Climate Bonds INITIATIVE

The Role of Exchanges in accelerating the growth of the Green Bonds Market

There is a clear potential for exchanges to create dedicated green bond segments, develop indices and support market education to facilitate investor decisions towards climate-aligned investments and enhance the market's liquidity.

Exchanges[1] are important market places to connect sellers and buyers, enhancing market liquidity. 72% (USD 130bn) of the USD 180 bn outstanding labelled green bonds at the end of 2016 are listed on exchanges, Luxembourg being the largest due to the large volume of issuance from the European Investment Bank.

Analysis by Climate Bonds Initiative and HSBC of bonds financing climate-aligned assets shows clear potential for exchanges to improve the market's liquidity as only 44% (USD 308bn) of 'unlabelled' green bonds are listed on exchanges, compared to the larger market share for labelled green bonds.

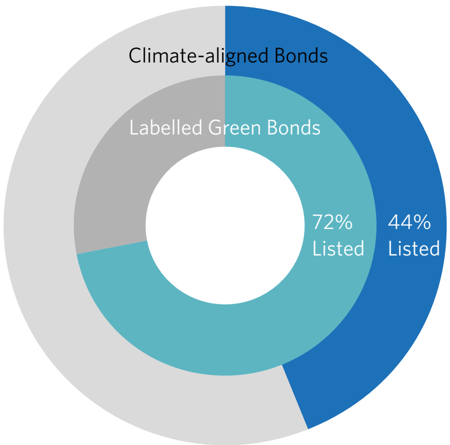
Why Exchanges are important for the green bonds market

- Facilitate investor decisions by providing financial services such as guidance, training and support tools (including performance benchmarks such as indices) to raise environmental and social awareness and highlight green investment opportunities.
- Provide access to a broad investor base for green bonds, including large institutional investors such as pension funds, mutual funds and insurance companies.
- Improve the liquidity of green bonds, thanks to greater market connectivity and more centralised trades compared to the Over-The-Counter market.

Exchanges can catalyse the growth of the green bonds market

Exchanges can act to support the development of green bonds markets, mainly by listing bonds compliant with certain green criteria, tracking performance of green assets and providing guidance on green securities to market participants.

Climate-aligned and Labelled Green Bonds Listed on Exchanges



Data source: Climate Bonds Initiative, Bloomberg

They can:

1. Set up green bond lists or segments:

Creating a specialised green bond list or a dedicated segment gives the product greater visibility and encourages secondary market trading. Currently Luxembourg (see box below), London, Oslo and the Mexican Stock Exchanges have launched dedicated green bond lists or segments.

Luxembourg green exchange (LGX) is the first platform dedicated exclusively to green securities. Once a green-eligible security is listed, the issuer must provide additional information in order to access the platform, including disclosure on the use of proceeds (which must be in line with the Green Bonds Principles, Climate Bonds Standard or equivalent), an external review on the quality and management of the use of proceeds (second opinion, certification or rating reports are accepted) and yearly ex-post reporting (such as an audit or sustainability report).

2. Develop guidelines for green bond listings:

Bonds listed in dedicated segments can be required to meet certain guidelines including thresholds for external reviews, reporting and disclosure requirements, and asset eligibility catalogues. Guidelines issued by exchanges can support local market development as well as help reduce market fragmentation by aligning local standards with international practices to meet investor preferences (see example).

Shanghai Stock Exchange & Shenzhen Stock Exchange have published notices on the Green Bond Pilot Programme introducing disclosure requirements for green corporate bonds. This complements the People's Bank of China green bond regulation for the interbank market.

3. Support green bond indices & ETFs:

Instruments to track the performance of the green bonds listed, such as dedicated indices, provide another important tool to facilitate investments in green assets. From green bond indices, exchange traded funds (ETFs) can then be developed to further promote investment and liquidity in the green bonds market. Exchanges can encourage the launch of such ETFs and increase their visibility as they trade on the exchange.

4. Promote market education:

Exchanges can assist investors in understanding the risks posed by climate change to their portfolios and the opportunities of investing in green assets by providing educational resources and expert assistance and become a platform for broad market education.

Benefits for Exchanges

Reputation and credibility

By fostering the development of the green bond market, exchanges can position them-

1. An exchange is a bourse where equities, bonds and other securities are traded.

selves as leaders in the green finance space, acquiring additional capabilities, providing tailored services to the increasing number of socially responsible investors and gaining credibility with future green bond issuers.

The Sustainable Stock Exchanges Initiative (SSE)

provides a peer-to-peer learning platform to explore how exchanges can work with investors, regulators and companies to provide more transparency on the environmental, social and governance profiles of listed securities and their issuers and encourage sustainable investment.

A full paper on the role of stock exchanges will be released in late March in collaboration with Luxembourg Stock Exchange.

Duties to investors

In addition to maximising their investment returns, investors are increasingly concerned with climate change-related risks and how these could impact the performance of their portfolios. Providing instruments that can help investors assess the 'greenness' of their portfolios and help them avoid liability and financial risks.

Increased business by attracting green assets

By creating new market segments, exchanges can attract more assets and increase competitiveness. Exchanges can play an important role in connecting the high demand for green products from institutional investors in yield-depressed developed economies with the burgeoning green bond markets in emerging economies such as Brazil, India and China (see table).

Sustainability indices have been set up by stock exchanges, such as the Shanghai Stock Exchange Social Responsibility Index or the FTSE4GOOD series.

Specific green bond indices have for now only been launched by a number of rating agencies and financial institutions. These include the Solactive Green Bond Index, S&P Dow Jones Green Bond Index, Barclays & MSCI Green Bond Index and Bank of America Merrill Lynch Green Bond Index.

Exchanges should draw on experiences from these institutions or partner with them to establish green bonds indices.

Green bonds from emerging markets listed offshore

	Issuer	Amount	Listing exchange
BRAZIL	BRF SA	500m EUR (564m USD)	Berlin/Frankfurt/Munich/Stuttgart/Lux
	Fibria	700m USD	Frankfurt/New York/Stuttgart
CHINA	Agricultural Bank of China	1bn USD in three tranches	London/Frankfurt/Stuttgart
		600m CNY (95m USD)	
		400m USD	
		500m USD	
	Bank of China	3bn USD in 5 tranches	
		1bn USD	Frankfurt/Luxembourg
		1.5bn CNY (225m USD)	Hong Kong/Swiss exchange
		500m EUR (555m USD)	Berlin/Frankfurt/Lux/Munich/Stuttgart
		750m USD	Luxembourg
		500m USD	Frankfurt/Luxembourg
	London taxi company (Geely)	400m USD	Singapore
	Bank of China covered bond	500m USD	London
COSTA RICA	Banco Nacional Costa Rica	500m USD	Frankfurt/Luxembourg/Stuttgart
INDIA	Export-Import Bank India	500m USD	Berlin, Singapore
	IDBI	350m USD	Singapore
	Axis Bank	500m USD	London/Singapore
	NTPC	20bn INR (300m USD)	Berlin/Frankfurt/London/Singapore
	Greenko	500m USD	Singapore
MEXICO	Nacional Financiera	500m USD	Dublin
	Mexico City airport	2bn USD	Singapore

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