The Practices and Innovations of Sustainable Finance in China

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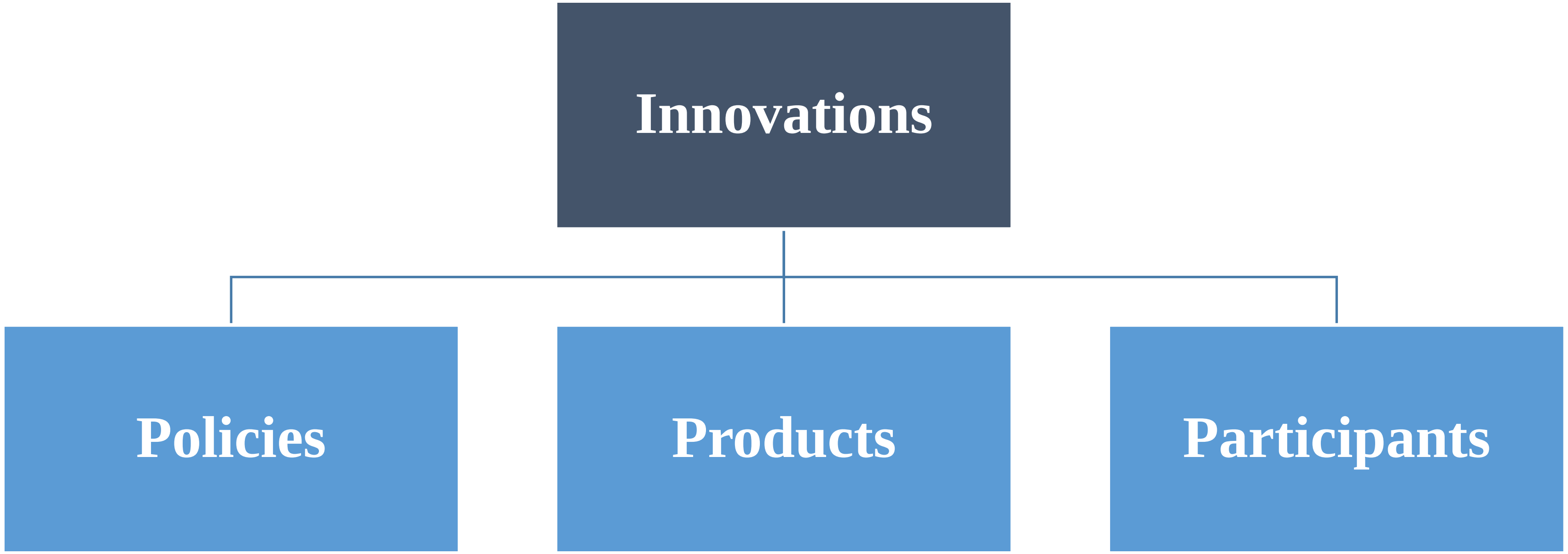
Practices in China



Top-down ⟺ Bottom-up

I: Policies

- ✓ **Top-down Plans: Top-level Design and Overall Planning for Sustainable Finance**
- ✓ **Bottom-up Trials: 13 Pilot zones (Cities) for green finance reform and innovations**
- ✓ **Strategy: Form a Green and Low-Carbon Financial System**

Landmark Documents
2016/11, Guidelines on stablishing the green finance system, by PBOC with 7-ministry
2017/03, Guidelines of CSRC on Supporting Green Development, by CSRC and PBOC
2021/04, List of Green Bond Support Projects (2021), by CSRC and NDRC
2022/07, Principles for China Green Bonds (CSRC), by PBOC
2023/09, Guidance on green investment (Trial), China Funds Association under CSRC
2023/12, Notification on supporting bonds issuance of Central SOEs, By CSRC and SASAC
2024/03, Guidelines on Further Strengthening Financial Support for Green and Low-carbon Development, by PBOC with 7-Ministry
2024/12, Guiding Opinions on Giving Full Play to the Role of Green Finance in Serving the Construction of a Beautiful China, by PBOC
2025/02, The People's Republic of China Sovereign Green Bond Framework, by MoF

Clarify the Disclosure Requirements

01

Criteria for Enterprises

In November 2024, the Ministry of Finance, in collaboration with eight ministries, released the "**Basic Criteria for Enterprise Sustainability Disclosure (Trial)**", establishing a framework for enterprise sustainability information disclosure.

02

Guidance for listed companies

In April 2024, the Shanghai, Shenzhen, and Beijing Stock Exchanges issued the "**Guidance on Sustainability Reports for Listed Companies**", clarifying the framework for sustainability information disclosure by listed companies.

03

Alignment with International Standards

Both frameworks refer to the standards of the **International Sustainability Standards Board (ISSB),** ensuring alignment with international best practices and enhancing the transparency and comparability of sustainability information.

Mandatory: 456 A-Share Companies in 2026;
10% in Count; 50%+ in MarketCap

Actual： 3000+ Companies will releas ESG-related Reports in 2026; since in 2024, we have had 2200 listed companies in China disclosed their 2023 ESG or Social Responsibility Reports

Set industrial and regional Standards

Industrial Standards

In 2024, under the PBOC's leadership, the drafting of transition finance standards for four industries—**coal power, steel, building materials, and agriculture**—has been subject to multiple reviews and is being expedited for release.

Regional Standards

By 2024, 20 provinces, cities, and regions in China have issued a total of 24 transition finance- related standards. Among these, 22 are in the form of classification directories, and 14 provinces, cities, and regions have publicly released their standards or directory texts.

Leading Regions

Huzhou City, Shanghai, Hebei Province, and **Jiangsu Province** have relatively solid foundations and more comprehensive standard systems for transition finance development, setting examples for other regions.

Advances in International Collaboration

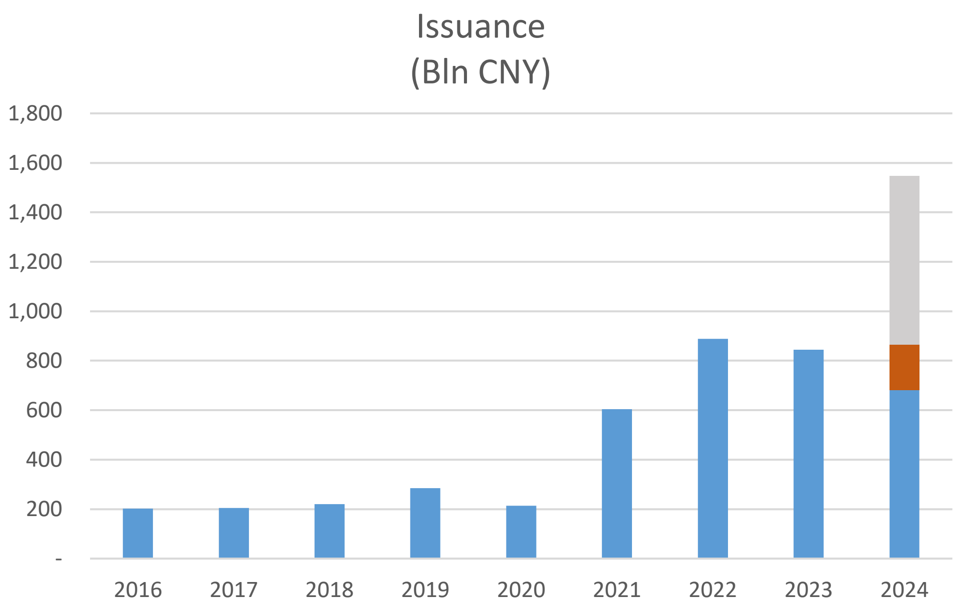
✓ **China-EU-Singapore "Multilateral Common Ground Taxonomy"**

Purpose and Scope	Co-Leadership and Collaboration	Impact on Green and Sustainable Finance Standards
• The M- CGT aims to enhance the comparability and interoperability of classification directories across countries and promote cross- border green capital flows. It provides a clearer investment guide for international green bonds.	• The M- CGT is co- led by the PBOC, the EU's Financial Services and Capital Markets General Directorate, and the Monetary Authority of Singapore, reflecting a strong collaborative effort to harmonize sustainable finance standards.	The M- CGT strengthens the comparability and interoperability of green and sustainable finance standards among China, the EU, and Singapore, fostering a more integrated and efficient globl sustainable finance market.

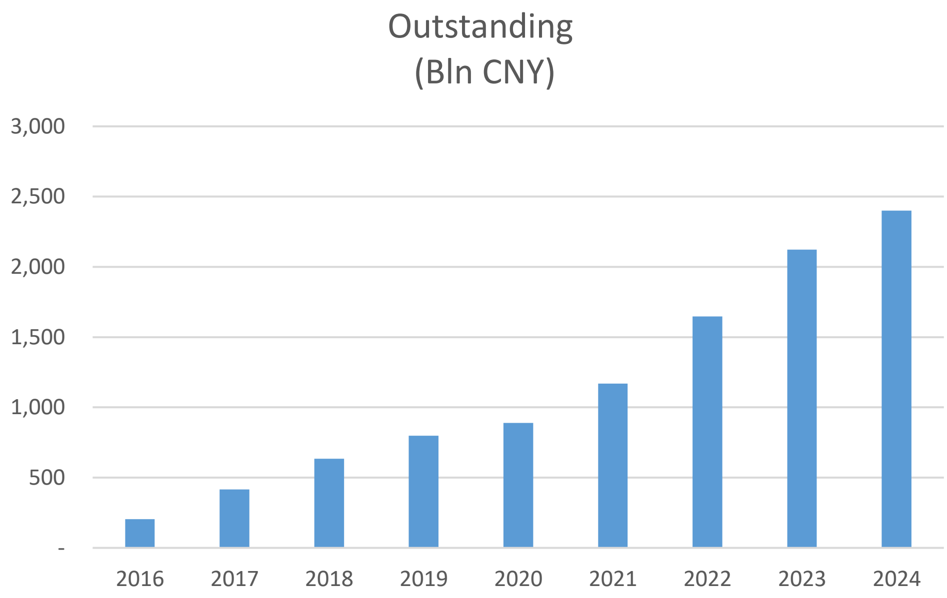
II: Products

- China Green Bonds outstanding of 2.0~3.0 Trn RMB
- China Bonds markets size of 183 Trn RMB

Issuance of GBs in Booming



Market Size in expanding

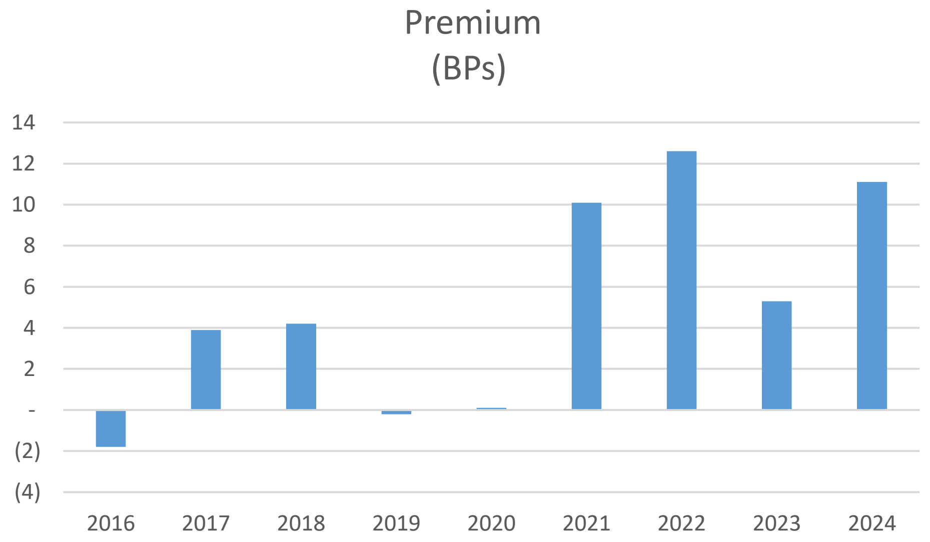


Source： PBOC; * Blue for certified GBs. ** Brown for uncertified. *** Grey for invested funds in green projects

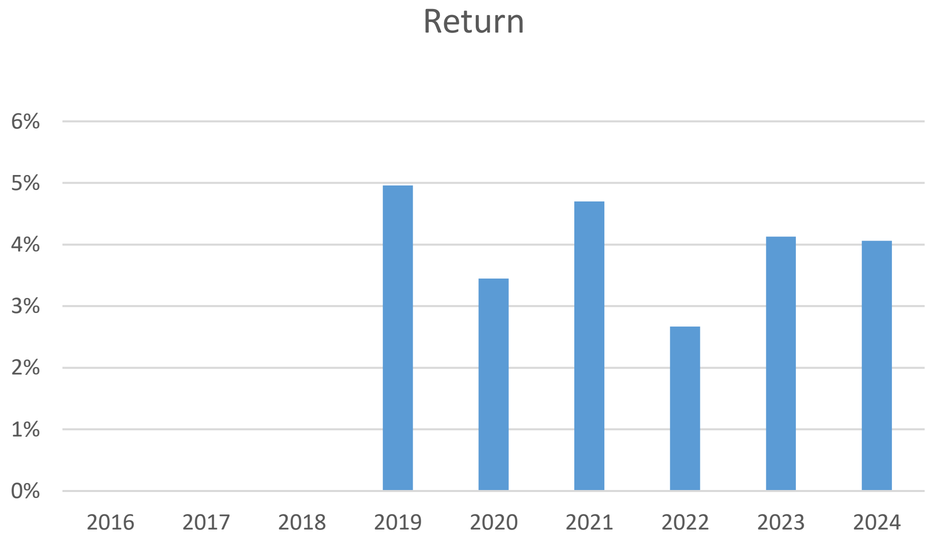
Green Bonds have provided annual return of 4%+

- premium on insurance versus counter-peers: 10 BPs
- Annual return for GBs investors: 4%+

Spread Premium by avg



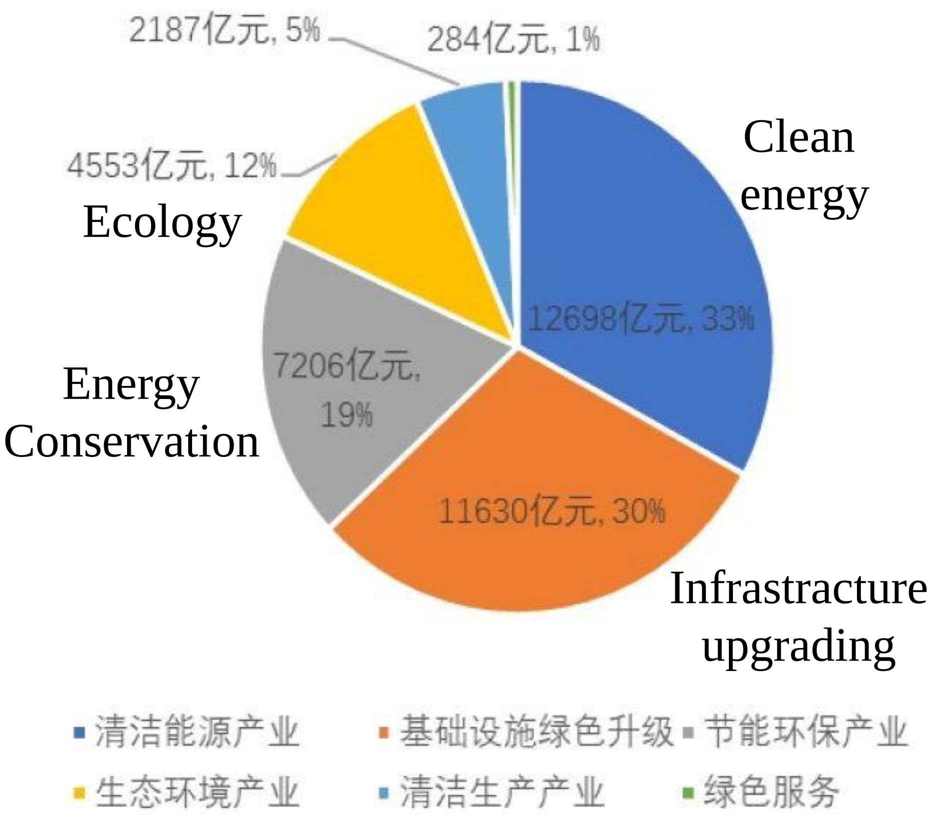
Acceptable Returns



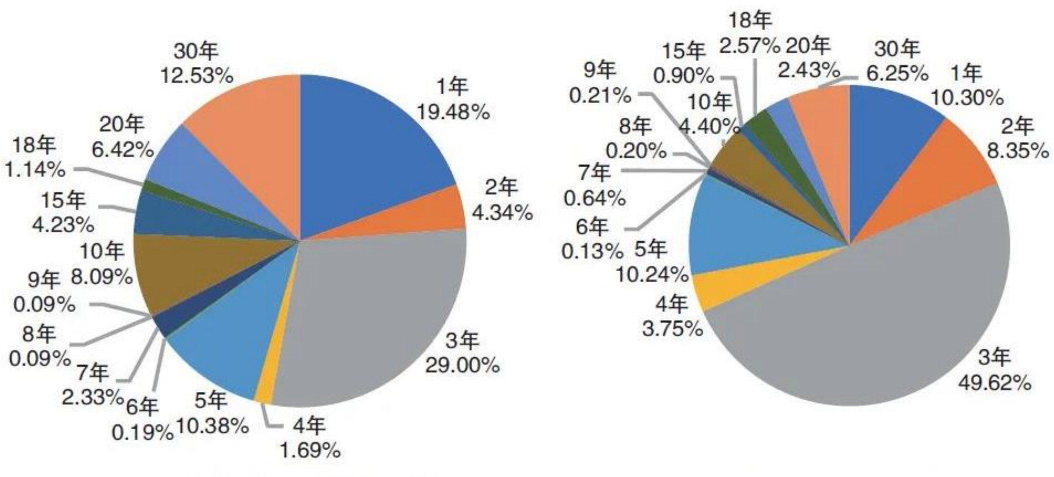
Source： PBOC

Funding more green projects with lower costs

Funding for Green Projects (2016-2023)



The Term Structure of China Green Bonds



Certified GBs

Uncertified GBs

Innovative Green Bonds

- On April 2, 2025,
- China issued 6 billion yuan (approximately 824 million USD) of green sovereign bonds in London.
- It listed on Exchanges of London and HK.
- With Total bid of 41.58billion yuan
- Attracting global investors

Green Sovereign Bonds

- In 2024, a total of 313 green ABS products were issued in the market, with a scale **of 205.68 billion yuan**.
- **exchange ABS** accounted for 48.43%
- **interbank green ABN** accounted for 34.99%;
- **green credit ABS** accounted for the lowest proportion at 16.58%.

Green ABS

Sustainability-Linked Bonds

Bond Terms and Goals

Sustainability- linked bonds link bond terms to the issuer's sustainability goals, including key performance indicators (KPIs) and sustainability performance targets (SPTs). These bonds incentivize issuers to achieve specific sustainability objectives.

Market Expansion

In 2024, **85 sustainability- linked bonds** were issued in the Chinese mainland, with a total scale of approximately **52.419 billion yuan**, representing a year- on- year growth of **35%**. This growth reflects the increasing adoption of sustainability- linked financing instruments.

Benefits for Issuers and Investors

Sustainability- linked bonds offer benefits for both issuers and investors by aligning financial incentives with sustainability performance, enhancing corporate reputation, and attracting socially responsible investors.

Transition Bonds

- **Concept:**
- ✓ Transition bonds support transitions from high- carbon to low- carbon emissions and from high environmental impact to low environmental impact. It could be categorized into linked and unlinked types based on whether specific investment areas are specified.
- **Policy**
- ✓ In October 2024, the NAFMII issued the "Notice on Further Optimizing the Mechanisms Related to Green and Transition Bonds",
- ✓ guiding funds to flow more precisely into green and transition areas.
- **Practice**
- ✓ In 2024, China issued a total of **5** unlinked transition bonds, amounting to **11.9 billion yuan**, which is 5.25 times that of 2023.
- ✓ The "China Baowu Iron and Steel Group Co., Ltd. 2024 First Phase Innovation Low- carbon Transition ‘Belt and Road’ Corporate Bonds (Type I)" had the largest issuance scale, reaching **10 billion yuan**.

Blended Finance

01

Definition

Blended finance catalyzes the development of target sectors by providing capital at preferential prices through charitable, public, and international development capital, thereby attracting social capital at market prices.

02

Practical Applications

Blended finance has seen practical applications in China, with the Shandong Green Development Fund serving as a demonstration case. It features a flexible organizational structure, diverse participation, and a mature financing structure.

03

Role in Low-Carbon Transitions

Blended finance plays an important role in supporting low- carbon transitions by mobilizing resources from various sources and creating a more favorable investment environment for sustainable projects.

The blended finance model has successfully attracted social funds from pensions and insurance, accounting for 48% of the total.

Case of Blended Finance

Shandong Green Development Fund

01:Fund Structure

AUM 10 Bln CNY

CICC+SDDI

ADB+Kfw+AFD+GCF

Insurance+Pensions

02 Investment Focus

Investment Focus

green projects such as operators of new energy urban distribution logistics vehicles, new energy vehicle charging platforms, and efficient large-sized photovoltaic modules.

03 Effects

Social Benefits

As of the end of June 2024, the projects invested have cumulatively reduced carbon dioxide emissions by 2.25 million tons, with 3.7 million direct beneficiaries, demonstrating initial good social benefits.

What's next?

☐ Clarify Standards

- ✓ Green Loans （30+ Trn CNY OS,10% shr）
- ✓ Green Bonds （2+ Trn CNY OS,1% shr）

- Green Stocks
- Green Insurance
- Green Funds
- Green Trusts
- Green Reits
- Green ABS

☐ Diversify Products

- ✓ Sustainable-linked Bonds
- ✓ Transition Bonds
- ✓ Green Local Govt Bonds

- Green Indices (200+; 150+)
- Green ETFs
- Green Mutal Funds
- Green Reits

- Carbon Futures
- Carbon Swaps
- Carbon Options

III: Participants

Infrastructures

- ✓ Shanghai\Shengzhen\Beijing Stock Exchange
- ✓ Guangzhou Futures Exchange (Since 2021.04)
  - Mission: Serving the National Strategy of Green Development
  - Next: Carbon-related Futures

Agencies (18+)

- ✓ Credit Rating\ Accouting \Consulting Companies
- ✓ Environment Evaluation \ Carbon Check Companies

Institutional Investors

- Over 200 institutions adopted UN-PRI

- **Major investors**
  - ✓ Commercial Banks
  - ✓ Insurance\Pensions\Social Securities\Trusts
  - ✓ Investment Banks
  - ✓ Public Funds
    - 300+ mutual funds
    - 300+ billion yuan in AUM, by the end of Oct.2024
  - ✓ Private Funds
    - 1000- PE/VC funds with AUM of 600 billion RMB
    - Central Gov Sponsored: National Green Development Corp.
    - Local Gov Sponsored: Zhengjiang Greed Energy Equity Investment Funds (LP)
  - ✓ Oversea Investors
    - ✓ Holding of 4.5Trn RMB bonds; 2.4% market share
    - ✓ Issuance of Panda Bonds by total of 0.96Trn RMB

Thank You!

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