2022

Green Bond China Investor Survey

Climate Bonds Initiative

商道融绿 SynTao Green Finance

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NATIXIS CORPORATE AND INVESTMENT BANKING

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1.Introduction

This is the second investor survey report in a series of surveys from the Climate Bonds Initiative (Climate Bonds). The purpose of the series is to determine investor attitudes to green bonds and establish what is needed for the market to develop further. The first report in this series was published in 2019 and was based on the results of conversations with Europe based green bond respondents. The focus of this report is China, the third largest country source of sustainable debt issuance globally, after the USA and France.[1]

In September 2020, China's President, Xi Jinping announced a new set of targets for carbon peaking by 2030 and carbon neutrality by 2060 which are known as the 30.60 targets and expected to help deliver China's Paris Agreement commitment. These objectives have recalibrated China's focus from broad environmental goals to a specific focus on carbon reduction. Estimates published by the National Centre for Climate Change Strategy and International Cooperation (NCSC) suggest that China may require up to RMB139tn (USD22tn) of investment from 2020 to 2060, with a long-term funding gap of RMB1.6tn (USD254bn) per annum.[2] Green bonds are an accepted and broadly standardised tool that can help direct capital flows to assets, projects, and expenditures, and contribute to meeting China's 30.60 objectives.

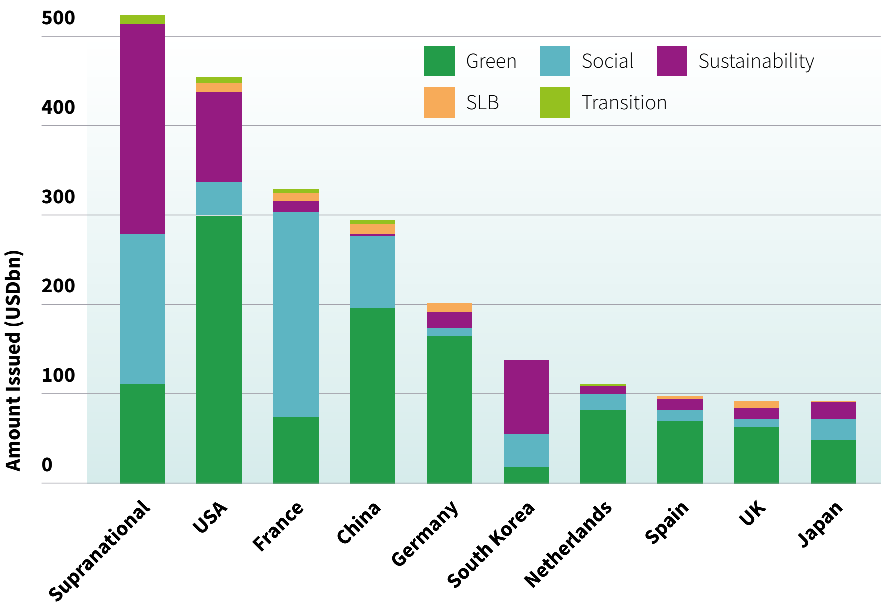
The goal of the survey is to identify actions and approaches with the potential to accelerate the issuance of Chinese green bonds. While the Chinese government plays an important role in developing its green bond market through policy, greater investor participation from both domestic and international investors is crucial to achieve the required scale. The results of this survey provide more clarity on the challenges facing respondents in the Chinese market and highlight the required incentives to grow the market.

Survey respondents were selected from a list of China's largest green bond investors maintained by the National Association of Financial Market Institutional Investors (NAFMII), a self-regulated organisation overseen by the People's Bank of China (PBoC). International investors active in China's onshore green bond market were also invited to participate. The methodology and approach are described in Appendices 1 and 2.

Of the 89 invited to participate in the survey, 42 institutions responded comprising 16 international and 26 domestic. Commercial banks occupy a pivotal position in China's financial system; five of the six major state-owned commercial banks were among the survey respondents. A list of participants who agreed to be named for their participation can be found in Appendix 3.

N.B.: Funds in this report refers to Fund Management Companies (FMC). Establishing an FMC in China requires a different license from the asset management industry under the Chinese regulatory framework.

1. China was the third largest country source of sustainable debt at the end of 2021



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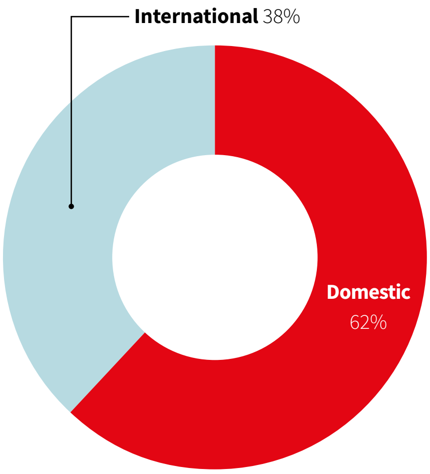
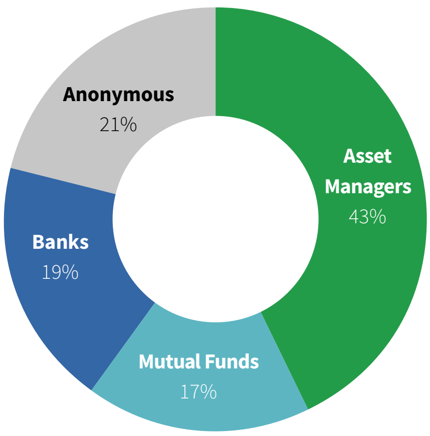


2.b Respondent Type



2. Summary of findings

The results of the survey suggest that with the required transparency and integrity, the Chinese green bond market can contribute meaningfully to meeting China's carbon reduction ambitions.

Both domestic and international respondents stated a desire to buy more Chinese green bonds, but those bonds had to meet the appropriate standards. Respondents assigned the highest levels of importance to green credentials and credit fundamentals (see chart 15).

Respondents were keen to diversify across all Use of Proceeds (UoP) categories, with Renewable Energy being the most frequently requested. This aligned with the specific carbon reduction focus of the 30.60 targets.

1. Respondents prefer deals that contribute to mitigation

- Renewable Energy and Low Carbon Transport were identified as preferred use of proceeds of current holdings.
- Respondents highlighted Renewable Energy as the preferred UoP category for future investment. This is consistent with the priorities of China's 30.60 target.

2. Respondents want more green bonds from all sources

- Financial and non-financial corporate bonds were the current preferred green bond asset classes among respondents across the board.
- Respondents highlighted government-backed entities, policy banks (see box on page 7), and corporates (financial and non-financial) as asset classes in which they would like to buy more green bonds.

3. Respondents care about green credentials and issuer fundamentals

- Respondents identified satisfactory green credentials at issuance as their top priority.
- Key factors to further enhance the appeal of Chinese green bonds were identified as: positive issuer fundamentals, transparency in UoP, and enhanced external reviews, certification, and disclosure practices.

4. Both market and policy tools can bring the required scale

- Respondents preferred market tools and mechanisms that strengthened the broad bond market ecosystem, particularly positive credit fundamentals.
- Respondents supported policy mechanisms that drive capital towards low-carbon assets, boost investment incentives, and strengthen green definitions and standards including the Green Bond Endorsed Projects Catalogue (2021 Edition) which harmonised the national taxonomy with international equivalents.
- International respondents were already implementing the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). Domestic respondents had started, but wanted more guidance from regulators, industry associations, and others.

5. International investors want to engage with issuers to grow the market

- International respondents identified different entry thresholds and quotas for different types of bonds as a key constraint to participation in the Chinese bond market, including the green bond market.
- International respondents acknowledged that issuer engagement would contribute to Chinese green bond market development.

6. Respondents are embracing other thematic labels

- Respondents were keen to move beyond the green label to explore other thematic labels.
- Social bonds have been incorporated into fewer investment policies than green bonds, but growing demand was identified, especially among international respondents.
- Carbon neutrality is a thematic debt label unique to China (see box on page 11). Market understanding and acceptance of carbon neutrality bonds is still evolving.

3. Investment policy overview

Most respondents embraced green bonds

Respondents were asked to describe how green bonds had been incorporated into their investment strategies and the contribution of green bonds to current assets under management (AUM).

The results reflected strong recognition of green bonds among respondents and suggested that green bonds have permeated the investment policies of a broad set of respondents, not just those with dedicated funds. A larger percentage of international respondents had specific green bond funds, suggesting that the formal integration of responsible investment strategies is at a more mature stage for this constituency compared to the domestic respondents. A minority of respondents from each category had not yet invested in green bonds.

Banks prioritise pricing

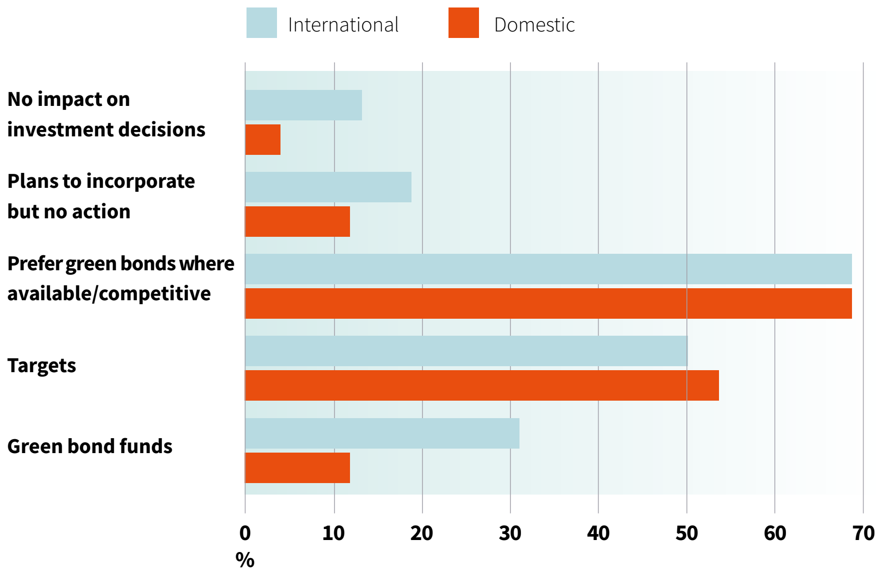
In June 2021, the PBoC published its Green Financial Evaluation Programme for Banking Financial Institutions which described how it would evaluate and grade banks based on their green finance performance which includes green bond holdings. Banks therefore have a regulatory motivation to buy green bonds.

Pricing was more important for banks and asset management companies than for mutual funds. 88% of the banks responded that they preferred green bonds where available and where competitively priced, compared with 70% of asset management companies and 43% of funds. Targets were more important to asset management companies (60%) and funds (57%), compared to banks (38%). More asset management companies (35%) have specific green bond funds compared to banks (13%).

The question on the percentage of green bonds in fixed income AUM was optional and generated a 50% response. Given the limited and inconsistent nature of the answers (e.g., qualitative ranges versus numbers), it was difficult to pinpoint green bonds as a percentage of AUM among the respondents. Nine respondents provided a specific figure on their green bond holdings, and all gave a number that was less than 2%.

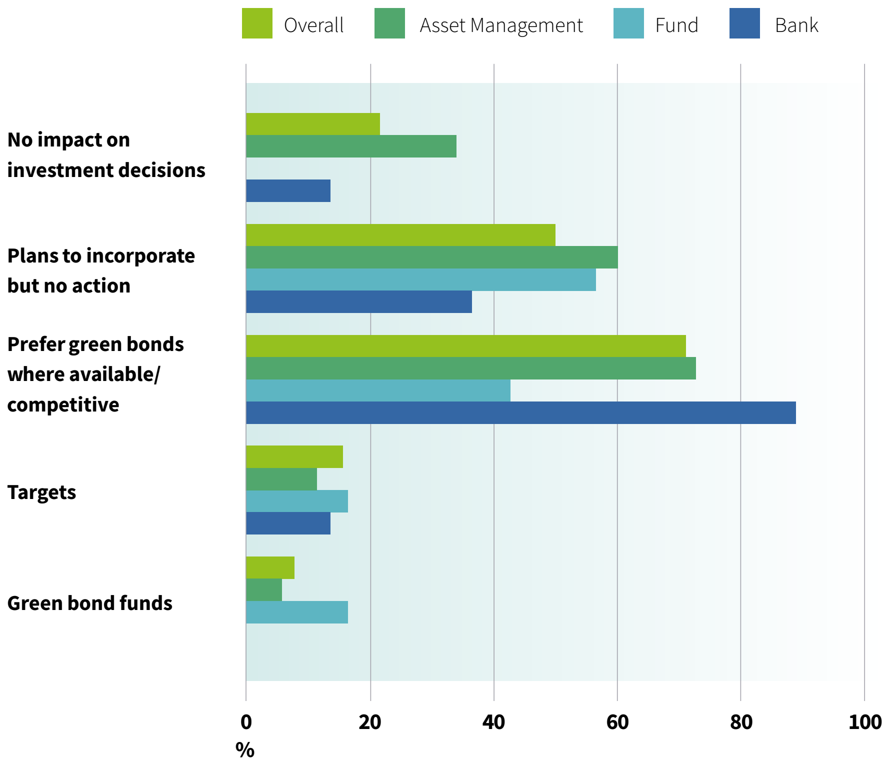
At the end of 2021, bonds originating from China amounted to USD20.2tn, while the Climate Bonds Green Bond Database recorded green bonds originating from China at USD200bn.[3] Hence, agnostic asset allocation reflecting market weights would result in a 1% exposure to green bonds.

3. Respondents preffered green bonds where available and competitively priced



Note: Since multiple options of answer could be chosen for the survey question, percentages in the figure above add up to more than 100%

4. Green bond pricing influenced the decisions of Bank respondents

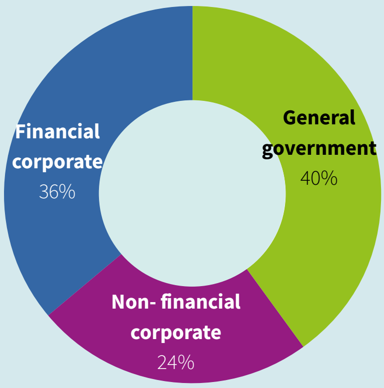


4. Green bond investment preferences

Preferred channels for green bond investment

Respondents were invited to describe their preferred channels for green bond investment, which include a mixture of issuer sectors, instruments, and business activities, by selecting all applicable options. The various green fixed income instruments available in the Chinese market are described in Table 1.

5. China's debt securities outstanding by issuer type



Source: BIS. Data as of Q2 2021[4]

The Chinese debt market was the second largest in the world at the end of Q2 2021, with an outstanding volume of USD20tn. Issuance from the government, financial corporations and non-financial corporations represented 40%, 36% and 24%, respectively.

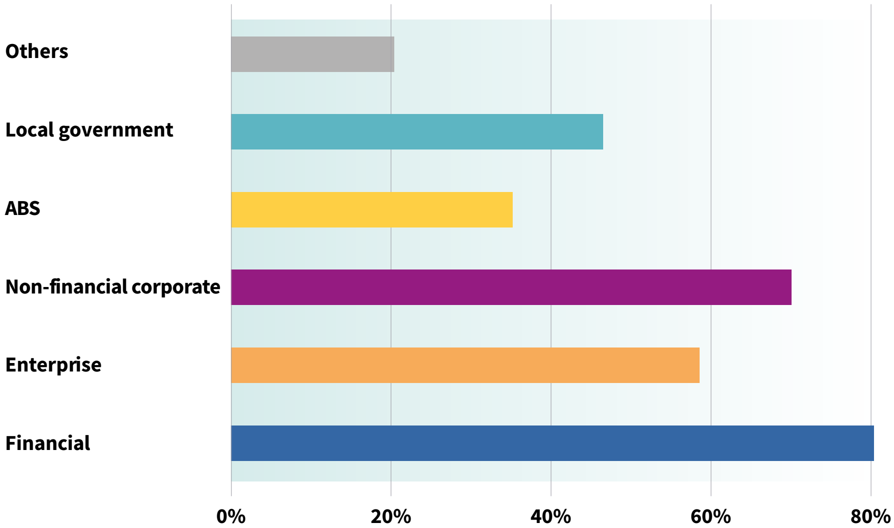
Financial corporate issuers dominated respondents' holdings

Respondents identified financial and non-financial corporates as the issuer types which were the source of most of their current green bond holdings. These were followed by enterprise bonds (a category of green bond unique to China, see Table 1), local government bonds, and asset-backed securities (ABS).

Sectors and Use of Proceeds

The sector of a bond describes the economic activity of its issuer. The Global Industry Classification Standard (GICS) is an example of a sector classification standard. The UoP category describes how the funds raised from the sale of the instrument will be deployed. Taxonomies provided by organisations such as Climate Bonds, the EU, and China are examples of UoP categorisations. This sector of a bond issuer is unrelated to the UoP categories. For example, a bank can issue a green bond with Energy Efficiency as UoP. The proceeds can be used to either green the activity or operating environment of the issuing entity, or on developing areas of its business that will contribute to the goals of the Paris Agreement.

6. Financial and non-financial corporates are the main source of current green bond holdings



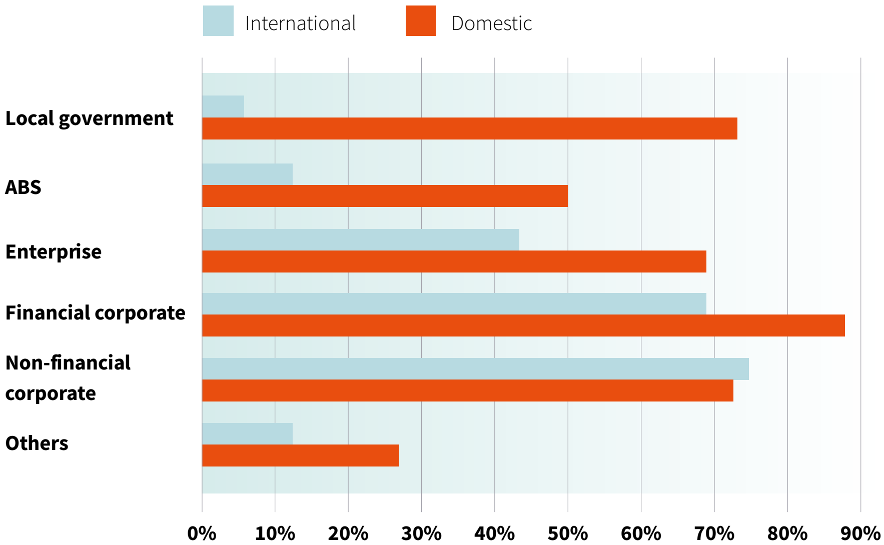
Note: Financial bonds include commercial bank bonds, policy bank bonds, bonds from other financial institutions; non-financial corporate bonds include private placements of green bonds; and others refer to commercial papers, MTN, PPN, convertible bonds, exchangeable bonds etc.

Table 1: Different types of instruments and issuers of Chinese green bonds			
Type	**Definition**	**Issuer**	**Regulator**
Corporate bonds	Green corporate bonds are issued in accordance with the Corporate Bond Management Measures and relevant rules and proceeds are earmarked for green industries.	Eligible companies	China Securities Regulatory Commission (CSRC)
Enterprise bonds	Green enterprise bonds support green, circular and low-carbon development projects such as energy conservation and emission reduction technology transformation, green urbanisation, clean and efficient use of energy, new energy development and utilisation, circular economy development, water conservation and non-conventional water resources development and utilisation, pollution prevention and control, ecological agriculture and forestry, energy conservation and environmental protection industries, low-carbon industries, pilot and demonstration experiments of ecological civilisation and low-carbon pilot demonstrations.	State owned enterprises (SOEs)	National Development and Reform Commission (NDRC)
Financial bonds	Issued by financial institutions in accordance with the law, to finance or refinance green projects.	Financial institutions	The People's Bank of China (PBoC)
Local government bonds	Local government bonds can be divided into special-purpose (专项债券) and generic bonds （一般债券）. Special-purpose bonds are issued by provincial governments and municipalities with separate plans and are repaid from corresponding government funds or special revenues. Local government generic bonds are issued to finance public welfare and are repaid mainly from public revenue.	Local governments	Ministry of Finance
ABS	ABS are financial instruments where either: • the underlying assets are classified as green; or • the funds obtained from the transfer of the underlying assets are used for green projects or expenditures; or • the main business of the original equity holders is green	Eligible companies	China Securities Regulatory Commission (CSRC)
Green Debt Financing Instruments	Green debt financing instruments are issued in the interbank market by domestic and international non-financial corporates through separate legal entities to raise funds specifically for green projects.	Non-financial corporates	National Association of Financial Market Institutional Respondents (NAFMII)

Respondents preferred green bonds from financial corporates

Financial bonds were ranked top by domestic respondents and second by international ones. This may be partly due to longer experience with these products since China's green bond market kicked off with green financial bonds in 2016. Corporate bonds were also preferred by roughly three quarters of international and domestic respondents. International respondents ranked enterprise bonds considerably lower than their top two choices, probably because of a lack of familiarity with the format.

7. Financial and non-financial corporates were the preferred issuer types



While there was a common preference for financial and non-financial corporate bonds, respondent types differed in their views towards green local government bonds and green ABS. Nearly three quarters of domestic respondents preferred green local government bonds, compared to only 6% of international ones and while half of the domestic respondents prefer to invest in green ABS, only 13% of the international ones concurred.

The ABS ownership structure can be comparatively opaque which may explain the lower preference stated by international respondents. Divergent appetites for green local government bonds between international and domestic respondents also reflected different risk perceptions towards local government debt between the two groups.

By investor type, mutual funds were very keen on non-financial corporate bonds, while asset management companies were less so, with only 35% showing preference for this asset class. Local government bonds were preferred strongly by funds (85%), moderately by banks (50%), and not as popular with asset managers (30%).

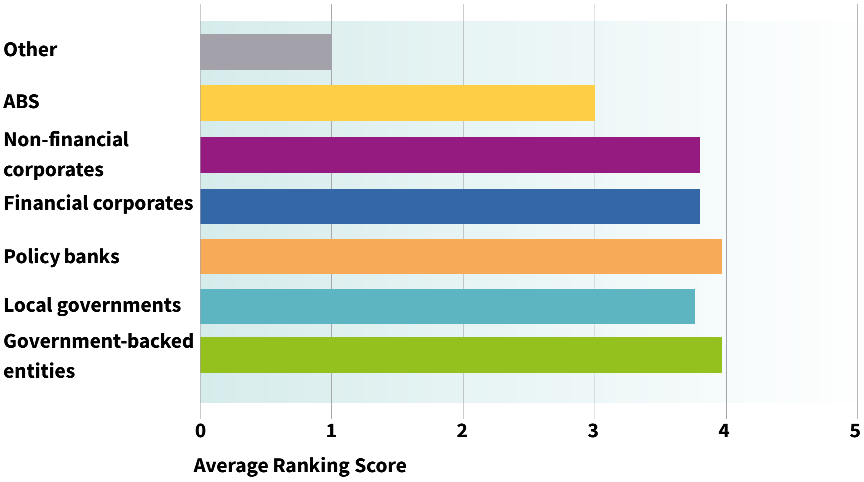
Respondents were asked to rank the asset classes in which they would like to buy more Chinese green bonds, by expressing preference in an ascending scale of 1-5. The results show that respondents generally wanted to buy more green bonds from government-backed entities, policy banks, and corporates (financial and non-financial).

When looking at appetite by respondent type, banks, funds and asset managers all indicated that they would like to purchase bonds issued by policy banks and government-backed entities.

While the results above suggested that issuer asset class affected decisions of many respondents, some noted that it did not change their desire to increase holdings. Other respondents suggested that the decision to increase holdings depended on the availability of benchmark sized bonds (minimum USD500m).

International and domestic respondents assigned slightly different scores to the various asset classes they would like to invest in with domestic respondents assigning a higher score to all asset classes. The largest difference was in the ABS category where a lack of comfort with the issuer type clearly influenced international respondents.

8. Respondents wanted more bonds from government-backed entities, policy banks, and corporates

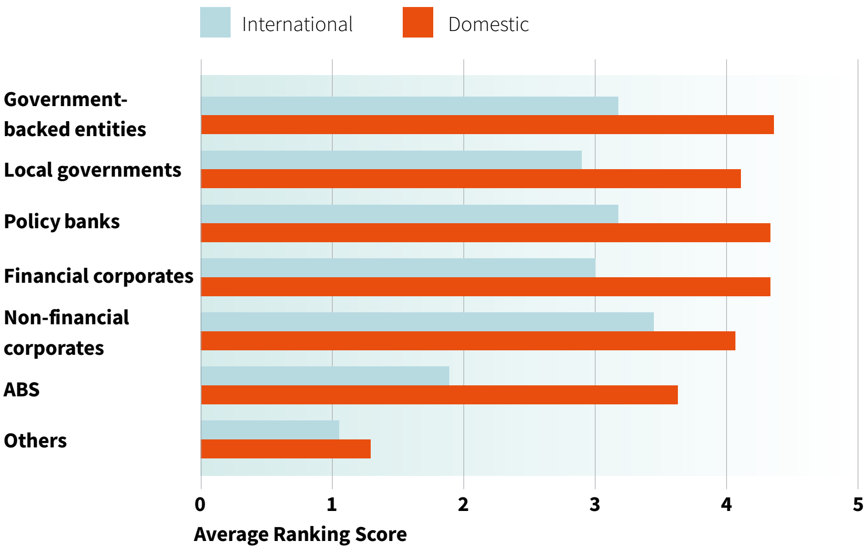


Note: 1 =actively does not preference, 2 = low preference, 3 = neutral, 4 = moderate preference, and 5 = high preference

Policy Banks

Policy banks are the two state-owned and state funded banks set up by and supervised by the State Council of China to implement economic policies of the Chinese Government. The policy banks are the Agricultural Development Bank of China and the Export-Import Bank of China. At the end of 2021, the Climate Bonds Green Bond Database recorded cumulative green bond issuance of USD3.48bn from the Agricultural Development Bank of China, and USD780m from the Export-Import Bank of China.

9. Domestic investors are relatively keen to buy more ABS



Note: 1 = no preference, 2 = low preference, 3 = neutral, 4 = moderate preference, and 5 = high preference.

Renewable Energy tops current Use of Proceeds

Respondents were asked to disclose the UoP of their current investments. The UoP categories are classified according to the Climate Bonds Taxonomy.[5]

Renewable Energy was the most popular area of current investments for both international and local respondents, followed by other mitigation areas such as Low Carbon Transport and Low Carbon Buildings, as well as Adaptation and Resilience (A&R) areas such as Water and Waste Management.

Around 90% of respondents (38 out of 42) indicated that they owned bonds with Renewable Energy UoP. This is probably driven by the broad availability of bonds having this UoP, and broad acceptance among investors of how the technology works and contributes to a low carbon transition. Renewable Energy, Low Carbon Transport, and Low Carbon Buildings accounted for 61%, 19%, and 9%, respectively, of Chinese green bond UoP. A&R received the least investment from both respondent types. A&R has a very low profile in China, with limited understanding of which types of assets, projects, and expenditures qualify for this UoP category.

Adaptation and Resilience

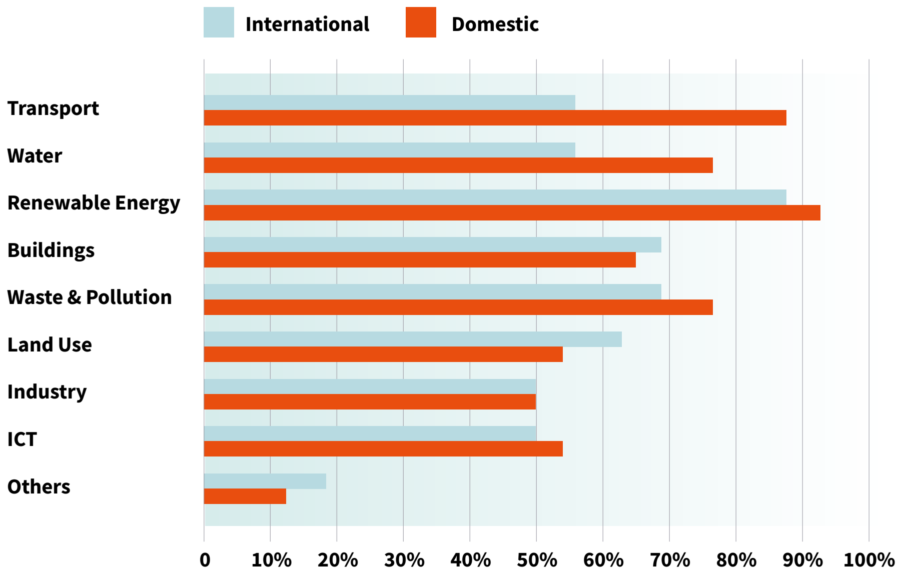
The A&R category describes projects specifically targeted to reduce vulnerability to climate variability and extremes. While A&R measures can be, and often are, financed together with mitigation measures for a specific sector, respondents were specifically asked about A&R because these projects may involve funding programmes rather than specific assets. Some issuers have raised funding specifically for A&R investment such as flood prevention and protection, coastal defence etc. Currently, A&R is the category receiving the lowest UoP allocations, but more investment is urgently needed due to the increasingly severe impacts of climate change. According to the Global Centre on adaptation, the benefit cost ratios of investing in climate adaptation range from 2:1 to 10:1.[6]

Respondents wanted more Renewable Energy and Low-Carbon Transport

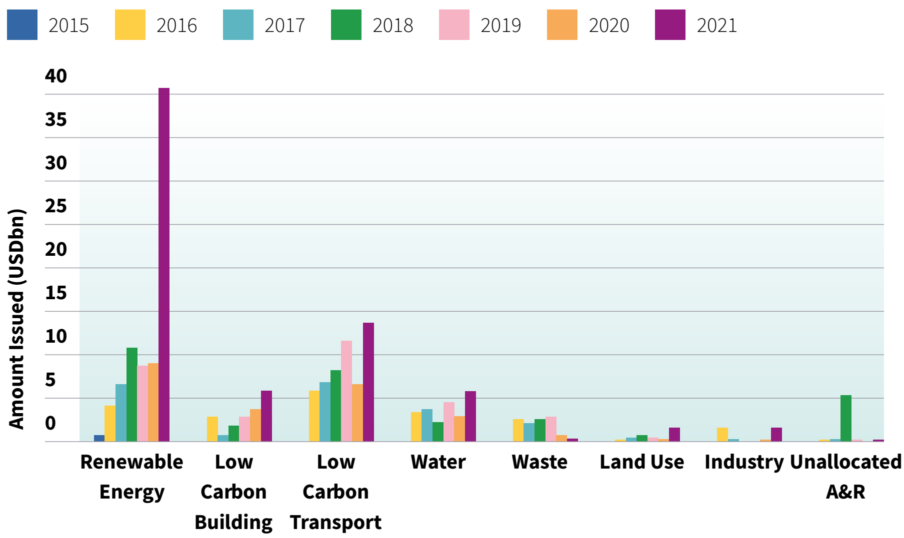
Respondents were asked to indicate their preference for UoP categories in which they would like to buy more Chinese green bonds, by ranking each category in an ascending order of preference from 1-5.

Renewable Energy and Low Carbon Transport were the two areas with the highest demand with Bank respondents expressing the keenest appetite. This preference is consistent with what respondents currently own as per chart 10.

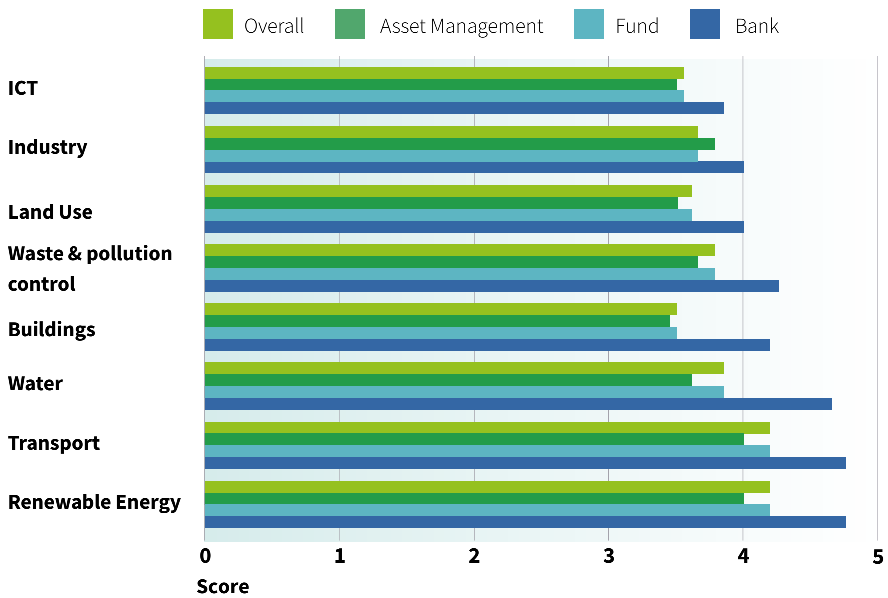
10. Renewable Energy was the largest UoP of current investment



11. UoP profile of China's green bonds (Climate Bonds Taxonomy)



12. Banks were keen to invest more in all UoP categories



Note: 1 = no preference, 2 = low preference, 3 = neutral, 4 = moderate preference, and 5 = high preference.

Current UoP ownership is largely dictated by availability, topped by Renewable Energy and Low Carbon Transport. The fact that respondents highlighted those categories as those in which they would like to buy more green bonds suggests that they feel comfortable with the UoP. The two preferred categories are highly relatable: the technology is well established, and the projects are known to work with clear environmental benefits, they are also among the project types most financed by green bonds globally.

It may also reflect the local reality, which accentuates the need for these projects given China's large area and population, coupled with rapid urbanisation. Both sectors are prominently included in the China Green Bond Endorsed Project Catalogue, and Renewable Energy has been identified as the top priority to achieve the 30.60 objectives.

Most respondents had bought thematic labels beyond green

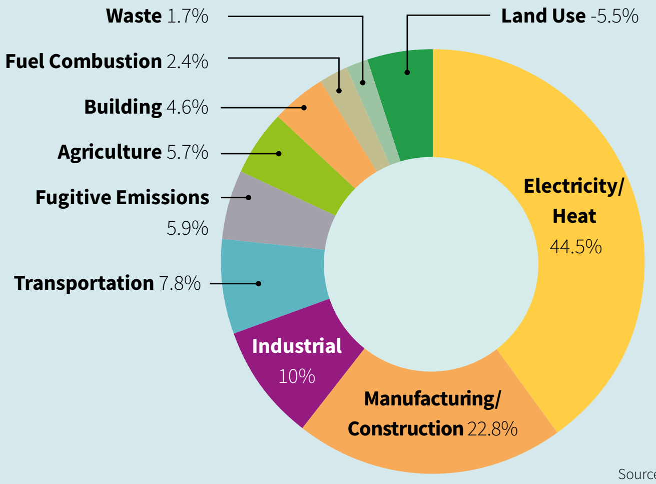
Respondents were asked if they had bought bonds bearing thematic labels other than green. The available themes were social bonds, sustainability bonds, bonds with mixed use of proceeds (referring to bonds financing both green and social projects, issued prior to the introduction of the sustainability label), and sustainability-linked bonds (SLBs).

Almost all (93%) respondents indicated that they had purchased bonds bearing other thematic labels. This reflects increasing investor interest in looking beyond the green label to deploy funds for climate solutions, or in combining climate and social outcomes.

Social and sustainability bonds At the end of December 2021, green bonds, including carbon neutrality bonds, constituted most (69%) of the thematic labelled bonds originating from China. Social bonds, mostly issued to help combat the impacts of COVID-19, comprised 25%, while other thematic labels contributed less than 4% each. By December 2021, just one transition bond had been issued by a Chinese entity.

Overall, social bonds were not as impactful on the investment decisions of respondents as green bonds. However, there was appetite to integrate social outcomes into investment decisions, especially from international respondents.

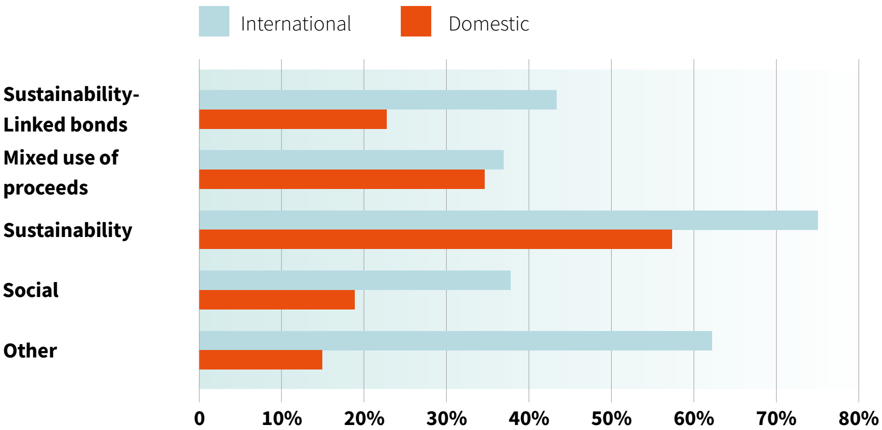
13. China's greenhouse gas emissions by sector in 2018



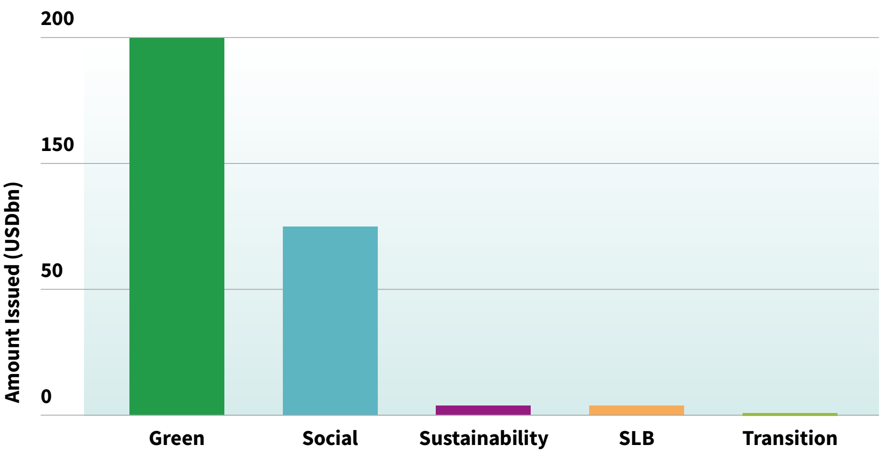
Source:World Resource Institute (WRI)

According to the World Resources Institute (WRI) China's total greenhouse gas emissions (GHGs) in 2018 were 11.7 billion tonnes, accounting for 24% of global emissions (48.95 billion tonnes).[7] The three emitting economic sectors were heat and power (44.5%), manufacturing and construction (22.8%), and industrial production process (10%).

14. More than half of respondents had bought sustainability bonds



15. Green bonds dominate China's USD290bn thematic debt market

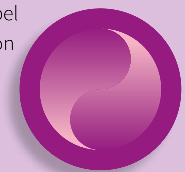


Source: Climate Bonds Initiative

Social and sustainability (S&S) bonds

Market participants have not yet developed a social taxonomy or equivalent classification and screening system, though work on this is ongoing in the EU and elsewhere. Climate Bonds does not screen S&S bonds' use of proceeds against performance thresholds. The use of proceeds is, however, classified in accordance with the respective labels as follows:

Social: the label is exclusively related to social projects e.g., pandemic, COVID-19, housing, gender, women, health, education, etc. Pandemic prevention and control bonds refer to deals with a COVID-related label such as pandemic response, COVID-19 etc.



Sustainability: the label describes a combination of green and social projects, activities, or expenditures e.g., sustainable; Sustainable Development Goals (SDG), socially responsible investment (SRI), environmental, social, and governance (ESG), etc.

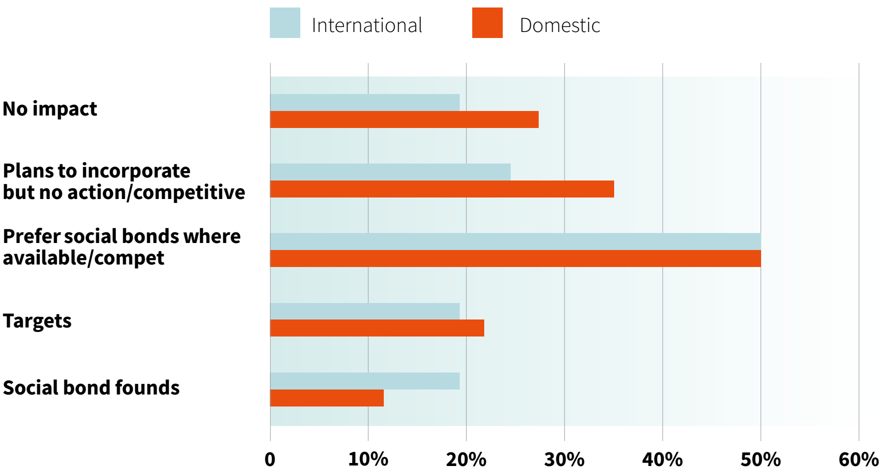
The social label is starting to permeate investment decisions

Respondents were asked the extent to which social bonds had impacted their investment decisions. The question was intended to enable comparison with green bonds and to determine preference for both social and sustainability bonds.

Half of the respondents (21/42) indicated that they preferred social bonds where available and where competitively priced, while a smaller group indicated mandates or targets (9/42) or having specific social bonds funds (6/42) as the reasons for having bought, or for intending to buy, social bonds. Respondents with a broadly positive approach to social bonds outnumbered those who had yet to act.

The social label is less developed compared to the green label which may explain why a higher number of respondents remain uncommitted compared to the green label. A social taxonomy or equivalent classification system is yet to come to prominence, so most social projects are not screened against performance thresholds, unlike standards for green projects which outline clear criteria, such as a clear emission threshold. According to one domestic respondent who participated in our post-survey interview, there is also a big gap in the definitions of social investment as understood by international and domestic institutions.

16. Respondents would preference social bonds were available and competitively priced



Sustainability linked bonds

An SLB is a debt financing instrument that links the terms of the bond to the issuer's sustainability objectives. The linked target indicators include Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs). KPIs are sustainability performance indicators that are material to the issuer's operations; SPTs are quantitative assessment targets for KPIs and are subject to clear timelines for achievement. Subject to validation of the relevant indicators by a third-party institution, if the KPIs do not meet (or achieve) the predetermined SPTs within the timeframe, an adjustment to the bond structure will be triggered.

The scope of SLBs is broader than that of green bonds and is equally applicable to areas of substantial importance to sustainable development such as rural revitalisation, healthcare, education, and infrastructure. In terms of the UoP, SLBs can be used for general purposes with no special requirements. However, there are clear requirements for KPIs and SPTs, which must be verified and disclosed annually during the life of the bond.

KPIs and SPTs can cover multiple areas such as CO_2 reduction, energy consumption per unit, ESG ratings, etc., and can be set as single or combined indicators.

Respondents often prefer to combine social and environmental outcomes in a single instrument, taking comfort in the clearer principles and standards associated with the green side. This could explain why respondents, both domestic and international, showed a stronger preference for sustainability bonds than for social bonds as per chart 14.

Greater confidence is needed to embrace SLBs

Respondents were asked if they thought SLBs were more attractive compared to green, social, and sustainability (GSS) bonds all of which have explicit and dedicated UoP. More than half of the respondents expressed reservations about SLBs, with 23 answering no and 19 answering yes.

Reasons why respondents had bought SLBs were all related to flexible portfolio management such as using SLBs to extend the investable universe of ESG/thematic funds, as a great value-add to ESG screening/integration, and as a good proxy for aligning a portfolio with sustainability criteria. A cost-related reason (reasonable price) and an operability-related reason (easy to fit in my existing investment process) were chosen by a few.

For the larger group of respondents that did not see SLBs as attractive, the most frequently chosen reasons included lack of comparability and risk of greenwashing. This is understandable, given the nature of SLBs, which, unlike green bonds, do not impose restrictions on where the funds can be invested. The determination of their KPIs and SPTs is highly individual, resulting in a lack of comparability between different SLBs. Hence, the role of external reviewers in ensuring the credibility of SLBs is particularly important.

Respondents' views on how SPT ambition levels of SLBs can be best legitimised were quite divided, falling into three categories:

1. Using issuer's track record or peers' performance.
2. Demonstrating alignment with an absolute benchmark (e.g., planetary boundaries, carbon emission reduction pathway consistent with the carbon budget for climate change etc.).
3. Demonstrating the feasibility of the SPT in terms of tracking and reporting.

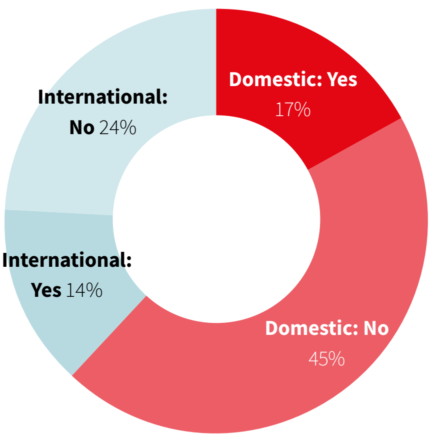
Slightly more international respondents selected absolute benchmarks. Two international respondents indicated that they wanted the SPTs to be verified by the Science Based Targets initiative (SBTI) and that the targets should be set aggressively and should not be confined to the norm.[8]

Carbon neutrality bonds still gaining recognition internationally

Despite the rapid growth in issuance in 2021, market understanding of carbon neutrality bonds (CNBs) is still evolving, and market-wide acceptance of the instrument will take time.

Respondents were asked if they saw CNBs as a darker green investment instrument. This was an open-ended question and those who responded yes were asked to briefly explain their reasons. The majority (69%) of respondents (29/42) answered no, comprising 45% domestic respondents and 24% international respondents. Many respondents regarded CNBs as a type of green bond. Those who ranked CNBs as darker green perceived the instrument to be a form of policy support for the national dual target on carbon neutrality and have clearer carbon reduction benefits, given compulsory disclosure on GHG emissions, and better impact reporting. Despite the rapid growth in issuance in 2021, CNBs are still exclusively issued in China, hence broader education of the international audience is needed.

17. Most respondents did not regard carbon neutrality bonds as darker green than green bonds



Carbon neutrality bonds

Climate change mitigation is the key strategic priority for China and will be crucial to the attainment of the 30.60 targets.

A CNB is an innovative label, launched by NAFMII in 2021 to direct financial resources to support the 30·60 targets. 100% of CNB proceeds must got to projects, assets, or expenditures pertaining to carbon reduction and the selected projects but must follow specific guidelines on GHG reduction disclosure. CNBs accounted for over 40% of the total labelled green bonds issued in China in 2021.[9]

	CNB	Labelled green bonds in China
Eligible UoP CNBs have more focused UoP areas targeted at carbon reduction.	All proceeds used for below areas, including but not limited to: 1. Renewable Energy projects 2. Low Carbon transportation projects 3. Sustainable building project 4. Low-carbon transformation projects 5. Other projects with carbon emission reduction benefits:	Green Bond Endorsed Project Catalogue (2021 Edition): 1. Energy-saving and environmental protection industry 2. Clean production industry 3. Clean energy industry 4. Eco-environment industry 5. Green upgrading of infrastructure 6. Green services Green Bond Guidelines (2015) by NDRC: allow maximum 50% of proceeds used to repay bank loans and replenish working capital. Exchange-listed guidelines on corporate green bonds: No less than 70% of proceeds used for green projects. 100% UoP of the debt financing instruments listed in the interbank market goes to green assets and projects.
Information disclosure CNBs are under specific guidelines on carbon reduction disclosure.	• mandatory to disclose actual or expected carbon emission reduction and methodology • encouraged to disclose carbon reduction plan, pathway to reach carbon neutrality and governance mechanism.	broader environmental disclosure such as major pollution liability and environment-related issues or incidents.

5. Investment decision-making

Green bonds are regular bonds with four distinguishing features:

1. The proceeds are earmarked for projects with specified environmental benefits.
2. The issuers provide clear transparency and disclosure on project selection.
3. The issuers provide clear transparency and disclosure on management of the proceeds.
4. The issuer commits to and provides post issuance reporting.

Most issuers obtain an external review. Best practices have also developed at the international level to guide issuers and deliver consistent markets to maintain investor confidence and avoid the risk of greenwashing.

The growth of the green bond market has attracted a diverse base of investors with different investment strategies and portfolio compositions. To understand key factors affecting the decision to invest in Chinese green bonds, respondents were asked to rank the relative importance of factors driving their green bond investment. The factors were distinguished for green bonds issued in China's domestic market and offshore. Respondents ranked the importance in an ascending scale of 1-5. Respondents assigned similar importance when ranking the same factors for Chinese green bonds issued overseas.

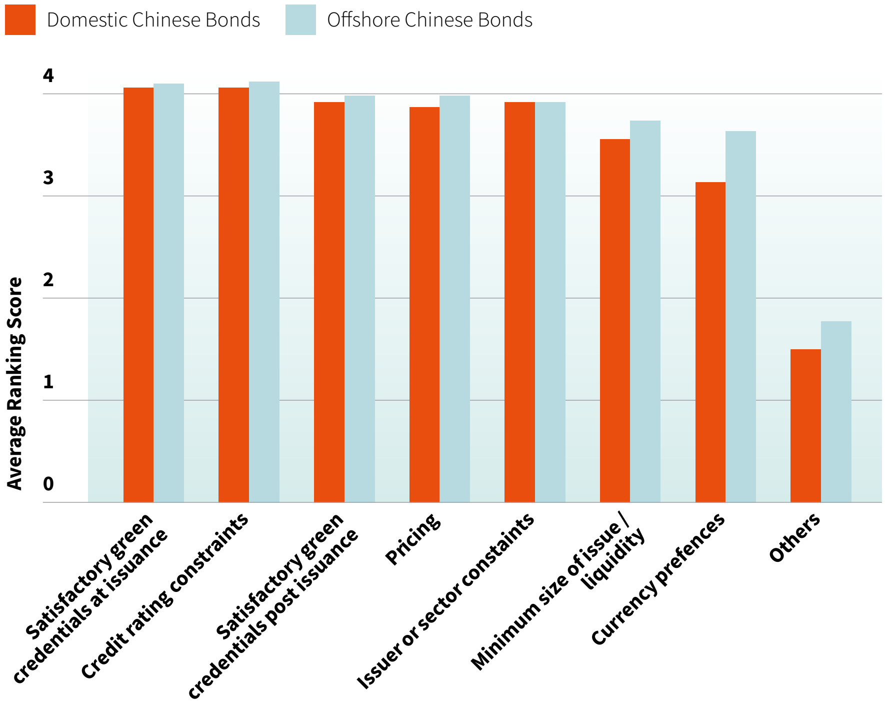
Credit quality and green credentials were the top considerations

The most important factors for making a green bond investment decision were satisfactory green credentials at issuance, credit rating constraints and satisfactory green credentials post-issuance, followed by other factors such as pricing, issuer or sector constraints, minimum size of issue/liquidity, and currency preferences.

International respondents were generally more concerned about green credentials and examined the issuer's ESG credentials as part of their decision-making process. Domestic respondents were concerned about bond fundamentals, including the ease of exit from the investment.

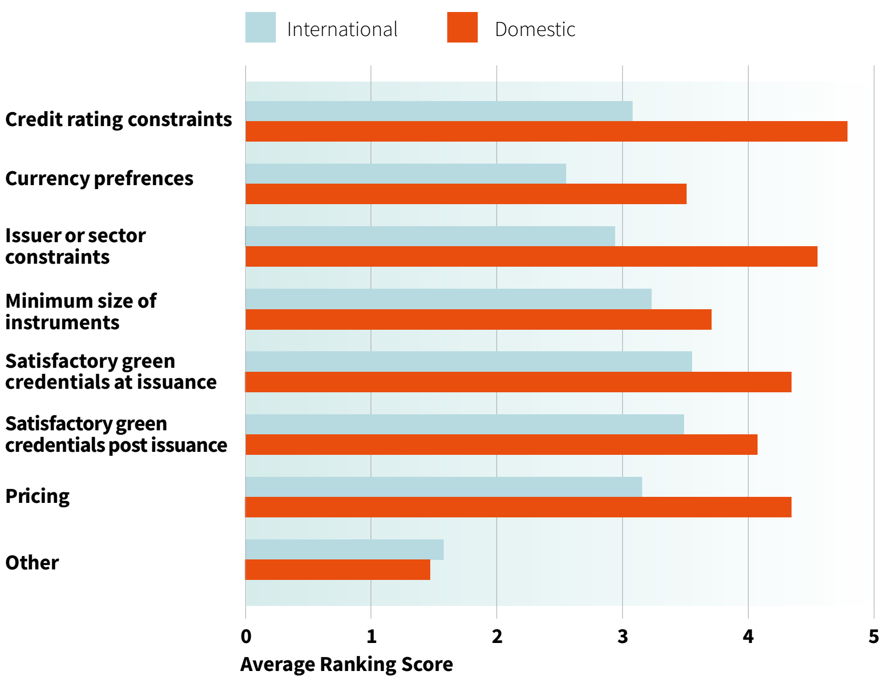
Some respondents cited other factors, many of which are variations of those listed in the questionnaire; these include liquidity noted by domestic respondents, consistency with the International Capital Market Association (ICMA) Green Bond Principles (GBP) from international respondents, and whether bonds are externally reviewed, mentioned by two offshore respondents. One international respondent also mentioned the issuer's own ESG rating.

18. Respondents prioritised green credentials pre- and post-issuance



Note: 1 = not important at all, 2 = slightly important, 3 = important, 4 = fairly important, and 5 = very important

19. Considerations for investing in China's domestic green bond market



Note: 1 = not important at all, 2 = slightly important, 3 = important, 4 = fairly important, and 5 = very important

Positive issuer fundamentals and transparency are crucial for growth

Respondents were asked to rank factors that could make investing in Chinese green bonds more attractive. The top three factors were: issuers' positive fundamentals, transparency/disclosure in the overall process, and post- issuance transparency and detailed UoP disclosure.

The priorities were slightly different for domestic and international respondents, with the top two factors selected by domestic respondents relating to disclosure, and the top factor for international respondents being issuer fundamentals.

These results reveal two interesting features of the current state of the Chinese market. First, the regulators have been focusing on enhancing disclosure, supported by market demand. Disclosure is currently a pain point in the market and where the needs of domestic respondents lie; the current policy reflects the needs of domestic respondents. International institutions also attach importance to information disclosure, but focus more on the fundamentals of the issuer, which is perhaps related to the fact that international institutions are still getting to grips with some of the unique features of the Chinese market. Second, the fact that respondents assigned very high importance to issuer fundamentals could also partially explain why a large proportion of Chinese green bond investment has gone into renewable energy. According to a domestic respondent who shared more insights in a follow-up interview, issuers in the renewable energy sector are generally better qualified, which helps to increase demand for their green bonds.

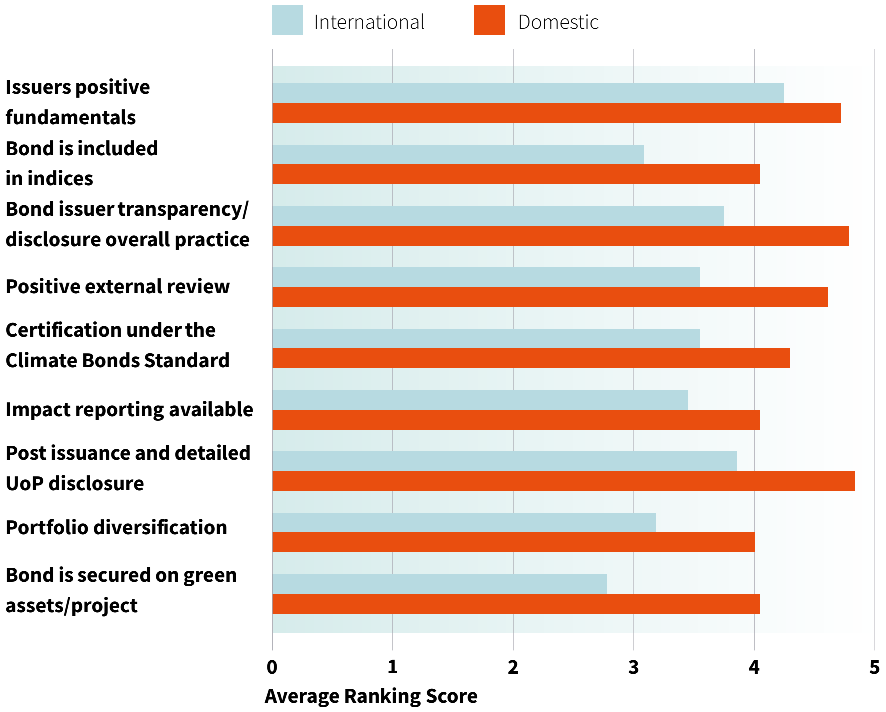
When comparing preferences of respondent types, banks generally attach more importance to the aforementioned factors than asset management companies and mutual funds. Issuer's positive credit fundamentals is the top priority.

Respondents scrutinise the green integrity of each deal

The green integrity of each deal can influence investor decisions. An external review of compliance with the ICMA GBP or certification under the Climate Bonds Standard is likely to increase the appeal of China's green bonds.

Respondents were asked whether they would be more inclined to buy vanilla bonds from an entity that had issued a green bond. The purpose of this question was to determine the perceived impact of the green bond on the overall attractiveness of the issuer. More than half (55%) of respondents, comprising 50% of domestic and 63% of international respondents, indicated no preference. This suggests that investors are currently buying Chinese green bonds for the label rather than the transition story.

20. What could make investing in Chinese green bonds more attractive?



Note: 1 = not important at all, 2 = slightly important, 3 = important, 4 = fairly important, and 5 = very important

Climate Bonds Standard and Certification scheme

The Climate Bonds Standard and Certification Scheme is a labelling scheme for bonds, loans, and other debt instruments. Rigorous scientific criteria ensure that the UoP are consistent with the goals of the Paris Climate Agreement to limit warming to 1.5°C. The Scheme is used globally by bond issuers, governments, respondents, and the financial markets to prioritise investments which genuinely contribute to addressing climate change.

The importance of disclosure in ensuring green integrity is clear. For pre-issuance disclosure, 62% (26/42) of respondents indicated that they would not buy a green bond if they did not know where the proceeds were to be used. This viewpoint is even more pronounced among international respondents, with 69% (11/16) choosing this answer in the survey. For post-issuance disclosure, 75% (32/42) of the institutions indicate that they would sell green bonds given poor post-issuance disclosure. Domestic and international respondents reached unanimity, both at around 75%.

In Climate Bonds' observation of the Chinese green bond market, post-issuance disclosure is not yet mainstream in the market and the quality of information disclosed is patchy. Regulators are guiding the standardisation of post-issuance disclosure summarised below.

Disclosure Requirements for green bond issuers

Green Financial Debt

Name of regulatory body and document

PBoC Green Financial Bonds Announcement [2015] No. 39; Notice of the PBoC on Strengthening Supervision and Management of Matters Relating to the Duration of Green Financial Bonds [Yinfa (2018) No. 29]

Information disclosure requirements

Issuers of green financial bonds are required to disclose information to the market through annual and quarterly reports, which are reported to the People's Bank of China by the NAFMII.

Reference standards for information disclosure include the Code of Practice on Information Disclosure for the Duration of Green Financial Bonds and the template for information disclosure reports.

Annual Report

Issuers are required to disclose in the annual report the UoP in the previous year, and the UoP in the first quarter of the current year. The content includes, but is not limited to:

1. The amount and quantity of new funds invested during the reporting period, the amount and quantity of projects already invested that have expired, the balance and quantity of projects invested at the end of the reporting period, the management and use of idle funds, the status of green projects invested and the expected or actual environmental benefits, etc.
2. The status of green projects.
3. Detailed analysis of typical green project cases.
4. Information on the occurrence of major pollution liability accidents or other environmental violations by bond-backed enterprises or projects.

Quarterly reports

Issuers are required to issue reports on the UoP in the second and third quarters by 31 August and 31 October each year. The content should include:

1. The amount and number of new green projects placed during the reporting period, the amount and number of projects already placed that have expired, the balance and number of projects placed at the end of the reporting period and the management use of idle funds, etc.
2. A brief analysis of the balance and number of projects placed at the end of the period, including the distribution of categories, tables and charts, the situation of idle funds and the next plan.
3. Information on major pollution liability accidents or other environmental violations occurring in bond-supported enterprises or projects.

Green corporate bonds, green ABS

Name of regulatory body and document

Guidelines on the Application of the Rules for Reviewing the Listing of Corporate Bond Issues on the Shanghai Stock Exchange No. 2 - Corporate Bonds of Specific Species (Revised 2021); Questions and Answers on the Regulation of Corporate Bond Financing on the Shanghai Stock Exchange (I) - Green Corporate Bonds; the Guiding Opinions of China Securities Regulatory Commission on Supporting the Development of Green Bonds; Questions and Answers on Asset Securitisation Business of Shanghai Stock Exchange (II) - Green ABS

Information disclosure requirements

Issuers are required to issue regular reports during the life of green corporate bonds to disclose the UoP, the progress of green projects, and environmental benefits. There are two types of reports, one for all issuers and the other for companies whose operating revenue in the green sector exceeds 50% of the consolidated financial statements for the most recent year (inclusive), or whose operating revenue in the green sector is under 50%, but whose operating revenue and profit in the green sector are the highest among all businesses and both account for more than 30% of the issuer's total operating revenue and profit. The latter may not declare the issuance of green bonds for specific green projects when disclosing the relevant information, but the UoP should be used for the development of the company's business in the green industry sector.

In addition, the Green Bond Trustees shall also publish an annual trustee management services report to disclose the above.

Green debt financing instruments (including carbon neutral bonds)

Name of regulatory body and document

NAFMII's Green Debt Financing Instrument Disclosure Form, Business Guidelines on Green Debt Financing Instrument for Non-financial Enterprises, GP Form (Green Assessment Report Disclosure Form), Notice on Clarification of Carbon Neutral Bond Related Mechanisms

Information disclosure requirements

Issuers are required to publish semi-annual reports, disclosing the use of proceeds and progress of green projects in the previous year by 30 April each year and the use of proceeds and progress of green projects in the first half of the current year by 31 August each year; carbon neutral bonds are also required to disclose the actual or expected carbon emission reduction benefits generated by the projects. The disclosure standards refer to the Rules for Disclosure of Information on Non-financial Corporate Debt Financing Instruments in the Interbank Bond Market. If there is a change in the use of the proceeds, the issuer must make an announcement of the change at least five working days before the change.

At the same time, bond trustees should also disclose the UoP from green corporate bonds, the progress of green projects and environmental benefits in the form of annual reports.

SLBs

Name of regulatory body and document

NAFMII launches the SLB - Ten Questions and Answers on the SLB

Information disclosure requirements

According to the Ten Questions and Answers on the Launch of SLBs by NAFMII, SLB issuers are required to publish a special report by 30 April each year for the life of the bond. Issuers are required to disclose the performance results of the SPTs during the reporting period, the sustainability benefits achieved, the impact of the SPT performance results on the bond structure and any information that will help investors understand the issuer's actions.

6. Moving the market forwards

Policy development could introduce rapid scaling

Respondents were invited to identify the main drivers that will enhance the growth and scale of the Chinese green bond market. This question was open ended and respondents provided a variety of opinions. The results could be aggregated into four main categories: enhancement of market fundamentals, policy guidance and incentives, advancement and harmonisation of green definitions, and adoption of international disclosure practice. The responsibility was not always clear-cut, and could require overlapping efforts between policymakers, issuers, and respondents.

Respondents' viewpoints favoured further policy development to introduce rapid scaling. In recent years, Chinese authorities have actively developed a new set of overarching green financial policies as well as those specific to green bonds, to nurture and guide the market. China's 30·60 target has created greater urgency to enhance the nation's green finance policies.

Domestic policy requirements for green investment

On 9 June 2021, the PBoC issued a notice on the launch of the Green Financial Evaluation Programme for Banking Financial Institutions (the Programme). The Programme states that PBoC will dynamically evaluate green financial instruments for inclusion in the scope of evaluation in accordance with the improvement of the green financial standards. The green finance instruments currently included in the scope of evaluation are domestic green bonds and loans. The results of the green finance evaluation will be incorporated into PBoC's policy and prudential management tools such as the central bank's ratings on financial institutions.

Respondents demanded strong fundamentals

Respondents were asked to select from a list of market tools and mechanisms which could help to scale up the Chinese green bond market.

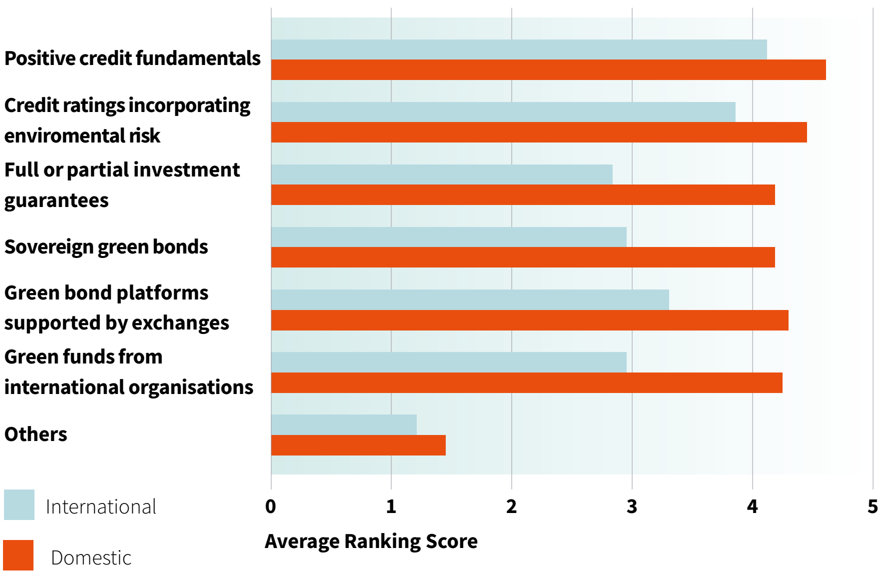
Respondents ranked positive credit fundamentals, international credit ratings which integrate environmental risk analysis and development of green bond lists and platforms supported by exchanges, as the market-related measures that can drive the market forward.

Requirements for green bonds

Three regulators are responsible for the Chinese bond market, and each has developed green financial policies to support its area of oversight. At the national level, rules are made mainly by the PBoC through NAFMII, which guide the interbank market, the China Securities Regulatory Commission (CSRC), which oversees the exchange market, and the National Development and Reform Commission (NDRC), which regulates enterprise bond issuance.

Market	Inter-bank Market	Exchanges
Trading methods	Request for Quotation (RFQ)	Open Auction (OAR)
Registration and Clearing Agency	China Central Depository and Clearing Corporation Shanghai Clearing House.	China Securities Registration and Clearing Corporation.
UoP Ratio	Corporates issuing green debt should undertake to use all the funds raised for green projects.	No less than 70% of the total proceeds of the bond should be allocated to green projects.
Green project recognition requirements	Issuers are required to use the proceeds to support green industries; the scope of green industry projects can reference the Green Bond Endorsed Projects Catalogue	The scope of green industry projects can reference the Green Bond Endorsed Projects Catalogue and green industry projects identified by the relevant institutions and recognised by the Exchange; issuers certified as green corporate entities can issue green bonds without specifying the green projects.
Major types of green bonds	Medium-term notes, short-term financing bills, ultra-short-term financing, asset-backed notes, financial bonds, corporate bonds, etc.	Corporate bonds, municipal bonds, ABS, etc.

21. Market tools and mechanisms to support investment



Note: 1 = not important at all, 2 = slightly important, 3 = important, 4 = fairly important, and 5 = very important

Domestic and international respondents were unanimous in their views and ranked the tools in the same order. Positive credit fundamentals received the highest score. This reflects the fact that the green bond market does not exist independently of the Chinese bond market, and that the basic premise for its development is the long-term upturn of the Chinese economy, the positive fundamentals of industries, and the resulting long-term prosperity of the Chinese bond market. Full or partial investment guarantees (i.e., non-financial obligations, contract breaches, currency etc.) was the lowest scoring option. This indicates that credit enhancement mechanisms play a limited role in the eyes of respondents and are not the fundamental drivers of the market.

Respondents also offered suggestions for useful market tools and mechanisms for green bond market development. External reviews from domestic review agencies were suggested by some domestic respondents. International respondents point out the need to strengthen market education, pay attention to external verification and certification agencies, and recommend that issuers disclose environmental benefits and establish a consistent green bond framework across capital structures and currencies. Some also suggest that entities be encouraged to undertake more sustainable projects to drive demand for funding, which in turn will lead them to issue green bonds. In addition, financial and non-financial corporates should respond positively to the government's call to launch investable products, and to collaborate and innovate jointly.

Domestic respondents supported policy developments

Respondents were asked to rank different policy mechanisms that would enable them to invest, or increase investment, in Chinese green bonds. Domestic respondents assigned greater importance to all policy measures compared to international ones, except for around mandatory disclosure. International investors are familiar and comfortable with greater disclosure and stated that this contributed to the integrity of the market.

Domestic investors strongly supported penal policy measures for high carbon assets, while international respondents indicated that this would be less impactful.

Apart from the pre-listed options in the survey, other policy suggestions from respondents included robust institutional development on disclosure, target setting for green bond issuance and green AUM, more active regulatory assessments and guidance, and more promotion of green finance for small and medium enterprises (SMEs), especially private enterprises, that require capital to decarbonise in the context of the national 30·60 target.

Transition finance

The transition finance space is at a nascent stage and a common global definition of transition or transition finance has not been determined. The OECD first introduced the concept of transitional finance in 2019, which is a relatively broad concept of financing transition to the SDGs and, in 2020, Climate Bonds published a report and guidance on transition finance, limiting the use of the term to the financing for climate-related transition activities.

Across all definitions of transition in the context of climate change, there is little debate on one issue: that all transitions are towards a common goal which, in the case of climate mitigation, is alignment with the Paris Agreement. Therefore, the transition concept and transition finance aim to mobilise finance in support of the Paris climate goals with regards to GHG emissions reduction.

While most activities and entities will need to initiate some level of transition to meet the goals of the Paris Agreement, the transition concept has been used primarily in reference to traditional high GHG-emitting sectors and activities, such as steel and cement, and how to aid their sustainable transition. This is in recognition that such sectors have a more difficult pathway to transition with substantial economic and technological barriers to overcome.

Compared to carbon neutral bonds, transition bonds support a broader scope, and can extend to economic sectors that may not need to finance green assets, but have a clear decarbonisation plan to achieve zero carbon. Transition bonds can be more inclusive because the proceeds can support transition activities or general corporate purposes, provided that the whole company has a sufficiently ambitious and credible transition plan in place.

22. Policy mechanisms to encourage investment

Note: 1 = not important at all, 2 = slightly important, 3 = important, 4 = fairly important, and 5 = very important

Harmonised green definitions will contribute to market growth

Respondents acknowledged the importance of a national green taxonomy and its harmonisation with international standards in bringing scale to the Chinese green bond market. Policy updates, such as the 2021 edition of the Green Bond Endorsed Projects Catalogue (China's Green Taxonomy), as well as ongoing international cooperation in developing the Common Ground Taxonomy with the EU taxonomy, will support further market growth, including the introduction of the infrastructure for green integrity needed to catalyse more international capital flows into Chinese green bonds.[10]

Despite the common recognition of the importance of green taxonomy, respondents expressed polemic views on what degree of strictness green definitions should support. Half (21/42) opted for a strict definition of green to ensure the green label is only applied to high-quality projects, reflecting strong investor concerns about greenwashing; almost another half (17/42) think that the definitions of green should not be too strict to help diversify the pool of issuers and increase the size of the market.

These divergent views reflect the competing concerns that China's evolving green finance policies need to address.

Respondents would also benefit from more policy clarity on transition finance. The PBoC and other ministries are actively studying the criteria relating to transition finance in the context of the national taxonomy. When the Catalogue (2021 Edition) was introduced, the PBoC stated that 'In order to better implement the carbon targets, the PBoC is working with relevant ministries to actively study the criteria relating to transition finance, in the principle of safety first and energy saving first, to design a steady transition path and guide financial institutions to support the energy system and energy-consumptive industries to transition in an orderly and gradual manner, with full consideration of the life expectancy and depreciation cycles of existing projects.' In the Q2 2021 Report on the Implementation of China's Monetary Policy, the PBoC also stated that it would guide commercial banks to give reasonable and necessary support to the transition and upgrading of traditional energy industries, such as coal, in market-oriented principles. As transition finance is required to support the transition of the highest emitting sectors it has become a hot topic internationally. Clarity of transition finance rules and standards, as well as harmonisation with international standards and guidance (such as those issued by Climate Bonds and ICMA), will be critical for the growth of this market segment in China.

More policy guidance is needed on TCFD

Established by the Financial Stability Board, TCFD is a market-driven initiative, set up to develop recommendations for voluntary and consistent climate-related financial risk disclosure in mainstream company filings.

Issuers benefit from guidance in providing information to respondents, lenders, insurers, and other stakeholders. Respondents benefit from increased, if not yet consistent, disclosure. A clear added value of green bonds is the transparency around the UoP.

The Hong Kong Green and Sustainable Finance Cross-Agency Steering Group announced that climate related disclosures aligned with the TCFD recommendations will be mandatory across relevant sectors no later than 2025. The Steering Group also indicated its support towards adopting the standard to be developed by the ISSB. HKEX's ESG reporting framework has already incorporated key elements of the TCFD recommendations on climate-related disclosures, and has published a Guidance on Climate Disclosures to provide practical tips and guidance to assist issuers in preparing TCFD-aligned climate change reporting. HKEX is reviewing its ESG reporting framework in order to further align with the TCFD recommendations and the ISSB standards. The PBoC's guidelines on environmental information disclosure requirements for financial institutions are consistent with TCFD recommendations.

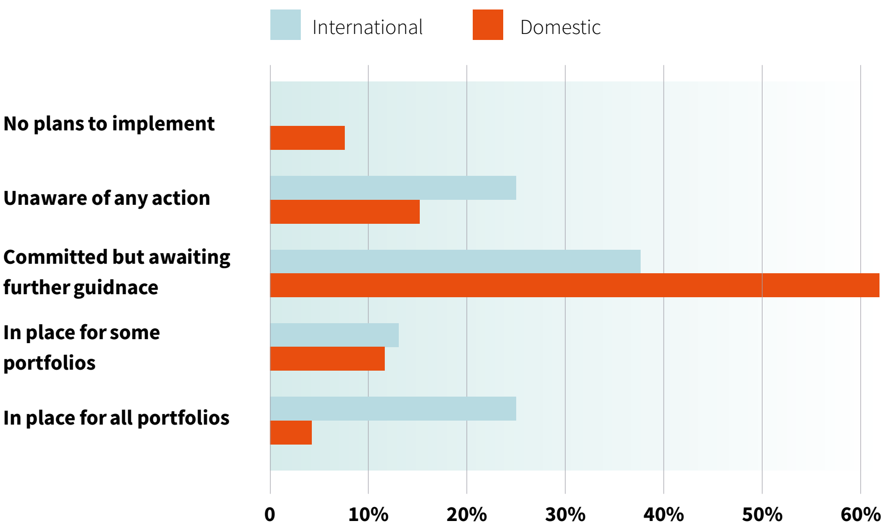
Respondents were asked to describe their approach to implementing the TCFD recommendations. Most respondents were broadly committed. International respondents were at a more advanced stage with TCFD implementation compared to domestic ones. Half of all respondents noted that further guidance such as implementation rules by Chinese regulators and industry associations, peer communication, and capacity building efforts would be helpful.

Environmental Information Disclosure Requirements for Financial Institutions

In August 2021, the PBoC issued the Guidelines on Environmental Information Disclosure for Financial Institutions, covering four types of institutions: commercial banks, capital management institutions, trust companies and insurance companies, with the aim of standardising the disclosure of environmental information by financial institutions, guiding financial resources to be allocated more precisely to green and low-carbon areas, and helping financial institutions and stakeholders to identify, quantify, and manage environment-related financial risks. The guidelines define climate information as part of environmental information, and the specific disclosures cover most of the TCFD recommendations.

The Securities and Futures Commission of Hong Kong (HKSFC) published Management and Disclosure of Climate-Related Risks by Fund Managers on 20 August 2021 to clarify the fund manager's climate risk management and disclosure responsibilities in the investment and risk management process. Fund managers are required to progressively factor in the environmental performance of their investee companies, in particular greenhouse gas emissions, in their assessments. The HKSFC's requirements for fund managers to manage and disclose climate-related risks are largely consistent with those required by the TCFD.

23. International investors were further along with implementing TCFD guidelines



7. Attracting international capital to China's green bond market

More participation from international investors is essential to mobilise the capital required to meet China's 30.60 ambitions. A larger pool of investors from diversified sources would also enhance liquidity. Survey questions examined sentiment regarding the accessibility and attractiveness of the Chinese green bond market to international respondents, and how that could be enhanced.

Offshore channels remain popular

Respondents were asked to identify the most utilised channels for buying Chinese green bonds.

Almost 60% (9/16) of international respondents ticked Bond Connect, reflecting that Hong Kong's institutions (8/16) also invest in Chinese green bonds via the offshore market. Around one third of the respondents invest through QFII, RQFII and China Interbank Bond Market (CIBM) Direct Nine international respondents purchased Chinese green bonds through at least two channels.

Chinese policy and regulation, and issuer fundamentals restrict international respondents

Respondents were asked to identify any key Chinese investment restrictions. Among the responses, currency, deal size and exposure limits to EM were things controlled by the respondent (active). Exposure limits by issuer was an example of a restriction determined by current Chinese policy and regulations (passive). Respondents could also provide their own responses.

Three quarters (12/16) of the responses pertained to passive options. This reflects some of the problems prevalent for international investors in the Chinese bond market. Currently, different entry thresholds and quota/ratio restrictions are imposed on investors for different types of securities. This makes it more complicated for international investors to participate in the Chinese bond market, which extends to the green bond market.

Among the active options, currency, deal size, and exposure limits to EM were ticked by six, five, and four respondents respectively. These internal restrictions were also mentioned by the respondents to the Climate Bonds' European Investor Survey.

Several respondents also identified additional investment constraints, including limited supply and sector diversification of currently available Chinese green bonds. Others highlighted constraints related to their own investment policies, but in practice they reflected concerns regarding issuer fundamentals. For example, some international respondents explained that Chinese green bonds were evaluated in the same way as any other fixed income investments. The green label in isolation would not be enough to make an investment attractive. Fundamental

Qualified Foreign Institutional Investor (QFII)

QFII and Remenbi Qualified Foreign Institutional Investors (RQFII, collectively QFIIs) refer to international institutional investors who have been approved by the CSRC to use funds from abroad to invest in Chinese domestic securities and futures, including international fund management companies, commercial banks, insurance companies, securities companies, futures companies, trust companies, government investment institutions, sovereign funds, pension funds, charity funds, endowments, international organisations and other institutions approved by the CSRC. QFIIs conducting securities and futures trading activities in China should entrust domestic institutions that meet the requirements to act as custodians for their assets and entrust domestic securities companies and futures companies in accordance with the law. China encourages the use of RMB funds from abroad for domestic securities and futures investments.

The securities and their derivatives that QFIIs may invest in include:

1. **Stocks**, including ordinary shares, preferred shares and other stocks recognised by the Exchange;
2. **depositary receipts;**
3. **bonds**, including government bonds, pre-issued government bonds, local government bonds, government-backed bonds, corporate bonds, corporate bonds, convertible corporate bonds, separately traded convertible corporate bonds, exchangeable corporate bonds, policy bonds, financial bonds, subordinated bonds and other bond types recognised by the Exchange;
4. **ABS;**
5. **funds**, including various types of exchange-traded open-end funds (ETFs), listed open-end funds (LOFs), closed-end funds and other bond types recognised by the Exchange;
6. **stock options**; and
7. **other securities** and their derivatives as permitted by the CSRC. QFIIs can participate in new share issues, bond issues, ABS issues, additional share issues, share placements and subscriptions, and can participate in securities financing and financing transactions, securities lending transactions through transfer financing, and bond repurchase transactions.

At present, international investors can invest in the inter-bank bond market through either:

1. **QFIIs,**
2. **CIBM Direct,**
3. **Bond Connect.**

International investors can also invest in the exchange bond market through QFIIs.

At present, international investors investing in the interbank bond market (CIBM) through CIBM-Direct or QFIIs are required to sign a settlement agency agreement (known as the settlement agency model) with a settlement agent bank or its domestic custodian bank and file with the PBoC.

International investors can apply for Bond Connect with PBoC via Bond Connect Company Limited (BCCL), which utilises Hong Kong based Central Moneymarket Unit (CMU) member as custodian.

analysis includes currency (with respondents expressing a preference for EUR and USD), eligible sectors (preference for real economy and fossil fuels), and bond mathematics (ratings, value for money, credit quality etc.). If the fundamentals could be satisfied, the green credentials would be assessed separately. A similar view was also expressed by many domestic respondents who participated in the follow up interview having provided written answers to the survey.

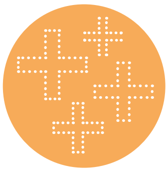
This process could constrain some international investors from investing in Chinese green bonds, even if policy and regulatory restrictions on the Chinese market were absent. The responses to this question suggest that there needs to be more green bonds from fundamentally sound issuers to attract foreign capital at scale.

Green integrity is crucial to attract international investment

Answers to the survey suggest that green integrity, transparency, and sound issuer fundamentals are the most important factors affecting international investment in Chinese green bonds. Diversification of fund allocation and improved liquidity of green bonds would also boost confidence. But while these issues were important, international survey respondents also expressed their commitment to the Chinese bond market broadly, rather than sporadic UoP projects. They also indicated an understanding that the market is still developing and, which in turn, requires deeper engagement with issuers. Many international respondents expressed a willingness to engage.

Within this context, international respondents were invited to provide additional insights on what could further drive their investment in China. Besides the market and policy measures identified in Section 6, international respondents would like to see more green finance initiatives at local or provincial levels, followed by benchmarks for EM green bonds, and credit enhancements available from multilaterals or government-related entities. Public spending infrastructure/urbanisation programmes and deal-supporting mechanisms ranked last but were not too far behind the top three options in terms of score. In other words, these five options need to be deployed concomitantly to catalyse large scale international investment.

8. Conclusion



The results of this survey present a picture of rapidly growing investor appetite for Chinese green finance instruments. Both international and domestic respondents repeatedly highlighted a need for more, high-quality, green bonds.

Respondents with exposure to the Chinese market have to a large extent incorporated green bonds into their investment policies to address climate change through investments, and they would like to buy more.

Issuers from all economic sectors must respond to this demand and use the green bond market as a source of funding for projects, assets, and expenditures in the full range of UoP categories.

Market actions to scale up China's green bond market

Green credentials are crucial. Respondents identified satisfactory green credentials pre- and post-issuance as paramount. While respondents indicated they wanted to buy more green bonds, those bonds had to meet the necessary standards of credibility and transparency. Respondents identified five actions that issuers could follow to ensure robust and credible green bonds:

1. Adhere to available guidance when designing frameworks (e.g., ICMA GBP).

2. Explain clearly the proposed UoP (as much as is reasonably practicable).

3. Commission an external review or Certification.

4. Achieve minimum benchmark size (USD500m).

5. Initiate better, and more timely disclosure post-issuance.

Respondents want to buy green bonds across the full range of UoP categories, in particular Renewable Energy and Low Carbon Transport. This is consistent with the UoP of currently available Chinese green bonds. Bond issuers should look at their existing and planned projects, assets, and expenditures, to determine how they could qualify for inclusion in a green bond. Pure-plays with robust fundamentals should also be encouraged to consider issuing labelled bonds.

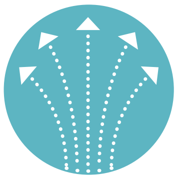
Financial and non-financial corporate bonds are currently the most preferred Chinese issuer types of green bonds. Respondents are keen to diversify the sources of their green investments and would like to see more issuance from government-backed entities, policy banks and non-financial corporates. Government-backed entities can be a reliable source of capital for A&R related projects, which currently comprise under 1% of available bonds from Chinese issuers.

Respondents repeatedly highlighted the importance of positive credit fundamentals. This embodies international investor attitudes to the broader Chinese bond market, of which green bonds are a sub-set. The development of the Chinese green bond market is contingent on the management of the overall economy, as well as the fundamental soundness of issuing entities. Issuers must offer the maximum clarity and transparency over their activities and proposed UoP of green bonds. Respondents expressed willingness to engage with issuers. Issuers should seize the opportunity to diversify their sources of capital and consult with the investment community to gain further clarity on best practice.

There was growing interest in other types of thematic labels. Although respondents had fewer mandates incorporating social bonds, they expressed their increasing enthusiasm to integrate social outcomes into investments. Issuers with social projects or objectives should consider issuing bonds with the social label to attract dedicated pockets of investors or issue sustainability bonds which those projects with environmental ones.

Other labelled markets are growing. Respondents stated their interest in GSS UoP bonds, SLBs, and transition finance instruments. Ensuring overarching consistency in developing standards for these instruments will be crucial in scaling up the market and encouraging wider adoption among investors.

Policy considerations for scaling up



Regulatory mechanisms such as policy development and international cooperation on green definitions were highlighted as useful tools to bring the required scale to the Chinese green bond market. These measures, including the 2021 Edition of the Green Bond Endorsed Projects Catalogue and IPSFs Common Ground Taxonomy, were perceived as supportive in scaling up the market and facilitating capital flow. More green finance initiatives at local or provincial levels would encourage more rapid growth.

Enhanced disclosure measures will help to close data gaps and instil greater confidence in the market. PBoC's introduction of environmental disclosure guidelines for financial institutions, and Hong Kong Cross-Agency Steering Group's work in mandating climate-related disclosure aligned with TCFD by 2025 are welcome examples. Channels on voluntary reporting such as HKEX's Sustainable and Green Exchange (STAGE) platform also provide easier access to information.

Appendix I: Methodology

Climate Bonds and SynTao Green Finance invited domestic and international financial institutions to participate in the China Green Bond Investor Survey. Participants were selected from a list of China's top green bond investors maintained by the National Association of Financial Market Institutional Respondents (NAFMII), a self-regulated organisation overseen by the PBoC. Large, non-Chinese investors active in China's onshore green bond market were also invited to participate.

Climate Bonds and Syntao Green Finance thank the Hong Kong Exchanges and Clearing (HKEX) and Natixis Hong Kong for their kind support in circulating the survey to Hong Kong-based green bond respondents.

The questionnaire was completed both online (at wenjuan.com) or in writing by email. Follow-up interviews were conducted through virtual meetings, with the interviewer recording all details.

Initial invitations were extended in August 2021. Questionnaires were distributed in September, and the deadline for inclusion was December. A total of 89 invitations were sent and 44 responses received, representing a response rate of 49.4%. Of these, 42 valid questionnaires were used for the analysis and report writing. Of the 42 valid questionnaires, 36 questionnaires were returned online, four were completed and returned in written format, and two were completed via Climate Bonds' interviews.

There were 30 questions on the questionnaire, of which Q1 and Q2 requested permission to name the organisation, while the remaining 28 questions touched several dimensions in the decision-making process. Three questions were dedicated to international respondents.

There was a variety of response types, including multiple choice, single choice, scoring, fill-in-blank, and open-ended questions. A variety of data was used to describe respondents' preferences for investing in Chinese green bonds.

Appendix II: Respondents

The following organisations have agreed to be named for their kind participation in the survey:

Neuberger Berman Investment Management (Shanghai)

Schroders

China Construction Bank Corporation

CITIC Securities

Franklin Templeton Fixed Income

China Southern Asset Management

BOB Scotia International Asset

Ninety-One Asset Management

HSBC Asset Management

Invesco Ltd.

Appendix III: Questionnaire (headline questions)

Permission to name organisation

1. Do we have permission to name your organisation in our Investor Survey report? (Y/N)

2. Your organisation is a domestic institutional investor or an international institutional investor?

Investment Policy Overview

3. To what extent have green bonds impacted your investment decisions? (Tick any that apply)

4. What percentage of your fixed income AUM is currently invested in green bonds? (optional)

Market Dynamics for current and potential green bond investments

5. What sectors do the bonds you have invested in / intend to invest in green finance?

6. What are your preferred types of green fixed income investments in China?
(Tick any that apply)

7. If you invest or intend to invest in China's domestic and/or overseas green bonds, how important are the following factors in making an investment decision?

8. Rank the following issues that could make investing in Chinese green bonds more attractive.

9. Would you be more inclined to buy a vanilla bond from an organisation that has issued a green bond, over a vanilla bond from an organisation that has not?

10. Would you buy a green bond if it was not clear that all net proceeds were going to be allocated to green projects?

11. Would you sell a green bond if post-issuance green bond reporting was poor?

12. Rank the asset classes in which would you like to buy more Chinese green bonds.

13. Please rank non-financial corporate sectors you would most like to buy green bonds in.

Standards and developments

14. Rank the main market tools and mechanisms that in your opinion could be developed or leveraged to support investment in Chinese green bonds.

15. Rank the main policy mechanisms that would enable you to invest, or increase your investment in Chinese green bonds.

16. What is your approach to the recommendations of the Task Force on Climate Related Financial Disclosures (TCFD)?

17. Would you prefer: (Tick one)
i. Strict definitions of green to ensure the green label is only applied to high quality projects?
ii. Less strict definitions of green to allow for diversity in issuance and to scale up the market?
iii. No preference.

18. In your opinion, what is the main driver that will enhance growth and scale of the green bond market?

19. What is the main obstacle?

Market Intelligence

20. How do you keep abreast of opportunities in the Chinese green bond market?

Accessibility of the Chinese market (for international respondents only)

21. Which channel(s) do you utilise for buying Chinese green bond?

22. What other Chinese investment restrictions do you have?

23. What could drive your investment in China?

Market evolution

24. How could lower interest rates alter your appetite for green bonds?

25. Have you bought any other types of labelled bonds?

26. Do you see carbon neutrality bonds as a more 'green intensive' bond?

If yes, please provide the reason:

27. Do you think Sustainability-linked Bonds (SLBs) are more attractive than green bonds?

28. What are SLBs best fitted for?

29. How can the Sustainability Performance Targets (SPTs) ambition levels be best legitimised?

30. To what extent have social bonds impacted your investment decisions?

Appendix IV: About the sponsors

Hong Kong Exchanges and Clearing Limited

Hong Kong Exchanges and Clearing Limited (HKEX) is one of the world's major exchange groups, and operates a range of equity, commodity, fixed income and currency markets. HKEX is the world's leading IPO market and as Hong Kong's only securities and derivatives exchange and sole operator of its clearing houses, it is uniquely placed to offer regional and international investors access to Asia's most vibrant markets.

Sitting at the heart of Asia's global capital markets, HKEX launched STAGE (Sustainable and Green Exchange), Asia's first multi-asset sustainable investment product platform, in December 2020. STAGE acts as a central hub for data and information on sustainable and green financial products and has become a cornerstone of our strategy to facilitate and develop the sustainable finance ecosystem across our region. STAGE has been gaining momentum as a go-to online educational resource, promoting knowledge sharing and stakeholder engagement.

At the heart of the STAGE platform is an online product repository, featuring 88 sustainable-focused products as of 31 January 2022. These listed products include green and sustainable bonds from issuers across a variety of sectors, including utilities, transportation, property development and financial services, as well as social bonds and ESG-related exchange traded products. To promote transparency and credibility, issuers included on STAGE must provide additional voluntary disclosures on their sustainable investment products, such as use of proceeds reports, as well as annual post-issuance reports.

Natixis Corporate & Investment Banking

Natixis CIB is a leading global financial institution that provides advisory, investment banking, financing, corporate banking and capital markets services to corporations, financial institutions, financial sponsors and sovereign and supranational organisations worldwide. Our teams of experts in over 25 countries advise clients on their strategic development, helping them to grow and transform their businesses, and maximise their positive impact. As part of the Global Financial Services division of Groupe BPCE, the second largest banking group in France through the Banque Populaire and Caisse d'Epargne retail networks, Natixis CIB benefits from the Group's financial strength and solid financial ratings (Standard & Poor's: A, Moody's: A1, Fitch: A+, R&I: A+).

Natixis CIB is the go-to partner for environmental transition of its clients. As key green finance player, we support clients in their development and the transformation of their businesses, while maximising their positive impact. With cross-asset experts in Paris, New York and Hong Kong, the Green & Sustainable hub of Natixis CIB advises issuer and investor clients on ESG related financing and investment themes. Natixis CIB is the first bank to actively manage the environmental impact of our balance sheet, with the Green Weighting Factor methodology. By 2024 Natixis CIB aims to align the temperature trajectory of its balance sheet and investments to +2.5°, reaching +1.5° by 2050.

Endnotes

1. Based on cumulative issuance aligned with Climate Bonds definitions as of Q3 2021.
2. CE news. Where does investment come from and to where to reach carbon neutrality? (碳中和超百万亿元投资从哪来投向哪?June 2021. https://www.cenews.com.cn/newpos/sh/gd/202106/t20210603_976533.html
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4. BIS. Q2 2021. Summary of debt securities outstanding. https://stats.bis.org/statx/srs/table/c1?p=20212&c=
5. Climate Bonds Taxonomy. https://www.climatebonds.net/standard/taxonomy
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10. IPSF Taxonomy Working Group Co-chaired by the EU and China. 2021. Common Ground Taxonomy – Climate Change Mitigation https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/211104-ipsf-common-ground-taxonomy-instruction-report-2021_en.pdf

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