

Bhutan Conference on Green Bond Issuance



Session 3: Desirable Policy Framework to Facilitate the Development of Capital Markets

Topic: Development of Green Bond Market

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A brief history of Green bond

- In 2007, **World Bank** coordinated with **ICMA** (International Capital Market Association) to form the basis for the **Green Bond Principles** and issued the first Green Bond in the world
- Green Bond Principles become one of the most popular green bond framework since then
- In 2010, the **Climate Bonds Initiative** launched the Climate Bond Standard and Certification Scheme, it become another major institute to develop a green bond framework worldwide
- In 2015, **China** has announced the Guidelines for the Conduct of Assessment and Certification of Green Bond (Interim), since then, China has become the most active green bond market in the world
- **ASEAN** has also issued their own green bond standards in 2017

Latest development

- Up to now, no universal recognised standard of Green Bond has developed
- Europe has issued a proposal for an **EU Green Bond Standard** in 6 March 2019 to try to develop their own green bond framework in the future
- Some places have developed their own green bond standard other than the above mentioned major player (e.g. Hong Kong)
- Some countries are developing their own standard and have invited some professionals to conduct training (e.g. Kenya, April 2019)
- Banks and capital markets have actively involve in different places under different standard

Market trend

- Green bond issuance process is similar to that of a regular bond, but with some extra requirement on governance, transparency and traceability on use of proceed
- It is designed to increase investor's confidence in the green credential of the bond. It also provide better terms and extra benefit to the issuers
- Up to now, Green Bond Principles is a voluntary guideline still adopted by most of the countries that don't have legal requirement on Green Bond issuing
- For those countries that have developed their legal requirement, system similar to Green Bond Initiatives are mostly developed (e.g. Hong Kong, China)

Bonds are labelled green by the issuer and should be qualified as green by an independent party

Issuers can label their bonds as green. At a minimum, the issuers will by themselves provide detail to investors on the green eligibility criteria for the use of proceeds, for example disclosed in a green bond framework. For more transparency, issuers can also commission an external review on the green credentials of the use of proceeds. These reviews can take different forms.

Pre-issuance reviews

TYPE OF REVIEW	WHAT IT COVERS	SERVICE PROVIDERS	EXAMPLES
Third party Assurance	Assurance reports state whether the green issuance is aligned with the Green Bond Principles and the Climate Bonds Standard	Audit firms	KPMG Assurance Report commissioned by IDBI Bank Deloitte's Assurance Report commissioned by CGN
Second Party Opinion	Provide an assessment of the issuer's green bond framework, analysing the "greenness" of eligible projects/assets. Some second party opinions also provide a sustainability rating, giving a qualitative indication	Environmental Social Governance (ESG) service providers (such as Oekom, Sustainalytics, Vigeo Eiris, DNV GL) and scientific experts (such as CICERO, CECEP Consulting). Other environmental consultants and assessment organisations.	DNV GL SPO commissioned by Arise AB Sustainalytics' SPO commissioned by the Development Bank of Japan Kestrel Verifier's SPO commissioned by the Sacramento Municipal Utility District ("SMUD")
Green Bond Rating	A number of rating agencies assess the bond's alignment with the Green Bond Principles and the integrity of its green credentials	Rating agencies such as Moody's, S&P Global Ratings, JCRA, R&I, RAM Holdings	Moody's Green Bond Rating assigned to Banco Nacional de Costa Rica's USD500m green bond S&P's Green Evaluation assigned to Province of La Rioja's USD200m green bond
Pre-issuance verification of the Climate Bonds Certification according to the Climate Bonds Standard	The Climate Bonds Standard is the only Paris Agreement aligned standard available in the market. Independent verification confirms that the use of proceeds adhere to the Climate Bonds Standard and sector specific criteria (e.g. Low Carbon Transport)	Verifiers approved by the Climate Bonds Standard and Certification Scheme	Oekom's independent verification statement of ABN Amro's EUR500m green bond First Environment's independent verification statement of Los Angeles County MTA's USD471m green bond

Source: <https://www.climatebonds.net/market/second-opinion>

Post-issuance reviews

TYPE OF REVIEW	WHAT IT COVERS	SERVICE PROVIDERS	EXAMPLES
Second party or third party assurance report	Assurance of allocation of proceeds to eligible green projects.	Audit firms, ESG research service providers (Oekom, Sustainalytics) and scientific experts	DNV GL 2018 Assurance report for NAB's AUD300m 2014 green bond
Impact reporting	Reporting that seeks to quantify the climate or environmental impact of a project/asset numerically	Issuer, Audit firms, ESG research service providers (Oekom, Sustainalytics) and scientific experts	HSBC's green bond report Iberdola's Sustainability Report 2016, and PWC's independent Assurance report (pg. 266) Berlin Hyp Green Bonds Impact Report (June 2016)
Post-issuance verification of the Climate Bonds Certification according to the Climate Bonds Standard	Assurance against the Climate Bonds Standard, including the allocation of proceeds to eligible green projects and types of green projects	Verifiers approved by the Climate Bonds Standard and Certification Scheme	EY's post-issuance report for Westpac's AUD500m 2016 green bond KPMG's post-issuance report for Axis Bank's USD500m 2016 green bond

Source: <https://www.climatebonds.net/market/second-opinion>

Differences between the two major Green Bond Standards

	Green Bond Principles (ICMA)	Green Bond Initiatives (CBI)
Basic rationale	Voluntary process guidelines that recommend transparency and disclosure	Certification scheme that need to meet the requirements of the Climate Bonds Standard
Process	Four core components: 1. Use of Proceeds; 2. Process for Project Evaluation and Selection; 3. Management of Proceeds; 4. Reporting	Five process: 1. Prepare the bond; 2. Engage a verifier; 3. Get Certified & issue a Certified Climate Bond; 4. Confirm the Certification post-issuance; 5. Report annually
Green definition	Have suggested eight types of Green industries, but no clear boundary on the industries and no clear definition on green. The issuer can define their green projects and provide explanation	Provides Green definition and sectors specific. They develop their taxonomy one by one and their sector specific standards are used for certification
External Review	External advice from consultants is recommended. No fixed green bond standard need to be met	Issuers need to engage a verifier approved by GBI for pre- and post-issuance Certification. Verifier's Report giving assurance that Climate Bonds Standard requirements are met

Bond reporting – up to March 2019

Reporting scope		UoP reporting	Impact reporting	Both
Number of issuers	Reporting	251	194	172
	Non-reporting	116	173	195
	% reporting	68%	53%	47%
Number of bonds	Reporting	715	1,514	501
	Non-reporting	1,190	391	1,404
	% reporting	38%	79%	25%
Amount issued (USDbn)	Reporting	223	219	186
	Non-reporting	58	62	95
	% reporting	79%	78%	66%

Source: Climate Bond Initiative

What's next?

- We don't have much time to mitigate the climate change
- It's imperative for us to address Paris Agreement
- Future development of Green Bond:
 1. May need to have a universal standard and framework lead by Paris Agreement
 2. May need to incorporate the use of proceeds and reporting provision into the terms and conditions of the bond
 3. Penalty terms on non-compliance

~ Thank You ~