

# CIFI Holdings' Green Finance Framework And US\$500 Million Green Bond

## Green Finance Framework Overview

Established in 2000, CIFI Holdings (Group) Co. Ltd. (CIFI) is headquartered in Shanghai, the People's Republic of China. The company engages in property development and property investment and requires all properties to meet at least the national one-star green standard. The company has developed a green finance framework (GFF) to ensure it funds projects that deliver positive environmental impact, while fostering sustainable practices. Eligible projects must align with CIFI's objective "to promote sustainable environment development and to provide future generations with a clean planet." In our view, CIFI's GFF is aligned with the four components of the Green Bond Principles (GBP).

## Transaction Overview

On Aug. 5, 2020, CIFI issued US\$200 million in senior unsecured notes with a coupon of 5.95%, maturing on Oct. 20, 2025. This issuance was a reopening of its initial US\$300 million senior unsecured notes issued in July 2020, with the same coupon rate and maturity date. These notes were the first issuances under the company's GFF.

The developer intends to use the proceeds to fund or refinance, in whole or in part, new or existing eligible green projects, in accordance with CIFI's GFF. In particular, CIFI plans to mainly use the bond proceeds to refinance its construction debt pertaining to three of its newly constructed green commercial buildings in Shanghai, two buildings obtained China Green Building Label two-star certification and the remaining one obtained Gold Level for U.S. Leadership in Energy and Environmental Design (LEED) certification.

In our opinion, this transaction is aligned with the GBP.

## Green Evaluation Overview

### Transaction's transparency

- Use of proceeds reporting
- Reporting comprehensiveness

79

### Transaction's governance

- Management of proceeds
- Impact assessment structure

81

### Mitigation

Sector	→	Net benefit ranking	→	Hierarchy adjustments	
Green Building		Commercial: new build Residential: new build		Carbon	93

### Adaptation

NA

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<b>Subsector:</b>	Property and Real Estate
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## Green Finance Framework

**Publication date:** Oct. 22, 2020

## Transaction

**Financing value:** US\$500 million

**Amount evaluated:** 100%

**Evaluation date:** Oct. 9, 2020

## Overall Score

**E1/87**

Weighted aggregate of three  
(Transparency + Governance + Mitigation)

## Green Evaluation On Transaction

### Project description

The company will use the US\$500 million proceeds from the green bonds to mainly refinance three existing, completed commercial projects in Shanghai, where the company has significant commercial operations. A small portion of the funding will be also used to finance two new residential buildings in Jinan and Hangzhou.

The use of proceeds complies with the company's GFF which stipulates eligible projects in China should fulfill the key definition of a green building, i.e., construction projects that have or will receive one of the specific green building labels as listed in the framework.

Two of the Shanghai commercial buildings obtained the China Green Building Label two-star certification, while the third asset obtained Gold level for U.S. LEED certification. The two residential projects in Hangzhou and Jinan received China Green Building Label three-star certification and BREEAM four-star certification, respectively.

At this stage, S&P Global Ratings is unable to provide an opinion of the resilience of the projects/assets to extreme weather and climate change as part of this Green Evaluation.

### Scoring summary

We scored the project E1/87, the highest rank on our scale of E1 to E4 for Green Evaluations. The score is a weighted average of the project's Transparency (79), Governance (81), and Mitigation (93) scores. The excellent Mitigation score reflects the meaningful environmental benefits from CIFI's green building projects, which help offset the relatively higher carbon intensity of the building sector in China. Both its Transparency and Governance scores are solid, owing to the company's commitment to report annually the management of issuance proceeds and the environmental benefits of its projects.

In our opinion, this transaction aligns with the GBP 2018.

### Rationale

- The excellent Mitigation score (93) is based on 100% of the proceeds being used to refinance three green commercial buildings in Shanghai. We rank the green buildings in the second tier of our carbon hierarchy because of their contribution to the systematic decarbonization of the economy. In addition, in formulating the Mitigation score, we consider the net environmental benefits associated with the project, based on extremely high carbon intensity of the building sector in China, highest on the five-point scale that ranges from low to extremely high.

- The robust Governance (81) and Transparency (79) scores primarily reflect the structure of the transaction, which provides a relatively strong cash management structure using an internal register to track funds, and an internal decision-making process by the ESG working group (EWG) that ensures the flow of funds to only eligible projects.

### Key strengths and weaknesses

The excellent Mitigation score reflects the proceeds being mainly used to refinance new green buildings, which the company completed in the past two years. The building sector in China has an extremely high carbon intensity. As a result, any reduction in energy intensity contributes to significant avoided greenhouse gas (GHG) emissions compared with non-green buildings in China. This transaction benefits from the new green buildings being in the second tier of our carbon hierarchy; the technologies employed are already compliant with a low-carbon economy, in our view.

The very strong Governance score (81) primarily reflects the comprehensive GFF that governs the allocation and management of proceeds. CIFI will establish an internal register to track the use of proceeds, which an external auditor will verify. The EWG, comprising senior representatives from different departments, will screen projects, to ensure compliance from selected ventures with the framework's criteria. The buildings' well-established environmental certifications further support our governance score.

The solid Transparency score (79) stems from CIFI's proposed annual disclosure on the aggregate amount allocated to various eligible green projects throughout their economic life, until all net proceeds have been allocated. The score is also supported by the detailed reporting of advanced environmental indicators, such as energy savings, water usage savings, energy efficiency gains, and avoided greenhouse gas emissions.

A lack of disclosure on the methodology used for calculating the environmental performance metrics and the absence of an independent verification of CIFI's impact reporting temper these strengths.

While the buildings are certified against some industry standards, CIFI does not require that they comply with the highest green building categories. CIFI's green finance framework sets a standard that all its buildings must reach at least one-star certification of China's Green Building Evaluation Label. That said, all the eligible projects in the use of proceeds have obtained two-star certification or above in China's Green Building Evaluation Labels or Gold Level in the U.S. LEED certification.

## **Second opinion on green bond principle alignment**

Based on our Transparency score of 79 and Governance score of 81, and that 100% of proceeds have been or will be allocated to green projects, we expect this bond to meet the basics of the four pillars of the voluntary GBP as the issuer has committed to:

- Allocating the full amount of the net proceeds of bonds to eligible green projects as defined by the issuer;
- Using clear “green” criteria (as defined by the issuer) to select projects for funding;
- Managing and tracking proceeds; and
- Regular reporting of environmental impact and use of proceeds.

A Green Evaluation is a point in time assessment and is not monitored.

## Sector-Level Scores

Sector	Location	Technology	Use of proceeds (mil. US\$)	Use of proceeds treatment	Net benefit ranking
Green Building	China	New build: Commercial	496.6	Estimated	99
Green Building	China	New build: Residential	3.4	Estimated	86
			<b>500.0</b>		

# Carbon

## Green Evaluation Process

79

Transparency

81

Governance

93

Mitigation

Weighted aggregate of three:  
(Transparency + Governance + Mitigation)

**E1/87**

Overall Score

Technology	Baseline carbon intensity	Net benefit ranking	→ Carbon hierarchy adjustment	Environmental impact score	Proceeds (mil. US\$)	
	<p>Extremely high</p> <p>China</p>					
Wind power						
Solar power						
Small hydro						
Large hydro (excluding tropical areas)			Systemic decarbonization			
Energy management and control						
Unspecified						
Green transport without fossil fuel combustion						
<b>Green buildings – new build</b>		<b>98</b>	Increasing decarbonization impact	<b>Significant decarbonization in sectors already aligned with a green economy</b>	<b>93</b>	<b>500.0</b>
Unspecified						
Energy-efficient projects (industrial and appliance efficiencies)						
Green transport with fossil fuel combustion						
Green buildings refurbishment				Alleviating emissions of existing carbon-intensive industries		
Unspecified						
Nuclear						
Large hydro in tropical areas				Decarbonization technologies with significant environmental hazards		
Unspecified						
Coal to natural gas						
Cleaner fuel production						
Cleaner use of coal						
Fossil fuel-based cogeneration			Improvement of fossil-fueled activities' environmental efficiency			

# Our Green Evaluation Approach

Weighted aggregate of three:



Common approach used amongst opinion providers

Unique to S&P Global Ratings



eKPI--Environmental Key Performance Indicator.

## Framework Alignment Overview



### 1. Use of proceeds

CIFI commits to utilize the net proceeds of financing instruments issued under the framework to fund eligible green assets that fall within its seven self-determined eligible categories. They include (i) green buildings, (ii) clean transportation, (iii) energy efficiency, (iv) pollution prevention and control, (v) sustainable water management, (vi) climate change adaptation, and (vii) renewable energy. These categories are recognized by the GBP, as they contribute to climate change mitigation, natural resources conservation, and pollution prevention. Accordingly, the use of proceeds section of CIFI's green finance framework is aligned with this component of the GBP.



### 2. Process for project evaluation and selection

The framework outlines a clearly defined process to assess if projects under study belong to seven eligibility categories. It involves a dedicated ESG Working Group (EWG) that ensures selected green ventures are aligned with both CIFI's definition of eligible projects and the Green Bond Principles (GBP) guidelines. CIFI's ESG Committee, which includes the CEO and other senior management, will then review and approve the eligible shortlisted projects. Accordingly, in our view, CIFI's green finance framework is aligned with this component of the GBP.



### 3. Management of proceeds

CIFI's finance team will deposit the net proceeds from financing instruments issued under the company's framework into the general funding accounts. The team will maintain a register to monitor the use of proceeds. CIFI will manage proceeds pending allocation or reallocation to eligible projects following its liquidity guidelines for short-term deposits or investments, or use them to repay existing borrowings. Accordingly, in our view, CIFI's green finance framework is aligned with this component of the GBP.



### 4. Reporting

CIFI intends to report annually on the eligible green projects finance, until all net proceeds have been allocated. CIFI will provide all relevant information in either of its sustainability reports, annual reports and/or website. The company also commits, where possible, to report on the annual environmental and social impacts of the green projects using specific impact indicators. Accordingly, in our view, CIFI's green finance framework is aligned with this component of the GBP.

## Framework description

### 1. Use of proceeds

The GBP stipulates that any party seeking financing should commit the net proceeds of an issuance exclusively to eligible green projects.

According to the GBP, eligible projects will seek to achieve at least one of five environmental objectives, including: (1) climate change mitigation, (2) climate change adaptation, (3) natural resource conservation, (4) biodiversity conservation, and (5) pollution prevention and control.

Each of the seven eligible categories stated in the group's green finance framework – (i) green buildings, (ii) clean transportation, (iii) energy efficiency, (iv) pollution prevention and control, (v) sustainable water management, (vi) climate change adaptation, and (vii) renewable energy – meet at least one of the GBP's environmental objectives. For instance, green buildings, including the new construction and renovation of existing buildings, contribute to climate change mitigation. Similarly, eligible green projects within the pollution prevention and control category, such as recycled building material, can contribute to the objective of pollution prevention and control in the GBP. Therefore, we regard the framework as aligned with the use of proceeds component of the GBP.

### 2. Process for project evaluation and selection

To align with the second component of the GBP, the party seeking financing must explain the process to screen projects, eligibility and exclusionary criteria, and the overall sustainability objectives that underpin the selection process.

CIFI's project selection has the following characteristics -- commitment to the promotion of sustainable environment development, involvement in the green supply chain in real estate, research on green housing, and innovation in green real estate. CIFI also states how it leverages on its environmental and social risk management policy to ensure a transparent project identification and selection process. The company's EWG consists of senior representatives from the finance, design and architecture, building engineering, and internal audit and risk management departments. The EWG meets on an annual basis and is responsible for shortlisting eligible projects and ensuring the projects comply with the GBP's guidelines. The ESG Committee, comprising the CEO and five senior representatives, will then review and approve the shortlisted eligible green projects.

In outlining the key steps for selecting eligible green projects and the involvement of various internal stakeholders, CIFI demonstrates

transparency and, in our view, shows alignment with the second component of the GBP.

### 3. Management of proceeds

The GBP requires a seeker of finance to monitor the net proceeds of all outstanding green finance transactions. This includes appropriately tracking and potentially adjusting over time the net proceeds to match allocations to eligible green projects. The GBP also requires a seeker of finance to disclose to investors the types of temporary placement it intends to use for unallocated proceeds.

CIFI's green finance framework outlines its plans to allocate all proceeds from any green finance transaction to a portfolio of eligible green project categories. The company will deposit the proceeds in its general funding accounts. In parallel, CIFI's finance team will maintain a register to track the use of proceeds for each green finance transaction, including the amount of proceeds allocated to each eligible green project and information of unallocated proceeds. CIFI will manage unallocated proceeds as per its liquidity guidelines for short-term time deposits or investments, or use them to repay existing borrowings within the group.

Furthermore, CIFI has committed to reallocate as soon as reasonably practicable the net proceeds to replacement green eligible projects if some designated, initial projects cease to be eligible under its framework. The framework is therefore, in our opinion, aligned with the third component of the GBP.

### 4. Reporting

The GBP stipulates that a seeker of finance should report on the use of proceeds annually until full allocation. Information presented in the annual report must include a list of the projects that receive financing, a description of each project, including the amount allocated to each project, and their expected environmental impact.

CIFI, in our view, meets these aspects necessary for alignment with the GBP by stating in its green finance framework that it will report annually in the group's sustainability reports, annual report, and/or website, on the allocation of proceeds. The company also commits to report, where possible, the environmental impacts of eligible green projects until full allocation of the net proceeds of any green finance transaction. Allocation reporting will include the aggregate amount allocated to various eligible green projects, the balance of unallocated proceeds and its temporary investment, and examples of eligible green projects, where possible.

As the framework outlines how its sustainability and annual reports will cover all required aspects stipulated in the GBP, we regard this green finance framework as aligned with this component of the GBP.



## Issuer Sustainability Objectives

In 2020, CIFI made good environmental, social and governance (ESG) management one of the company's strategic objectives. An ESG Management Committee established includes members from the board, senior management, and all functional departments.

CIFI is now committed to promoting sustainable environment development, and fits in the concept of responsible development to its business operation, in line with the 2030 Sustainable Development Goals (SDGs) from the United Nations. The green finance framework also presents the respective SDGs each eligible green project category supports. These SDGs include clean water and sanitation (SDG 6), affordable and clean energy (SDG 7), industry, innovation and infrastructure (SDG 9), sustainable cities and communities (SDG 11), responsible consumption and production (SDG 12), and climate action (SDG 13).

Besides promoting the development of sustainable environment, CIFI commits to investing in the local communities and donating a portion of its funds to charity every year. On governance, the board of directors establishes the long-term sustainable development objectives for the company.

CIFI aims to provide customers with a better life, promote the construction of a real estate ecosystem, and make constant development and innovations. The group is aware of the environmental and social impacts of the projects under construction each year. Thus, it supports the green supply chain in real estate, research on green housing, and constant innovation in green real estate.

In addition, CIFI's standard is for all its buildings to achieve at least a one-star certification for green buildings. In 2019, CIFI reported that all its buildings have met the national one-star green standard, with 17 (approximately 2.78 million square meters) of the buildings having met the green and healthy two-star standard.

## Additional Features Of The Framework

We observe that CIFI's green finance framework follows the majority of voluntary guidelines provided by the GBP. It secures a good level of transparency and disclosure, and provides sufficient information for investors to understand CIFI's approach to its green finance framework. We believe the following areas of the framework exceed the required elements of the GBP:

- The use of proceeds in the green finance framework provides the UN SDGs as an alignment of the eligible green project category. It also provides descriptors and sample projects for each eligible green project category to help investors grasp a better understanding of each criteria.

- In outlining the requirements for green buildings to attain certification against industry standards and be eligible for financing, the green finance framework is a strength. Eligible green buildings must achieve a minimum level of two stars. CIFI requires green buildings to be certified with either (1) LEED – minimum certification of Gold, (2) BEAM Plus – minimum certification of Gold, (3) BREEAM – minimum certification of Excellent, (4) BCA Green Mark – minimum certification of Gold, or (5) China's Green Building Evaluation Label (GB) – minimum certification of two stars.
- CIFI outlines a set of quantitative impact indicators for each eligible green project category; it will report the environmental impact annually, subject to the availability of information. For example, impact indicators for green buildings will include the level of certification, energy efficiency gains in comparison to a baseline scenario, estimated avoided greenhouse gas emissions, annual energy savings, and annual reduction in water consumption. We view this level of transparency as a strength.
- In addition, CIFI commits to provide an external verification of its green finance framework, to ensure alignment with the GBP. This will include an external review of the pre-issuance assurance, post-issuance assurance, and annual assurance report of independent accountants on the use of proceeds.

Offsetting the above strengths are the following limitations:

- The GBP recommends that for management of proceeds, the issuer seeks an auditor's review to verify: (1) the internal tracking method, and (2) the allocation of funds from the green transaction proceeds. CIFI's green finance framework, in our view, describes briefly the role of the external review of the framework. There are no details on the independent auditor's review, specifically on the management of proceeds.
- CIFI does not disclose in its framework the underlying methodology to calculate quantitative impact indicators as stated in its impact reporting of the green finance framework.

## Conclusion

Based on our assessment of the contents of CIFI's green finance framework, we regard this framework as being aligned with the four components of the GBP given that the seeker of finance has committed to:

- Allocating the full amount of the net proceeds of bonds to eligible green projects as defined by the issuer;
- Using clear “green” criteria (as defined by the issuer) to select projects for funding;
- Managing and tracking proceeds; and
- Regular reporting of environmental impact and use of proceeds.

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