

For Immediate Release

**Climate Bonds Pooled Funds committee meets in London**

**Standard working group starts work on eligibility criteria for the certification of energy efficiency related bonds**

London 30th May 2013 – The Climate Bonds Initiative’s Pooled Funds committee agreed yesterday or a range of strategies to pursue to grow a market of climate-related pooled funds investment products.

The committee brings together what were separate Renewable Energy Covered Bonds and Green Securitization workstreams.

Sean Kidney said: “The public sector doesn’t have the capital to finance a rapid shift to a low-carbon economy – private capital is essential. Yet banks, the primary source of debt finance for projects, are recapitalizing and *reducing* their lending available for projects — at the very time we have to dramatically scale up investment in clean energy, low-carbon buildings and other emission reduction investments like mass transit.”

“The Pooled Funds Committee is pursuing a series of initiatives aimed at using the Covered Bonds and Asset-Backed Securities markets to bridge the financing gap. The objective is to create a pipeline of investment grade fixed income opportunities for the $80 trillion institutional investor sector – our pension funds, for example – that will at the same time lower the cost of finance for the critical investments we need.”

The Climate Bonds Initiative sees pooled funds as a means to incentivize banks to grow their lending to green homes, renewable energy and the like.

The Committee agreed to pursue proposals for:

* Governments to amend governing covered bonds legislation to allow the inclusion of suitable climate change related loans.
* Banks to apply differentiated risk weightings for qualifying green mortgages, on the basis of risk and valuation differences as well as policy imperatives.

Securitization regulation that will address weaknesses in governance *without killing off an essential financing tool.* As the IMF says in its Global Financial Stability Report: “… failure to restart securitization would come at the cost of prolonging funding pressures on banks and diminution of credit.”

The work of achieving robust definitions for loans that would qualify under the proposals is being undertaken through the Climate Bond Standards Scheme.

* In the short-term, however, volume is a challenge for the creation of pooled vehicles too as there is limited capacity for aggregation at present and therefore demonstration projects will have to start small.
* **RECB**: The group has commitment from one large MDB to be the buyer of a first structured Renewable energy covered bond. This would be issued by a bank and structured similarly to a bank bond but with a dual recourse nature. Commitment from a buyer was seen as pivotal to engaging bank support for this idea.
* **Green mortgages**: ECBC have been introduced to the concept of green mortgage covered bonds  they have committed to exploring the idea further which is seen as a positive step given the nature of the group
* **Green Securitisation:**more voices getting behind this as essential in mobilising finance for climate change. Key challenge is in getting over the poor reputation of securitization. The group is planning to convene a forum of investors, regulators, NGO's and other relevant parties to show that there is clear support for this idea from parties other than banks and for regulators to understand what investors need. It is imperitive to demonstrate to regulators that Basel III could kill the market and therefore the growth of climate finance
* **Regional conduit entitiy:**there was general consensus that for these to work, partnerships need to be established between an MDBs and a local/regional banks where the local bank can provide the management/running skills and the MDB provides credit enhancement. The group is looking for opportunities to pursue this idea in Africa and Mexico and has contacted regional banks for this purpose.
* One potential hurdle is due diligence necessary to ensure the quality of assets - this could be a particular problem if banks know that they can get loans off their books, in which case they may be willing to make riskier loans and thus perpetuate the problems of the financial crisis. Banks having skin in the game was seen as a critical requirement to avoid this problem.
* The next steps from the group will be to write a position paper on the ideas and to source funding to move this foward.

Quotes:  
' We need to show regulators that there are many voices that aren't banks who are supportive of securitisation' - Angela  
'Current regulatory proposals will kill off the entire securitization market and, with it, climate-related lending' - Julia/ Angela (I think)  
-'Standardisation is pivotal for banks and covered bonds structures' - Frank   
'By ensuring banks have skin in the game, we can avoid moral hazard existent in bank lending which was was partly to blame for the the US mortgage crisis'

The Climate Bond Standard has set up an Energy Efficiency Working Group to develop eligibility criteria for the certification of energy efficiency related bonds – a means to enhance private investors’ confidence in financing the low-carbon economy.

Representatives from the International Energy Agency, the European Bank of Reconstruction and Development, US Green Building Council, Low-Carbon Australia, the Office of the State Treasurer of California and others have joined the Energy Efficiency Working Group.

The group held its first teleconference meeting last week, involving participants from California and New York to France and Australia.

Sean Kidney, Climate Bonds Chair, said: “For the moment there is only a modest market of bonds linked to energy efficiency; but large-scale improvements in energy usage are essential for a transition to a low-carbon economy, both to quickly reduce emissions and to buy time while we transition to clean energy.

“They can also be very profitable, paid for with savings made on energy bills.

“We expect to see a large energy efficiency bond market emerge in coming years; certification under the Climate Bonds Standard will provide investors with assurance about the environmental benefits of specific projects”.

According to Kirsten Spalding at the Ceres Investor Network for Climate Risk, investor interest on energy efficiency in buildings has being stymied by: “First, the absence of aggregation mechanisms for energy efficiency investment in residential and commercial buildings. Second is the need to make bonds investment-grade for interested investors such as pension funds, and finally the need for models such as PACE (Property Assessed Clean Energy) to be used in the municipal and community space that can scale up adoption”.

Eligibility criteria are expected to be made available by the end of 2012.

-ENDS-

Notes to editors:

* **Climate Bonds Standard** – a screening tool for investors and governments to support investment in delivering a Low Carbon Economy - was developed by the Climate Bonds Initiative. Bonds complying with the Standard will be certified as ‘Climate Bonds’, a mark that assures their contribution to the delivery of a Low Carbon Economy.

**The Standard is supervised by a board comprising**:

* The California State Teachers Retirement System (CalSTRS)
* The Nature Resources Defense Council
* The Carbon Disclosure Project
* The Ceres Investor Network on Climate Risk
* The (Australian) Investor Group on Climate Change
* The State Treasurer of California, Bill Lockyer
* **The Climate Bonds Initiative** is an investor-focused not-for-profit, promoting large-scale investment in the low-carbon economy. The Climate Bonds Initiative is developing: proposals for governance architecture — regulatory mechanisms, standards, tax policies, green banks — that will support a rapid scaling up of investment. Models for engineering investibility in projects and assets necessary for attracting bond financing such as renewable energy, energy efficiency and forestry.

**For more information or interviews:**

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