

CARBON ACCOUNTING POLICIES AND PRACTICES IN CHINA'S BANKING SECTOR 2024

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Cover Image: Huzhou Taihu Lake Tourism Resort, Huzhou, Zhejiang Province

As a pioneer in practicing the green finance reform and innovation, Huzhou has strengthened its requirements for all the financial institutions operating within its jurisdiction to conduct environmental information disclosure. In addition, many commercial bank branches in Huzhou are taking the lead in carbon accounting, a key step for climate-risk management, sustainability disclosure, and transition finance innovation.

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About Huzhou Green Finance Institute (HZGF)

Huzhou Green Finance Institute (HZGF) is a non-profit research institution based in Huzhou City, Zhejiang Province, China. We specialize in forward-looking research and conduct pilot projects on issues of green finance and ESG investment. We empower domestic green finance capacity building and advance international cooperation. Together with our partners, we are dedicated to promoting Huzhou as a demonstration center for China's green finance, and establishing it as a global innovation base for sustainable development.

About G:HUB

Greenovation Hub (GHub) is an independent environmental think tank with a global outlook, registered with the Beijing Municipal Civil Affairs Bureau. GHub advances the policy development and dialogues in cutting-edge areas of sustainable development, seeks innovative solutions to quality growth, climate resilience and carbon neutrality in China and beyond, contributing to a net-zero and nature-positive future.

Note: This report is part of a series of studies on sustainability disclosure. Please refer to previous research publications for more information:

Chinese Report: *Enhancing Climate-Related Environmental Information Disclosure of Financial Institutions: Policies and Practices (2023)*

<https://www.ghub.org.cn/news/detail/briefing-climate-disclosure-23nov>

English Briefing: *Enhancing Climate-Related Environmental Information Disclosure of Financial Institutions: Policies and Practices (2023)*

<https://en.ghub.org.cn/news/detail/briefing-climate-disclosure-23nov>

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List of Abbreviations

Abbreviation	Description
AI	Artificial Intelligence
BCBS	Basel Committee on Banking Supervision
BOH	Bank of Huzhou
CSRC	China Securities Regulatory Commission
CSRD	Corporate Sustainability Reporting Directive
DEFRA	United Kingdom Department for Environment, Food & Rural Affairs
EEIO	Environmentally Extended Input-Output
EPA	United States Environmental Protection Agency
ESG	Environmental, Social and Governance
EU	European Union
GEM	Growth Enterprise Market
GFANZ	Glasgow Financial Alliance for Net-Zero
GHG	Greenhouse Gas
GRCB	Guangzhou Rural Commercial Bank
HKFRS S1	General Requirements for Disclosure of Sustainability-related Financial Information
HKFRS S2	Climate-related Disclosures
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSAR	Hong Kong Special Administrative Region
HXB	Huaxia Bank
ICBC	Industrial and Commercial Bank of China
IEA	International Energy Agency
IFRS S1	International Financial Reporting Standards-General Requirements for Disclosure of Sustainability-related Financial Information

(continued)

Abbreviation	Description
IFRS S2	International Financial Reporting Standards Climate-related Disclosures
IMO	International Maritime Organization
IPCC	Intergovernmental Panel on Climate Change
ISSB	International Sustainability Standards Board
MEE	Ministry of Ecology and Environment of the People's Republic of China
MOF	Ministry of Finance of the People's Republic of China
NBS	National Bureau of Statistics of China
NDRC	National Development and Reform Commission of the People's Republic of China
NFRA	National Financial Regulatory Administration of China
NGFS	Network for Greening the Financial System
NZBA	Net Zero Banking Alliance
PBoC	People's Bank of China
PCAF	Partnership for Carbon Accounting and Financials
SAMR	State Administration for Market Regulation of China
SASAC	State-owned Assets Supervision and Administration Commission of the State Council of China
SEC	United States Securities and Exchange Commission
SEHK	Stock Exchange of Hong Kong Ltd.
TCFD	Task Force on Climate-related Financial Disclosures
URE	Urząd Regulacji Energetyki

Executive Summary

Faced with the increasing impacts of the global climate crisis, taking climate action has emerged as a critical agenda for countries and regions worldwide. The international community is accelerating mitigation and climate adaptation through policy cooperation and multilateral actions. At the meso-level, industrial chains are accelerating the green and low-carbon transition to achieve the climate goals of the *Paris Agreement* and the United Nations Sustainable Development Goals. Financial institutions could play a crucial role in shifting financial flows and optimizing resource allocation. On the one hand, they could manage their own climate-related financial risks, on the other hand, they could drive the economy-wide low-carbon transition through investment and financing.

Carbon accounting provides the foundation for financial institutions' financing for the green and low-carbon transition of the real economy. First, carbon accounting provides precise data for climate risk analysis, helping financial institutions identify high-carbon risk exposures and conduct forward-looking management through climate scenario analysis and stress testing. Second, with the increasingly stringent sustainability disclosure standards, carbon accounting offers quantitative evidence to meet national and international ESG disclosure requirements which helps ensure the transparency and accuracy of the disclosed carbon emission information at their operational and portfolio levels. Finally, as the core data foundation for transition finance, carbon accounting helps financial institutions to identify the carbon-intensive sectors in the portfolio, helps private investors to support the low-carbon transition of the carbon-intensive industries, and facilitates the monitoring of corporate performance on carbon emission reduction. This could promote financing for an orderly transition of carbon-intensive industries, and manage financial institutions' climate-related transition risk. Accurate carbon accounting not only drives the green and low-carbon transition of financial institutions, enhances their climate risk management capabilities and sustainability information disclosure quality, but also enables financial institutions to help their clients to formulate roadmaps for the low-carbon transition and upgrading of their carbon-intensive industrial chains.

The development of carbon accounting in China has been driven by both policy support and market progress. On the policy front, governments at all levels from central to local

have introduced carbon accounting management measures for different actors and have introduced pilot projects in some regions. At the central level, multiple departments including the People's Bank of China (PBoC) and the Ministry of Ecology and Environment of the People's Republic of China (MEE), have issued policy documents to define the framework and requirements for financial institutions to develop carbon accounting. In Hong Kong of China, the Hong Kong Special Administrative Region Government and the Stock Exchange of Hong Kong Ltd. (SEHK) are committed to harmonizing with international sustainability information disclosure standards, providing better data access and accuracy for financial institutions to conduct the Scope 3 emission accounting. At the local level, some local governments have taken the lead in releasing local standards, guidelines, and even legislation, to provide guidance and references for local financial institutions' carbon accounting. In practice, Chinese financial institutions have made notable progress in both the quantity and quality of climate information disclosure. They have conducted carbon emission accounting and disclosure for their operational activities. However, there remains a need for improvement in the scope and accuracy of carbon accounting. Taking commercial banks as an example, as of the third quarter of 2024, more than two-thirds of A-share listed banks in China have disclosed their operational carbon emissions, primarily focusing on Scope 1 and Scope 2 emissions. A couple of banks, such as Ping An Bank and Huaxia Bank, have begun exploring the accounting and disclosure of Scope 3 (value chain) emissions. Additionally, green finance reform and innovation pilot zones are building local carbon accounting systems tailored to regional characteristics. As of June 2024, over 200 financial institutions within these pilot zones have compiled environmental information disclosure reports, with Huzhou City in Zhejiang Province achieving full coverage of environmental information disclosure for financial institutions.

To better promote and support financial institutions in implementing carbon accounting, this report analyzes and compares the major carbon accounting methods and studies the carbon accounting practice cases of eight selected banking financial institutions both domestically and internationally to identify experience that could be referenced and adopted by Chinese financial institutions. The analysis focuses on four PCAF member commercial banks, all of which have accounted for Scope 1 and Scope 2 emissions at the operational level, managing their operational carbon emissions in line with their developmental strategies. The analysis of international PCAF member commercial banks indicated that all four have conducted carbon emission accounting at both the operational and financed

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