

Climate Bond Standard

VERSION 1.0 — PROTOTYPE, NOVEMBER 2011

Preface

The **Climate Bonds Initiative** (“CBI” or “the Initiative”) is an investor-focused not-for-profit organisation, promoting large-scale investments that will deliver a global low-carbon economy.

We seek to develop mechanisms to better align the interests of investors, industry and government so as to catalyse investments at a speed and scale sufficient to avoid dangerous climate change.

A key project is the Climate Bond International Standards and Certification Scheme (“Certification Scheme”). The Certification Scheme allows investors, governments and other stakeholders to prioritise ‘low carbon’ investments with confidence that the funds are being used to deliver a low-carbon economy. The Certification Scheme will include mechanisms for verification and, where relevant, monitoring of standards compliance. An international Climate Bond Standards Board comprised of large institutional investors and leading environmental NGOs will provide oversight.

The Climate Bond Standard (“the Standard”) is not a financial standard —the obligation to perform financial due-diligence remains with investors, just as it does for other investments.

The Climate Bond Certified mark (“Certification Mark”) is registered in multiple countries. It is used to designate certified Climate Bonds.



More information on the Certification Scheme is available on <http://standards.climatebonds.net>.

How to Read this Document

This document is in two sections:

1. An introduction outlining the aim of the Climate Bond Standard, the guiding framework of the Low-Carbon Economy against which the Standard is set, and the scope of application of the Standard in bond markets.
2. The Clauses of the Climate Bond Standard — this is in three parts:
 - A. General requirements applying to all Climate Bonds — page 4
 - B. Requirements specific to listed eligible low carbon physical assets — page 8
 - C. Requirements specific to certain bond types — page 9

Each Clause includes a statement of principle, explanatory text in *italics* to describe why Clauses are included and how they are structured to achieve the intended goals, and finally the compliance requirements in boxed text.

Introduction

Aim of the Climate Bond Standard

To provide assurance that funds raised using a Climate Bond are being used in ways consistent with delivering a Low-Carbon Economy.

A Working Definition of the Low-Carbon Economy

Governments and leading climate scientists agree that to avoid dangerous climate change, the global average temperature increase above pre-industrial levels must stay below 2°C.¹

A 'Low-Carbon Economy' is defined as a world economy operating within these limits.

Even to achieve a 'likely' probability – that is at least a 66% chance of success² – of limiting temperature increase to this level requires global greenhouse gas (GHG) emissions to reduce by 50-70% by 2050 relative to 1990 levels.³ This requires significant emissions mitigation leading to global annual GHG emissions well below 20 gigatonnes CO₂-e by 2050.⁴ The lower the GHG emissions, the greater the chance of avoiding dangerous climate change.

The Climate Bond Standard will aim to encompass projects or assets that contribute to the transition to this 'Low-Carbon Economy'.

Specifically, this includes projects or assets that directly contribute to:

- developing low-carbon industries, technologies and practices that achieve resource efficiency consistent with avoiding dangerous climate change;
- essential adaptation to the consequences of climate change.

These projects or assets are listed in Part B of the Climate Bond Standard.

Explanation

Several projects, models and reports seek to provide an integrated analysis of how a Low-Carbon Economy can be constructed in its entirety or in part. Many agree on the major elements of the Low-Carbon Economy — for example, the use of renewable energy and energy efficiency. However, there are some differences in approach — for example, on whether to include or exclude any of: nuclear energy, extended hydro electricity and carbon capture and storage.

The Climate Bonds Initiative does not aim to determine what specific technologies constitute a Low-Carbon Economy at this stage. Rather, a working definition is needed to guide which investments are eligible. Therefore, so that the Initiative can move forward with developing the Climate Bond Standard, we focus on the areas of consensus among low-carbon economy experts — for example, wind energy — to provide a straightforward starting point for funding eligibility. Over time, the areas of difference or debate can be addressed through more detailed examination and the development of consensus within expert Climate Bond Standards Working Groups.

Application of the Climate Bond Standard

The Climate Bond Standard will aim to support certification of all types of bonds. For certain types of bonds, specific Clauses will apply to allow for the verification of the low carbon nature of these bonds and ensure the integrity of the Climate Bond Certification Mark. Furthermore, it is expected that many of the Clauses will be incorporated in the future into the actual terms of Climate Bonds, which will enhance compliance.

¹ UNFCCC (2009) Decision 2/CP.15 Copenhagen Accord pp 4–10; IPCC AR4 (2007) Fourth Assessment Report of the Intergovernmental Panel on Climate Change, 2007. Cambridge University Press, Cambridge, UK; Richardson K. et al. (2009) Synthesis report. Climate Change: Global Risks, Challenges & Decisions. Copenhagen, Denmark: University of Copenhagen.

² As defined by IPCC AR4 (2007)

³ EU EG (2010) Scientific perspectives after Copenhagen: Information reference document. Belgium and Spain EU Presidencies; UNEP (2010) The Emissions Gap Report: Are the Copenhagen Accord pledges sufficient to limit global warming to 2°C or 1.5°C? A preliminary assessment. Nairobi, Kenya.

⁴ Meinshausen, M., Meinshausen, N., Hare, W., Raper, S. C. B., Frieler, K., Knutti, R., Frame, D. J. & Allen, M. (2009) Greenhouse gas emission targets for limiting global warming to 2°C. *Nature*, doi: 10.1038/nature08017.; Bowen, A. Range, N. (2009) Mitigating climate change through reductions in greenhouse gas emissions: the science and economics of future paths for global annual emissions, The Grantham Research Institute on Climate Change and the Environment; EU EG (2010) Scientific perspectives after Copenhagen: Information reference document. Belgium and Spain EU Presidencies

The Climate Bond Standard (version 1 prototype)⁵ will support the certification of three types of bonds:

- Corporate bonds
- Portfolio Bonds issued by securitization vehicles comprised of individual loans to finance physical assets or equity investments in physical assets
- Project development bonds.

Specific Clauses for these bond types are listed in Part C of the Climate Bond Standard. Clauses for other bond-types will be listed in future versions of the Climate Bond Standard. As the Climate Bond market develops, the Climate Bonds Standards Board will review new products at a future date for inclusion in the Standard.

Explanation

The Climate Bonds Initiative has identified a significant gap between the scale of investible deals which large investors require and the disaggregated nature of low carbon investments such as renewable energy and energy efficiency. It is therefore important for the Standard to support investment by not only certifying project development bonds and corporate bonds, but also allow securitization vehicles to respond to investor demand for low carbon investment products.

Definitions

“Standard”: the Climate Bond Standard.

“Standards Board”: the Climate Bond Standards Board.

“Certification Mark”: the Climate Bond Certification Mark

“Nominated Projects”: eligible projects and physical assets, or loans made to finance physical assets, that comply with the Climate Bond Standard.

“Verifier”: an independent verifier of compliance with the Standard, approved by the Standards Board.

“Corporate Bond”: a general obligation debt security issued by a corporation or other legal entity, not tied to any specific Nominated Projects or assets.

“Portfolio bond”: a debt security of a securitization vehicle that contains a pool of loans each of which qualifies as a Nominated Project or contains a pool of equity interests in Nominated Projects.

“Project Development Bond”: a debt security issued by a project development company or by the parent of a project development company that is issued to finance specific Nominated Projects on a non-recourse or limited recourse basis.

“Fair Market Value”: the price at which an asset would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.

⁵ As of November 2011

Part A: General Requirements

This Part sets out the Clauses with requirements that apply to all Climate Bonds. They are designed to ensure uniformity and consistency across the Climate Bonds asset class.

1. Project Nomination

An issuer of a Climate Bond must ensure that at any point in time, the bond is associated with eligible projects or physical assets and that this association can be verified. An issuer is not permitted to double-count eligible projects or physical assets that have been associated with previous Climate Bonds. The eligible project(s) or physical assets are referred to as 'Nominated Project(s).'

Explanation *This Clause is to ensure that every Climate Bond is specifically associated, directly or indirectly, with a specific eligible physical asset, a part of a physical asset or an ensemble of physical assets that contribute to a Low-Carbon Economy.*

It also aims to avoid double-counting.

In some circumstances, Project Nomination may be subject to required commercial confidentiality as provided for in Clause 0.

Compliance Requirement:

Project Nomination:

The Climate Bond issued must specify the project collateral or physical assets with which it is associated — these are referred to as the "Nominated Project(s)".

Assets specified as backing, or linked to, the Bond must be eligible assets as specified under Part B of this Standard. If the asset specified is a loan or other financial instrument, then the underlying collateral must comply with Part B of this Standard.

Assets specified as backing, or linked to, the Bond must not be nominated to previous Climate Bonds.

2. Use of Proceeds

An issuer of a Climate Bond must use the funds raised to finance eligible project(s).

Explanation *This Clause is to ensure that bond issuers raise funds solely based on the Nominated Project(s) identified in Clause 1, and that the money is used for the intended financing of the Nominated Project(s). This requires therefore that bond issuances do not raise more than the amount necessary for investing in the Nominated Project(s) or the fair market value of the Nominated Project(s) at the time of issuance.*

Compliance Requirement:

Use of Proceeds

Proceeds must be allocated to Nominated Project(s).

The original issuance amount of the Climate Bond must be no greater than the investment in the Nominated Project(s) or the Fair Market Value of the Nominated Project(s) at the time of its nomination.

3. Non-Contamination

An issuer of Climate Bonds must make sure that compliant projects and related financial flows are not “contaminated” by activities inconsistent with a Low-Carbon Economy.

Explanation *Poor outcomes would occur if funding intended for a compliant project were temporarily invested in non-compliant activities — for example, conventional coal-fired power generation. There are two instances where this may happen:*

- *If issuers hold funds ahead of investment or interest payments,*
- *In the case of force majeure, causing the loss of one or more Nominated Projects from the bond.*

This issue is resolved by the recipients’ ability to demonstrate ‘chain of custody’ for Climate Bond funds so that the funding invested in a project is shown to have been invested in accordance with the terms of the Standard (including being held as cash) and not used for activities inconsistent with the delivery of a Low-Carbon Economy. Only funds equal to the amount raised by the Climate Bond are subject to the requirements of this clause. It is anticipated that over time this Clause would become a term of the Climate Bond and that compliance would be monitored through standard reporting requirements of the Bond.

Compliance Requirement:

Non-Contamination

Issuers are permitted a grace period of one year to allocate or re-allocate funds to Nominated Project(s).

Funds less or equal to the amount raised by a Climate Bond, but not yet invested in the Nominated Project(s), must not be knowingly placed in temporary investments that include greenhouse gas intensive projects inconsistent with the delivery of a Low-Carbon Economy.

Holding unallocated funds in cash, or cash equivalent instruments, within a Treasury function is eligible.

The systems used for temporary management of Climate Bond funds and investments made must be recorded and disclosed to a verifier.

The Climate Bond issuing organisation must establish systems to monitor and account for the proceeds of a Climate Bond as these funds flow through a treasury or other mixed-funds pool.

In the case of force majeure, issuers can apply for an extension to the one-year grace period to Climate Bond Standards Board. In that period, the issuer will be treated as complying with the Climate Bond Standard.

4. Environmental and Social Integrity

An organisation applying for a Climate Bond certification must disclose the extent to which the relevant Nominated Project(s) have given, or will give, due regard to environmental and social regulations and good practices — whether national or international.

Explanation *This Clause seeks:*

- *to protect the reputation of Climate Bonds; and*
- *to encourage good social and environmental practice.*

It does that by requiring Climate Bond issuers to disclose whether there has been compliance with standards for social and environmental integrity for the identified assets.

In the first instance, issuers must state their compliance with national and international environmental and social laws and regulations. In the second instance, issuers are invited to disclose their adherence, if any, to existing environmental, social and governance (ESG) standards or recognised best practices.

This Clause recognises that it is not the role of Climate Bonds to drive broader social or environmental standards for which there exist perfectly good standards already. However, it does recognise that the market will want to be alerted to projects on which such standards have or have not been applied.

Compliance with disclosed standards must be available for review by an independent verifier.

Compliance Requirement:

Environmental and Social Integrity

The issuer must state that the Nominated Project(s) operate in accordance with relevant international, regional and national environmental and social laws and regulations.

The issuer must publicly disclose to Climate Bond holders whether they and/or the Nominated Project(s) financed, or to be financed, adhere to environmental, social and governance standards and best practices, and if so which ones.

5. Verification

Verifiers will audit whether or not an issuer of Climate Bonds is complying with the Standard.

A verification audit takes place as part of the issuer applying for a Climate Bonds Certification Mark for issuance of Climate Bonds.

Also, a verification review may be triggered by:

- An assessment of a claimed breach of compliance by interested Parties. Claims of breach of compliance may only be lodged by parties to the transaction. Claims are to be lodged with the Climate Bond Standards Secretariat.
- Any subsequent Climate Bond transaction — for example, the issue of another Climate Bond from the same organisation — will require the issuer to provide documentation on the compliance of the existing Climate Bonds to the Verifier.

The Standards Board reserves the right to conduct random or periodic reviews of Climate Bond certifications. In such an instance organizations issuing bonds will provide information as requested by the Board.

Explanation *Independent verification is intended to provide the market and stakeholders with confidence in the integrity of the Climate Bond market, and to avoid any conflict of interest. The reasons that annual audits are not required for most issuers is the desire to minimise ongoing verification costs for issuing organisations and to minimise uncertainty in any secondary market. The eligibility criteria for certain complex low carbon projects may require annual reporting (see Part B).*

Compliance Requirement:

Verification

Organisations seeking to apply the Climate Bond Certification Mark must engage a third-party Verifier to undertake a compliance audit of the bond (whether existing or proposed) to confirm its compliance with the Climate Bond Standard.

An organisation using the Climate Bond Certification Mark must additionally agree to provide further information if requested by the Climate Bond Standards Board.

In cases of claimed breach of compliance, the Standards Board may request a new verification report by a second verifier as a condition of maintaining certification.

An issuer who receives a verification report must, within three months, present it to the Climate Bond Standards Board for review and approval. An issuer applying for certification must include the report with their application.

Verification reports are confidential between the Climate Bond Standards Board and the Issuer — unless the issuer voluntarily discloses, or the Climate Bond Standards Board specifically directs otherwise or is required by law or national regulators. If the Climate Bond Standards Board does direct otherwise, then it will consult with the issuer and Verifier about the presentation of the report before public release.

An organisation issuing further Climate Bonds must provide the verifier with all Climate Bond compliance documentation related to existing Climate Bonds

6. Climate Bond Certification and Limits of Use

The Standards Board will issue a Climate Bond Certificate to an issuer of Climate Bonds when the report of a Verifier confirms that the proposed issue complies with the Climate Bond Standard. The issuer can then hold and use the Climate Bond Certificate and Mark until the Bond term is complete —as long as the issue continues to comply with the Standard.

Explanation *This Clause requires as a minimum a single verification audit of the bond issue in order to receive the right to use the Climate Bond Certification Mark. It is expected that the issuing organisations will implement their own compliance monitoring processes.*

Compliance Requirement:

Climate Bond Certification

An organisation which has had an Verifier confirm that one of its existing or proposed bond issues complies with the Climate Bond Standard, may register these bonds with the Climate Bond Standards Board. The organisation then has the right to use the Climate Bond Certification Mark in association with the relevant bonds (but no others) for the duration of the bond term — provided that the Bonds remain Climate Bond Standard compliant.

An organisation must stop using the Climate Bond Certification Mark if:

- It voluntarily identifies that it is no longer compliant; or
- An independent verification audit commissioned by the Climate Bond Standards Board finds that the bond is no longer compliant.

7. Non-Compliance

If a bond issue becomes non-compliant, then the issuer must disclose that fact to the Standards Board. However, this does not relieve the issuer of the obligation to continue to service the bond.

Explanation *This Clause sets out the consequences of an issuer failing to meet ongoing compliance requirements. Loss of certification will involve the Standards Board informing relevant stakeholders and otherwise informing the market of that loss. However, there is no linkage between financial default and loss of certification.*

Compliance Requirement:

Non-Compliance

If a Climate Bond is no longer compliant with the Climate Bond Standard, then the issuer is required to disclose that fact to the Climate Bond Standards Board, the bondholders and the relevant exchanges.

Once a Bond is deemed to be non-compliant, the issuer:

- may not use the Climate Bond Certification Mark in association with the Bond; and
- must take all necessary steps to remove that bond from Climate Bond listings and inform Climate Bond market participants.

Once non-compliant, a Climate Bond cannot become Climate Bond Standard compliant again without undergoing a full verification process.

Part B: Low Carbon Contribution

This Part sets out the eligible projects and physical assets that, for the purposes of this Standard, will be regarded as contributing to the delivery of a Low-Carbon Economy. It also includes references to specific technical criteria that will be required for certain projects and physical assets.

8. Eligible projects and physical assets

Projects and physical assets will be eligible for Certification if they directly contribute to:

- developing "low carbon" industries, technologies and practices that achieve resource efficiency consistent with avoiding dangerous climate change;
- essential adaptation to the consequences of climate change.

Explanation This Clause is where the Standard will identify the low carbon physical asset types that are necessary for the delivery of a Low-Carbon Economy and are therefore eligible to be financed by a Climate Bond.

The first version of the Standard covers wind energy investments. We plan to further detail wind energy assets descriptions in future iterations of the Standard, with the aim of broadening as much as possible the scope of assets eligible for certification

This section will be expanded as the Standards Board develops and confirms coverage in different climate change mitigation and adaptation areas.

Compliance Requirement:

Eligible projects and physical assets:

For a bond to be certified as a Climate Bond, the funds raised under it must be used to finance or re-finance:

Wind Energy Generation - that is, activities to generate energy from wind, specifically:

- The development and construction of wind farms.
- Operational production or manufacturing facilities wholly dedicated to wind energy development
- Wholly dedicated transmission infrastructure for wind farms
- For a bond to be certified as a Climate Bond, the funds raised under it must be used to finance or re-finance:

Solar Energy Generation - that is, activities to generate electricity directly from solar resources, specifically:

- The development, construction and operation of solar electricity generation facilities, where a minimum of 85% of electricity generated from the facility is derived from solar energy resources.*
- Wholly dedicated transmission infrastructure for solar electricity generation facilities.

Guidelines to calculate allowed non-solar fuel use for solar plants with gas-fired backup.

1. Calculate the annual net electricity production output of the plant. E.g. 150,000 MWh
2. Calculate 15% of this net output E.g. $150,000 \text{ MWh} \times 0.15 = 22,500 \text{ MWh}$
3. Apply total plant conversion efficiency to the 15% net output to derive thermal energy delivered. E.g. Plant energy conversion efficiency is 40%. $22,500 / 0.40 = 56,250 \text{ MWh}$
4. Apply applicable lower heat value ratio and heat rate conversion factor of fossil fuel to estimate the allowable fossil fuel annual consumption. E.g. lower heat value of natural gas = 0.9 Thermal energy equivalent of natural gas use in plant is $56,250 / 0.9 = 62,500 \text{ MWh}$. Heat rate conversion

factor of gas to electricity is 3.413 MMBtu/MWh. Allowable annual natural gas consumption limit of $62500 \times 3.413 = 213312.5$ MMBtu/yr.

9. Technical criteria

For the physical assets listed below to qualify for Climate Bond certification, they must comply with specific technical criteria if specified below.

[No listing at this time]

Explanation *At this time, wholly dedicated wind energy physical assets do not require any compliance to specific technical criteria. It is envisaged that as coverage is expanded to new projects or physical assets, specific technical criteria may need to apply to ensure their low carbon integrity. These will be developed through expert Technical Working Groups under the Climate Bond International Standard and Certification Scheme.*

Part C: Bond structures

This Part sets out Clauses specific to certain bond-types.

This version of the Standard can be used for “asset-linked” **corporate** bonds (applying Part C Clauses 10 through to 14, below), **portfolio bonds** (applying Clauses 10 through to 13, below), and **project development bonds** (there are no additional requirements for project development bonds at this time).

In the future, Clauses will be added for other bonds such as **sovereign bonds** and **bonds from international financial institutions**

(i) Corporate Bonds

Corporate bonds are defined as a general obligation debt security issued by a corporation or other legal entity, whose credit is not tied to any specific Nominated Project(s) or asset(s).

In the case of certified Corporate Climate Bonds, the bonds are verifiably linked to eligible physical assets or to a pool of loans to eligible physical assets. This is in order to verify the low carbon claims of the Corporate Climate Bond. For credit purposes, the bond retains the corporate bond rating of the issuer.

10. Traceability

The proceeds of a Corporate Climate Bond must be traceable.

***Explanation** This Clause ensures that there is a basis for establishing a defined and auditable internal accounting link between the Climate Bond and the Nominated Project(s).*

Compliance Requirement:

Traceability:

The financial flows of the bond principal must verifiably remain between the Climate Bond and the linked Nominated Project(s).

11. Project Holding

An issuer of a Corporate Climate Bond must hold Nominated Project(s) within its portfolio with a Fair Market Value at the time of issuance, equal to or greater than the original principal amount of the related Climate Bond.

***Explanation** This Clause is to ensure that in the case of a loan portfolio linked to a Corporate Climate Bond, sufficient eligible projects or parts of eligible projects are held to the fair market value of the portfolio at the original time of issuance even though the fair market value of the nominated project(s) may decrease.*

For example, as loans associated with a Climate Bond are paid down, issuers are required to nominate further loans to maintain the nominal value of the assets linked to the Corporate Climate Bond at the time of issuance or if a Nominated Project that forms part of a portfolio is sold or decommissioned. This is not applicable for changes in the market value of the original underlying assets.

Compliance Requirement:

Project Holding

The issuer of a Corporate Climate Bond with Nominated Projects linked to a portfolio of assets must continue to hold eligible assets at least equal to the Fair Market Value at the time of issuance of the original principal amount of the Climate Bond.

Additional projects or parts of projects can be added to, or used to substitute or replenish, the portfolio — as long as they are eligible.

In the case of changes to market value of underlying assets, no additional projects are required.

12. Confidentiality

In some circumstances existing confidentiality agreements may limit the extent of permissible disclosure about underlying Nominated Projects.

To avoid infringing these agreements issuers of Corporate Climate Bonds are not required to publicly disclose Nominated Projects identified with Clause 0 Project Nomination. However, issuers are required to disclose project names and details to the Verifier. This disclosure may be subject to a separate confidentiality agreement as required.

In circumstances of a Standards Board review of an application, or an investigation into an alleged breach of compliance, the Board may request information about Nominated Projects. Issuers will be obliged to provide this information, subject to the signing of a confidentiality agreement with the Standards Board.

Any disclosures to investors about the financial soundness of Nominated Projects are outside the remit of the Standard and may be subject to agreements between issuers and bond purchasers.

Explanation *This Clause is to address corporate bond issuers such as banks that are subject to confidentiality agreements with necessary parties such as borrowers or lending syndicates and are legally prohibited from publicly nominating projects or linked physical assets in corporate bond issuance for Climate Bond certification. Financial due diligence on underlying assets may still be performed by prospective bondholders as relevant to the bond issuance.*

Compliance Requirement:

Confidentiality

Disclosure of information to the market is to be encouraged. Nevertheless, nothing in the Standards will be construed as requiring disclosure about the Nominated Projects, except to the Verifier and to members of the Climate Bond Standards Board. The information disclosed to the Verifier and the Climate Bond Standards Board may be subject to confidentiality arrangements as required by the owners of the Nominated Projects in circumstances where such confidentiality is required.

13. Settlement Period

An entity issuing Climate Bonds must ensure that the quantity of funds raised through the issue are either disbursed to acquire or construct the Nominated Project(s), or allocated in accordance with an approved investment schedule provided to the Verifier within one year after the Bond is issued. In the event an issuer of a Climate Bond discovers it cannot comply with this requirement after the issuance of the Climate Bond, the issuer will be required to consult with the Standards Board.

Explanation *A time frame is allocated so that if the Nominated Projects do not become available in the anticipated time frame, then the issuer can reallocate the funds to new projects, which can be added to the portfolio.*

To avoid a Climate Bond falling out of compliance due to delays, the issuer may choose to have some Climate Bond compliant projects available for short-term investment using the unallocated surplus funds.

Compliance Requirement:

Settlement Period

Climate Bond issuing entities must demonstrate that the proceeds of a Climate Bond have been allocated to the Nominated Project(s) within one year after the bond is issued.

If this allocation is not achieved, the issuance is deemed compliant if:

- the surplus or unallocated funds are verifiably invested in Climate Bond compliant projects not otherwise nominated for a specific Climate Bond issuance.
- the issuing entity makes temporary investments of surplus funds to the nominal Fair Market Value of the Climate Bond at the time of issuance, in compliance with the provisions of Clause 0 Non-Contamination.

14. Ring-Fenced Cost Centres

An issuer of a Corporate Climate Bond must make sure the relevant assets are ring-fenced from other cost centres to allow for fund pooling between compliant assets. However, the unique association between issue and asset(s) must be preserved.

Explanation *It is reasonable to assume that some level of income pooling will be required to help manage the risk of failure or underperformance across one or more Climate Bond portfolios.*

So this approach aims to ensure that project finance is undertaken by one or more Climate Bond specific cost centres, established to manage funding Climate Bond eligible projects. In principle, more than one cost centre can be established, or even discrete costs centre per project portfolio.

Compliance Requirement:

Climate Bond Cost Centre

Bond Issuing organisations must establish at least one 'Climate Bond Cost Centre' to manage and account for funding to Climate Bond eligible projects.

Climate Bond Cost Centres must be auditable by an Verifier.

(ii) Portfolio Bonds

Portfolio bonds are defined as a debt security of a securitization vehicle that contains a pool of loans each of which qualifies as a Nominated Project or contains a pool of equity interests in Nominated Projects.

In the case of certified Portfolio Climate Bonds, issuers must comply with the following Clauses as listed in the Corporate Bonds section:

10. Traceability
11. Project Holding
12. Confidentiality
13. Settlement Period

(iii) Project Development Bonds

Project Development Bonds are defined as a debt security issued by a project development company or by the parent of a project development company that is issued to finance specific Nominated Projects on a non-recourse or limited recourse basis.

There are no additional requirements for project development bonds at this time.



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