Notice of the China Banking and Insurance Regulatory Commission on Issuing the Green Finance Guidelines for the Banking and Insurance Industries[1]

CBIRC [2022] No.15[2]

All CBIRC offices, all policy banks, large banks, and joint-stock banks, all insurance group (holding) companies, insurance companies, reinsurance companies, and insurance asset management companies,

In order to implement the green development decisions and plans of the CPC Central Committee and the State Council, push the banking and insurance industries to develop green finance, provide active services to various economic activities that have both environmental and social benefits, better assist the tough battles for pollution prevention and control, and advance carbon peaking and neutrality work in an orderly fashion, CBIRC has formulated the Green Finance Guidelines for the Banking and Insurance Industries, which are now issued to you. Please follow and implement the guidelines.

All CBIRC offices are asked to forward this notice to the relevant banking and insurance institutions within their respective jurisdictions, and urge and supervise its implementation.

June 1, 2022

Green Finance Guidelines for Banking and Insurance Industries

Chapter 1 General Provisions

Article 1: In order to push the banking and insurance industries to develop green finance, provide active services to all types of economic activities that have both environmental and social benefits, better assist the tough battles for pollution prevention and control, and advance carbon peaking and carbon neutrality work in an orderly fashion, these guidelines are formulated pursuant to the Banking Industry Supervision and Management Law of the People's Republic of China, the Commercial Bank Law of the People's Republic of China, the Insurance Law of the People's Republic of China and other laws and regulations.

Article 2: Banking and insurance institutions in these Guidelines include development banks, policy banks, commercial banks, rural cooperative banks, rural credit cooperatives, insurance

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[1] Unofficial English translation by Friends of the Earth.
[2] Original link for Chinese version: http://www.gov.cn/zhengce/zhengceku/2022-06/03/content_5693849.htm

group (holding) companies, insurance companies, reinsurance companies, and insurance asset management companies legally established in the territory of the People's Republic of China.

Other banking industry financial institutions and insurance institutions shall reference these Guidelines in their green finance management.

Article 3: Banking and insurance institutions shall fully, accurately and comprehensively implement the new development theory; promote green finance from a strategic vantage point; expand support for the green, low-carbon and circular economy; guard against ESG risks; improve their own ESG performances; and facilitate the green transformation of all economic and social activities.

Article 4: Banking and insurance institutions shall effectively identify, monitor, prevent and control ESG risks in their business activities. [They shall] focus on the potential environmental and social hazards and risks in the construction, production and operation activities of their customers (i.e., the parties seeking finance) and these customers' primary contractors and suppliers due to these entities' corporate governance problems and management issues; incorporate ESG requirements into their management processes and comprehensive risk management systems; strengthen information disclosure and communication/interaction with stakeholders; and better relevant policy systems and process management. The customers to focus on are mainly of the following four categories:

(1) Bank credit customers;
(2) Customers who have taken out ESG risk related insurances;
(3) The party/parties seeking financing for an insurance fund entity's investment project.
(4) Other customers who should perform ESG risk management pursuant to laws, regulations or contract clauses.

Article 5: The China Banking and Insurance Regulatory Commission (hereinafter "CBIRC") and its local offices are by law responsible for regulating the green financial business activities of banking and insurance institutions.

Chapter II Organization and Management

Article 6: The board of directors or trustees of a banking or insurance institution shall assume the entity's green finance responsibilities; build and promote the awareness of conservation, low carbon, environmental protection, sustainable development and other green development ideas; pay attention to the role banking and insurance institutions play in promoting ecological progress and the green transformation of all economic and social activities; and establish a sustainable development model that is win-win for both the institution and society at large.

Article 7: The board of directors or trustees of a banking or insurance institution is responsible for determining a green finance development strategy, approving the green finance objectives developed by and green finance reports submitted by senior management, designating a special committee to be responsible for green finance work, and monitoring and assessing the institution's implementation of its green finance development strategy.

Article 8: The senior management of a banking or insurance institution shall, pursuant to the resolutions of the board of directors or trustees, develop green finance objectives; establish relevant mechanisms and processes; define clearly the relevant roles and responsibilities; conduct internal supervision, inspections and appraisals; report annually to the board on green finance development; and submit to CBIRC or its local offices and disclose to external parties, as required by regulations, green finance-related information.

Article 9: The headquarters and provincial and prefecture-level branches of a banking or insurance institution shall designate a senior executive to be the lead person responsible for green finance work, establish cross-departmental green finance leadership and coordination mechanisms as needed, and advance relevant work in a coordinated fashion.

A banking or insurance institution shall grant sufficient power to the person in charge of green finance work and the relevant departments, equip them with corresponding resources, and have green finance implementation situation fully reflected in performance appraisals.

Article 10: Banking and insurance institutions are encouraged to be innovative with green finance systems and mechanisms, provided that [such pursuits] are legal, regulation compliant, and the risks involved are controllable; [banking and insurance institutions] shall improve the quality and results of their green finance services and the level of their risk management through establishing specialized green finance departments, building branches with special [green finance] features, and creating dedicated [green finance] positions and jobs.

Chapter III Policies, Systems and Capacity Building

Article 11: Banking and insurance institutions shall, as per national green and low-carbon development goals and plans as well as relevant environmental protection laws and regulations, industrial policies, and sector entry policies, establish and constantly improve their ESG risk management policies, systems and processes; and identify the direction and key areas for green finance support. For industries falling within the national restricted categories and industries with major risks, [banking and insurance institutions] shall formulate credit granting guidelines, adopt differentiated and dynamic credit granting or investment policies, and implement the risk exposure management system.

Article 12: Banking and insurance institutions shall take supporting the tough battles for pollution prevention and control as their guiding direction, and help to advance the work of carbon peaking and carbon neutrality in an orderly fashion. [They shall] adhere to seeking progress while ensuring stability; adjust and improve their credit and investment policies; lend active support to the building of a clean and low-carbon energy system; give support to energy conservation, pollution reduction, carbon reduction, green enhancement, and disaster prevention efforts in key industries and fields; help clean production implementation; promote wide application of green and low-carbon energy technologies; implement carbon emission and carbon intensity policy requirements by [following the principles of] developing something new before destroying something old and making plans with the entire game board in mind[3], protecting some things while fighting other things and adopting different measures for different types of problems[4] and guarding against "one size fits all" and campaign-style approaches of carbon reductions. [They shall] resolutely curb the blind development of high-energy-consuming, high-emission, and low-quality projects; strengthen risk identification, assessment, and management of high-carbon assets; reduce the carbon intensity of asset portfolios in a gradual and orderly way while ensuring energy security as well as industrial and supply chain security, so that their asset portfolios can eventually become carbon neutral.

Article 13: An insurance institutions shall, pursuant to relevant laws and regulations and by taking into consideration of the scope of its own business, actively conduct insurance and guarantee business and pursue service innovation in the areas of environmental protection, climate change, and green industries and technologies; develop relevant risk management methods, technologies and tools; provide risk management and service to the producers and operators in the relevant fields; and push insurance customers to raise their ESG risk management awareness and conduct accident prevention and risk/potential hazard screening according to contractual agreements.

Article 14: Banking and insurance institutions shall develop customer targeted ESG risk assessment criteria, and manage by category and perform dynamic assessment of customers' risks. Banking institutions shall take the risk assessment results as important basis for customer rating, credit access, management and exit; and adopt differentiated risk management measures in loan "due diligence, review and inspection", loan pricing, economic capital allocation. Insurance institutions shall take the risk assessment results as important basis for underwriting management and investment decision-making, and adopt differential rates according to customer risk levels.

Banking and insurance institutions shall develop a list of customers with major ESG risks, and actively exercise their legal rights as creditors or shareholders to require these customers to adopt risk mitigation measures including formulating and implementing major risk response plans, having in place unobstructed stakeholder complaint channels, establishing a sufficient, timely and effective communication mechanism, and seeking third party audit or risk sharing, etc.

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[3]*Translator's note:先立后破，通盘规划 seem to be the buzzwords always used together in the context of energy policies. Based on my quick reading online, these buzzwords seem to emphasize a gradual, instead of a radical approach to energy transformation. For example, in one article, these words were used in the context of how to use coal efficiently and cleanly]*

[4] *Translator's note: 有保有压、分类施策 is another one set of those buzzwords. In one setting, the protecting some things while suppressing other things refer to "protect consumption demands, suppress the size of investments; protect economic quality, suppress overgrowth; protect government reform, suppress administrative overreach"*

Article 15: Banking and insurance institutions shall create work mechanisms conducive to green finance innovation, and promote process, product and service innovations in green finance, provided that [such pursuits] are legal and regulation compliant, with effective control of risks and do not affect the sustainability of business.

Article 16: Banking and insurance institutions shall put emphasis on their own ESG performance. Through establishing relevant systems; enhancing green finance awareness outreach and education efforts; regulating their business conducts; practicing green office work, green operation, green procurement, green travel, and "clean your [dinner] plate" actions; and actively developing fin-tech and improving the level of information digitization and intensive management and services, [banking and insurance institutions] shall reduce their carbon footprints gradually and orderly and reach the eventual goal of carbon neutrality in their operations.

Article 17: Banking and insurance institutions shall strengthen green finance capacity building through establishing and improving relevant business standards and statistics system, strengthening green finance data governance and improving relevant management systems, enhancing green finance training and cultivating and recruiting relevant talents. When necessary, [banking and insurance institutions] may rely on the help of a qualified and independent third party to review ESG risks or obtain relevant professional services through other effective means.

Chapter IV Investing and Financing Process Management

Article 18: Banking and insurance institutions shall strengthen due diligence in credit granting and investment, and define the key points of ESG risk due diligence according to the characteristics of the sector and region in which a customer and its projects are located to ensure the due diligence is comprehensive, thorough and detailed. [Banking and insurance institutions] can seek support, where necessary, from a qualified, independent third party and the relevant authorities.

Article 19: Banking and insurance institutions shall conduct rigorous compliance review of the customers to whom credit will be granted and the projects to invest in. [They shall] formulate a checklist of ESG compliance documents and a checklist [of items] for ESG compliance risk review based on the characteristics of customers in various sectors, review to see whether the documents submitted by the customers and the related processes are regulation compliant, valid and complete, and ensure that the customer give sufficient attention to and perform effective dynamic control of relevant risk points and meet substantial compliance requirements.

Article 20: Banking and insurance institutions shall strengthen credit approval and investment management, and define appropriate levels of credits and investments and approval processes according to the nature and severity of ESG risks faced by customers. Credits to and investments in customers with [records of] serious violations of laws and regulations or major risks in the ESG areas shall be strictly restricted.

Article 21: Banking and insurance institutions shall urge customers to strengthen ESG risk management through improving contract terms. For credit customers and investment projects involving significant ESG risks, [banking and insurance institutions] shall, either in the body of the contract or in contract appendixes, require a customer to submit ESG risk reports, formulate statements and commitment clauses on strengthening ESG risk management, and provide for remedy clauses in the event it violates the terms for managing ESG risks.

Article 22: Banking and insurance institutions shall strengthen the management of credit and investment fund disbursement, and regard a customer's management of ESG risks as important basis for credit and investment fund appropriation. For a project already been granted credit or investment, reasonable ESG risk assessment checkpoints shall be set up in its design, preparation, construction, completion, operation, and shutdown phases; and for a project that shows significant risk or potential hazards, fund appropriation can be suspended or terminated according to contract terms.

Article 23: Banking and insurance institutions shall strengthen post-loan and post-investment management, and develop and apply targeted management measures for customers with significant potential ESG risks. [Banking and insurance institutions] shall pay close attention to the impact of domestic and foreign laws, policies, technologies, and market changes on a customer' operations and the sector it’s in; strengthen dynamic analysis; perform scenario analyses and stress tests; and make timely adjustments to asset risk classification and reserve provisioning. [Banking and insurance institutions] shall establish and improve internal reporting system and accountability system for customers with major ESG risks; and when a customer has a major ESG risk event, urge it to take timely measures to address the risk and report the potential impact of the event promptly.

Article 24: Banking and insurance institutions shall, depending on their own situations, actively use technologies such as big data, blockchain, and AI to improve their level of green finance management; constantly improve their product development, operation and sales, and investing and financing management processes; optimize ESG risk management of micro/small business financing and online financing; adopt differentiated and more user friendly management measures in the areas of risk assessment, due diligence, compliance review, credit management, and post-investment management, and expand risk management coverage and effectiveness .

Article 25: Banking and insurance institutions shall actively support the green and low-carbon development of the Belt and Road Initiative, and strengthen ESG risk management of overseas projects to which credits will be granted or investment will be made. [Banking and insurance institutions] shall require project sponsors and their main contractors and suppliers to abide by the host country/region’s ecological, environmental, land, health and safety laws and regulations; follow relevant international practices or standards; and ensure that the management of the project is substantially consistent with international good practices.

Chapter V Internal Controls and Information Disclosure

Article 26: Banking and insurance institutions shall incorporate implementation of green finance policies into the scope of internal controls and compliance examinations, and regularly organize and perform internal audits. Where violations are found, investigation shall be conducted to determine whom to be held accountable in accordance with applicable regulations.

Article 27: Banking and insurance institutions shall establish an effective green finance performance appraisal and evaluation system as well as reward and penalty mechanisms, apply the incentive and disciplinary measures, improve due diligence and waiver mechanisms, and ensure that green finance work is carried out sustainably and effectively.

Article 28: Banking and insurance institutions shall make public their green finance strategies and policies, and fully disclose development in their green finance work. [They shall] learn from international conventions, standards or good practices to improve [their own] information disclosure. For credits granted or investments made involving significant ESG risks, [banking and insurance institutions] shall establish a grievance response mechanism; disclose relevant information proactively, timely, accurately, and completely in accordance with laws, regulations, self-regulating rules, etc.; and accept monitoring and supervision from the market and stakeholders. Where necessary, a qualified and independent third party can be engaged to attest, evaluate, or audit the activities of a banking or insurance institution's activities in fulfilling its ESG responsibilities.

Chapter VI Supervision and Management

Article 29: CBIRC and its local offices shall strengthen coordination and cooperation with relevant authorities to promote the establishment and improvement of information sharing mechanisms, to make it convenient for banking and insurance institutions to obtain information on green industry projects and firms' ESG risks, and to alert banking and insurance institutions of relevant risks.

Article 30: CBIRC and its local offices shall strengthen off-site regulations and improve off-site regulatory indicators, strengthen the monitoring and analysis of banking and insurance institutions' management of ESG risks, and provide timely guidance to them so they can make adjustment and improvement to their credit and investment policies and strengthen risk management.

Article 31: The CBIRC and its local offices shall organize and perform routine regulatory and supervisory inspections, and shall make clear relevant regulatory content and requirements by taking into full consideration of a banking and insurance institution's management of ESG risks.

Article 32: Where banking and insurance institutions violate relevant regulatory provisions in the process of conducting green finance business, CBIRC and its local offices may take regulatory measures in accordance with the law and urge the banking and insurance institutions to rectify the problems.

Article 33: CBIRC and its local offices shall strengthen green finance business guidance for banking and insurance institutions; adopt appropriate methods to evaluate the green finance results of these institutions on the basis of the institutions' self-assessments; and use the evaluation results, in accordance with relevant laws and regulations, as important references for regulatory rating, institutional access, business access, and executive performance evaluation of banking and insurance institutions.

Article 34: CBIRC and its local offices shall guide the self-regulatory organizations in the banking and insurance industries to play an active role in promoting green finance development through ways such as organizing member institutions to conduct regular green finance implementation reviews; conducting green finance education and training, exchanges and discussions, surveys and research, and professional referral; and other activities.

Chapter VII Supplementary Provisions

Article 35: These Guidelines shall be implemented on the date of promulgation.

Banking and insurance institutions shall establish and improve relevant internal management systems and procedures within 1 year from the date of these Guidelines' promulgation to ensure that their green finance management work complies with regulatory requirements.

Article 36: CBIRC is responsible for interpreting these Guidelines.

CBIRC
June 1, 2022