

# Climate Bonds Standard & Certification Scheme

## Assurance Framework – version 1.0

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### Contents

1. Introduction to the Climate Bonds Standard & Certification Scheme
  2. Objectives of the Assurance Framework
  3. Principles, Governance and Decision Making
  4. Role of Approved Verifiers in the Certification Process
  5. How to become an Approved Verifier
  6. Obligations of Approved Verifiers
  7. Oversight Arrangements
- Annex 1: Information and evidence verifiers must include in their application  
Annex 2: Requirements for Approved Climate Bonds Verifiers to Maintain Approval  
Annex 3: Oversight Arrangements for Approved Climate Bonds Verifiers

## 1. Introduction to the Climate Bonds Standard & Certification Scheme

The **Climate Bonds Initiative**<sup>1</sup> (CBI) is an investor-focused not-for-profit organisation, promoting large-scale investments that will deliver a global low carbon and climate resilient economy. The CBI seeks 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 component of the CBI is the **Climate Bonds Standard & Certification Scheme**.

The Scheme allows investors, governments and other stakeholders to prioritise ‘low carbon and climate resilient’ investments with confidence that the funds are being used to deliver a low carbon and climate resilient economy. A Scientific Framework underpins the definitions of which projects and assets are consistent with a low carbon and climate resilient economy and therefore eligible for inclusion in a **Certified Climate Bond**.

The Scheme includes robust frameworks for monitoring, reporting and independent assurance of conformance with the Climate Bonds Standard. An international **Climate Bonds Standard Board** comprised of large institutional investors and leading environmental NGOs provides ongoing oversight of the Scheme as well as **all decisions on Certifications**. Day-to-day operations and coordination is delegated to the **Climate Bonds Standard Secretariat**, which exists within the Climate Bonds Initiative.

The Climate Bonds Standard is not a financial standard and does not imply any impact on the credit ratings of individual bonds — the obligation to perform financial due-diligence remains with investors, just as it does for other investments. The **Climate Bond Certified Mark** is registered in multiple countries and is used to designate Certified Climate Bonds.

## 2. Objectives of the Assurance Framework

This **Assurance Framework** lays out the principles and approaches to assurance under the Climate Bonds Standard & Certification Scheme, including the role of verifiers, criteria for their approval and ongoing oversight of their performance.

The *Assurance Framework* is part of a broader package of documents which work together to create a consistent and credible approach to standards, assurance and certification for the labelling of bonds and other debt instruments.

This package of documents is outlined below:

- **Climate Bonds Standard** (available [here](#))
  - Lays out a set of mandatory requirements consistent with the Green Bond Principles
  - Includes a library of sector-based criteria to define what projects and assets are eligible for certification (available [here](#) and [here](#))
  - Provides the requirements for certification and describes the certification process
  - Defines the required levels of assurance and procedures for managing non-conformance.

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<sup>1</sup> Further information on the Climate Bonds Initiative is available at [www.climatebonds.net](http://www.climatebonds.net)

- **Assurance Framework** (*this document*)
  - Provides the principles for assurance and lays out the governance and decision making structures for the Scheme
  - Describes the role of the approved verifier in the certification process
  - Defines the criteria used in the approval of verifiers and the maintenance of approval
  - Describes the approach to the ongoing oversight of approved verifiers.
  
- **Guidance for Verifiers** (*currently being finalised*)
  - Provides the assessment methodology and verification procedures which verifiers must use in preparing, undertaking and reporting on verifications under the Scheme
  - Describes the approaches to managing conflicts of interest and impartiality of verifiers.
  
- **List of Approved Verifiers** (*available [here](#)*)
  - Provides the geographic scope, technical scope and contact details for each of the Approved Verifiers under the Climate Bonds Standard & Certification Scheme.
  
- **List of Certified Climate Bonds** (*available [here](#)*)
  - Provides details of each Certified Climate Bond (once it has been issued)
  - Includes the verifier's reports and other information for each bond.
  
- **Complaints and Appeals Procedure** (*under development*)
  - Describes the steps for receiving, investigating and resolving complaints
  - Defines the procedure for lodging appeals of decisions by the Climate Bonds Standard Board.

### 3. Principles, Governance and Decision Making

The Climate Bonds Standard & Certification Scheme and this Assurance Framework have been developed using the following principles: Consistency, Rigour, Competence, Impartiality, Transparency, and Accessibility. These principles are drawn from the ISEAL Assurance Code which has guided the design and implementation of the Scheme's approach to assurance and certification.<sup>2</sup>

The Climate Bonds Standard & Certification Scheme is led by a **Climate Bonds Standard Board** of international environmental groups and pre-eminent investor entities, collectively representing \$34 trillion of assets under management<sup>3</sup>. Further information on these organisations is available [here](#).

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<sup>2</sup> Assuring Compliance with Social and Environmental Standards Code of Good Practice, <http://www.isealalliance.org/our-work/defining-credibility/codes-of-good-practice/assurance-code>

<sup>3</sup> Current Board members: 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 Climate Bonds Standard Board provides oversight for the development and implementation of the Climate Bonds Standard & Certification Scheme. Their decisions cover:

- Approval of the Climate Bonds Standard including all of the sector-specific eligibility criteria for projects & assets
- Certification decisions for individual Climate Bonds
- Approval of verifiers
- Approval of all documentation relating to guidance and the certification processes
- Strategic development of the Scheme.

The **Climate Bonds Standard Secretariat** provides support and coordination, working with issuers and verifiers to step through the certification process.

**All certification decisions under the Climate Bonds Standard & Certification Scheme are made by the Climate Bonds Standard Board based on information provided by the issuer.** All decisions on approval of verifiers are made by the Climate Bonds Standard Board based on information provided by the verifier as well as information from the Standard Secretariat (see the section on Oversight Arrangements).

#### 4. Role of Approved Verifiers in the Certification Process

The **Approved Climate Bonds Verifiers** play an important role in assessing whether the issuer and the proposed bonds meet the requirements of the Climate Bonds Standard and then providing the issuers with a Verifier's Report.

As illustrated in Figure 1, the **Climate Bond Certification Process** has two distinct phases which must be completed for each Certified Climate Bond. The two phases are aligned with the normal process for issuing a bond. This two-phased approach enables the **Climate Bond Certification Mark** to be used during the pricing and marketing of the bond and also ensures that the integrity of the label is maintained after the bond has been issued and allocation of bond proceeds has actually occurred.

**Pre-Issuance Certification** focuses on selection of eligible projects & assets as well as the readiness of the issuer's internal processes to track and report on use of proceeds. The process includes a readiness assessment by an Approved Verifier.

**Post-Issuance Certification** focuses on the actual use of proceeds, ongoing eligibility of the projects & assets being financed, use of funds not yet allocated ("non-contamination"), and the adequacy of and output from the issuer's internal systems. The process includes an assurance opinion provided by an Approved Verifier.

Figure 1: The certification process for the Climate Bonds Standard

**1. Pre-Issuance Certification**



**2. Post-Issuance Certification**



Requirements are split in this way to align with the phases of the bond cycle such as preparation, marketing, issuance, allocation of funds and statutory reporting.

It is important to note that the Approved Verifier does not decide on certification of the bond. **All certification decisions under the Climate Bonds Standard & Certification Scheme are made by the Climate Bonds Standard Board** based on the information provided by the issuer, including the report which the issuer has received from the Approved Verifier.

The issuer must engage an Approved Verifier on commercial terms to undertake two assessments:

- Assess the eligibility of assets and the readiness of the issuer at the pre-issuance stage; **and**
- Provide assurance over the actual use of proceeds and internal systems & controls at the post-issuance stage.

At each of the two stages the Approved Verifier provides its **Verifier’s Report** to the issuer as per the terms of their commercial engagement. The issuer then provides the Verifier’s Report along with other documents to the Climate Bonds Standard Secretariat for consideration by the Climate Bonds Standard Board.

Pre-Issuance Certification is valid for twelve months from the date of the bond issuance. Post-Issuance Certification must be confirmed within that twelve month period and can be undertaken prior to all proceeds being allocated.

Post-Issuance Certification is valid for the term of the bond as long as the issuer meets the ongoing reporting and disclosure requirements contained in the Climate Bonds Standard. Annual verification during the term of the bond is **not** required, but is often used by issuers of Certified Climate Bonds to regularly reaffirm their positive message.

## 5. How to become an Approved Verifier

**Approved Climate Bonds Verifiers** must demonstrate that they have sufficient competence and experience in three key areas:

1. Issuance of debt instruments in the capital markets and management of funds within issuing organisations
2. Technical characteristics and performance of low carbon climate resilient projects & assets
3. Assurance procedures and provision of assurance services in line with accepted international standards (ISAE3000 or equivalent).

Verifiers are expected to use **Verification Teams** of professional staff and/or insured contractors to ensure that they meet all of these requirements for each engagement under the Climate Bonds Standard. Verification Teams for specific engagements must have appropriate competencies and experience for the particular characteristics of the issuer, the bond and the assets being financed.

Applications from verifiers are assessed by the Climate Bonds Standard Secretariat for completeness and then packaged for the Climate Bonds Standard Board to consider. Verification companies may apply to the Climate Bonds Standard Board for approval at any time during the year. Applications must address the requirements listed in Annex 1 of this document.

Approval of verifiers by the Climate Bonds Standard Board is based on specific scopes in terms of geographic coverage and technical competence:

- Geographic coverage of the approval is aligned with the coverage provided by the verifier's insurance policies for professional indemnity / professional liability
- Technical scope of the approval is determined by the verifier's levels of experience and expertise in the various asset classes covered by the Climate Bonds Standard.

Approved Climate Bonds Verifiers are listed on the CBI website along with their geographic scope, technical scope and relevant contact details. Approved verifiers must receive the formal Letter of Approval and Certificate before they can commence their first verification engagement under the Climate Bonds Standard & Certification Scheme.

Training, support and oversight of Approved Verifiers are undertaken directly by the Climate Bonds Standard Secretariat using in-house and contracted expertise and resources.

## 6. Obligations of Approved Verifiers

Approved Verifiers must follow the **Guidance for Verifiers** in preparing, undertaking and reporting on their verification engagements under the Climate Bonds Standard. The **Guidance for Verifiers** document includes:

- Details of the certification process
- Requirements for verifier engagements
- Guidance on independence, conflicts of interest and impartiality
- Assessment methodologies and verification procedures
- Templates for Verifier Reports.

Approved Verifiers must use recognised standards for undertaking assurance engagements. These standards provide a clear structure and set of procedures for this type of engagement, ensuring that there is consistency in the work done by the Approved Verifiers. All Approved Verifiers must use ISAE3000 or an equivalent standard for assurance engagements<sup>4</sup>. ISAE3000 is available [here](#).

The report produced by the Approved Verifier in the post-issuance stage must contain an assurance statement based on the assessment and assurance activities which the Verification Team has undertaken. Limited assurance is the minimum requirement for assurance engagements under the Climate Bonds Standard & Certification Scheme, but many issuers prefer to receive reasonable assurance.

Approved Verifiers must participate in regular training webinars provided by the Climate Bonds Standard Secretariat as well as in-person training sessions and regional calibration workshops<sup>5</sup> when those are provided in suitable locations. Group training for Approved Verifiers is complemented with individual coaching from the Climate Bonds Standard Secretariat via telephone and email, and the provision of sector-specific guidance to verifiers as new sector-specific criteria are released.

Approved Verifiers are expected to pursue continuous improvement in their verification activities. This includes providing appropriate attention and resources for training of staff, sharing of lessons learned and open dialogue on capabilities and performance.

Maintaining approval is based on the verifier's performance during verification engagements and on meeting the requirements described in Annex 2 of this document. Verifier performance is managed via the Oversight Arrangements outlined below and described in Annex 3.

## 7. Oversight Arrangements

Oversight of Approved Verifiers is undertaken directly by the Climate Bonds Standard Secretariat and is intended to ensure the competent and consistent performance of the verifiers as per the requirements of the *Climate Bonds Standard, Assurance Framework, and Guidance for Verifiers*.

Elements of the oversight arrangements are listed in Annex 3. Key features include:

- Review of all Verifier Reports
- Monitoring newly approved verifiers for their first 3 to 5 engagements
- Spot-checks and on-site appraisals to review performance of verifiers in the field
- Annual review and reporting of verifier competence and performance.

The oversight arrangements are designed to track the performance of Approved Verifiers, accelerate the development of verifier capabilities, and improve the quality and efficiency of verification services under the Climate Bonds Standard & Certification Scheme.

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<sup>4</sup> Equivalent standards for assurance engagements may be put forward by Approved Verifiers for consideration by the Climate Bonds Standard Secretariat.

<sup>5</sup> See reference to calibration in: *Assuring Compliance with Social and Environmental Standards Code of Good Practice*, <http://www.isealliance.org/our-work/defining-credibility/codes-of-good-practice/assurance-code>

## Annex 1: Information and evidence verifiers must include in their application for approval

Verifier approval decisions taken by the Climate Bonds Standard Board are based on consideration of information contained in the application and other documents provided by the verifier to the Climate Bonds Standard Secretariat.

1. Applicant verifiers must demonstrate that the Verification Teams they will use for engagements have competence and experience in:
  - a. Issuance of debt instruments and management of funds within issuing organisations
  - b. Technical characteristics and performance of low carbon climate resilient projects & assets
  - c. Assurance procedures and provision of assurance services in line with recognised standards (ISAE3000 or equivalent).

The competence of the individual staff and/or contractors to be used in Verification Teams can be evidenced via detailed resumes, project references, work products and other information relevant to the requirements above.

2. Verifiers must provide detail on their company structure, organisational capabilities and financial stability for the Climate Bonds Standard Board to consider. This includes:
  - a. Formal company details including registration numbers, company officers, and business addresses
  - b. Information on the company's ownership structure, business model<sup>6</sup>, financial history and stability, and competence of the management team
  - c. Membership of professional organisations, government licenses and relevant certifications<sup>7</sup>
  - d. Information on material contractual obligations or contingencies and any lawsuits or government proceedings involving the company.
3. Verifiers must have Professional Indemnity / Professional Liability insurance in place which covers their verification work under the Climate Bonds Standard & Certification Scheme. The insurance policy must specify the geographic scope of the coverage.

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<sup>6</sup> For example, the proportion of the company revenue is from assurance services, and what other products or services the company provides to its customers.

<sup>7</sup> This could include the company's or individuals' membership of relevant professional associations or bodies for accounting or assurance practitioners, as well as certifications or licenses to operate from government agencies or relevant regulators.

## Annex 2: Requirements for Approved Climate Bonds Verifiers to Maintain Approval

The approval of verifiers by the Climate Bonds Standard Board is provided on an ongoing basis. The approval may be reassessed and/or revoked at any time at the sole discretion of the Climate Bonds Standard Board.

Approved Verifiers must continue to meet five requirements to maintain their approval:

1. Retain the levels of expertise and experience which were the basis for their approval, or apply for the approval to be modified to reflect the changes
2. Participate in regular training sessions
3. Follow the Guidance for Verifiers in planning and undertaking engagements
4. Adhere to the Oversight Arrangements
5. Maintain appropriate Professional Indemnity / Professional Liability insurance cover for their verification activities under the Climate Bonds Standard & Certification Scheme.

Approved Verifiers must pay an annual fee of GBP 500 to the Climate Bonds Initiative which contributes to funding of Scheme administration.

Failure to meet these requirements will be discussed with the verifier to agree steps and timelines to rectify the failure. Ongoing failure to meet these requirements will result in the Climate Bonds Standard Board revoking the verifier's approval and removing them from the list of Approved Verifiers.

### Annex 3: Oversight Arrangements for Approved Climate Bonds Verifiers

The oversight arrangements for Approved Climate Bonds Verifiers are operated by the Climate Bonds Standard Secretariat and are made up of the following elements:

- Review of all verifier reports submitted to the Secretariat by issuers
- Monitoring<sup>8</sup> of the first 3 to 5 engagements for newly approved verifiers, including review of work plans, verification teams, risk assessments, draft reports and findings
- Interviews with issuers of Certified Climate Bonds on the performance of their verifier
- Provision of immediate feedback on performance as verification engagements are planned, conducted and concluded
- Spot checks on verifier working documents, evidence and assurance procedures
- On-site appraisals to review performance of verifiers in the field
- Annual review of verifier competence and performance based on information gathered across the year, compiled by the Secretariat and provided to the Climate Bonds Standard Board.

The oversight arrangements are designed to assess the performance of the Approved Verifiers and to improve the availability of high quality and efficient verification services for issuers of Certified Climate Bonds.

Persistent problems with the performance of an Approved Verifier will result in the Climate Bonds Standard Board revoking the verifier's approval.

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<sup>8</sup> Monitoring involves the Approved Verifier providing key documents from the verification process to the Climate Bonds Standard Secretariat, such as the risk assessment, engagement plan, verification team, draft findings, draft report, etc. These documents shall be provided by the Approved Verifier during the assurance engagement on an information-only basis. No approvals from the Secretariat are necessary for the assurance engagement to continue and conclude.