

Climate Bonds Standard & Certification Newsletter

Q1 2017 ISSUE 3

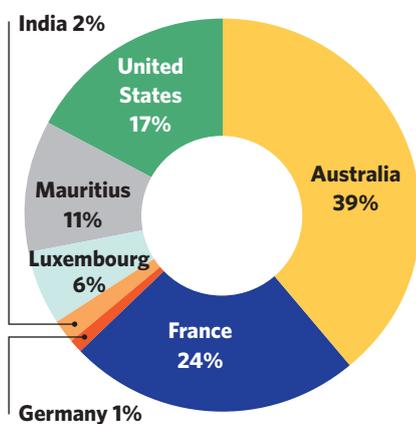
Record Quarter for Certified Climate Bonds

January to March 2017 has seen a surge in Certified Climate Bonds with 15 issued for the quarter to the value of USD 4.4bn, our best ever performance to date. This result represents an increase of 275% on the USD

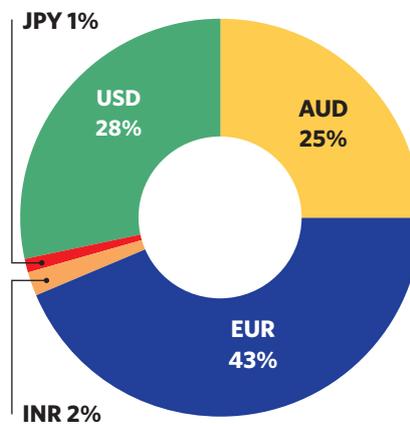
1.6bn of certified bonds issued in Q4 2016. Standouts include New York State Housing Finance Agency and repeat issuances from New York's Metropolitan Transportation Authority (MTA). Of particular note has

been a host of bonds from Australia including a domestic green record of AUD 750m from Queensland Treasury Corporation (QTC) and the first green bond from the Commonwealth Bank of Australia (CBA).

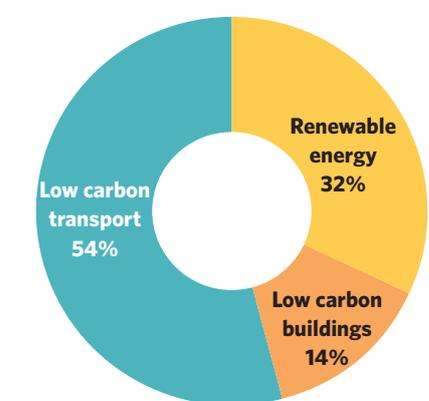
Breakdown by issuer domicile



Breakdown by currency



Breakdown by use of proceeds



Programmatic Certification - 3 Big Issuers Get Started

In our last newsletter we talked about the benefits of the new Programmatic Certification for large bond issuers, a streamlining feature launched as part of the Standards V2.1 upgrade of January 2016.

We now have three examples of it in practice.

New York's MTA, New York State Housing Finance Agency and French rail operator SNCF Réseau, have successfully adopted the Programmatic Certification process as part of their ongoing green bond issuance programs.

See our three profiles on P2.

What is Programmatic Certification?

Programmatic Certification is a streamlined process to certify multiple green bonds against an existing large portfolio of green assets.

Who can use programmatic certification?

Programmatic Certification can suit established issuers with large pools or pipelines of green assets and the potential to issue a number of green bonds each year.

Benefits of Programmatic Certification

The streamlined process for Programmatic Certification is lower cost, less resource intensive and more flexible for repeat issuers.

During the typical certification process for green bonds, issuers must engage with a verifier for pre-issuance and post-issuance certification each time they issue a green bond.

With Programmatic Certification, issuers complete pre-issuance certification that includes the eligible assets in their pipeline or 'stack' that they will be issuing against in future. Thus the normal post-issuance certification for the first green bond in the program takes place.

They can then issue multiple certified bonds but only need to engage a Verifier once a year no matter how many times they issue during the year.

This significantly reduces the verification burden and the transaction costs for regular issuers of green bonds.

Who should use Programmatic Certification?

Programmatic Certification will suit a variety of issuers with green assets:

- Major corporations in energy, buildings, transport, automotive, water, waste;
- Public authorities in transport, water, energy & housing;
- State and provincial governments;
- Commercial banks, Multilateral Development Banks and Development Finance Institutions

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How does Programmatic Certification work?

1. The issuer's eligible stack and first green bond in the program is Certified at pre-issuance and post-issuance stages in the normal way. This involves the Verifier checking the issuer's internal Green Bond Framework for the program and the stack or pipeline of green assets.

2. When the issuer comes to issue again under their program they provide the application documents to the Climate Bonds Standard Board and receive the formal Certification for that green bond, but the Verifier is not involved in each green bond issuance.

3. Instead, the issuer engages a Verifier to undertake an annual review of the

issuer's Green Bond Framework and the green bonds issued in the previous year under the program.

4. Annual reporting obligations remain the same for each green bond and these can be wrapped up into a single annual report for the entire green bond issuance program.

At a Glance - Programmatic Certification profiles

CASE STUDY 1

**Metropolitan
Transportation
Authority (MTA)**



Bonds: USD 782m (Feb 2016), USD 558m (May 2016), USD 312m (Feb 2017), USD 325m (March 2017)
Criteria used: Low Carbon Transport
Verifier: Sustainalytics

CASE STUDY 2

**New York State
Housing Finance
Authority (NYSHFA)**



Bonds: USD 45m (Dec 2016), USD 54m (Jan 2017), USD 56m (March 2017)
Criteria used: Low Carbon Buildings
Verifier: Sustainalytics

CASE STUDY 3

SNCF Réseau



Bond: EUR 900m (Oct 2016), EUR 1bn (March 2017)
Criteria used: Low Carbon Transport
Verifier: OEKOM

Australia - Emerging Best Practice in Market Build

Australia is the 13th largest global economy but in contrast to most OECD nations is a net importer of capital. This creates an ongoing need to attract and retain the attention of international private sector investors.

As the domestic green bond market has grown from the first NAB issuance in 2014, Climate Bonds Certification has been adopted as an expected part of market structures and investment governance.

Despite its relatively small size, the local market has seen a diverse range of Certified Climate Bonds, with multiple issuances from the major banks, several state governments, a listed property developer, a leading tertiary institution and several award-winning green Asset Backed Securities (ABS).

Certification & influence of local investors

The strong take-up of Climate Bonds Certification in Australia has been driven in part by a combination of local pension funds having an appetite for green bonds as part of their growing ESG mandates and their desire for the highest of standards with a clear connection to environmental and climate outcomes.

The nationally funded Clean Energy Finance Corporation (CEFC) has also played a positive role as a cornerstone investor in multiple certified green offerings, becoming a significant contributor to capacity building.

Finally, a commitment to certification & transparency from the banking sector has been a critical factor. Australia's big four banks issuing Certified Climate Bonds (and in some cases multiple issuance) has added another layer to market confidence, along with the prospect of further deal flow from the refinancing of their impressive portfolios of green assets.

We'd like to see other banks in the global top 100 ranks following this lead from NAB, Westpac, ANZ & the CBA.

Impacts of Certification

Climate Bonds Certification across the Australian market has provided greater certainty for offshore investors, whether they are looking at the benchmark size AUD offerings that have come to market in the last 18 months, or are US or Japanese institutional 'private placement' investors looking for further Australian exposure. This bodes well for future green offerings.

Market Credibility & Confidence

Australia's green bond experience so far offers a few lessons for other jurisdictions:

- Building certification into initial bond issuance can reduce market friction and investor uncertainty in early stages of market development.

- Involvement of major banks and high profile issuers can help attract initial off-shore demand.
- Support for certification from local investment authorities or green banks and institutional investors provides valuable signals for prospective domestic issuers.

If the Australians Can...

The role of international capital in Australia's green bond market is of note for emerging market economies looking to finance their Paris based NDC commitments.

Despite the stalemate in climate change and clean energy policies, Australia has emerged as an early example for other nascent markets of green bond development, diversity and robust credentials.

The experience to date provides increased confidence for policy makers and regulators that moving ahead with green bond promotion, common standards and incentives all can combine to increase private sector investment in low carbon solutions.

We'd like to see similar features in more G20 nations and additional support for developing economies to accelerate growth of green bond markets and investment towards NDC goals and climate commitments.

What's happening with our Technical Working Groups

Water

Status: Phase II public consultation imminent



Phase II of the Water Criteria, covering nature-based and hybrid water infrastructure, has progressed well.

In February, we convened a very positive Industry Working Group to respond to the draft Criteria from the TWG.

The public consultation is scheduled for late May and will be announced via the Climate Bonds Blog. The proposed Criteria will be available online and we welcome your views and feedback.

Bioenergy

Status: TWG developing Criteria



The TWG is assessing existing best practice standards for biomass to determine what can be leveraged for the Climate Bonds Criteria.

Proposals are taking shape for mitigation thresholds appropriate for a renewable energy source, in line with the latest climate scenario modelling.

We will be checking in with an Industry Working Group (IWG) on these proposals in the next quarter.

Marine

Status: TWG developing criteria



Criteria for Marine Renewable Energy has progressed and we are now handing it over to an Industry Working Group (IWG) for feedback. Representatives from the Marine Renewables Industry and Verifier and Investor communities will sit on the IWG. Public consultation will open during Q2.

Meanwhile, the TWG continues to explore robust and verifiable Criteria for fisheries. It's a complex area without CO₂ budgets or trajectories and a lack of verified data.

The adaptation & resilience element of the Criteria has progressed and we'll be examining how much can also be applied to the Aquaculture Criteria.

Waste management

Status: TWG developing Criteria



Launched during Q1, the TWG is moving ahead. The scope of the group has been

agreed - it will focus on waste once it has become waste, including recycling, anaerobic digestion, composting and waste disposal assets.

The group is discussing how the 'waste management hierarchy' can be used as a simple framework for eligibility Criteria.

Land Use

Phase I Status: post public consultation



Phase II Status: TWG developing criteria

For Phase I, the mitigation Criteria, we're preparing guidance materials that will provide transparency around the TWG process and also aid issuers and verifiers. These Criteria will be presented for approval to the Climate Bonds Standard Board at its next meeting. We'll announce the Criteria's approval and availability for Climate Bonds Certification on the Blog first!

For Phase II, the adaptation & resilience Criteria, we are part way through final feedback on the proposed criteria from the TWG.

In Q2 we will be taking these Criteria to the Industry Working Group for feedback on their usability.

Hydropower

Status: TWG developing Criteria



During Q1, the TWG considered climate change mitigation requirements for hydropower, determining a broad decision tree and assessment Criteria for eligibility.

Discussions are now focussing on complementary climate resilience and sustainability Criteria, reviewing existing international, best practice and standards.

An Industry Working Group (IWG) will shortly be convened for their input in these draft proposals.

Buildings

Status: TWG developing Criteria

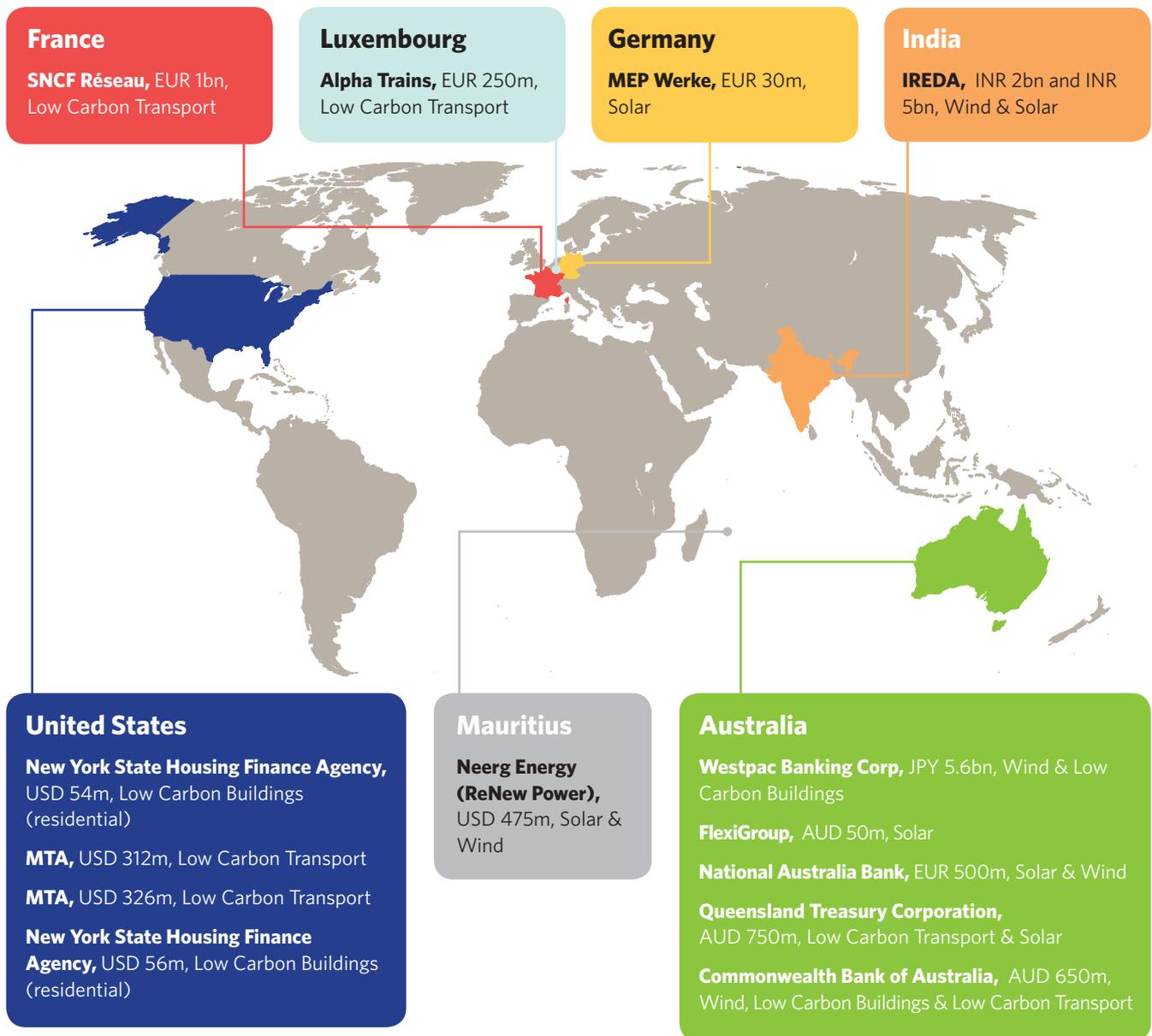


Exciting new approaches and proposals are being discussed by the TWG that will allow the setting of benchmarks (and hence certifications!) in a large number of cities and countries. We aim to finalise those in Q2.

Due to market demand, we are also developing eligibility Criteria for the manufacture and distribution of energy efficient components in the buildings sector, such as lighting, heating/cooling devices etc. Watch this space in Q2.

Snapshot of Certified Climate Bonds

Q1: January - March 2017



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www.climatebonds.net

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