No. 39 (中国人民银行公告 [2015] 第39号)

In December 2015, the PBoC, China's central bank, established tangible definitions and guidelines on the eligibility of bonds being regarded as "green" domestically.

NDRC Green Bond Guidelines [2015] No. 3504 (国家发展改革委办公厅关于印发《绿色债券发行指引》的通知 [2015] 3504号)

In December 2015, the NDRC, the country's national policy management agency, published its guidelines for green bond issuance in China, which provided tangible guidance on the eligibility of bonds being regarded as "green" domestically.

Both NDRC's Green Bond Guidelines of December 2015 and the PBoC's Announcement were published as complementary sets of guidelines covering different areas of the onshore green bond capital market. PBoC's guidelines are aimed at establishing guidance over green bonds issuances by financial institutions in the Chinese Interbank Bond Market; NDRC's guidelines regulate green enterprise bonds for the non-listed, state-owned enterprise sector.

CSRC Guidance on Green Bond Support and Development [2017] No.6 (中国证监会关于支持绿色债券发展的指导意见（证监会公告 (2017) 6号）)

In March 2017, the China Securities Regulatory Commission (**CSRC**) released a set of guidelines on the issuance of green bonds by PRC stock exchange-listed companies. As the main regulator supervising China's securities market, the CSRC oversees the issuing, trading, custody and settlement of equity shares, bonds and investment funds. The CSRC's guidelines supplemented the guidelines published by the PBoC and the NDRC, and also sought to encourage both the Shanghai and Shenzhen stock exchanges to build up dedicated green bond lists, indices and other instruments to facilitate green investment.

NDRC Green Industry Guiding Catalogue [2019] No.293 (国家发展改革委办公厅关于印发《绿色产业指导目录（2019年版）》的通知 [2019] 293号）)

In February 2019, the NDRC, PBoC and five other regulators jointly issued the NDRC Catalogue, together with detailed definitions on what constitute green assets and green activities in China. The NDRC Catalogue covered six broad categories of industries, including the energy-saving and environmental protection industry, cleaner production industry, clean energy industry, eco-environmental industry, green upgrading of infrastructure industry, and green service industry.

Compared with the 2015 guidelines issued by the PBoC and NDRC, the NDRC Catalogue is more comprehensive in scope, covering the upstream, midstream and downstream segments, of the Chinese green industry, and is more practicable as it deletes various ambiguous concepts contained in the respective existing PBoC and NDRC guidelines. In particular, the NDRC Catalogue introduced the concept of the green service industry, identifying organisations capable of providing green bond second party opinions, assurances and certification-related services. Given the high policy status of the NDRC Catalogue, it is expected that both the PBoC and NDRC will further update their respective green bond guidelines to harmonise with the NDRC Catalogue and with each other.

Hong Kong

HKQAA Green Finance Certification Scheme and HKSAR Government's Green Bond Grant Scheme (香港品质保证局绿色金融认证计划和香港特区政府绿色债券资助计划)

In 2016, HKQAA developed the Green Finance Certification Scheme (**GFCS**) to provide third-party conformity assessment for Green Finance issuers. The GFCS is developed with reference to a number of widely recognised international and national standards on green financing such as the ICMA's GBP and the NDRC Catalogue, amongst others.

In 2018, the HKSAR Government announced the launch of the GBGS to subsidise eligible green bond issuers in obtaining certification under the GFCS. Under GBGS, the full cost of obtaining certification under the GFCS for eligible green bond issuances may be granted on a per bond issuance basis. The GBGS scheme was launched as an annual scheme, and is anticipated to be renewed alongside the approval of the HKSAR government's governmental budgets tabled each year.

SFC Strategic Framework for Green Finance (香港证监会公布绿色金融策略框架)

In 2018, SFC announced its strategic framework to contribute to the development of Hong Kong's green finance. It plans: to enhance and harmonise the disclosure standards relating to green finance with the Mainland policy direction and other international standards; to facilitate and support the development of green-related investments; and to promote HKSAR as an international green finance centre.

HKMA Key Measures on Sustainable Banking and Green Finance (香港金管局公布可持续银行业及绿色金融的重要举措)

In 2019, the HKMA unveiled three sets of measures to support and promote Hong Kong's green finance development, including Green and Sustainable Banking, Responsible Investment, and a Centre for Green Finance (**CGF**). In particular, HKMA will establish the CGF under its Infrastructure Financing Facilitation Office as a platform for technical support and experience sharing for the green financial industry's development.

Key differences between domestic green standards and international green standards

There are certain key differences between the present domestic green standards and established international green standards. Key differences include: (i) the type of projects that would be recognised as eligible as being "green"; and (ii) the restrictions over the use of bond proceeds. For example, projects involving "clean" coal, refitting of fossil fuel power stations and the mixed use infrastructure projects (e.g., involving both renewable energy and fossil fuels) would be regarded as being green eligible projects under the domestic green standards, but in most cases will not be recognised under international green standards such as the GBP. Such difference still remains in the newly issued NDRC Green Industry Guiding Catalogue, even if it is largely aligned with international standards. However, as the PBoC is interested in harmonising its guidelines with international best practice, “clean” coal might be removed from its updated green bond catalogue, but such revision, if it were to take place, may nonetheless not apply to the NDRC’s Green Bond Guidelines that govern enterprise green bonds. Further, guidelines such as the NDRC Green Bond Guidelines permit state-owned enterprise green bond issuers to use up to 50 per cent. of bond proceeds to repay existing bank loans and invest in general working capital. In contrast, generally speaking, at least 90 to 95 per cent. of the bond proceeds would be required to be linked to green assets or projects before being eligible under the applicable international green standards.

Offshore green bond issuances

For PRC issuers seeking to raise capital via offshore green bond issuances, the focus has been to ensure that the bond issuance and the use of bond proceeds comply with established international market standards, primarily represented by the GBP. At present, there are only a limited number of offshore green bond issuances being undertaken in China. The majority of offshore issuances have come from large Chinese financial institutions, such as the Agricultural Bank of China, Industrial and Commercial Bank of China, Bank of China and Agricultural Development Bank of China, although there is more issuance being carried out from PRC corporates, notably, Xinjiang Goldwind and China Three Gorges Corporation.

Onshore green bonds issuances

The majority of green bond issuances carried out by PRC entities have been made in the onshore PRC capital markets complying, since 2015, with the domestic green standards described above. Unlike offshore green bond issuances which are largely principles-based and self-regulated, onshore green bond issuances are regulated and require specific approval from applicable PRC regulatory authorities.

Given the overall policy support provided by the Chinese Government under the 13th five-year plan, China has rapidly developed into having the world’s largest green bond market. According to the China Green Bond Market 2018 Report, jointly published by the Climate Bond Initiative (CBI) and China Central Depository & Clearing Co. Ltd. (CCDC), green bond issuance from China increased from almost zero in 2015 to approximately CNY282 billion (USD42.8 billion) in 2018. According to the report, in 2018 green bond issuance with internationally aligned standards from Chinese issuers reached CNY210.3 billion (USD31.2 billion), and CNY1.4 billion (USD208 million) of green panda bonds were issued by Hong Kong issuers in the Chinese domestic markets. In addition, there were CNY122 million (USD17.7 million) green loans aligned to the Loan Market Association (LMA) / Asia Pacific Loan Market Association (APLMA) Green Loan Principles incurred by Chinese borrowers. The report also indicated the increasing proportion of green bonds issued by Chinese issuers that are in line with international green bond definitions such as the GBP. The report noted that, in 2017, 38% of Chinese issuance did not adopt the international standards. In 2018, that figure fell to 26%.

Offshore green bond issuance adopting both domestic and internationally aligned standards – Agricultural Development Bank of China

In November 2018, the Agricultural Development Bank of China (**ADBC**) carried out an offshore standalone issuance of green and sustainability bonds. This was the first-ever green and sustainability bond issuance carried out by this PRC policy-focused development bank. ADBC issued a single series of offshore green and sustainability bonds with an aggregate principal amount of EUR500 million.

The bonds were issued in accordance with the Green and Sustainability Bond Framework (the **Framework**) established by ADBC, and was assessed by: (i) Centre for International Climate and Environmental Research Oslo (CICERO) and the International Institute for Sustainable Development which provided a Second-Party Opinion; and (ii) China Energy Conservation and Environmental Protection Group (中國節能環保集團有限公司) which provided a Third-party Certification for the bonds. In particular, with respect to the applicable green standards implemented under the Framework, the relevant Second Party Opinion and Third Party Certification confirmed that the Framework was compliant with both the internationally aligned GBP of 2018 and the domestic green standards established under the PBoC Announcement No. 39.

On an ongoing basis, ADBC undertook to ensure that the bond proceeds would be used exclusively to finance eligible green or social projects in support of sustainable water and wastewater management, environmentally sustainable management of living natural resources and land use, renewable energy, affordable housing and affordable basic infrastructure and services. Eligible green and social assets would first be identified and preselected by the frontline credit departments of ADBC's various branches, applying the Framework as the primary selection guideline. The initial eligible assets list would be proposed to the head office of ADBC, which would then select the final list of eligible assets. ADBC has also undertaken to hire a qualified third-party consultant to participate in the process of project evaluation and selection. The relevant ADBC departments would regularly include eligible green and/or social assets submitted by branches into a reserve for any future issuances of green, social and/or sustainability bonds of the bank. For so long as any of the relevant green and sustainability bonds are outstanding, ADBC will make annual disclosures relating to its green and sustainability bond issuance(s), with information on the allocation and the environmental and/or social impacts of the proceeds included.

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GROWING THE GREEN ECONOMY

This article was initially published in **GROWING THE GREEN ECONOMY:** ADDRESSING THE SUSTAINABILITY CHALLENGES AND OPPORTUNITIES, our far-reaching look at developments in ESG and sustainable finance.

The severe warnings on climate change starkly documented by the IPCC report and others demonstrate why urgent action to meet the goals of the Paris Agreement is needed. The public, governments and legislators are taking notice and taking action. Much of the legislative effort to date has been focused on the financial system but there is an increasing emphasis on non-financial entities and the requirements that are beginning to be expected of them. These requirements stem from legislation, public pressure and possible litigation.

GROWING THE GREEN ECONOMY reflects the breadth and depth of the impact of these environmental and sustainable factors. **Visit www.cliffordchance.com/greeneconomy** to read and download the publication in full.

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