Terms of Reference
G20 Green Finance Study Group
January 25-26, 2016, Beijing

The proposal to launch the G20 Green Finance Study Group (GFSG) under China’s Presidency of the G20 in 2016 was adopted by the G20 Finance and Central Bank Deputies meeting on December 15, 2015 in Sanya, China. This Study Group is co-chaired by China and the UK, with support from the United Nations Environment Programme (UNEP) as secretariat.

Objective: The GFSG will identify institutional and market barriers to green finance and, based on country experiences and best practices, analyse options on how to enhance the ability of the financial system to mobilize private green investment, thereby facilitating the green transformation of the global economy.

To deliver this objective, the GFSG will address a set of interrelated challenges across five areas of research:

Research subjects

Sectoral

1. Greening the banking system: A number of market and institutional failures may stand in the way of banks incorporating environmental dimensions into decision making. For example, lack of capacity and absence of “green” performance measurement appear to be constraints for banks in many developing countries.

2. Greening the bond market: There are a number of barriers to the growth of green bond markets and the broader incorporation of environmental considerations into the working of fixed income markets. For example, for green bonds, a lack of clear and comparable definitions could undermine confidence while uncertainty and high costs of verification could prevent a critical mass of issuance.

3. Greening institutional investment: A number of market and institutional failures, such as a lack of capacity to assess environmental impact, may limit the incorporation of material environmental factors into decision-making by institutional investors.

Cross-cutting

4. Risk analysis: A range of possible market and institutional failures may prevent the effective incorporation of future environmental considerations into risk management by financial institutions such as banks, insurers and other institutional investors. These problems may include short-termism, misaligned incentives, as well as inadequate expertise and underdeveloped risk assessment methodologies.

5. Measuring Progress: International cooperation, experience sharing and facilitation of green capital flows require mapping of definitions and indicators for measuring progress on green finance activities.

In light of the preliminary nature of the two cross-cutting themes, the approach to the research of these subjects will be stock-taking, rather than deriving specific recommendations.
Due to the differences in local conditions, the GFSG will be cognizant that some practices that work well in one country may not be suitable in another country. The GFSG will therefore focus on knowledge sharing and any options made available to countries will be considered on a voluntary basis. The GFSG will not seek to propose global regulations. The options presented by the GFSG shall be consistent with the objectives of economic development and inclusive growth.

The GFSG will prepare a synthesis report, which will draw from the findings on the selected research subjects, before the July G20 finance minister and central bank governor meeting. The GFSG will collaborate with other G20 groups and related external initiatives. The design of the GFSG work programme will aim to minimize duplication of work among other G20 work streams.

The GFSG will engage with the private financial community to benefit from its expertise and experience.

TENTATIVE WORK AGENDA

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<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>25-26 January 2016</td>
<td>1st GFSG Core Meeting (Beijing, China)</td>
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<tr>
<td>22 March 2016</td>
<td>2nd GFSG Core Meeting (London, UK)</td>
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<td>12 April 2016</td>
<td>3rd GFSG Core Meeting (Washington DC, USA)</td>
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<td>21 June 2016</td>
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