Introduction

Climate Bonds Initiative (Climate Bonds) has been researching investment opportunities in bonds financing climate-aligned assets since 2012.

The Climate-Aligned Bonds and Issuers research identifies climate-aligned issuers and their unlabelled climate-aligned bonds (“climate-aligned bonds”). These bonds are not explicitly labelled as green bonds by the issuer, but finance climate change solutions. The identification of such instruments is crucial to shed light on capital flows financing green assets which may not be as visible and transparent as labelled bonds, as well as to identify opportunities to scale-up the labelled green bond market.

Since 2012, the green bond market has witnessed outstanding growth, reaching USD 1 trillion as of December 2020. The Climate-Aligned Bonds & Issuers research has played a key role to pave the way for the growth of the market, as well as helping to establish the importance green definitions for investments in the fixed income market. For example, rail transportation – the largest climate theme for climate-aligned bonds – is now widely financed in the labelled green bond market.

Objectives

• To shed light on capital flows financing climate-aligned activities which are not labelled as ‘green’ by bond issuers,

• To shed light on bond issuers’ level of climate-alignment by means of revenue stream evaluation and analysis,

• To provide opportunities to further unlock the potential of climate finance utilising the green label for debt funding, and

• To help investors identify untapped opportunities in the wider climate-aligned investable universe.

Methodology: Identification of climate-aligned issuers and bonds

Climate Bonds’ methodology to identify climate-aligned issuers and bonds is based on two research phases: the issuer screening phase and the identification of climate-aligned bonds.
1. **Issuer screening: identifies climate-aligned issuers**

Climate-aligned bonds are identified at the issuer level, i.e. via analysis of revenue streams for a global pool of public and private companies. Only companies (or their subsidiaries and/or financing arms) with outstanding debt are eligible for inclusion.

- Companies that derive at least 75% of their revenues from climate-aligned activities are classified as **strongly-aligned** issuers,
- Companies that derive at least 95% of their revenue streams from climate-aligned activities are classified as **fully-aligned** issuers,
- Both strongly- and fully-aligned issuers are classified as **climate-aligned issuers**.

2. **Identification of climate-aligned bonds**

Bonds issued by climate-aligned issuers are defined as climate-aligned bonds, as they finance and/or refinance operating activities that have been identified as climate-aligned. The level of alignment on the issuer level is applied to the outstanding debt from the issuer, where:

- Fully-aligned issuers: 100% of their outstanding debt is considered climate-aligned,
- Strongly-aligned issuers: a proxy is used to determine the share of climate aligned bonds. This is based on *a pro-rata amount*, which reflects a company’s climate alignment, i.e. its percentage revenues from “climate-aligned” business lines. For example, if 80% of a company’s revenue is climate-aligned, then 80% of its outstanding bonds are included and considered climate-aligned. The remaining 20% of the company’s outstanding debt is not included in the data and it is disregarded as not climate-aligned.
- Only bonds issued on and after 1 January 2005 (ratification of Kyoto Protocol) are included.

**Climate-aligned activities**

Climate Bonds has identified eight climate-themes: renewable energy, transport, buildings, water, waste, land use & agriculture, climate adaptation, and ICT. The specific climate-aligned activities and assets within these themes, along with the relevant eligibility criteria, are listed in the ‘climate-aligned activities’ table.

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1 A range of assumptions and proxies are used should the revenue breakdown by business line/segment be insufficient to determine climate-alignment; proxies and assumptions are listed in the “climate-aligned activities” table.

2 For more details on the climate-aligned activities table, please email dataenquiries@climatebonds.net.
Maintenance
The issuer level research, including the revenue stream assessment, is carried out on an annual basis in accordance with the typical annual reporting schedule. The list of outstanding climate-aligned bonds from climate-aligned issuers is updated on a quarterly basis. Nevertheless, Climate Bonds Initiative reserves the right to make adjustments to the dataset and methodology where appropriate.

Infographic: Climate-aligned methodology

Contacts
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