Climate Bonds INITIATIVE

Climate Bonds Standard & Certification Scheme

Happy 10th birthday!

June 2017 will mark a decade since the first green bond was issued. Since then, there's been strong year-on-year growth and 2016 saw a record USD 81bn green bonds issued, up 92% on 2015.

We've also seen the market maturing with an increasing number of issuer countries, bond types, issuer types, ratings and use of proceeds – our State of the Market report available online gives full details.

This momentum will continue. HSBC's preliminary estimate for the year ranges up to USD 120bn, Moody's is around USD 200bn and our forecast is that green bond issuance will reach USD 150bn in 2017. Already USD 19bn of green bonds have been issued to the end of February.

The market needs to scale up even faster to meet green infrastructure needs

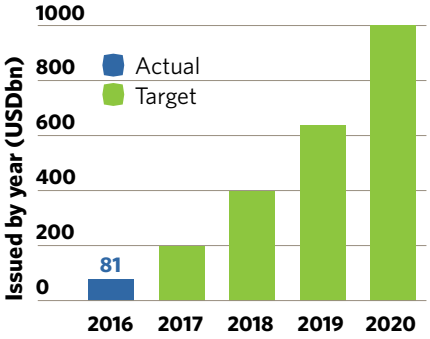
Global infrastructure investment is expected to amount to USD 90 trillion over the next 15 years. To ensure sustainable development and limit climate change, this infrastructure needs to be low-carbon and climate resilient, without compromising the economic growth needed to improve the lives of the world's most vulnerable citizens.

Ensuring that new infrastructure is low-carbon raises the annual investment costs by 3–4%. Climate adaptation necessitates an additional USD 280–500 billion per annum in infrastructure spend by 2050, even in a 2C scenario.

At USD 100 trillion, the global bond market can absorb this. Institutional investors, particularly pension and sovereign wealth funds, are increasingly looked to as viable actors to fill these green financing gaps.

> "The emergence of green bonds represents one of the most significant developments in the financing of low-carbon, climate resilient investment opportunities"
>
> **Ban Ki Moon,**
> **Former UN Secretary-General**

USD 1 trillion a year by 2020 is needed to address climate change



To achieve this growth, the green bond market needs transparency and calibration

Labelled green bonds are increasingly considered an ideal vehicle for meeting green infrastructure investment needs through the bond market.

But, to avoid greenwashing, and assist this market to grow, standards and assurance for green bonds are essential. They ensure consistency, improve transparency and give investors confidence in the green credentials of the investments they are making.

Key players driving the international green bond market

Regulators and Governments

Policy and regulation is central to enabling and scaling up green investment. Internationally, there are many examples of the public sector driving this green finance transition including:

China's National Green Finance Guidelines
China has established the national Guidelines for Establishing the Green Financial System, proposing 35 measures to push the development of the green financial system including the green bond market – see our China Green Bond Market 2016 report.

France's TEEC guidelines for green investment
In July 2016, the French government issued green funds guidelines aligned with the Climate Bonds Taxonomy and the Green Bond Principles.

India's Green Bond Guidelines
The Securities and Exchange Board of India (SEBI) released a first draft of green bond guidelines in early 2016. SEBI will soon finalise its guidelines, which will facilitate the raising of funds for investment in the renewable energy space, after incorporating comments from the Ministry of New and Renewable Energy (MNRE).

Industry players

Green Bond Principles (GBPs)
The financial industry, coordinated by ICMA, has drawn up voluntary green bond guidelines to raise and promote standards on transparency, disclosure and green bond instruments.

Second opinions
66% of green bonds issued have had a second opinion with independent organisations reviewing issuance frameworks, green credentials, management of use of proceeds and reporting and disclosure.

Rating agencies review
Moody's & S&P evaluate green bonds and green bond issuers in terms of their environmental performance and management.

Climate Bonds Standard & Certification Scheme
The Climate Bonds Initiative has established and runs the only international certification scheme for green bonds. This sets detailed green definitions and eligibility criteria for certification, and has a robust pre-and post-issuance assurance framework.

MORE ON CLIMATE BONDS STANDARD INSIDE

How the Climate Bonds Standard & Certification Scheme works: What you need to know

What is the Climate Bonds Standard?

The Climate Bonds Standard and Certification Scheme is a FairTrade-like labeling scheme for bonds. It is designed as an easy-to-use tool for investors and issuers to assist them in prioritising investments that truly contribute to addressing climate change. The Standard is a public good resource for the market.

The Climate Bonds Standard is made up of two parts; (i) the parent standard detailing management and reporting processes (see Climate Bonds Standard V2.1) and (ii) a suite of sector Criteria detailing the requirements assets must meet to be eligible for certification.

The Certification Scheme requires issuers to obtain independent verification, pre- and post-issuance, to ensure the bond meets the requirements of the Climate Bonds Standard (see diagram below).

Benefits of Certification

Certification allows issuers to demonstrate to the market that their bond meets industry standards for climate integrity, management of proceeds and transparency.

Issuers have reported benefits including; investor diversification, greater investor engagement, investor 'stickiness', strengthened reputation and a freeing up of balance sheets.

Investors are keen to see Climate Bond Certification because it reduces transaction costs on due diligence, gives greater transparency and consistency and allows deeper engagement with the issuer. All of this increases confidence in green credentials.

Supporting the rapid transition to a 2C pathway: The Climate Bonds Standard recognises that small improvements will not be sufficient to meet the targets of the international community, step changes are needed.

The Sector Criteria are rooted in emissions trajectories consistent with rapid decarbonisation, and will address adaptation and resilience.

Vision for the Climate Bonds Standard

Underpinning the Climate Bonds Standard is the Climate Bonds Taxonomy. This is broader than the currently available Sector Criteria and provides guidance about green assets to facilitate ambitious and consistent climate classifications across the green bond market.

Our Taxonomy has been integrated into the French Governments formal TEEC definitions, and it is the basis for green bond index providers such as MSCI and S&P. China's Green Finance Committee and the ChinaBond China Climate Aligned Bond Index also reference it.

We continue to work to develop detailed Criteria for all the sectors outlined in the taxonomy – see table opposite for current status. And we continue to work closely with others leaders in this space to ensure alignment in green taxonomies and definitions globally.

Developing the Climate Bonds Standard

The Climate Bonds Standard has been developed based on public consultation, road testing, review by the assurance roundtable and expert support from experienced green bond market actors. The Standard is revisited and amended on an annual basis in response to the growing green bond market.

Sector specific Criteria, or definitions of green, are developed by Technical Working Groups (TWGs), made up of scientists, engineers and technical specialists. Draft Criteria are presented to Industry Working Groups before being released for public comment. Finally, Criteria are presented to the Climate Bonds Standard Board for approval (see governance diagram).

Robust & independent assurance is a key component

The Certification Scheme includes robust frameworks for monitoring, reporting and independent assurance.

The Climate Bonds Standard Board provides oversight and direction to the development of the standard.

Approved Climate Bonds Verifiers independently assess whether a bond complies with the requirements of the Climate Bonds Standard. All Verifiers must use ISAE3000 or an equivalent standard. Current approved verifiers are listed overleaf.

The Climate Bonds Secretariat facilitates both the development of the Standard and the Certification process, working closely with issuers and verifiers.

Climate Bonds Certification process for issuers

1 Prepare the bond

- Identify assets that meet the relevant sector criteria and compile supporting information
- Create Green Bond Framework setting out how proceeds of the bond will be used

2 Engage a verifier

- Engage an Approved Verifier for pre- and post-issuance Certification
- Provide them with relevant information
- Receive a Verifier's Report giving assurance that Climate Bonds Standard requirements are met

3 Get Certified & issue a Certified Climate Bond

- Submit the Verifier's Report and Infomation Form to the Climate Bonds Initiative
- Receive a decision on pre-issuance Certification
- Issue your bond, using the Certified Climate Bond mark

4 Confirm the Certification post-issuance

- Within 12 months of issuance, submit the Verifiers post-issuance report
- Receive notification of post-issuance certification

5 Report annually

- Prepare a simple report each year for term of the bond
- Provide it to bond holders and Climate Bonds Initiative

Sector Criteria development

Strong growth in Certified Climate Bonds

In 2016, USD 9bn was Climate Bonds Certified. Certification is becoming the norm in some markets. 100% and 60% of green bonds issued in Australia and India respectively were Climate Bonds Certified.

Estimates for the growth of the green bond market in 2017 vary, but all agree onwards and upwards.

We expect about 20% of market share this year, and given we're forecasting USD 150bn of issuance, that would be roughly USD 30bn of Certified Climate Bonds issued in 2017.

Keep up to date

Upcoming webinars, events and all the latest news on the green bond market and the Climate Bonds Standard & Certification Scheme are announced on the Climate Bonds blog and in our quarterly newsletters (subscribe at www.climatebonds.net).

Governance of the Climate Bond Standard

Climate Bonds Initiative Board

Provide overall strategic and management direction, seeking and acting on the advice of the below constituent bodies

Climate Bonds Secretariat

Carries out day to day operations

Climate Bonds Standard Board

Governs the development of the Climate Bonds Standard & Certification Scheme

Climate Bonds Advisory Panel

External Experts Collectively or individually provide advice

Climate Science Advisory Group

Scientifically grounded analysis on emissions mitigation pathways, technology options and impacts

Technical & Industry Working Groups

External Experts Develop sector specific criteria for the Climate Bonds Standard

Assurance Roundtable

Approved Verifiers Information exchange between the verifiers and Climate Bonds Initiative

Members of the Climate Bonds Standard Board

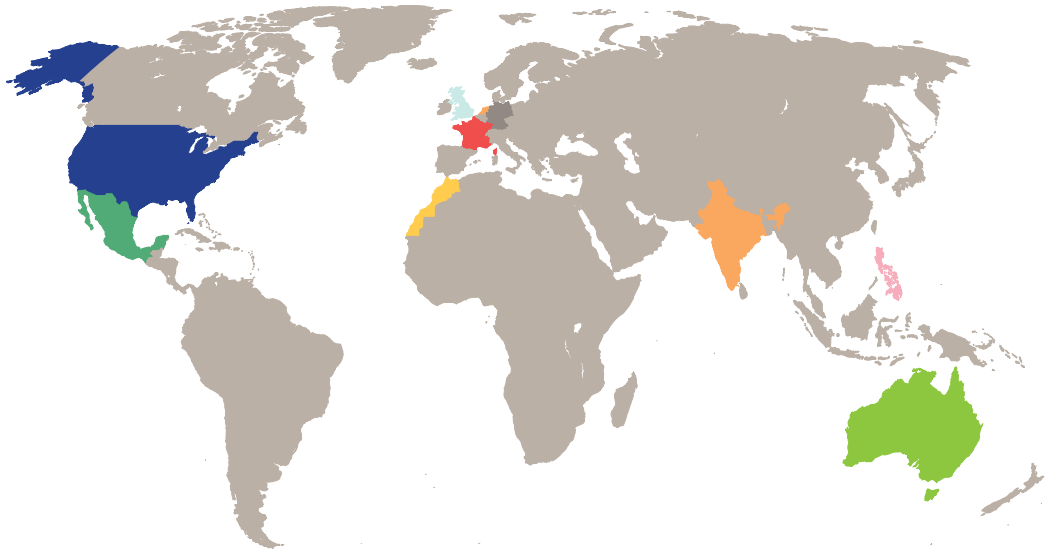
Certified Climate Bonds to end 2016

Mexico (1)
Nacional Financiera, USD 500m

Netherlands (3)
ANB AMRO, First: EUR 500m, Second: EUR 500m
Obvion, EUR 500m

Germany (1)
DKB, EUR 500m

India (4)
Hero Future Energy, IRN 3bn
Axis Bank, USD 500m
NTPC Ltd., INR 20bn
ReNew Power, IRN 5bn



United States (5)
New York State Housing Finance Agency, USD 45m
New York Metropolitan Transport Authority, First: USD 782m,
Second: USD 558m
San Francisco Public Utilities Commission, First: USD 240m, Second: USD 259m

Philippines (1)
AP Renewables Inc, PHP 10.7 bn

Global (1)
Nordex SE, EUR 550m

UK (4)
Big60Million, First: GBP 4m, Second: GBP 3.5m, Third: GBP 4.4m, Fourth: GBP 3.4m

France (1)
SNCF Reseau, EUR 900m

Morocco (1)
Masen, MAD 1.15bn

Australia (6)
NAB, AUD 300m
ANZ, AUD 600m
FlexiGroup, AUD 50m
Westpac, AUD 500m
Treasury Corp Victoria, AUD 300m,
Monash University, AUD 218m

Approved verifiers

EthiFinance
SUSTAINALYTICS
BDO
联合赤道 China Lianhe Equator
BUREAU VERITAS
DNV·GL
FIRST ENVIRONMENT
CARBON TRUST
atelier ten
NSF
中财绿融 Zhongcai Green Financing
TÜV NORD
oekom research AKTIENGESELLSCHAFT
EY Building a better working world
商道融绿 SynTao Green Finance
EPIC Sustainability
KPMG
vigeo eiris
TRUCOST
EVI Sustainable Solutions for the Planet
pwc

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