



Climate Bonds INITIATIVE

Climate Bonds Standard & Certification Scheme

Assurance Framework

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1. Introducing the Climate Bonds Standard & Certification Scheme

The **Climate Bonds Initiative** is an international investor-focused not-for-profit organisation. It was founded in 2010 to promote large-scale investments that will deliver a low-carbon and climate-resilient global economy. Climate Bonds seeks to mobilise investors, industry and government to catalyse green investments at the speed and scale required to avoid dangerous climate change and meet the goals of the Paris Climate Agreement.

A key component of the Initiative is the **Climate Bonds Standard & Certification Scheme "Certification Scheme"**. The Certification Scheme allows investors, governments and other stakeholders to identify and prioritise 'low-carbon and climate resilient' investments and avoid 'greenwash'.

What does the Certification mark mean?

Certification under the Climate Bonds Standard confirms that the bond, loan or other debt instrument is:



1

Fully aligned with the Green Bond Principles and/or the Green Loan Principles



2

Using best practice for internal controls, tracking, reporting and verification



3

Financing assets consistent with achieving the goals of the Paris Climate Agreement

The Climate Bonds Standard & Certification Scheme aims to provide the green bond market with the trust and assurance that it needs to achieve scale. Activating the mainstream debt capital markets to finance and refinance climate-aligned projects and assets is critical to achieving international climate goals and robust labelling of green bonds and green loans is a key requirement for that mainstream participation.

While the green finance market continues to grow at pace, future growth relies on maintaining the value of the green label. The green label is underpinned by trust and confidence that the use of funds will be directed to projects and assets that are in line with the Paris Climate Agreement. Investor capacity to assess green credentials is, however, limited, especially in the fast-paced bond/loan market.

A Scientific Framework underpins the definitions of which projects and assets are consistent with achieving the goals of the Paris Climate Agreement and therefore eligible for inclusion in a **Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument**. The Certification Scheme includes robust approach for monitoring, reporting and assurance of conformance with the Climate Bonds Standard.

An international **Climate Bonds Standard Board** comprised of large institutional investors and leading environmental NGOs provides ongoing oversight of the Climate Bonds Standard, Approved Verifiers, the Certification Scheme as well as decisions on Certifications. Day-to-day operations and decision making is delegated to the **Climate Bonds Standard Secretariat**.

Certification under the Climate Bond Standard relates exclusively to the climate attributes of the bond, loan or other debt instrument, and does not address any other aspect of investment decision-making such as compliance with national or international laws and/or regulations, broader Environment, Social and Governance (ESG) attributes, or creditworthiness.

The **Climate Bond Certified Mark “Certification Mark”** is used to designate **Certified Climate Bonds, Certified Climate Loans** and **Certified Climate Debt Instruments**.

The Climate Bonds Standard & Certification Scheme builds on the broad integrity principles contained in the Green Bond Principles² to create a robust, flexible and effective certification system. Key features include:

- Full alignment with the Green Bond Principles, Green Loan Principles,³ the proposed EU Green Bond Standard, ASEAN Green Bond Standards,⁴ Japan’s Green Bond Guidelines⁵ and India’s Disclosure & Listing Requirements for Green Bonds⁶
- Clear mandatory requirements for use of proceeds, selection of projects & assets, management of proceeds and reporting
- Sector criteria for determining the low-carbon and climate resilient credentials of projects and assets
- An assurance framework with independent verifiers and consistent procedures
- Certification awarded by the Climate Bonds Standard Board
- Certification is confirmed after issuance of the bond or loan with mandatory independent verification and annual reporting for the term of the investment



For investors, Certification is a screening tool that labels bonds or loans as Certified Climate Bonds, Certified Climate Loans or Certified Climate Debt Instruments respectively. It reduces the burden for investors having to make subjective judgements during their due diligence on the green attributes of green-labelled investments.

For issuers, Certification is a voluntary initiative, which allows them to clearly demonstrate to the market that their bond or loan meets science-based standards for climate integrity, and best practice standards for management of proceeds and transparency.

Key Components

The Climate Bonds Standard & Certification Scheme comprises of the overarching Climate Bonds Standard Version 3.0, the **Climate Bonds Taxonomy, Sector Eligibility Criteria**, guidance material and certification documents.

The **Climate Bonds Taxonomy**⁷ is the high-level roadmap for the relevant sectors. It forms the basis of the Climate Bonds green bond database methodology, used by Climate Bonds to assess the climate alignment of all green bonds (certified or uncertified) for inclusion in the database, which is then used by index providers, analysts and other market players.

The **Sector Eligibility Criteria** are science-based and provide detailed definitions for the eligibility of specific projects and assets. The criteria ensure that projects & assets are consistent with achieving the goals of the Paris Climate Agreement and the rapid transition to a low-carbon & climate resilient future.

Technical Working Groups and **Industry Working Groups** provide the expertise for the development of the Sector Eligibility Criteria. The Climate Bonds Standard Board provides governance and oversight of the Standard and the Certification process.

Approved Verifiers provide independent assurance that issuers and their certified bonds or loans have met the requirements of the Standard.

Ongoing Reporting

All issuers are required to report annually to maintain the Certification of the bond, loan or other debt instrument. The exact nature of the reporting is dependent on the range of underlying projects and assets, and on the issuer's choices.

Reporting to maintain Certification is split into three types: **Allocation reporting, Eligibility reporting, and Impact reporting.**

- **Allocation reporting** is confirming the allocation of bond proceeds to eligible projects and assets, and is mandatory for all Certified debt instruments;
- **Eligibility reporting** is confirming the characteristics or performance of projects and assets to demonstrate their eligibility under the Taxonomy and relevant Sector Eligibility Criteria and is mandatory for all Certified debt instruments.
- **Impact reporting** is disclosure of metrics or indicators which reflect the expected or actual impact of eligible projects and assets, and is encouraged for all Certified debt instruments, but is not mandatory.
- The three different types of reporting can be included in a single **Update Report** which must be provided annually while the bond, loan or other debt instrument remains outstanding.

We note that alignment with Sector Eligibility Criteria already provides investors with confidence that the investment is aligned with goals of the Paris Climate Agreement. Given this feature of the standard, the need for detailed and quantitative impact reporting is reduced and often is not necessary. Specific recommendations on impact reporting are provided in a document developed by the Green Bond Principles (GBP) working group on impact reporting, available from the GBP website.⁸

How Certification works

The requirements of the Climate Bonds Standard are separated into the two distinct phases of issuing a bond or closing a loan or other debt instrument:

1. Pre-Issuance Requirements which need to be met for issuers seeking certification ahead of issuance,

2. Post-Issuance Requirements which need to be met by issuers seeking ongoing certification following the issuance.

Certification is also available for bonds, loans or other debt instruments which have already been issued or closed. In these cases, issuers only need to meet the Post-Issuance Requirements of the Standard. Issuers can apply for Certification at any time while the debt instrument is outstanding.

Programmatic Certification is available for frequent issuers of Certified deals. This option increases the flexibility and reduces the verification burden for issuers with large scale or longer term green bond or sustainable finance programs.

Verification by an **Approved Verifier** is mandatory in the Certification process. Ongoing Certification includes requirements for annual reporting with public disclosure.

The Climate Bonds Standard is a climate change standard. It is an authoritative standard that eases decision-making and focuses attention on credible climate change solutions in the debt capital markets.

Resources for the user of the Standard

All relevant resource documents for the use of the Standard are available on the website link: <https://www.climatebonds.net/certification/resources>

Climate Bonds Initiative website: <https://www.climatebonds.net>

Contact Certification team at: certification@climatebonds.net

1. The Paris Climate Agreement is an international agreement within the United Nations Framework Convention on Climate Change which entered into effect in November 2016 and will commence in 2020. The goals of the agreement include: "(a) Holding the increase in the global average temperature to well below 2 °C above pre-industrial levels; (b) Increasing the ability to adapt to the adverse impacts of climate change; (c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

2. Green Bond Principles (GBP) are voluntary process guidelines intended for broad use by the market that recommend transparency and disclosure, and promote integrity in the development of the Green Bond market. The latest edition of the GBP is available from the International Capital Markets Association website (www.icmagroup.org/greenbonds).

3. Published by the Loan Market Association (www.lma.eu.com)

4. Developed by the ASEAN Capital Markets Forum (www.theacmf.org)

5. Published by The Ministry of the Environment, Japan and can be retrieved at: <http://www.env.go.jp/en/policy/economy/gb/guidelines.html>

6. Published by the Securities & Exchange Board of India (www.sebi.gov.in) and can be retrieved at: https://www.sebi.gov.in/sebi_data/meetingfiles/1453349548574-a.pdf

7. <https://www.climatebonds.net/standard/taxonomy>

8. <https://www.icmagroup.org/green-social-and-sustainability-bonds/impact-reporting/>

2. Objectives of the Assurance Framework

This *Assurance Framework* lays out the principles and approaches to assurance under the Climate Bonds Standard & Certification Scheme, including the role of verifiers, criteria for their approval and ongoing oversight of their performance.

The Assurance Framework is part of a broader package of documents which work together to create a consistent and credible approach to standards, assurance and certification for the labelling of bonds, loans and other debt instruments.

This package of documents is outlined below:

Climate Bonds Standard

- Lays out a set of mandatory requirements consistent with the Green Bond Principles and Green Loan Principles
- Includes a library of sector-based criteria to define what projects and assets are eligible for certification
- Provides the requirements for certification and describes the certification process
- Defines the required process for assurance and procedures for managing non-conformance.

Assurance Framework

- Provides the principles for assurance and lays out the governance and decision making structures for the Scheme
- Describes the role of the Approved Verifier in the Certification process
- Defines the criteria used in the approval of verifiers and the maintenance of approval
- Describes the approach to the ongoing oversight of Approved Verifiers.

Guidance for Verifiers

- Provides the assessment methodology and verification procedures which verifiers must use in preparing, undertaking and reporting on verifications under the Scheme
- Describes the approaches to managing conflicts of interest and impartiality of verifiers.

The Approved Verifiers Directory⁹

- Provides the geographic scope, technical scope and contact details for each of the Approved Verifiers under the Climate Bonds Standard & Certification Scheme.

The Certified Bonds Database¹⁰

- Provides details of each Certified Climate Bond, Loan or other Debt Instrument (once it has been issued)
- Includes the verifier's reports and other information for each bond, loan or debt instrument.

Complaints and Appeals Procedure (under development)

- Describes the steps for receiving, investigating and resolving complaints
- Defines the procedure for lodging appeals of decisions by the Climate Bonds Standard Board.

⁹ Further information on the Approved Verifiers Directory is available at www.climatebonds.net/certification/approved-verifiers

¹⁰ Further information on the Certified Bonds Database is available at www.climatebonds.net/certification/certified-bonds

3. Principles, Governance and Decision Making

The Climate Bonds Standard & Certification Scheme and this Assurance Framework have been developed using the following principles: Consistency, Rigour, Competence, Impartiality, Transparency, and Accessibility. These principles are drawn from the ISEAL Assurance Code which has guided the design and implementation of the Scheme's approach to assurance and certification.¹¹

The Climate Bonds Standard & Certification Scheme is led by a *Climate Bonds Standard Board* of international environmental groups and pre-eminent investor entities, collectively representing \$51 trillion of assets under management.¹² Further information on these organisations is available on the Climate Bonds website.

The Climate Bonds Standard Board provides oversight for the development and implementation of the Climate Bonds Standard & Certification Scheme. Their decisions cover:

- Approval of the Climate Bonds Standard including all of the sector-specific eligibility criteria for projects & assets
- Certification decisions for individual Climate Bonds
- Approval of verifiers
- Approval of all documentation relating to guidance and the certification processes
- Strategic development of the Scheme.

The *Climate Bonds Standard Secretariat* provides support and coordination, working with issuers and verifiers to step through the certification process.

All certification decisions under the Climate Bonds Standard & Certification Scheme are made by the Climate Bonds Standard Board based on information provided by the issuer. All decisions on approval of verifiers are made by the Climate Bonds Standard Board based on information provided by the verifier as well as information from the Standard Secretariat (see the section on Oversight Arrangements).

4. Role of Approved Verifiers in the Certification Process

The *Approved Verifiers* play an important role in assessing whether the issuer and the proposed bonds, loans or other debt instruments meet the requirements of the Climate Bonds Standard and then providing the Issuers with a Verifier's Report.

As illustrated in Figure 1, the *Climate Bond Certification Process* has two distinct phases which must be completed for each Certified Climate Bond, Loan and Debt Instrument. The two phases are aligned with the normal process for issuing a bond, loan and debt instrument. This two-phased approach enables the *Climate Bond Certification Mark* to be used during the pricing and marketing stages and also ensures that the integrity of the label is maintained after the issuance, when allocation of proceeds has actually occurred.

Pre-Issuance Certification focuses on selection of eligible projects & assets as well as the readiness of the issuer's internal processes to track and report on use of proceeds. The process includes a readiness assessment or assurance opinion by an Approved Verifier.

Post-Issuance Certification focuses on the actual use of proceeds, ongoing eligibility of the projects & assets being financed, use of funds not yet allocated ("non-contamination"), and the adequacy of and output from the issuer's internal systems. The process includes an assurance opinion provided by an Approved Verifier.

¹¹ Assuring Compliance with Social and Environmental Standards Code of Good Practice, <http://www.isealalliance.org/our-work/defining-credibility/codes-of-good-practice/assurance-code>

¹² Current Board members: International Cooperative Mutual Insurers Federation; State Treasurer of California; Institutional Investor Group on Climate Change (EU); Investor Group on Climate Change (Australia); Ceres Investor Network on Climate Risk (US); California State Teachers Retirement System; CDP; Natural Resources Defense Council.

Requirements are split in this way to align with the phases of the capital markets such as preparation, marketing, issuance, allocation of funds and statutory reporting.

It is important to note that the Approved Verifier does not decide on Certification of the bond, loan or debt instrument. **All certification decisions under the Climate Bonds Standard & Certification Scheme are made by the Climate Bonds Standard Board** based on the information provided by the issuer, including the *Verifiers Report* which the issuer has received from the Approved Verifier.

The Issuer must engage an Approved Verifier on commercial terms¹³ to undertake two assessments:

- Assess the eligibility of assets and the readiness of the issuer at the *Pre-Issuance* stage; **and**
- Provide assurance over the actual use of proceeds and internal systems & controls at the *Post-Issuance* stage.

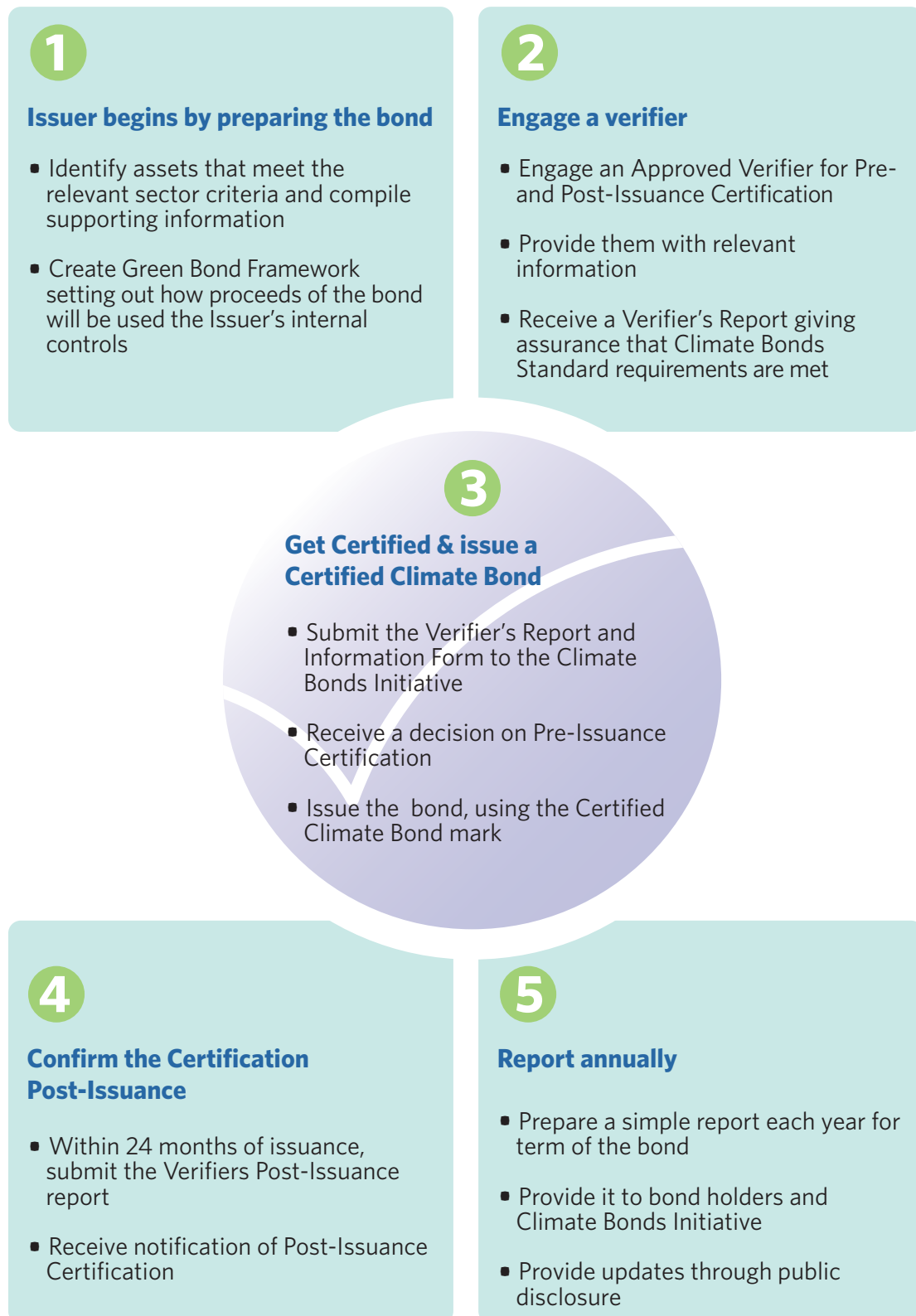
At each of the two stages the Approved Verifier provides its *Verifier's Report* to the issuer as per the terms of their commercial engagement. The issuer then provides the Verifier's Report along with other documents to the Climate Bonds Standard Secretariat for consideration by the Climate Bonds Standard Board.

Pre-Issuance Certification is valid for 24 months from the date of issuance. Post-Issuance Certification must be confirmed within that 24 month period and can be undertaken prior to all proceeds being allocated.

Post-Issuance Certification is valid for the term of the bond, loan, or other debt instrument as long as the issuer meets the ongoing reporting and disclosure requirements contained in the Climate Bonds Standard. Annual verification during the term of the bond, loan or other debt instrument is not required, but is often used by issuers of Certified Climate Bonds, Loans and Debt Instruments to regularly reaffirm their positive message.

¹³. The Verifier may be engaged by a different entity such as an underwriter or a market development fund.

Figure 1. Certification Process for a bond, loan or other debt instrument



Programmatic Certification for Repeat Bond Issuers

'Programmatic Certification' streamlines the Certification for Issuers who plan to issue multiple Certified bonds against a large pool of assets. Rather than going through the process of Certification for each bond issuance, the whole pool is Certified at the beginning, at the time of the first bond issuance. Subsequently, when the Issuer issues more bonds against other parts of the same asset pool, each bond only requires post-issuance verification. This method makes the process significantly simpler for the Issuer.

Figure 2. Programmatic Certification for multiple green issuance

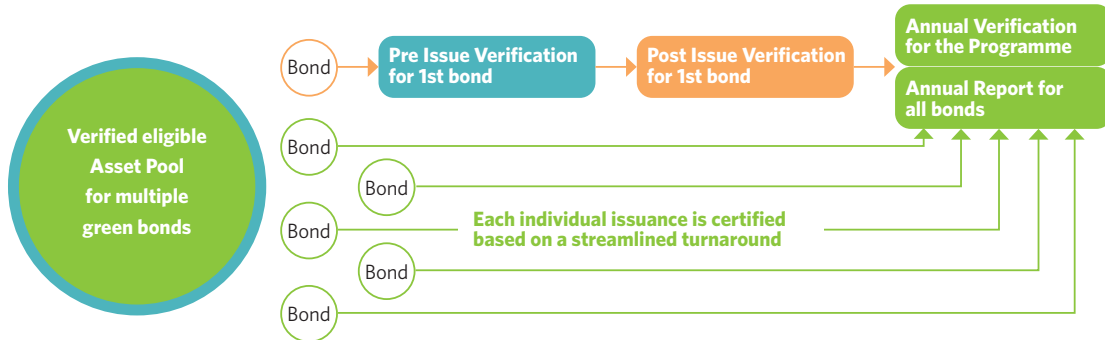
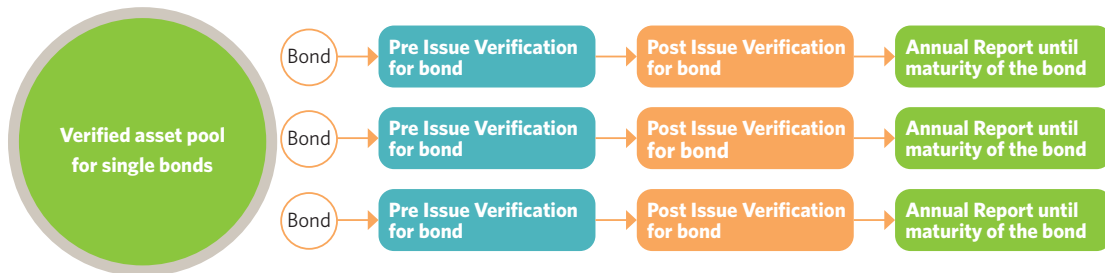


Figure 3. Basic Certification for individual green issuance



5. How to become an Approved Verifier

Approved Verifiers must demonstrate that they have sufficient competence and experience in three key areas:

1. Issuance of debt instruments in the capital markets and management of funds within issuing organisations
2. Technical characteristics and performance of low carbon climate resilient projects & assets
3. Assurance procedures and provision of assurance services in line with accepted international standards (ISAE3000 or equivalent).

Verifiers are expected to use *Verification Teams* of professional staff and/or insured contractors to ensure that they meet all of these requirements for each engagement under the Climate Bonds Standard. Verification Teams for specific engagements must have appropriate competencies and experience for the particular characteristics of the issuer, the bond, loan or other debt instruments and the assets being financed.

Applications from verifiers are assessed by the Climate Bonds Standard Secretariat for completeness and then packaged for the Climate Bonds Standard Board to consider. Verification companies may apply to the Climate Bonds Standard Board for approval at any time during the year. Applications must address the requirements listed in Annex 1 of this document.

Approval of verifiers by the Climate Bonds Standard Board is based on specific scopes in terms of geographic coverage and technical competence:

- Geographic coverage of the approval is aligned with the coverage provided by the verifier's insurance policies for professional indemnity / professional liability
- Technical scope of the approval is determined by the verifier's levels of experience and expertise in the various asset classes covered by the Climate Bonds Standard.

Approved Climate Bonds Verifiers are listed on the CBI website along with their geographic scope, technical scope and relevant contact details. Approved verifiers must receive the formal Letter of Approval and Certificate before they can commence their first verification engagement under the Climate Bonds Standard & Certification Scheme.

Training, support and oversight of Approved Verifiers are undertaken directly by the Climate Bonds Standard Secretariat using in-house and contracted expertise and resources.

6. Obligations of Approved Verifiers

Approved Verifiers must follow the *Guidance for Verifiers* in preparing, undertaking and reporting on their verification engagements under the Climate Bonds Standard. The *Guidance for Verifiers* document includes:

- Details of the certification process
- Requirements for verifier engagements
- Guidance on independence, conflicts of interest and impartiality
- Assessment methodologies and verification procedures
- Templates for Verifier Reports.

Approved Verifiers must use recognised standards for undertaking assurance engagements. These standards provide a clear structure and set of procedures for this type of engagement, ensuring that there is consistency in the work done by the Approved Verifiers. All Approved Verifiers must use ISAE3000 or an equivalent standard for assurance engagements.¹⁴

The report produced by the Approved Verifier in the post-issuance stage must contain an assurance statement based on the assessment and assurance activities which the Verification Team has undertaken. Limited assurance is the minimum requirement for assurance engagements under the Climate Bonds Standard & Certification Scheme, but many issuers prefer to receive reasonable assurance.

Approved Verifiers must participate in regular training webinars provided by the Climate Bonds Standard Secretariat as well as in-person training sessions and regional calibration workshops¹⁵ when those are provided in suitable locations. Group training for Approved Verifiers is complemented with individual coaching from the Climate Bonds Standard Secretariat via telephone and email, and the provision of sector-specific guidance to verifiers as new Sector Eligibility Criteria are released.

Approved Verifiers are expected to pursue continuous improvement in their verification activities. This includes providing appropriate attention and resources for training of staff, sharing of lessons learned and open dialogue on capabilities and performance.

Maintaining approval is based on the verifier's performance during verification engagements and on meeting the requirements described in Annex 2 of this document. Verifier performance is managed via the Oversight Arrangements outlined below and described in Annex 3.

7. Oversight Arrangements

Oversight of Approved Verifiers is undertaken directly by the Climate Bonds Standard Secretariat and is intended to ensure the competent and consistent performance of the verifiers as per the requirements of the *Climate Bonds Standard, Assurance Framework, and Guidance for Verifiers*.

Elements of the oversight arrangements are listed in Annex 3. Key features include:

- Review of all Verifier Reports
- Monitoring newly approved verifiers for their first 3 to 5 engagements
- Spot-checks and on-site appraisals to review performance of verifiers in the field
- Annual review and reporting of verifier competence and performance.

The oversight arrangements are designed to track the performance of Approved Verifiers, accelerate the development of verifier capabilities, and improve the quality and efficiency of verification services under the Climate Bonds Standard & Certification Scheme.

¹⁴. Equivalent standards for assurance engagements may be put forward by Approved Verifiers for consideration by the Climate Bonds Standard Secretariat.

¹⁵. See reference to calibration in: Assuring Compliance with Social and Environmental Standards Code of Good Practice, <http://www.isealliance.org/our-work/defining-credibility/codes-of-good-practice/assurance-code>

Annex 1: Information and evidence verifiers must include in their application for approval

Verifier approval decisions taken by the Climate Bonds Standard Board are based on consideration of information contained in the application and other documents provided by the verifier to the Climate Bonds Standard Secretariat.

- 1.** Applicant verifiers must demonstrate that the Verification Teams they will use for engagements have competence and experience in:
 - a.** Issuance of debt instruments and management of funds within issuing organisations
 - b.** Technical characteristics and performance of low carbon climate resilient projects & assets
 - c.** Assurance procedures and provision of assurance services in line with recognised standards (ISAE3000 or equivalent).

The competence of the individual staff and/or contractors to be used in Verification Teams can be evidenced via detailed resumes, project references, work products and other information relevant to the requirements above.

- 2.** Verifiers must provide detail on their company structure, organisational capabilities and financial stability for the Climate Bonds Standard Board to consider. This includes:
 - a.** Formal company details including registration numbers, company officers, and business addresses
 - b.** Information on the company's ownership structure, business model,¹⁶ financial history and stability, and competence of the management team
 - c.** Membership of professional organisations, government licenses and relevant certifications¹⁷
 - d.** Information on material contractual obligations or contingencies and any lawsuits or government proceedings involving the company.
- 3.** Verifiers must have Professional Indemnity / Professional Liability insurance in place which covers their verification work under the Climate Bonds Standard & Certification Scheme. The insurance policy must specify the geographic scope of the coverage.

^{16.} For example, the proportion of the company revenue is from assurance services, and what other products or services the company provides to its customers.

^{17.} This could include the company's or individuals' membership of relevant professional associations or bodies for accounting or assurance practitioners, as well as certifications or licenses to operate from government agencies or relevant regulators.

Annex 2: Requirements for Approved Climate Bonds Verifiers to Maintain Approval

The approval of verifiers by the Climate Bonds Standard Board is provided on an ongoing basis. The approval may be reassessed and/or revoked at any time at the sole discretion of the Climate Bonds Standard Board.

Approved Verifiers must continue to meet five requirements to maintain their approval:

- 1.** Retain the levels of expertise and experience which were the basis for their approval, or apply for the approval to be modified to reflect the changes
- 2.** Participate in regular training sessions
- 3.** Follow the Guidance for Verifiers in planning and undertaking engagements
- 4.** Adhere to the Oversight Arrangements
- 5.** Maintain appropriate Professional Indemnity / Professional Liability insurance cover for their verification activities under the Climate Bonds Standard & Certification Scheme.

Approved Verifiers must pay an annual fee of GBP 2500 to the Climate Bonds Initiative which contributes to funding of Scheme administration.

Failure to meet these requirements will be discussed with the verifier to agree steps and timelines to rectify the failure. Ongoing failure to meet these requirements will result in the Climate Bonds Standard Board revoking the verifier's approval and removing them from the list of Approved Verifiers.

Annex 3: Oversight Arrangements for Approved Verifiers

The oversight arrangements for Approved Verifiers are operated by the Climate Bonds Standard Secretariat and are made up of the following elements:

- Review of all verifier reports submitted to the Secretariat by issuers
- Monitoring¹⁸ of the first 3 to 5 engagements for newly approved verifiers, including review of work plans, verification teams, risk assessments, draft reports and findings
- Interviews with issuers of Certified Climate Bonds, Loans or Debt Instruments on the performance of their verifier
- Provision of immediate feedback on performance as verification engagements are planned, conducted and concluded
- Spot checks on verifier working documents, evidence and assurance procedures
- On-site appraisals to review performance of verifiers in the field
- Regular review of verifier competence and performance (at least twice annually) based on information gathered across the year, compiled by the Secretariat and provided to the Climate Bonds Standard Board.

The oversight arrangements are designed to assess the performance of the Approved Verifiers and to improve the availability of high quality and efficient verification services for issuers of Certified Climate Bonds, Loans or Debt Instruments.

Persistent problems with the performance of an Approved Verifier will result in the Climate Bonds Standard Board revoking the verifier's approval.

¹⁸ Monitoring involves the Approved Verifier providing key documents from the verification process to the Climate Bonds Standard Secretariat, such as the risk assessment, engagement plan, verification team, draft findings, draft report, etc. These documents shall be provided by the Approved Verifier during or after the assurance engagement on an information-only basis. No approvals from the Secretariat are necessary for the assurance engagement to continue and conclude.