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EU Capital Markets Union Public Consultation:

The role of Green Bonds in the EU Capital Markets Union

Submitted by the Climate Bonds Initiative

www.climatebonds.net

Response to Capital Markets Union Consultation question 7:

"Is any action by the EU needed to facilitate the development of standardised, transparent and accountable ESG (Environment, Social and Governance) investment, including green bonds, other than supporting the development of guidelines by the market?"

[This response will focus on green bonds]

A broad basket of actions by the EU are needed to facilitate the development of a standardised, transparent and accountable green bonds market at the scale and pace required by the climate change challenge. Green bonds are bonds where proceeds are earmarked for green investments. The green bond market has grown exponentially the last few years, with annual issuance increasing from just under EUR10bn in 2013 to EUR32.5bn in 2014. While the green bond market has achieve without direct support from policymakers, but the green bonds market is still much smaller than the levels of bond market investments required to meet climate targets in the EU and globally. EUR200bn of low-carbon investment are required annually until 2020 in the EU. Globally, the annual investments required to 2020 are estimated at EUR780bn.[1]

The tools available to the EU to support a large and robust green bond market go beyond supporting the development of guidelines and standards in the market, as proposed in the Capital Markets Union Green Paper. Most of the other priority areas proposed for the Capital Markets Union in the Green Paper are highly relevant for facilitating the development of the green bonds market as well:

- Widening the investor base for SMEs
- Building sustainable securitisation
- Boosting long-term investment – the European Fund for Strategic Investment
- Developing European Private Placement Markets
- Improving access to finance for infrastructure
- Addressing information problems with infrastructure investment pipelines
- Integrated European covered bond market

Accessing the EUR88trillion bond market is crucial to close these investment gaps. Moreover, demand from investors for green bonds is consistently outstripping green bond supply, illustrating that there is significant potential for the market growth to ramp up if the EU steps in to support financially competitive green bonds getting to the market. Having a green label makes it easier for investors to identify the investment as environmentally beneficial, and institutional investors, who account for the largest share of bond market investments, are increasingly demanding green investments, if they are financially competitive with their usual non-green investments. One driver of this is that an increasing share of institutional investors is committed to sustainable investment pledges and mandates. For example, investors with EUR$40 trillion of assets under management are signatories to the Principles of Responsible Investment (PRI). Green bond issuers benefit from tapping into this demand, as they

[1] Kidney, S.; Sonerud, B; Thomae, J. et al (2015): Shifting private finance towards climate-friendly investments. Report for the European Commission DG Clima. Estimates based on CPI, IEA, EC data

achieve investor diversification, and so increasing their access to finance over time.

Facilitating green bonds through the Capital Markets Union offers an opportunity for the EU to be a global leader in supporting this growing market. There is currently a lot of appetite from policymakers in both developed economies and emerging markets to help to grow the green bond market. As the green bond market has grown incredibly rapidly these last years, and the product is gaining power to drive policy. China's central bank, for example, has recently proposed a range of policy measures to directly support a domestic green bond market to meet their green investment challenges. The proposals include government leadership on creating green guidelines in the market, but also incentives for issuers and investors, including tax incentives for green bonds, preferential risk-weightings and a fast-track issuance system to make issuing green bonds swifter than non-green bonds. The EU has been a global leader in other climate policy areas, and it now has the opportunity to be an early mover in the green bond space as well.

Importantly, supporting the green bond market does not require the development of new policy priority areas for the Capital Markets Union. All of the action areas identified for the EU to grow the green bond market can be integrated with the priority areas already set out in the Capital Markets Union Green Paper. Existing EU capabilities and tools can be used to swiftly implement the action plan for green bonds, as the EU is already supporting the shift of private capital to priority areas, such as SMEs and infrastructure. The same toolbox used in these areas can now be applied to green bonds.

The EU can scale up the green bond market by:

- Increasing issuance volume to improve availability of green bond investment opportunities and market liquidity. EU can do this by increasing green bond issuance from public institutions, and facilitating issuance from other market players e.g. through the provision of technical support and cornerstone investment

- Improving the risk-return profile of green bonds where they are too high risk to tap into EU's institutional investor base by providing credit enhancement.

- Facilitating aggregation of small-scale low-carbon assets to a size attractive in the bond markets (typically EUR200m and above). Supporting the growth of a simple, transparent and high-quality green securitisation market in the EU is a promising action area.

- Supporting market-led efforts to develop standards for green bonds to make discoverability of robust green investments easier for investors.

How each of these action areas fit in with the priority areas of the Capital Markets Union Green Paper is set out below.

Green Paper Section 3.2 Widening the investor base for SMEs through green bonds

Enabling SMEs to issue green bonds can help achieve the aim of widening the investor base for SMEs also within the capital markets, as green bonds offer issuers investor diversification. New investors, especially Socially Responsible Investors, who would not otherwise invest in a particular bond, choose to invest because they are attracted to the green aspects of the bond issuance. Provided there is

sufficient support in place for SMEs to access the capital markets through green bonds, SMEs can tap into these investor diversification benefits, improving their access to finance over time. This can be done by supporting securitisation of loans to green SMEs (see section 3.3. below); credit enhancement for green SME bonds e.g. through the European Fund for Strategic Investments (see section 3.4) and supporting the development of a green private placement market (see section 3.5).

Green Paper Section 3.3 Building sustainable securitisation for low-carbon assets

We recommend that support for 'high-level securitisation' in the context of the Capital Markets Union place a particular emphasis on 'green securitisation', i.e. securitisation of small-scale low-carbon assets.

Currently, smaller-scale low-carbon projects are highly reliant on lending from banks, project developers, utilities and governments.[2] Particularly in the renewable energy space, the majority of investment has been covered by utility companies' balance sheets. This current structure is limiting lending to low-carbon assets in Europe, as both banks and utilities are more financially constrained than before the financial crisis. Regulatory changes in response to the crisis[3] mean banks are more limited in their lending than previously, particularly to long-term, more risky projects such as low-carbon projects. Utilities and project developers are not able to increase their low-carbon investments, as their balance sheets have deteriorated over the few last years, limiting their ability to raise low-cost debt capital.

The relatively small-scale nature of many potential low-carbon investments means they require aggregation to be of interest to bond market investors who typically look for EUR200m and above, only bond issuances of EUR500m and above are considered benchmark issuances. For example, a residential PV solar installation is typically worth around EUR24,000, a large-scale commercial PV solar projects around EUR2.65m[4] and commercial energy efficiency retrofits are typically valued between EUR$880,000 and EUR9m.[5]

Green securitisation is one option to overcome the barrier of many low-carbon investments being too small-scale to access to the bond markets and institutional investors. The types of assets particularly relevant for green securitisation at this stage are:

- Mortgages to green buildings
- Solar and wind assets or loans to these projects
- Energy efficiency project loans
- Loans to green SMEs
- Car loans to electric vehicles and hybrids

The potential benefits of securitisation are well known, as recognised by the Capital Markets Union proposals, and apply to the securitisation of low-carbon assets, as well as more traditional asset classes such as mortgages, auto loans and SME loans. The benefits arise from improved access to capital, and

[2] OECD (2015): Mapping channels to mobilise institutional investment in sustainable energy

[3] E.g. EU Capital Requirements Regulations and Directive (CRR/CRD IV)

[4] Lowder, T. and Mendelsohn, M. (2013): The potential of securitization in solar PV finance. NREL.

[5] Ruhayel, T. (2014): Money in the pipeline. Available from: http://www.theactuary.com/features/2014/09/money-in-the-pipeline/ [Accessed 17.03.2015]

access to capital at lower cost, as it opens up diversification of funding sources by allowing small-scale investments to tap into debt capital markets. Bond markets generally offer lower cost of capital compared to bank financing, which is typically the alternative funding source for small-scale assets. The process of securitisation can further reduce the cost of capital for small-scale investments in the bond markets, as diversification of assets in the pool - the basic principle of putting your eggs in more than one basket - reduces investor risk, which lowers the returns they require, and therefore cost of capital. Accessing capital at lower cost is important to achieve low-carbon investments at the necessary scale, as for high capital expenditure projects - which low-carbon projects typically are - the cost of capital has a strong influence of the economic viability of the project.

The potential role to make green securitisation a significant part of the green bond market is increasing. The emergence of any bond market typically starts with low-risk issuances, from development banks, governments and large, trusted companies, backed by the full balance sheets of the issuers, as investors become familiar with how the nascent bond market works. Once issuers and investors are comfortable with the market, issuances typically spread to higher-risk bonds and different bond structures, including asset-backed securities (ABS). This is also the transition that has occurred in the green bond market from low-risk, low-return issuances in 2013/2014 with higher-risk, higher-return issuances emerging in late 2014 and early 2015. There has been several examples of low-carbon ABS issued in the market that provide examples of how this market could evolve, such as solar developer SolarCity in the US, utility Northland Power and ABS backed by residential energy efficiency loans in California.

Realising the potential of green securitisation at the necessary speed and scale requires policy support. The main rationale for different policy support for the securitisation of green assets at this stage is the societal benefits of climate change mitigation, and the need to increase finance for this to meet already established policy goals for emission reductions. There is another rationale for differentiating policy and regulation for green asset-backed securities compared to non-green asset-backed securities, as there is some evidence that mortgages to energy efficient housing has superior credit performance to other mortgages. At this stage however, further quantitative and empirical evidence for such potential superior credit performance of green securities is necessary to rely on this rationale for differentiated regulatory treatment of green ABS. The tools available to the EU to support green securitisation are well proven, as they have been used to successfully support high-quality securitisation in other asset areas, such as mortgages, for decades.

The current policy support for green securitisation is mostly indirect, through policies that support low-carbon investment generally by real economy policies such as feed-in-tariffs. While this provides an important foundation for asset-backed securitisation of low-carbon assets, a range of other options for policymakers that are currently underutilised have been identified that could support green securitisation more directly, as a complement to ambitious policies in the real economy. While there are limited policies implemented for green securitisation at this stage, there is significant interest in developing such policies amongst policymakers globally, both in emerging markets and developed regions, including Europe.[6]

[6] Expert workshop on "Scaling Debt Capital Markets for Sustainable Development" April 2015 in Washington DC, convened by the Climate Bonds Initiative, World Bank Group, OECD and UNEP Inquiry into a sustainable financial system.

The following has been identified as potential barrier areas where EU policy support can have an impact, with the majority of the opportunities identified on the supply-side:

- ***Supply-side: complex structuring and valuation of ABS:*** The risks of ABS as a financial instrument that became evident with the financial crisis must be addressed (transparency, due diligence from banks, investors and credit rating agencies), however, many of the required policy actions have already been implemented or are in progress as part of the Capital Markets Union package.

- ***Supply-side: green lending:*** To successfully tap debt capital markets using securitisation, banks need a pipeline of loans big enough to ensure bulk and liquidity in a market. Policies and regulations must facilitate loans in the low carbon economy that can then be bundled into green securities. This means green asset-backed securities would have severe limitations in an unfavorable real economy policy environment. Without broad policy to improve the risk-return characteristics of green assets in the real economy, e.g. through feed-in-tariffs and removal of fossil fuel subsidies, many of the assets that can be aggregated into green asset-backed securities will have an unfavourable risk-return profile. This would make them unattractive to investors, and more credit enhancement from public institutions would be required to reduce their risk. There is also potential complementarity here with a Low-carbon Investment Project Pipeline that could follow the proposed structure of a European Investment Project Pipeline (see section 4.1). Making it easier for banks and other finance providers to identify low-carbon investment opportunities would facilitate an increase in lending to green projects.

- ***Supply-side: standard contracts for low-carbon assets:*** Standardised loan contracts, both in relation to green impact and the quality of loans, enable the development of a large pipeline of green loans that can easily be bundled together, as it lowers the transaction costs of evaluating the performance of the underlying assets at scale. The Capital Markets Union Green Paper highlights the benefit of standardised information to facilitate the securitisation of SME loans from banks; the same issue should be placed on the agenda to facilitate the securitisation of loans to low-carbon assets. Public institutions can play a role in developing sound standards for loan contracts for various low-carbon assets: solar PV loans, energy efficiency loans, green mortgages and so on, and ensuring that the use of standards do not lead to lack of sufficient due diligence on risk analysis by credit rating agencies and investors.

- ***Supply-side: green warehousing by development banks, green banks or other public-private partnerships:*** There are very few, if any, banks with adequate loan books for renewable energy, energy efficiency projects, green mortgages or loans to electric and hybrid vehicles in their own right. There is therefore a role for public institutions, or public-private partnerships, for example green banks, to facilitate the aggregation of loans to a sufficient size (minimum EUR100-200m) for subsequent ABS issuance. The EIB's proposed Renewable Energy Platform for Institutional Investors (REPIN) is one initiative that could address this gap in the market. REPIN is proposed to be a warehouse facility, with the option of offering credit enhancement to green ABS issuance as well, where needed.

- ***Supply-side: credit enhancement of green:*** Institutional investors have restrictions from asset owners in how large risks they can take in their investments, to ensure they have sufficient money at all times to meet liabilities (e.g. paying out pensions and insurance claims). This means they will legally not be able to invest in low-carbon asset-backed securities if these are too high risk for their investment rules. In the early stages of a market of low-carbon ABS, some securities might be in this higher risk bracket, despite the securitisation process itself

reducing credit risks to a certain extent (through diversification of risks; i.e. putting eggs in more than one basket). Therefore, in a transition phase, support from the balance sheet of public institutions to absorb some of the credit risk to reduce the risk institutional investors are exposed to might be necessary. Evidence from the green bond market suggest there is significant unmet investor demand for green investments provided they are financially competitive with non-green investments, and do not expose investors to high low-carbon investment risks. There are many mechanisms to provide such credit enhancement, for example partial guarantees. A model to follow already exists for this in the EC-EIB joint SME Initiative, which offers credit enhancement to securities backed by SME loans. An EC-EIB joint Green Securitisation Initiative could be established within the Capital Market Union.

- ***Demand-side: institutional investor demand for ABS generally:*** The role asset backed securities played in the financial crisis of 2007-2008 illustrated the risks of securitisation. This has had a lasting impact on demand for securities, particularly in Europe. Reigniting the demand for high quality ABS is a work in progress.

Green Paper Section 3.4 Boosting long-term investment for green infrastructure

The European Fund for Strategic Investments (EFSI), which aims to mobilise EUR315bn through the application of various credit enhancement mechanisms, is a key component of the Investment Plan for Europe, and the Capital Markets Union. We recommend that the investment guidelines that are under development for this fund prioritise low-carbon and climate resilient investments, including green bonds. The EFSI can be used to improve the risk-return profile of green bonds in a transition phase, as an unfavourable risk-return profile of low-carbon investments can prevent some green bonds from being attractive to institutional investors that require investment grade product.

The need for credit enhancement will vary for different types of green bonds. To date, the majority of green bonds in the market have a comparable risk-return to non-green bonds, as the green bonds are typically backed by the full balance sheet of a diversified issuer with both green and non-green assets on their books – it is the proceeds of the bond issuance that are earmarked for green; the green bonds do not have the credit profile of green investments. However, for issuers with a higher share of green assets on their books, their credit profiles might be too high risk for institutional investors. Moreover, as the market expands into other structures such as asset-backed securities, investors are exposed directly to the low-carbon risk.

E3G, a London-based think-tank, recently published recommendations to integrate a preference for low-carbon and climate resilient investments in the European Fund for Strategic Investment: "What should happen next to make the Investment Plan work for Europe". An excellent point from E3G is that tapping into the capital markets requires having a strong pipeline of suitable projects: having preferential treatment for green in selection criteria of the EFSI is only one side of the coin – having projects that fit with these criteria is also essential; and it can be tricky to build this pipeline. The Capital Markets Union Green Paper supports the proposed European Investment Project Pipeline to address this issue for infrastructure more broadly. For green investments, a similar Low-carbon and Climate-resilient Investment Project Pipeline could add great value to investors, other market actors and EU policymakers (see section 4.1).

Green Paper Section 3.5 Developing European Private Placement Markets

Private placement markets can be suitable for green bond issuances, as many potential green bond issuers struggle to have a sufficiently large green asset base and future pipeline of green projects to enter the public bond markets with a green bond. Therefore the EU should aim to ensure that a future European private placement market facilitates green bond private placement issuances.

Green Paper Section 4.1 Improving access to finance

The EU has significant infrastructure investment needs, as the Green Paper highlights. It is crucial to make it clear however that the infrastructure investment required in the EU is for low-carbon and climate resilient, rather than high-carbon, infrastructure. This means that how investors allocate capital to low-carbon and climate resilient investments will influence the flow of funds for EU's infrastructure, in addition to investor demand for infrastructure as a broader asset class. Recognising this would be a valuable addition to the Capital Markets Union.

The huge demand for green bonds that is currently seen in the market illustrates that this additional green feature of the infrastructure investments can be positive, and facilitate, rather than limit, flow of funds to the projects. Provided that the EU steps in to facilitate that the green infrastructure bonds coming to markets are financially competitive to non-green infrastructure bonds, the green label becomes an attractive bonus feature for investors, as an increasing share of the massive institutional investor market is looking to undertake environmentally sustainable investments.

Allocating a share of EFSI to green bonds is an important aspect to get financially attractive green infrastructure bonds to market at scale (see 3.4 above). Additionally, the Project Bond Initiative, and more broadly, the model used to establish this Initiative, can be applied more extensively to green infrastructure projects. While the Project Bond Initiative has funded low-carbon projects, there is significant potential to expand its focus on low-carbon and climate resilient infrastructure, and make these types of investment a priority within the Initiative. We recommend that the PBI and associated project-selection criteria be reviewed by the EC and the EIB to align the implementation of the Connecting Europe and TEN programmes with European low-carbon development objectives. This includes bringing renewable energy into the investments allowed for credit enhancement (as recommended in the IEEP's 2013 report commissioned by the EC). This process could include earmarking a minimum percentage of funds (potentially aligned with the EIB's current activity-wide 25% climate action objective, or up to 50%) that must be used for renewable energy, sustainable transport, forest, waste, water and projects supporting efficiency gains. This could ensure that the PBI supports European climate goals.

In addition, we recommend the European Investment Bank study the feasibility and potential of using the PBI model to set up a similar Green Project Bond Initiative, but with criteria targeted to the breadth of climate change investment priorities. This action is complementary to changing the existing PBI adding criteria to align it with green, as for the Green PBI, selected projects are not necessarily coherent with the development objectives of the Connecting Europe and TEN programmes, as is the case under the PBI. Rather it supports selective credit enhancements for eligible climate-friendly projects. There is potential connection here with the development of standards for green bonds (see section below) to

define project eligibility criteria for a Green PBI. Having clear eligibility criteria is crucial for a transparent process and effective use of public finances.

Continued demonstration issuance of green bonds from the European Investment Bank, European Bank for Reconstruction and Development and national development banks can also contribute to the aim of increasing access to finance for green investments. The EC and EIB should also encourage other EU actors, such as Eurofima, to do the same.

Additionally, EIB and other European public finance institutions should expand their role as cornerstone investor for new green bond structures to provide proof of concept as a way of supporting private finance innovations. Ensuring that the green bond market diversifies in offerings, e.g. high-yield bonds, asset-backed securities, as well as continues to grow in volume terms is important to ensure a robust market. Cornerstone investment is something EIB is already doing, but a preference for green bonds for their work in the fixed income space should be considered to ensure relatively stronger support for these.

Addressing information problems: infrastructure project pipelines

The Green Paper highlights the facilitating role of a European Investment Project Pipeline for infrastructure investments to "facilitate access to information for investors on investment opportunities across the EU and maximize investor participation in financing". Establishing a specific investment project pipeline of EU's low-carbon and climate resilient green infrastructure would be useful to tap into the investor base with a demand for competitive financial risk-return of infrastructure as well as environmental benefits. Showing investors clearly that there is a larger pipeline of financially attractive projects in the green infrastructure space can incentivize them to invest in the capabilities required to successfully engage with these investments when they come to market.

A specific pipeline for low-carbon and climate resilient investments would fit within the suggestion from ECOFIN for special purpose 'investment platforms' for high value sectors to ensure a strong and investable project pipeline emerges was highlighted by E3G. Examples of projects that would be expected in such a low-carbon and climate resilient investment pipeline that fit all the criteria for financial viability and environmental performance include energy efficiency retrofits in private and public buildings, offshore electricity infrastructure in the North Sea's region, urban networks and smart cities, and climate resilience infrastructure such as flood defenses.

In addition, the EU can improve information sharing on private finance innovations to reduce risks of low-carbon investments by putting in place knowledge-sharing platform to spread the use of successful structures, both across member states and outside the EU. This would complement the provision of public finance credit enhancements.

Standardisation as a mechanism to kick-start markets: integrated European covered bond market

Establishing an integrated European covered bonds market is on the Capital Markets Union agenda, with a consultation planned for 2015. There is significant potential for a green covered bond market in Europe, and the Capital Markets Union covered bond consultation should look at how the EU can facilitate the growth of this market.

First, the EU should explore how to support the development of a market for green mortgage backed covered bonds. The green credentials of the covered bonds arise from the use of proceeds being earmarked for mortgages to green buildings, similarly to the use of proceeds green corporate bonds seen in the market to date. This type of green covered bond would have the same cover pool as any other covered mortgage bond from the same issuer, as current legislation in the relevant jurisdictions in Europe dictates the there can only be one cover pool per asset type. This is an appealing feature for investors, as the credit profile of a green covered bond and a non-green covered bond from the same issuer would be the same, and the green credentials of the bond become a bonus feature. The first green covered bond for mortgages was issued by BerlinHyp, a large German real estate and mortgage bank, in May 2015. The EUR500m issuance received investor orders of EUR2bn, demonstrating that there is a lot of investor demand for green covered bonds in the EU.

A longer-term challenge is how to expand the accepted cover pool asset types (mortgages, public debt, ships and aircrafts) to include renewable energy assets, such as solar panels and wind turbines. There have been industry discussions on this in Germany already, which concluded that solar panels and wind turbines are not yet assets that comply with the strict criteria for cover pool assets to have a strong liquid secondary market with stable, well-known prices over time. The EU should take the opportunity of the covered bond consultation to discuss this at a pan-European level.

The conclusions from the consultations on green covered bonds should be communicated to the European Banking Authority (EBA) to ensure they integrate relevant findings on green covered bonds in their next best practice guidelines.

Standardisation as a mechanism to kick-start markets: green bond guidelines and standards

The Capital Markets Union Green Paper recognises that markets can be kick-started with a common set of standards providing transparency on product features. This can include supporting the development of for green bonds. This can be done through providing financial support to standard setters in the market working in these areas.

The Green Bond Principles, launched by an international group of financial institutions in 2014 and updated in March 2015, are best practice guidelines for green bond issuances regarding use of proceeds, the process for project evaluation and selection, management of proceeds, and reporting on use of proceeds. The Green Bond Principles list broad categories of projects - such as renewable energy, energy efficiency and low-carbon transport - but do not prescribe specific criteria to determine whether a specific project in a category qualifies as green. For those specific criteria, the Climate Bonds Principles suggest issuers refer to those already in the marketplace, including the Climate Bonds Standards. Green bond issuance can fund projects from several of the eligible project categories. For example, one green bond can allocate proceeds to renewable energy and clean transportation. This makes it easier for issuers to achieve scale.

A complementary effort to provide standards within each of these broader asset categories provided by the Green Bond Principles is the Climate Bonds Standard, with some 80 international organizations involved. Technical working groups and industry working groups, consisting of scientists and industry

experts, develop asset-specific sets of criteria for assets relevant to the transition to a low-carbon and climate resilient economy, such as low-carbon buildings, low-carbon transport and renewable energy. The criteria then go to public consultation, and are finally approved by a Board comprising investors with over EUR30 trillion of assets under management.

An update of the Climate Bonds Standard, to be published summer 2015, will be aligned with the Green Bond Principles, but will offer more clarity and specificity regarding what should qualify as green within each asset class. An overview of the Standards available and under development is presented in the table below. The Climate Bonds Standard is currently the only industry effort to address the challenge of green standards.

Table: Climate Bonds Standards availability

Developed	**Coming Soon**
Solar	Bioenergy Geothermal
Wind	Water
Low-carbon transportation: Bus rapid Transit (BrT) systems	Low-carbon transport (rail, EVs, etc.)
Low-carbon buildings	Agriculture and Forestry

There are several examples of green bonds issued in the market against the Climate Bonds Standard. One example is a EUR500m green bond issued early June 2015 by Netherland's state-owned bank ABN AMRO. The bond was upsized from EUR350m to EUR500m after seeing incredibly strong investor demand at the roadshows, and even then the deal was substantially oversubscribed. Proceeds of the green bond will finance and refinance mortgage loans for new residential buildings, and provide Green Loans for financing solar panels installed on residential buildings as well as commercial real estate loans for the construction and financing of energy efficient buildings. Oekom Research carried out the verification of the green credentials against the Climate Bonds Standard.

Other organisations support placing green bonds on the Capital Markets Union agenda

In addition to the Climate Bonds Initiative, other organisations have issued reports stating their support for strengthening green bonds in the Capital Markets Union Agenda. All highlight that there is significant potential for EU policymakers to play a role beyond supporting standards for green bonds. They echo many of the recommendations outlined here to use the Capital Markets Union as an opportunity to scale up climate investments and the green bond market in particular.

Aviva, insurance company and asset management company with EUR300 billion of assets under management, was first out in end of 2014 with their "Sustainable Capital Markets Union Manifesto". Aviva's recommendations included many action points to enable the growth of a green bonds market:

supporting standards development around green assets, and providing tax incentives and credit enhancement to improve the risk-adjusted returns of green bonds, compared to non-green bonds.

The Sustainable Capital Markets Union manifesto from Eurosif, a non-for-profit pan-European sustainable and responsible investment (SRI) membership organization, was launched in May 2015. In addition to recommending support for the development of market standards (including a specific mention of the Climate Bond Standard) and improving the risk return profile via guarantees and credit enhancements, Eurosif also called for green bond issuance by cities, development banks and other public agencies and mandates of public funds and central banks for green bonds, and growing the Sustainable and Responsible Investment market. In addition, the report highlighted the significant potential for aggregation, securitization and covered bonds to facilitate investment in smaller scale low-carbon assets.

Other organisations have published more in-depth recommendations that illustrate how green bonds fit into specific parts of the Capital Markets Union and Investment Plan. In April, the The Institutional Investors Group on Climate Change set out "12 fixes to the Juncker Plan", which included supportive statements for the EU to grow the green bond market: "Green bonds are a useful way for public or private sector actors to raise capital against infrastructure projects. We have been supporters of the rapid increase in green bond issuances and see this as one way in which infrastructure financing can be substantially improved to better match our requirements." The IIGCC is a strong voice, as they represent more than 100 European investors worth a combined EUR10 trillion.

For a broader action plan of what European policymakers can do to shift private finance towards climate investments see the full report to the European Commission delivered by a consortium, including Climate Bonds Initiative, in April 2015

Climate Bonds Initiative

The Climate Bonds Initiative, an international, investor-focused not-for-profit organisation, works to mobilize debt capital markets for climate change solutions. It works with institutional investors, with commercial actors and with governments to promote investment in projects and assets necessary for a rapid transition to a low-carbon and climate resilient economy. The Climate Bonds Initiative also runs an International Standards and Certification Scheme for climate bonds; investor groups representing over EUR30 trillion of assets sit on its board and some 80 organizations are involved in its development and governance structure.

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