

The v2.0 project for the

# Climate Bond Standard

1. *Final draft (v1.9) for your review*
2. *Background*
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# Investors are calling for standards, assurance and certification of Green / Climate Bonds

- Investor demand for Green Bonds & Climate Bonds is strong, and will increase in line with the delivery of quality products into the market
  - Investor concerns on the credibility of Green labelling are also growing
- **Standards, assurance & certification** have been identified as key to improved confidence and transparency, and further strong growth
- The Green Bond Principles, released in March 2015, have broad support from 20 investors, 21 issuers and 52 underwriters
  - GBP's encourage the development and use of standards for certification of Green Bonds
- The **Climate Bond Standard** represents an important step, moving from broad integrity principles to a robust and effective Certification system
  - Standard with clear mandatory requirements (use of proceeds, tracking, reporting)
  - Specific eligibility criteria for low carbon projects & assets
  - Assurance framework with independent verifiers and clear procedures
  - Certification by an independent Climate Bond Standards Board



# It's time to update the Climate Bond Standard

- The **prototype standard (V1.0)** was released in late 2011 and has been a useful starting point, enabling early adopters and the CBI team to learn
- Updating the Standard to Version 2.0 enables some major features
  - Assurance framework is more practical and efficient
  - *The updated Green Bond Principles have been fully integrated*
  - Annual reporting requirements are explicit
  - Different types of bonds are all accommodated
- Further refinement of the terminology and drafting allows users to more clearly understand the requirements and what they must do
- **Version 1.9** of the Standard has been prepared for road-testing and consultation and we will actively seek input in July-September 2015
- In parallel, we are developing a 'suite' of documents for release alongside **Version 2.0** of the Climate Bond Standard in October 2015
  - Specific guidance being developed for issuers, verifiers, investors and analysts
  - Will provide a more user-friendly experience for all users and supporters of the Climate Bond Standard



# Independent Standards Board and Certification

- The Climate Bond Standards scheme is both credible and unique in being led by a **Climate Bond Standards Board** of pre-eminent investor entities, collectively representing \$34 trillion of assets under management:
  - International Cooperative Mutual Insurers Federation; State Treasurer of California; Institutional Investor Group on Climate Change (EU); Investor Group on Climate Change (Australia); Ceres Investor Network on Climate Risk (US); California State Teachers Retirement System; CDP; Natural Resources Defense Council
- The Standards Board provides oversight over the implementation of the Climate Bond Standards and the Certification scheme
  - Approval of all standards and documentation relating to guidance and strategic development of the scheme
  - Certification decisions for individual Climate Bonds
- The Standards Secretariat provides support and coordination, working with issuers and verifiers to step through the certification process

# Pre-Issuance and Post-Issuance Requirements

- The Climate Bond Standard allows Certification of a bond prior to its issuance, enabling the issuer to use the *Climate Bond Certification Mark* in marketing efforts and investor roadshows
  - **Pre-Issuance Requirements** focus on selection of eligible projects & assets as well as the readiness of the issuer’s internal systems to track and report on use of proceeds
  - The issuer must engage a Verifier to provide assurance over the eligibility and readiness
- After the bond has been issued and allocation of the bond proceeds has begun, the issuer must follow through with confirming the Certification
  - **Post-Issuance Requirements** focus on the actual use of proceeds, ongoing eligibility of the projects & assets, use of funds not yet allocated (“non-contamination”), and the adequacy of and output from the issuer’s internal systems
  - The issuer must engage a Verifier to provide assurance over the actual use of proceeds and reaffirm that internal systems & controls are functioning properly
- Requirements are split in this way to align with the phases of the bond cycle such as preparation, marketing, issuance and allocation of funds



# Eligibility of projects & assets for bond funding

- The Climate Bond Standard provides a clear and consistent set of eligibility requirements and technical criteria for projects & assets
  - Avoids the need for subjective judgement by issuers and second opinion providers on what is “green” or “low carbon”
  - Reduces the due diligence required by investors to test the claims of issuers
- Issuers and investors can be confident that the projects & assets funded by a Certified Climate Bond are consistent with the Low Carbon transition which our economies need to avoid dangerous climate change
  - **Climate Science Reference Group** provides advice on scope of the low carbon economy and eligible project types which will allow us to meet and beat the 2 degree target
- Detailed technical criteria for each of the sectors is provided in a series of **Eligibility & Guidance Documents** prepared by experts in their fields
  - **Technical Working Groups** are formed to develop detailed eligibility criteria for each investment area, e.g., low carbon transport, solar, wind, low carbon buildings, water, agriculture & forestry, etc
  - **Industry Working Groups** review the practicality of proposed eligibility criteria and the operation of the certification system

# Reporting requirements for issuers

- The Climate Bonds Standard includes explicit requirements for when and what issuers must report, and who those reports must go to
  - Mandatory reporting to the Standards Board prior to issuance of the bond
  - At least annual reporting to bond holders and the Standards Board during the bond term
- Reporting requirements include specific information, but recognise that there may be confidentiality issues to observe. Issuers must report on:
  - The projects & assets being funded by the bond, and how they continue to be eligible
  - Use of proceeds, including how unallocated funds have been deployed
  - May also include the impacts of the projects & assets funded by the bond
- The issuer must use the **Climate Bonds Information Form** to submit and update its information to the Standards Board
  - This ensures that relevant information is captured in a consistent structure for analysis
  - Portions of the Form are marked as “confidential” and will not be made public
- The reporting requirements complement and leverage the existing mainstream reporting regimes for bond issuers and bond holders



# Assurance Framework

- The Assurance Framework for the Climate Bond Standard has been developed to enable:
  - Smooth and efficient assurance engagements
  - Greater confidence in the consistency of assurance outcomes across the different Verifiers and amongst the various Certified Climate Bonds
  - Better understanding of what the Issuer needs to do to be ready for the assurance engagement and what the Verifier will be testing
  - Clarity on the relationship between the Standards Board and the Verifiers
- Verifiers must be on the Standards Board’s list of Approved Verifiers
  - List of Approved Verifiers is on the Climate Bonds Initiative website
  - Includes “big four” as well as specialised and smaller assurance providers
- The issuer engages the Verifier and pays for the engagement
  - Verifier’s report (final version) must be sent to the Standards Board
  - Arrangements between the issuer and Verifier are under commercial terms
- Verifiers must use existing auditing and assurance standards (such as ISAE3000 or ISRS4400) to develop their work plans and approaches



# New Green Bond Principles are fully integrated

- A new version of the Green Bond Principles was published in March 2015
  - Encourages the development and use of **standards for certification of Green Bonds**
- Climate Bond Standard V2.0 basically converts the GBP into a set of requirements and actions which can be assessed, assured and certified in a robust and repeatable way
  - Also provides a detailed set of technical criteria for Low-Carbon projects and physical assets, removing much of the subjectivity necessary to use the GBP eligibility criteria
- Climate Bond Standard V2.0 is fully consistent with the new GBP
  - Annex provides ‘mapping’ of the requirements in the Standard to the four Green Bond Principles plus the GBP’s assurance recommendations
- Certification of a bond under the Climate Bond Standard provides confidence that the issuer of that bond is **adhering to all of the Green Bond Principles** as well as fully conforming with the Climate Bond Standard



# Wide variety of Bond Types are eligible

- The Climate Bond Standard provides for a very broad range of bond structures to be eligible for Certification
- Definitions have been adapted from the four bond types in the GBPs
  - Use of proceeds bond
  - Use of proceeds revenue bond
  - Project bond
  - Securitized bond
- The Standard has specific requirements for each of these bond types
  - Addressing particular risks which are apparent for each bond type
  - Excluding requirements which do not add value to the Certification process
- Certain bond types lend themselves to more (or less) frequent reporting and assurance, which the issuer and investor may agree to impose
  - Very stable allocation of bond proceeds to major assets for the full term is low risk
  - Dynamic allocation of funds across asset classes or geographies may increase risks
  - Issuers and investors are more likely to adopt annual assurance engagements or more frequent reporting if risks are higher

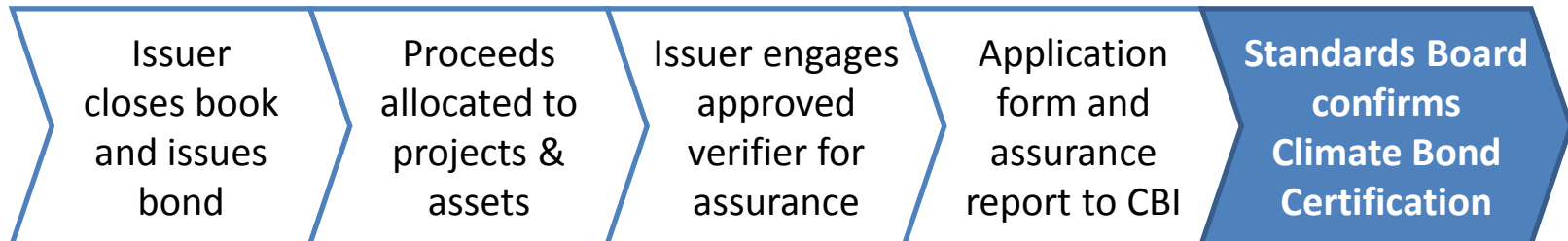


# Climate Bond Certification process – 3 phases

## 1. Pre-Issuance Certification Process



## 2. Post-Issuance Certification Process



## 3. Periodic Certification Process (Assurance not mandatory)



# Three phases of the Certification Process

- 1. Pre-Issuance Certification:** Assessment and certification of the bond issuer's internal processes, including its selection process for projects & assets, internal tracking of proceeds, and the allocation system for funds.  
**Reasonable Assurance** from the Verifier required for first-time issuers.  
**Agreed-Upon-Procedures Review** only available for previous issuers of Certified Climate Bonds. Covers the Pre-Issuance Requirements but uses a simple checklist-style approach to assess the issuer's conformance.
- 2. Post-Issuance Certification:** Assessment and certification of the bond, which must be undertaken after the allocation process is underway, and includes reasonable assurance from the verifier that the issuer and the bond conform with all of the Post-Issuance Requirements in the Climate Bond Standard.
- 3. Periodic Certification:** Assessment and certification of the bond, which may be undertaken annually, and includes reasonable assurance from the verifier that the issuer and the bond continue to conform with all of the Post-Issuance requirements in the Climate Bond Standard.  
Periodic Certification is *not* mandatory but is available for issuers if they choose to reaffirm their ongoing conformance with the Standard.



# The guidance material we're providing with v2.0

- Version 2.0 of the Climate Bond Standard will be accompanied by a variety of documents to help each of the different actors to play their role
- **Eligibility & Guidance Documents** spell out the technical criteria for the inclusion of specific projects & assets to be funded by Climate Bonds
  - Solar, Wind, BRT, Low Carbon Buildings have been approved by the Standards Board
  - Low Carbon Transport, Bioenergy, Water, Agriculture & Forestry are under development
  - Further areas including Geothermal, Infrastructure Resilience, Waste Management, Industrial Energy Efficiency, Other Renewables are being considered
- **Guidance for Issuers** will provide detail on how to prepare for Climate Bond issuance, the internal systems & controls required, how to get ready for assurance engagements, and the steps in the Certification process
- **Guidance for Verifiers** will provide detail on the role of Verifiers, the audit standards to be used, key risks to consider, and recommended procedures
- **Guidance for Investors & Analysts** will explain how Certification provides confidence in the integrity of the Climate Bond and what it is funding



# Climate Bond Standard (Version 2.0)

## Certification Process

Rules for Pre-Issuance Certification

Rules for Post-Issuance Certification

## Pre-Issuance Requirements

1. Selection of Projects & Assets
2. Internal Processes & Controls
3. Reporting Prior to Issuance

## Post-Issuance Requirements

### Part A: General Requirements

4. Nomination of Projects & Assets
5. Use of Proceeds
6. Non-Contamination of Proceeds
7. Confidentiality
8. Reporting

### Part B: Eligible Projects & Assets

9. General Eligibility Criteria
10. Technical Criteria

Detailed technical criteria contained in  
**Eligibility & Guidance Documents**

### Part C: Requirements for Specific Bond Types

11. Traceability
12. Project Holding
13. Settlement
14. Earmarking

Specific requirements apply to each Bond Type

## Eligibility & Guidance Documents (Updated as required)

Solar

Geothermal

Low-Carbon  
Transport

Water

Bioenergy

Energy  
Efficiency

Wind

Other  
Renewables

Green  
Buildings

Infrastructure  
Resilience

Agriculture &  
Forestry

Waste  
Management

Guidance for  
Verifiers

Guidance for  
Issuers

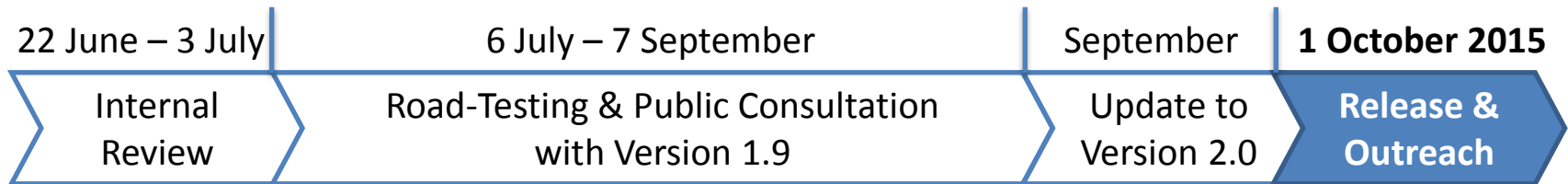
Guidance for  
Investors &  
Analysts

Certification  
Process in  
Detail

Communicating  
Climate Bond  
Certification

CBI Internal  
Review  
Processes

# Timeline for release of CBS Version 2.0



Review of V1.9 by **CBI Family** prior to its release

- Standards Board
- Assurance Roundtable
- Legal Working Group
- Industry Working Group
- Climate Bond Partners

**Targeted consultation** with key groups:

- Investors and advisors
- Assurance providers
- Issuers and underwriters
- Multilateral development banks
- Ratings agencies and index providers

**Road-testing** with issuers who are ready for assurance and certification of their bonds under the Climate Bond Standard

Preparation of Guidance Documents for Issuers, Verifiers, Investors & Analysts

Update based on insights, feedback and suggestions from road-testing & consultation

**Review by CBI Family** of the full suite of documents prior to release

**Launch of CBS Version 2.0**

Outreach to introduce the new version and encourage certification

Training for users of the Climate Bond Standard v2.0

# YOUR INPUT IS CRITICAL

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