Green Bond Labels and Standards
Webinar – June 2016
Topics covered in this webinar

1. Recap: CBI & the green bond market
2. The attraction of green bonds & the importance of credibility
3. Understanding green bond labelling & the role of standards
4. Deep dive: the Climate Bonds Standard
Recap: What are green bonds

- A bond is a form of debt

- Usually used to finance large, mature assets

- Issued by companies, governments, municipalities, banks...

- Important part of investment portfolios for investors such as pension funds, insurance companies, institutional investors, etc

- A green bond is a bond where the proceeds are used to finance environmentally friendly assets

- Climate challenge & opportunity: need $50-90 trillion to finance low-carbon transition over next 5 years
It’s about mitigation and adaptation/resilience

- Solar, wind grid
- Bioenergy, Geothermal
- Hydro, Marine
- Sustainable water mgmt
- Water infrastructure
- Storm adaptation
- Waste & pollution mgmt
- Methane reduction
- Recycling
- Agriculture
- Food supply chain
- Forestry, wood, paper
- ICT & Broadband

- Low-carbon buildings & industrial facilities
- Low emission vehicles
- Electric Vehicles
- Rail, BRTs
Green bonds a growth market

US$42 billion of labelled green bonds issued in 2015

Diverse issuers and strong demand

Expectation of US$ 100bn in 2016 – US$18 bn to date

PBOC estimates USD46bn for China alone
Wide range of green assets

2015 green bond proceeds

- Renewable Energy: 45.8%
- Energy Efficiency: 19.6%
- Low Carbon Transport: 13.4%
- Sustainable Water: 9.3%
- Waste and Pollution: 5.6%
- Agriculture and Forestry: 2.2%
- Climate Adaptation: 4.1%

Renewable energy is most developed segment
But many others and growing
The Climate Bonds Initiative: What we do

- Climate Bonds Standard & Certification Scheme
  - Definitions for investors and guidelines for bond issuers
  - Assurance through certification

- Information flows for ratings agencies & index providers

- Outreach to inform and stimulate the market
  - Policy models and government advice
  - Efforts in emerging markets to grow issuance (China, India, etc)
  - Facilitating discussions on securitization, covered bonds, Islamic Finance

- Partners Program
  - Platform for market participants to get involved during the formative stages
  - Tailored way to support the CBI’s efforts to accelerate growth in green bond issuance and demand
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The attraction of green bonds

Issuer benefits become more and more apparent and diverse...

Issuer Benefits
- Investor diversification across regions and types
- Investor engagement & “stickiness”
- Strong oversubscription, yields tighter
- Strengthened reputation
- Alignment of CSR (or core business when pure play) with funding scheme

...given strong and persistent investor demand for green.

Investor Benefits
- Well-understood projects reduce risk exposure
- Well-managed projects reduce risk exposure
- Trading at a premium in secondary markets
- Strengthened reputation
- Deeper engagement with company management on green
The importance of credibility

• If issuers are claiming benefits from green aspects of the bond, need to protect investors from greenwashing

• Need a system of ‘environmental due diligence’ to review key environmental attributes, to complement existing financial due diligence

• Investors can’t do this themselves
  o Specialist expertise needed regarding what counts as green
  o Costly to assess and verify themselves

• Principles for a good system of environmental due diligence:
  o Scientifically robust
  o Transparent
  o Consistent
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Labelled vs unlabelled

Climate-themed bonds

$600 bn

Green Bonds

$100 bn
Key dimensions to green bond labelling

Reach
- Voluntary or mandatory participation
- Recommended guidelines or principles, or fixed standards and requirements

Scope
- Process of management of funds
- Reporting requirements
- What counts as green

Assurance process
- First party assessment
- Second party assessment
- Third party verification
Evolution in green bond labelling: history

- A variety of approaches to green bond labelling have been used so far

- First green bond was issued in 2007 from European Investment Bank (EIB’s own green label, self-assessed) followed by green bonds from the World Bank (WB’s own green label, second opinion from CICERO)

- 2014 was a turning point with the first corporate green bonds issued, utilising the new Green Bond Principles and subject to a second opinion

- During 2015 the Climate Bonds Standard was enhanced, building on Green Bond Principles but taking it further to define a climate compatible taxonomy of eligible investments and eligibility criteria for a bond to be officially certified under the Climate Bonds Standard & Certification Scheme

- More recently we see countries developing national green bond regulations – a key example being China
Evolution in green bond labelling: looking forward

- Investor demand for Green Bonds & Climate Bonds is strong, and will increase in line with the delivery of credible, quality products into the market.

- Standards, assurance & certification have been identified as key to improved confidence and transparency, and further strong growth within the mainstream debt capital markets.

- Risk that if robust standards and independent verification are not used then green bond labelling may lose its impact.

- Governments have a key role to play in developing and rolling out mandatory green bond regulations as well as encouraging market development.

- Critical to success will be harmonisation of cross-territory standards with national regulations.
Additional green signals

• Green bond indices
  o Barclays MSCI, Bank of America Merrill Lynch, S&P Dow Jones and Solactive
  o CBI provides green bond data for 3 of these

• Stock Exchange green bond lists
  o Oslo, Stockholm, Luxembourg and London SE’s have launched
  o Mexico and Shanghai have announced that they will launch

• Assessments from ratings agencies
  o Moody’s Green Bond Assessment Framework
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Key features of the Climate Bonds Standard (CBS)

- A robust and effective Certification scheme
  - Clear, objective, sector-specific, climate eligibility criteria for projects & assets
  - Clear mandatory requirements regarding use of proceeds, tracking & reporting (including an assurance framework with independent verifiers)
  - Certification by an independent Climate Bond Standards Board made up of $34 trillion AUM

- Green Bond Principles are fully integrated
  - CBS V2.0 basically converts the GBP into a set of requirements and actions which can be assessed, assured and certified in a robust and repeatable way

- Wide variety of bond types are eligible for certification
  - CBS v2.0 has specific requirements for each of these bond types to address particular risks which are apparent for that structure

An environmental standard, not a financial standard. Investors must do their own credit analysis.
How does the Standard work in practice?

• Provides clear requirements for issuers and their bonds to be labelled as Certified Climate Bonds

• Aligns with the normal phases of the bond market
  – Pre-issuance
  – Post-issuance

• Three parts
  – General Requirements
  – Climate Bonds Taxonomy and Sector-Specific Standards
  – Specific Requirements for Different Bond Structures

• Certification Process
Governance Structure

Climate Bond Standards Board
- Oversee implementation of standards development work
- Supervision of working groups

Climate Science Reference Group
- Advise on scope of low carbon economy and eligible project types
- Recommend technical working groups

Technical Working Groups
- Develop eligibility criteria for each investment area: e.g. low-carbon transport, low-carbon buildings, water, agriculture

Industry Working Group
- Review of the practicality of proposed eligibility criteria, and of various aspects of operation of certification

Climate Bonds Secretariat: Research, Coordination and Administration
- Funding
- Logistics
- ISEAL Compliance
- Public Consultation
- Contracting
Development of detailed technical criteria

Completed
- Wind
- Solar
- Low Carbon Buildings
- Bus Rapid Transit
- Low Carbon Transport
- Geothermal

Ready soon!
- Agriculture & Forestry
- Water Infrastructure
- Hydropower
- Bio-energy

Other priority areas
- Waste & Pollution
- Industrial Energy Efficiency
- Broadband
- Energy Storage & Capture
- Resilient Infrastructure
Certification process

• **Pre-Issuance:** The Climate Bond Standard allows Certification of a bond prior to its issuance, enabling the issuer to use the *Climate Bond Certification Mark* in marketing efforts and investor roadshows
  - Focus on selection of eligible projects & assets, and the readiness of the issuer’s internal processes to track and report on use of proceeds
  - The issuer must engage a Verifier to provide assurance over the eligibility and readiness and submit this information for review of the Climate Bonds Standards Board

• **Post-issuance:** After the bond has been issued and allocation of the bond proceeds has begun, the issuer must follow through with confirming the Certification
  - Focus on the actual use of proceeds, ongoing eligibility of the projects & assets, use of funds not yet allocated, and the adequacy of and output from the issuer’s internal systems
  - The issuer must engage a Verifier to provide assurance over the actual use of proceeds and reaffirm that internal systems & controls are functioning properly

• Thereafter, issuers must report at least *annually* on the projects & assets being funded by the bond, and their eligibility, and use of proceeds, including how any unallocated funds have been deployed
Overall process for certification

1. Pre-Issuance Certification
   - Issuer prepares for Certification
   - Issuer provides draft of Information Form to CBI
   - Verifier undertakes readiness assessment
   - Issuer submits updated Info Form & verifier report to CBI
   - Standards Board confirms Pre-Issuance Certification

2. Post-Issuance Certification
   - Issuer closes book and issues bond
   - Proceeds allocated to projects & assets
   - Verifier undertakes assurance procedures
   - Issuer submits updated Info Form & verifier report to CBI
   - Standards Board confirms Climate Bond Certification
Participants in the Certification process

Issuers to date
- MTA
- San Francisco Water Power Sewer
- DKB Deutsche Kreditbank AG
- Anz
- Flexigroup
- Axis Bank
- Norde
- Nab

Verifiers around the world
- DNV-GL
- First Environment
- BDO
- Truscot
- Bureau Veritas
- KPMG
- Epic Sustainability
- Sustainalytics
- Vigeo
- EY
- Oekom Research
- TUV Nord
- Climate Bonds Initiative
A package of documents provide the detail

Climate Bonds Standard (Version 2.0)

Pre-issuance requirements: Readiness Assessment

Part A
General Requirements

Part B
Eligible Projects & Assets

Part C
Requirements for Specific Bond Types

Post-issuance requirements: Assurance Engagement

Sector-Specific Standards for Part B Eligible Projects & Assets

Solar
Geothermal
Low Carbon Transport
Water
Bioenergy
Energy Efficiency

Wind
Other Renewables
Low Carbon Buildings
Infrastructure Resilience
Agriculture & Forestry
Waste Management

Guidance and Certification Documents

Guidance for Issuers
Guidance for Verifiers
Guidance for Investors & Analysts

Certification Agreement
Readiness Assessment Protocol
Climate Bonds Information Form
"With rapid acceleration of a two-degree economy, there is real value in aligning products and services to a credible standard aligned to a carbon emissions reduction trajectory”

Dr. Matthew Bell, EY, on the recent Westpac CBS certified bond

“The global transition to a low carbon economy is going to require very significant amounts of capital. To make this money available it is going to be critical to engage with the financial sector and develop investment products that have a genuine impact on climate change. Independent verification of bonds to external standards is a real step forward in this process.”

Morgan Jones, Carbon Trust

“The Climate Bonds Initiative is taking a leading role in building consensus for Green Bond standards and impact reporting mechanisms. As this market evolves, standardization should help attract investor demand and increase the liquidity of these bonds.”

Kevin Holt, Co-head of the Americas Fixed Income, BlackRock
Q&A ...

... and thank you

• Please reach out and ask questions arising from this discussion

• If you would like to be more deeply involved, e.g. as a partner, please ask us about our Partner Programme

• And please do join us for our next webinar – sign up to our blog for information
www.climatebonds.net