Climate Bond Certified

Green Bond Labels and Standards

Webinar – June 2016

Climate Bonds INITIATIVE

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

Low-carbon buildings
& industrial facilities

Low emission vehicles
Electric Vehicles
Rail, BRTs

Sustainable water mngmt
Water infrastructure
Storm adaptation

Waste & pollution mngmt
Methane reduction
Recycling

Agriculture
Food supply chain
Forestry, wood, paper

ICT & Broadband

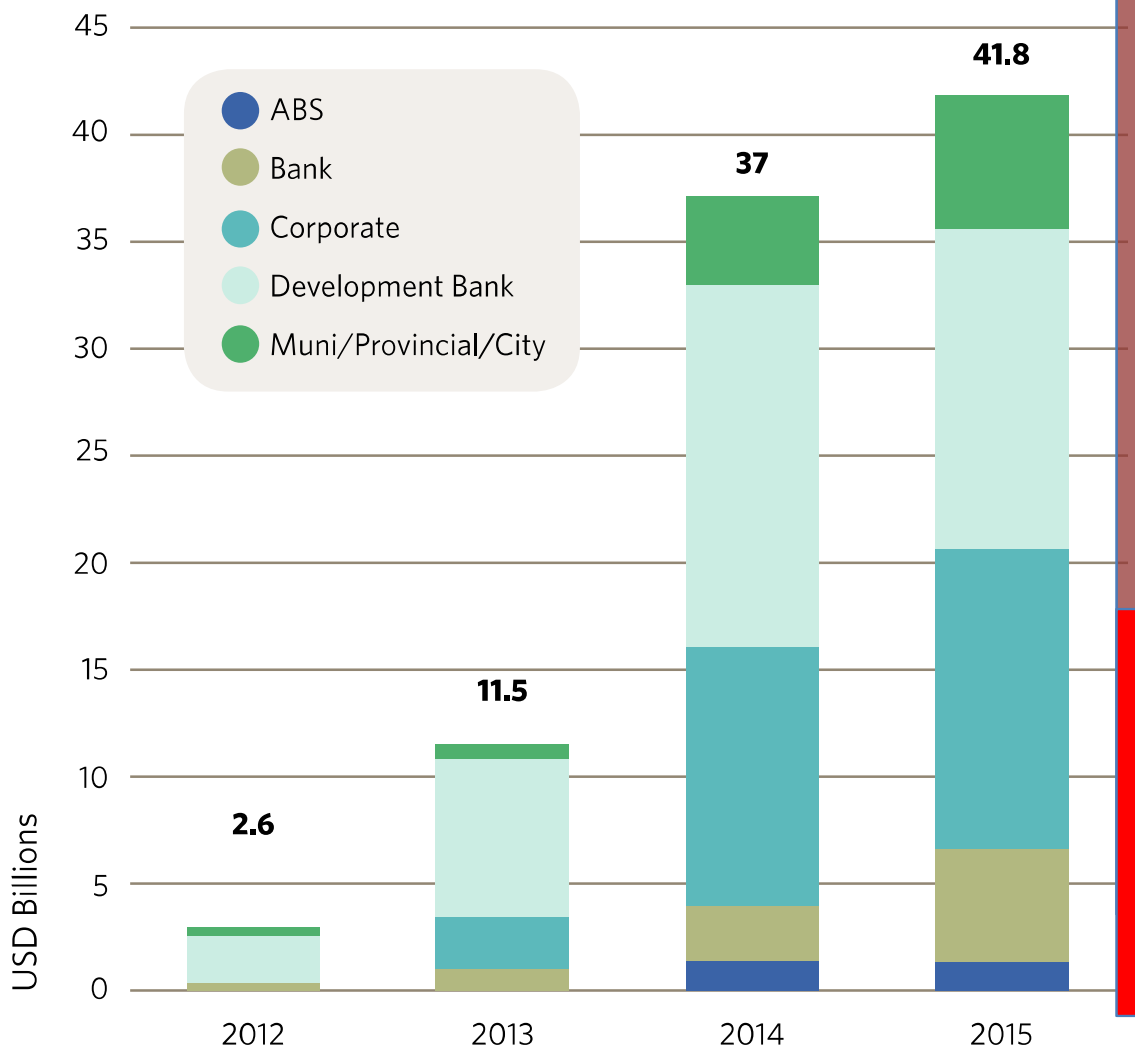
Green bonds a growth market

US$42 billion of labelled green bonds issued in 2015

Diverse issuers and strong demand

Expectation of US$ 100bn in 2016 – US18 bn to date

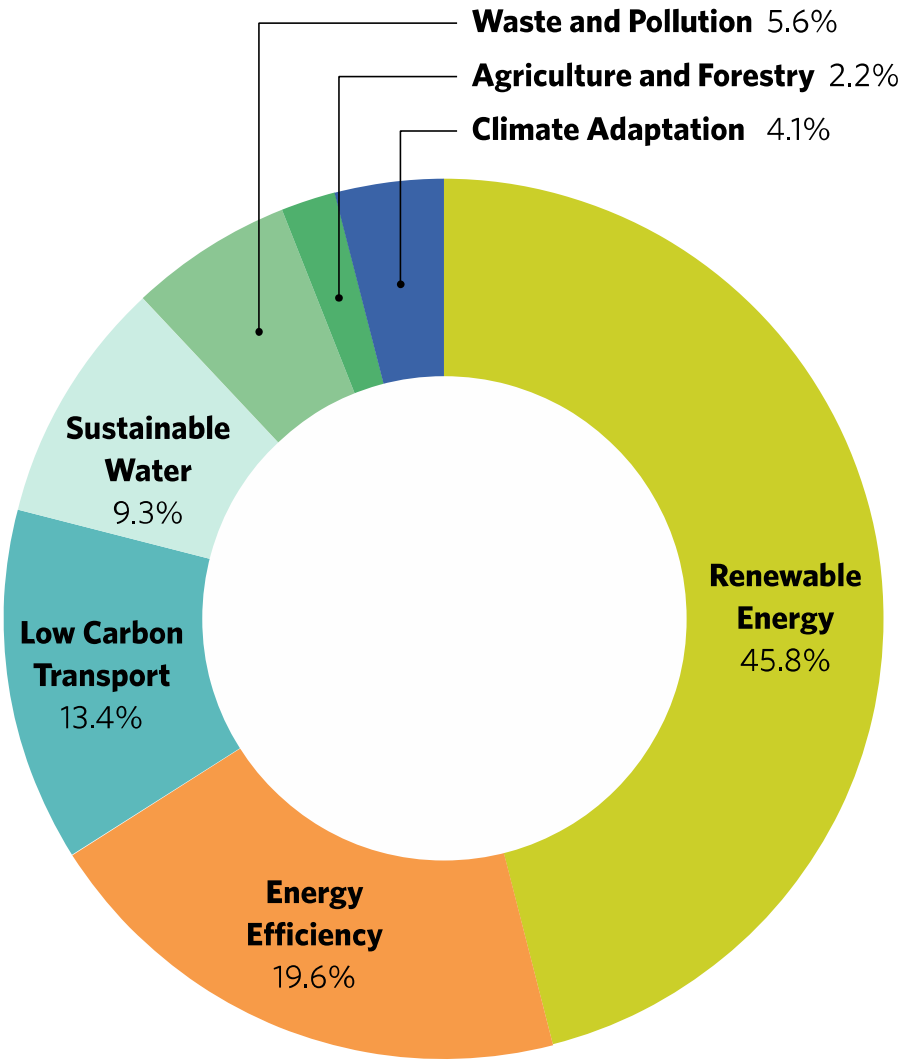
PBOC estimates USD46bn for China alone



Climate Bonds INITIATIVE

Wide range of green assets

2015 green bond proceeds



Renewable energy is most developed segment
But many others and growing

Climate Bond Certified

Climate Bonds INITIATIVE

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

Climate Bond Certified

Climate Bonds INITIATIVE

Topics covered in this webinar

1. Recap: 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

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
  - Specialist expertise needed regarding what counts as green
  - Costly to assess and verify themselves

- Principles for a good system of environmental due diligence:
  - Scientifically robust
  - Transparent
  - Consistent

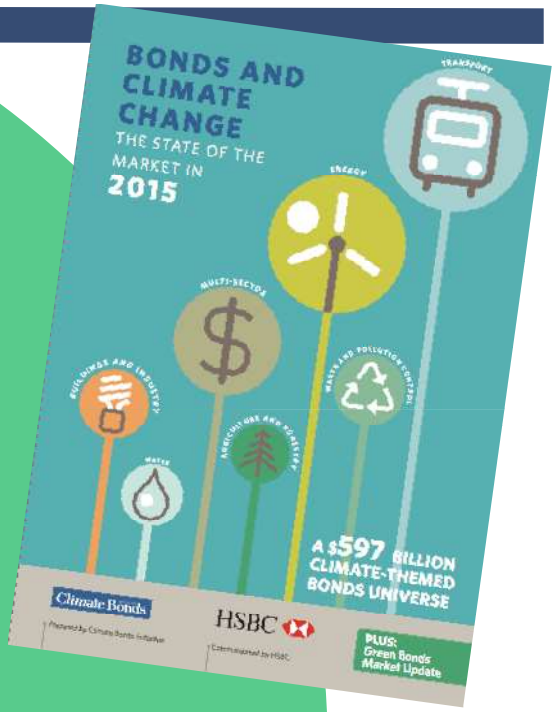
Topics covered in this webinar

1. Recap: 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

Labelled vs unlabelled

Climate-themed bonds

$600 bn



Green Bonds
$100 bn

Climate Bonds INITIATIVE

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

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

- Assessments from ratings agencies
  - Moody's Green Bond Assessment Framework

Topics covered in this webinar

1. Recap: The Green Bond market
2. The attraction of green bonds to investors
3. Understanding green bond labelling and the role of standards
4. Deep dive: Climate Bonds Standard

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?

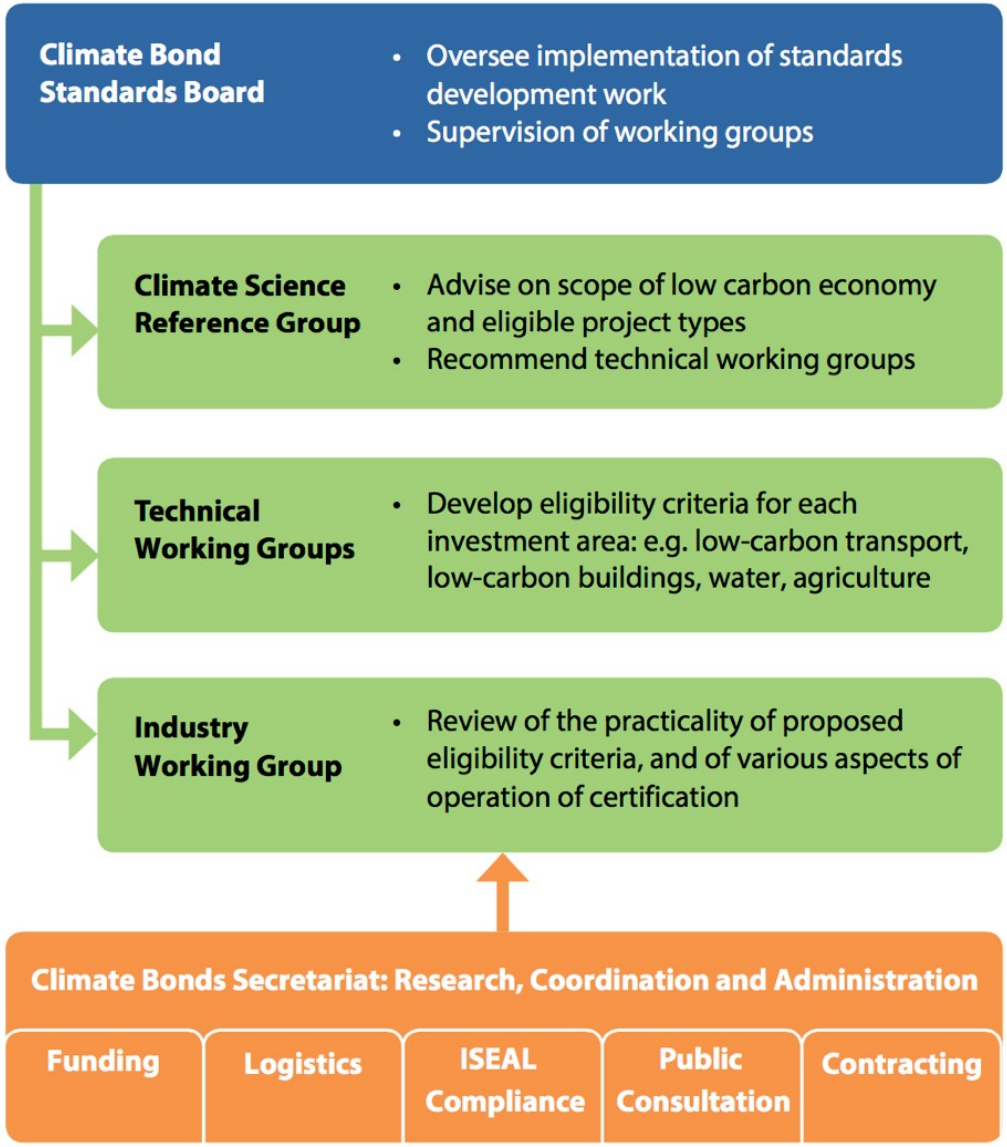
- Provides clear requirements for issuers and their bonds to be labelled as Certified Climate Bonds

- 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



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

Climate Bonds INITIATIVE

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

2. Post-Issuance Certification

Climate Bonds INITIATIVE

Participants in the Certification process

Climate Bond Certified

Issuers to date

MTA
San Francisco Water Power Sewer
Services of the San Francisco Public Utilities Commission
DKB
Deutsche Kreditbank AG
nacional financiera
Banca de Desarrollo
ANZ
FLEXIGROUP
AXIS BANK
HERO FUTURE ENERGIES
planet positive power
ABN·AMRO
NORDEX
We've got the power.
nab

Standards Board

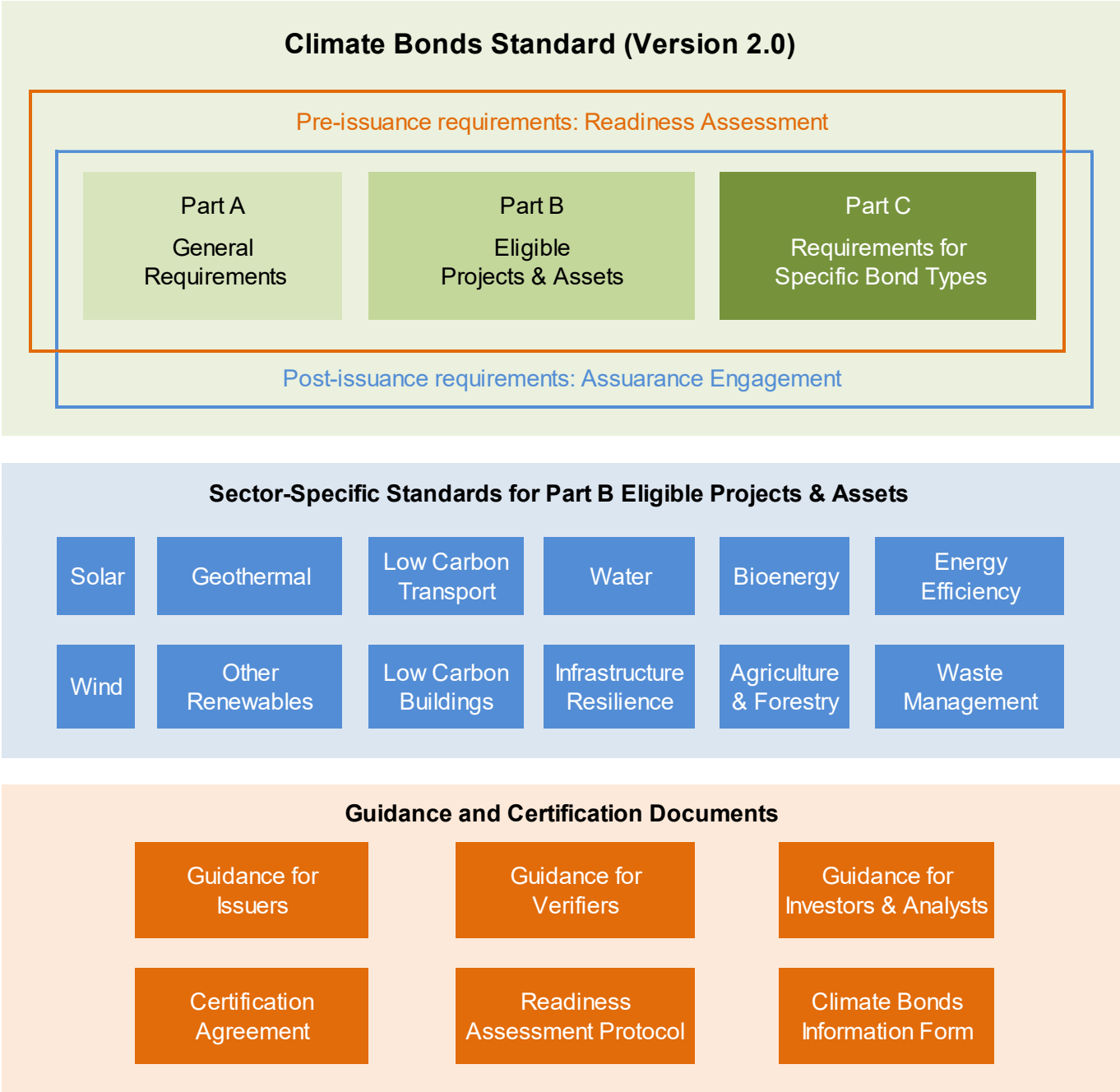
Investor Network on CLIMATE RISK
CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?
IIGCC
Institutional Investors Group on Climate Change
icmif
Investor Group on Climate Change
NRDC
CDP
DRIVING SUSTAINABLE ECONOMIES

Verifiers around the world

DNV·GL
FIRST ENVIRONMENT
BDO
TRUCOST
BUREAU VERITAS
KPMG
EPIC Sustainability
SUSTAINALYTICS
vigeo
EY Building a better working world
oekom research AKTIENGESELLSCHAFT
TÜV NORD
商道融綠
SynTao Green Finance

Climate Bonds INITIATIVE

A package of documents provide the detail



"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

Climate Bonds INITIATIVE