



Climate Bonds Standards & Certification Scheme:

Assurance Roundtable
London – 21 March 2018



Topics covered in this session

1. Welcome
2. Introductions and updates from Verifiers
3. Recent developments in EU Green Bond guidelines
4. Update on Version 3.0 of the Climate Bonds Standard
5. Updating verification documents
6. Timing for new sector criteria
7. Discussion and Q&A
8. Next Assurance Roundtable



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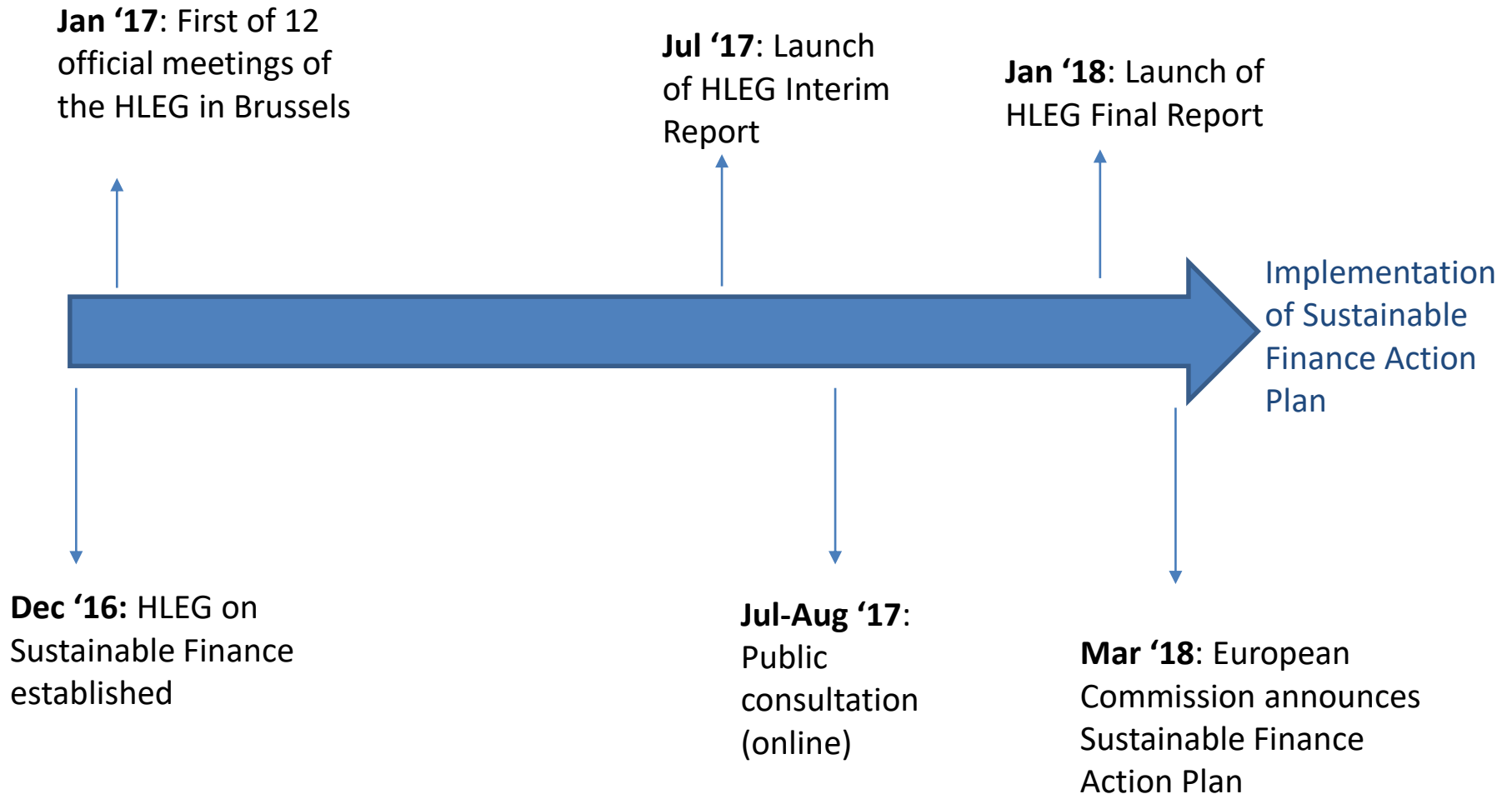
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The High Level Expert Group (HLEG) on Sustainable Finance

- Established by the European Commission in December 2016
- 20 Sustainable Finance experts from Europe: investors, banks, stock exchanges and civil society
- Mandated to deliver an EU roadmap for sustainable finance over 12 months
- The HLEG's Sustainable Finance imperatives:
 1. Improve the contribution of finance to sustainable and inclusive growth as well as the mitigation of climate change
 2. Strengthen financial stability by incorporating ESG factors into investment decision-making

From inception to final recommendations in 12 months



Key recommendations (1/2)

1. Establish and maintain a common **Sustainability Taxonomy** at the EU level
2. Clarify **investor duties** to better embrace long-term horizon and sustainability preferences
3. Upgrade **disclosure rules** to make sustainability risks fully transparent, starting with climate change
4. Empower citizens to connect to sustainable finance through a **retail strategy** entailing investment advice, ecolabel and SRI minimum standards

Key recommendations (2/2)

5. Develop and implement official **European sustainability standards** and labels, starting with green bonds
6. Establish ***Sustainable Infrastructure Europe*** to accelerate the development of a high-quality sustainable investment pipeline
7. **Improve governance** and better align corporate culture with a long-term outlook
8. Include sustainability in the supervisory mandate of the **European Supervisory Authorities** and extend the horizon of risk monitoring

EU Green Bond Standard

| Specific topic | Green Bond Principles provision | EU Green Bond Standard provision |
|--|--|---|
| Reference of alignment with GBPs/EU GBS in legal documentation | Recommended | Required |
| Eligibility criteria for green projects | Guidance on high-level categories | Compliance with a detailed EU Sustainability Taxonomy |
| Disclosure of proportion of proceeds used for refinancing | Recommended | Required |
| Impact monitoring and reporting | Recommended wherever possible | Required to report whether issuer is monitoring impact or not and if so, disclose estimated/actual impact. |
| External review requirements | Recommended. External review may be partial, covering only certain aspects of an issuer's green bond or associated Green Bond framework or full, assessing alignment with all four core components of the GBP* | Required. External review must confirm, at a minimum, the alignment, at issuance, of the EU green bond with all four core components of the EU GBS*, or alternatively, confirm the alignment of the EU Green Bond programme as a whole. |
| Publication of external review | Recommended | Required |
| Accreditation of external reviewers | Not addressed in GBPs | Sets out accreditation requirements for external reviewers. |

- Develop accreditation criteria for external review providers
- Create an EU Green Bond label, confirming alignment with EU Standard and EU Taxonomy to be provided by recognised market initiatives or EU agency

Impact of HLEG recommendations on growth of green bond markets (1/2)

1. A **Sustainability Taxonomy** will guide harmonisation of green and sustainability definitions and provide direction to sovereign and sub-sovereigns entering the market
2. Clear **investor duties** will enhance demand for GBs where sustainability preferences lie
3. New **disclosure rules** will increase pressure on green lending from banks and brown corporates to implement brown-to-green financing
4. **Retail** green bonds, green ISAs, more green labelled funds help increase demand for green product

Impact of HLEG recommendations on growth of green bond markets (2/2)

5. **European sustainability standards** to be used by EU issuers and investors for green and social investments and also to harmonise standards internationally
6. Addressing the limited green pipeline available for investments through ***Sustainable Infrastructure Europe*** is key to increase the supply of green financing
7. Green bonds can help bring sustainability issues to the CFO, ensuring greater **alignment of the corporate culture** with a long-term outlook
8. **European Supervisory Authorities** to extend the horizon of risk monitoring so financial institutions can update the risk assessment systems to more forward-looking ones through scenario planning

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Second round of comments for Version 3.0 of the Climate Bonds Standard

- The draft of the Climate Bonds Standard V3.0, which will supersede the current V2.1, has just closed public consultation.
- The first round of public consultation opened in mid-December 2017 and closed on 18th February 2018.
- Comments were sought from green bond issuers, investors, verifiers and other stakeholders.
- The changes proposed meant that a second round of consultation is necessary.

How did we get here?

- V2.0 was released in December 2015 providing investors after the Paris COP21 with improved guidance for climate based investment.
- V2.1, released in January 2017, expanded the range of debt instruments that could be Certified and included the Programmatic Certification option that streamlined the verification process for regular issuers.

What is new in the updated version 3.0?

- The Climate Bonds Standard V3.0 update has been based on our experiences with operating the Certification Scheme as well as feedback from green finance market stakeholders.
- V3.0 builds on the collaboration and alignment with the Green Bond Principles (GBPs) to reinforce a consistent framework, structure and terminology.
- This update also includes smaller changes to the actual requirements of the Standard regarding characteristics of green bonds and assets to establish international consistency.
- All changes have been marked up in the pdf to allow easy reviewing.
- What's in the update?
 - Increased requirements for disclosure, in line with GBP 2017.
 - More clarity on reporting requirements, before and after issuance of the bond and for ongoing certification.
 - Further flexibility for issuers with staged allocation of proceeds.

The structure of version 3.0 will flow through to other information products from Climate Bonds Initiative

- Climate Bonds Standard V3.0 has a clearer definitional approach to the core elements of the Green Bond Principles and a more logical structure:
 - Pre-issuance requirements,
 - Post-issuance requirements,
 - Green definitions,
 - Climate Bond Certification process.
- An updated draft of V3.0 will be launched in late-March 2018 and we will seek input from a wide variety of green bond market participants
- The finalised Climate Bonds Standard V3.0 will be launched in June, which will align with the annual cycle of updates established by the Green Bond Principles.
- CBI is preparing a Green Bond Fact Sheet for each labelled green bond, and each Certified Climate Bond, to help create a consistent information library
 - See the Green Bond Library which has just been created <https://www.climatebonds.net/bond-library>.

The updated timeline for approval of Version 3.0 will shift the annual cycle for the Climate Bonds Standard

- The first round of public consultation ran from December 2017 to Feb 2018
 - Only a few responses were received, but all were very positive
 - Also have the many lessons learned from using the Standard so far
 - The large number of proposed changes have prompted a second round of consultation which will run from late-March to late-May 2018
- The updated timeline is outlined as below:
 - 6 March: Board considers draft v3.0 for second round of consultation
 - 29 March: Launch of second round of consultation
 - April and May: Webinars and discussions with CBI Family (Partners, Investors, Verifiers, Issuers) and with Green Bond Principles ExComm
 - 28 May: Close second round of consultation
 - Early-June: Standards Board meeting to consider approval of v3.0
 - Mid-June: Formal launch of CBS v3.0 and associated documents
 - 21-22 May: Training on the updated Standard in New York
 - 11-12 June: Training on the updated Standard in Hong Kong

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The three key documents all need updating

1. Assurance Framework

- 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 and the approach to the ongoing oversight of Approved Verifiers.

2. Guidance for Verifiers

- Provides the assessment methodology and verification procedures that 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.

3. Readiness Assessment Protocol

- Presents potential pre-issuance Agreed-Upon Procedures as well as an easy-to-use checklist for implementing these potential procedures.



Updating verification documents

- The Climate Bonds Secretariat will be revising the verification documents as part of a wider package to be released in conjunction with Version 3.0
- The three key verification documents provide details on the role and responsibilities of Approved Verifiers in the Climate Bonds Standard & Certification Scheme
- The Guidance Working Group will be the main driver of the updates

Focus areas for updating:

- Templates for verifier reports
- Insurance requirements for verifier companies
- Complaints and appeals policy and mechanism
- Structure of Readiness Assessment Protocol
- Use of ISAE3000 by verifiers who are not accountants
- Updating guidance based on lessons learned

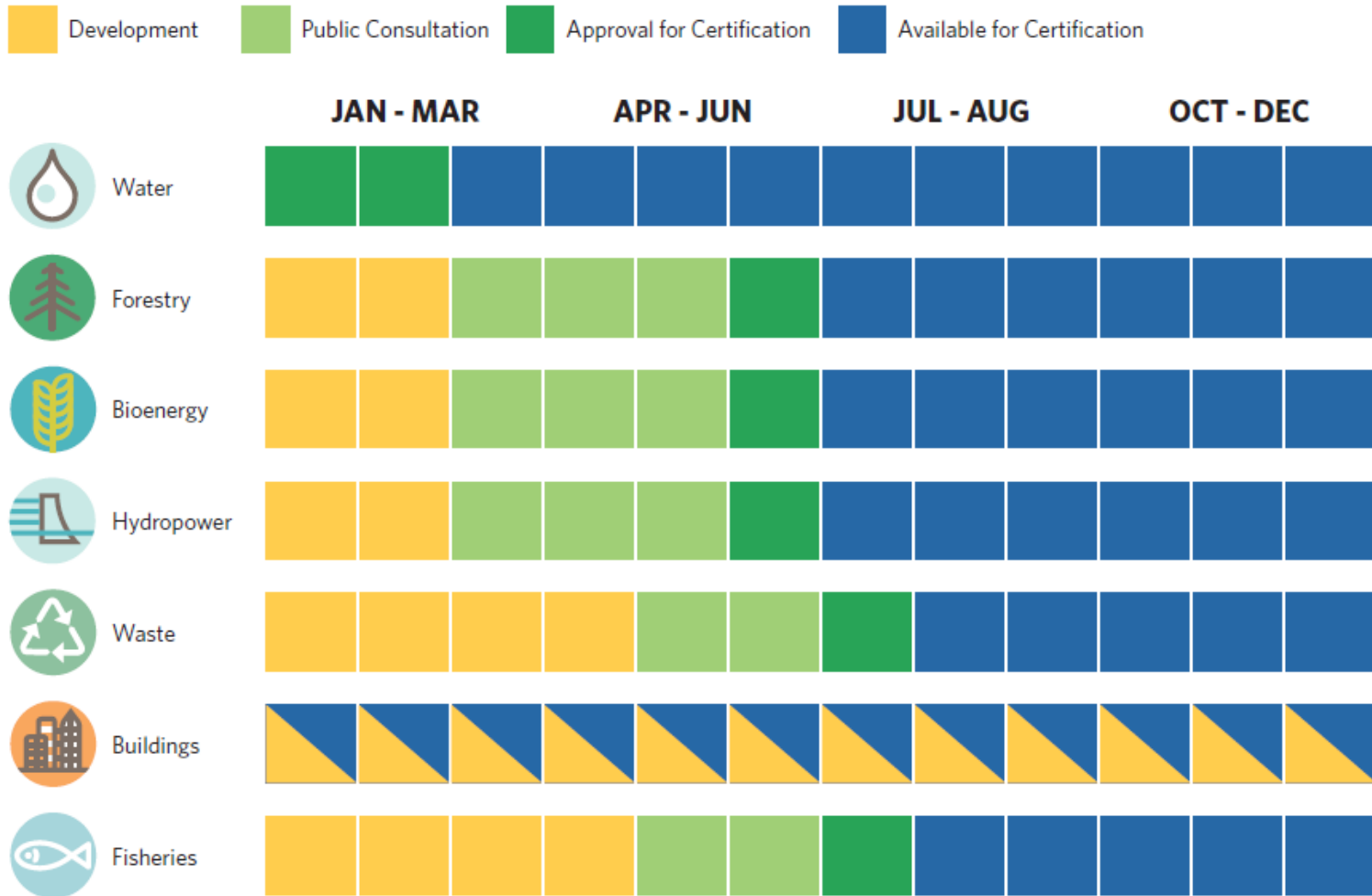


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Expected timing for new sector criteria



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Thank you

