Analysis of China’s Green Bond Principles

On 29 July 2022, the long-awaited China’s Green Bond Principles (China GBP) were released by the China Green Bond Standard Committee. The China GBP articulates its reference to the ICMA Green Bond Principles and is an effort to call for harmonisation of the different green bond regulations in China and the adoption of 100% UOP approach. It partially harmonises the green bond regulations for China’s domestic bond markets, as PBOC and CSRC have already shown support while the NDRC has not yet expressed its position. ***ICMA has advised NAFMII and the China Green Bond Standard Committee in the drafting process of the China Green Bond Principles since early 2021.***

Background

Green bonds in China’s onshore market are regulated by different authorities and subject to different rules respectively. Due to that structure, there had been two major things about which international market participants expressed concerns:

1) Different definitions for what is “green”, especially as clean coal was allowed by some regulators. This problem has been solved by the introduction of a harmonised taxonomy, the China Green Bond Endorsed Project Catalogue 2021 Edition, in April 2021.
2) Different requirements on the percentage of proceeds of a green bond that should be used for green projects (please see table below). While green financial bonds and green debt financial instruments are required to use 100% of the proceeds in green projects, which is consistent with international best market practices, international market participants have been concerned about green corporate bonds and green enterprise bonds, for which only 70% and 50% were required respectively. The China GBP is the effort to call for harmonisation and the adoption of 100% UOP approach.

Types of green bond in China’s domestic markets	Regulated by[1]	Percentage of UOP required	
		before the launch of China GBP	after the launch of China GBP
green financial bonds	PBOC[2]	100%	100%
green debt financial instruments	NAFMII[3]	100%	100%
green corporate bonds	CSRC[4], SSE[5] and SZSE[6]	70%	100%
green enterprise bonds	NDRC[7]	50%	Remains to be seen whether NDRC will support it

1 For more details about the oversight regime of China’s bond market, please refer to the Annex.
2 The People’s Bank of China (PBOC) is the central bank of China and acts as the lead regulator of the interbank bond market.
3 National Association of Financial Market Institutional Investors (NAFMII) is the self-regulatory organisation for China’s interbank (OTC) market. Under the guidance of PBOC, NAFMII undertakes the registration and post-issuance supervision of non-financial enterprise debt financing instruments (DFIs).
4 China Securities Regulatory Commission (CSRC) performs a unified regulatory function over securities and futures market in China and is the lead regulator of the exchange-traded bond market.
5 Shanghai Stock Exchange (SSE).
6 Shenzhen Stock Exchange (SZSE).
7 The National Development and Reform Commission (NDRC), dubbed the “mini State Council”, formulates, implements and manages the macroeconomic policies of the nation. Enterprise bonds, which can be issued in both interbank and exchange-traded bond markets, are regulated by NDRC.

Launch of the China GBP

With ICMA's support and technical advice, on 29 July 2022, the China's Green Bond Standard Committee (a cooperation among PBOC, NAFMII and CSRC, with private sector institutions participating) announced the long-awaited China's Green Bond Principles (China GBP).

Based on the ICMA Green Bond Principles, the China GBP clearly stipulates the four core components of green bonds and, most significantly, articulates the 100% use-of-proceeds approach. In other words, all of the proceeds of a green bond aligned with China GBP should be used for green projects – the construction, operation and acquisition of green projects, replenishment of working capital related to green projects, or repayment of debts for green projects.

The China GBP is a self-regulated framework and by nature not a rule or regulation, but serves like a petition to the various relevant Chinese regulators, calling for a high-level harmonisation on what a green bond in China's domestic markets is and which requirements in common a green bond regulation should have (above all and among others, the 100% UOP approach). PBOC and CSRC have endorsed the China GBP, but as NDRC ranks higher in the hierarchy, it remains to be seen whether NDRC will join to support it and ultimately adopt it for green enterprise bonds. For green corporate bonds, SSE and SZSE, under the supervision of CSRC, have started to require 100% UOP for new issuances and will revise the product rules for green corporate bonds accordingly. To summarise, the China GBP promotes the 100% UOP approach and partially harmonises the green bond regulations for China's domestic bond markets. This will help address concerns of some international market participants and promote foreign participation in the Chinese green bond market in the long run.

Overall, the China GBP is based on and aligned with the ICMA Green Bond Principles (ICMA GBP). It has some additional requirements and some very minor differences in the detailed requirements due to the local context:

- The ICMA GBP 2021 Edition emphasises the importance of bond framework and external review and made them two key recommendations to increase transparency alongside the four core components. The China GBP does not follow this approach to make them standalone recommendations but has recommendations on external review incorporated in its text. Though the China GBP doesn't make a framework mandatory, we do not rule out that at the product rule level authorities could introduce more detailed rules and require it.
- The ICMA GBP provides high-level categories for eligible green projects and encourages issuers to supply information on projects' alignment with official or market-based taxonomies. The China GBP requires following China's Green Bond Endorsed Project Catalogue 2021 Edition but allows foreign issuers to adopt international taxonomies such as the Common Ground Taxonomy or the EU Taxonomy.
- With respect to temporarily unallocated bond proceeds, ICMA GBP recommends that issuers should disclose the temporary use of any unallocated bond proceeds and are recommended to place them in liquid temporary investments, preferably thematically relevant/ESG/green products. China GBP recommends temporarily investing in China government bonds, policy bank bonds and local government bonds and requires that the maximum investment horizon for unallocated proceeds should not exceed 12 months.
- China GBP requires that underlying materials of green bonds should be kept for at least 2 years after the bonds' maturity.
- China GBP requires that green projects should not violate any laws or regulations, and issuers should pledge that there is no falsified, misleading information or material omission.

Annex – Oversight Regime of China's bond market

	Interbank bond market		Exchange traded bond market	
	Product	**Supervisor**	**Product**	**Supervisor**
Primary Market	China Government Bond	Ministry of Finance	China Government Bond	Ministry of Finance
	Local Government Bond		Local Government Bond	
	Enterprise Bond	NDRC	Enterprise Bond	NDRC
	Policy Financial Bonds	PBOC (NAFMII takes charge of DFI registration and issuance; CBIRC is the regulator of banking and insurance industries.)	Corporate Bond	CSRC
	Central Bank Bill		Enterprise ABS	
	Financial Bond (including Credit ABS)		Convertible Corporate Bond	
	NCD		Exchangeable Corporate Bond	
	Debt Financing Instrument (including ABN)		Private Placement Bonds issued by Small and Medium-sized Enterprises	
Secondary market	Regulated by: PBOC		Regulated by: CSRC	
	Self-regulated by: NAFMII		Self-regulated by: Stock exchanges, Securities Association of China. etc	
Market participants	Regulated by: PBOC		Regulated by: CSRC	
	Self-regulated by: NAFMII		Self-regulated by: Stock exchanges, Securities Association of China.etc.	
	• When granting approval to foreign-invested entities to engage in credit rating business in China, regulators may permit them to provide credit ratings on all types of bonds in the CIBM and the exchange market • Law enforcement in China's bond market has been unified, with CSRC taking the lead.			

Source: ICMA and NAFMII joint publication Investing in China's Interbank Bond Market: A Handbook.

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