

PRI'S RESPONSE TO THE SHENZHEN SPECIAL ECONOMIC ZONE GREEN FINANCE REGULATION

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INTRODUCTION

The United Nations-backed Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 3000 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US \$90 trillion in assets under management.

Responsible investment explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors in investment decision-making for the long-term health and stability of financial markets.

The PRI welcomes the opportunity to contribute comments and suggestions to the Shenzhen Special Economic Zone Green Finance Regulation.

ABOUT THE CONSULTATION

To promote the development of green finance in Shenzhen Special Economic Zone, and to establish a sustainable economic, The Standing Committee of the Shenzhen Municipal People's Congress drafted the Green Finance Regulation of the Shenzhen Special Economic Zone (Draft for Consultation) (Hereafter "The Regulation").

The proposed Regulation aims to:

- Clarify the social responsibilities of financial institutions
- Establish and improve the green financial system
- Formulate standards for green finance standards
- Establish a green investment assessment system for financial institutions
- Optimise green financial products and services
- Clarify the responsibility for environmental information disclosure
- Promote and monitor of green finance development
- Set out management and regulation of green finance activities
- Define Legal liability on green investment assessment and effective post-investment management for environment related projects

PRI'S RESPONSE TO THE CONSULTATION

The PRI welcomes the Green Finance Regulation of Shenzhen Special Economic Zone. The Regulation will support local financial institutions to promote the development of responsible investment practices and enhance sustainable long-term financial performance. In particular, we welcome:

- A coordinated leadership mechanism by the municipal government (Article 6)
- Encourage offering of green and sustainable investment products and services (Article 5)
- Establish a dedicated department for green finance within financial institutions, and set a comprehensive mechanism for performance review, incentives and constraints, and internal control (Article 9)
- Green investment requirements for insurance companies (Article 12)
- Encourage participation in domestic and global green finance standard-setting (Articles 17 and 57)
- Emphasis on state-owned financial institution's green development and performance (Article 58)
- Encourage financial institutions to use environmental stress testing and scenario analysis to quantify risks financial institutions may face under climate change and more stringent environmental regulation (Article 21)
- Prevent Green-washing activities of financial institutions through regulations on product promotion, financing, and third-party assurance (Article 62, 63, 64)

We recommend that The Standing Committee of the Shenzhen Municipal People's Congress:

- **Clarifies in the Regulation that investors should integrate all value drivers, including ESG factors, in investment decision making, to better manage risks and generate sustainable returns.**
- **Encourages the publication of ESG disclosure alongside financial indicators in the annual report.**
- **Proposes that local insurance supervisors or industry association introduce regulations on ESG disclosure by insurance companies and their asset managers.**
- **Endorses the TCFD recommendations, both for engagement with investee companies and financial institutions' own disclosures.**
- **Promotes investor education on ESG incorporation and sustainable investment.**

These recommendations will support a sustainable transition to climate neutrality by 2060 in China.

The proposals in the draft guidelines are consistent with the recommendations of the PRI and UNEP FI work on Fiduciary Duty in the 21st Century programme, and PRI's report [ESG data in China: recommendations for primary ESG indicators](#).

Additional comments, including on background note and articles annotations, are presented below.

DETAILED RECOMMENDATIONS ON THE REGULATION

More specifically, the PRI recommends that The Standing Committee of the Shenzhen Municipal People's Congress:

- **Clarifies the scopes of duties of institutional investors** (Article 13 and 14) to require investors to incorporate all material value drivers, including ESG factors, in investment decision making, to better manage risks and generate sustainable, long-term returns.
- **Changes “individual investors’ preference in the green sector” to sustainability-related preference, regardless of whether these preferences are financially material¹.** (Article 32 “When providing investment advice to individual investors, investment advisory bodies shall ask individual investors about their investment preferences in the green sector and recommend suitable investment products in accordance with the green investment preferences stated by individual investors.”)
- **Includes material ESG indicators in the local green financial statistic standards** (Article 20 “The local financial regulatory departments shall... formulate green financial statistics standards, establish a green financial statistics system...”)
- **Mandates standardised disclosure requirements for issuers to demonstrate alignment with the catalogue and quality of environmental risk management.** (Article 40 “The issuer of green financial bonds shall disclose them in accordance with the requirements of the relevant financial regulatory authorities of the State for disclosure of the issuance of green bonds”)
- **Requires the disclosure of standardised, comparable environment indicators that are already widely reported by both international and Chinese companies, and of material social and governance indicators.** (Article 40 “Listed companies in the financial industry registered in the Shenzhen Special Economic Zone should disclose in accordance with stock exchanges’ requirements for environmental information disclosure.”)

Proposed Environment indicators:

- 1 . Greenhouse gas (GHG) emissions
 - o Total GHG emissions (scope 1,2,3) in tonnes
- 2 . Air pollutants
 - o Air emissions of NOx, SOx, POP, VOC, HAP, PM in kg
- 3 . Water
 - o Total water withdrawal (m³)
 - o % of water recycled
- 4 . Energy
 - o Total energy consumed (GWh)
 - o % of renewable energy
- 5 . Waste (water, solid, hazardous)
 - o Total waste from operations (tonnes)
 - o % of hazardous waste
 - o % of waste recycled
 - o Water discharges of Nitrogen, Phosphorus and Persistent Organic Pollutants (kg) and Biochemical Oxygen Demand (mg/L)

Proposed Social and Governance indicators

1. Workforce
 - o Workforce composition by gender
 - o Training hours per employee
 - o Wages paid

¹ <https://www.unpri.org/fiduciary-duty-in-the-21st-century-final-report/4998.article>

2. Health and safety
 - o Injury rate (TRIR)
 - o Fatality rate (for direct and contract employees)
3. Governance quantitative indicators
 - o % of women on the Board
 - o Decentralization of authority President/CEO
 - o CEO pay ratio

The PRI has experience of public policy on sustainable finance policies and responsible investment across multiple markets and stands ready to further support the work of the Chinese regulators on promoting financial regulations aligned with a sustainable recovery and green economies. Any question or comments can be sent to policy@unpri.org.