



The **Green Bond** Principles





The Green Bond Principles

Introduction

Green Bonds raise funds for new and existing eligible projects with environmental benefits. The 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. They are intended to provide the informational basis for the market to increase capital allocation to environmentally beneficial purposes without any single authority or gate keeper.

The scope of the GBP has been refreshed in this second edition. Working with the support of the International Capital Market Association (ICMA) as Secretary to the GBP, the GBP Executive Committee which brings together a representative group of issuers, investors and intermediaries in the Green Bond market, has sought to reflect the evolution of the Green Bond market and to identify best practice. This work benefited from extensive coordination and dialogue with market participants, including a consultation process with GBP members and observers during the summer of 2014.

Green Bond issuance grew substantially during 2014, confirming the validity of the approach and raising expectations as to the benefits of its further expansion. Initially driven largely by Multilateral Development Banks (MDBs), issuance has extended to new issuer categories such as other public institutions, utilities, corporates, and financial institutions.

This process benefits from the growing involvement of a wider universe of investors that have different levels of capacity to evaluate environmental projects. To date these investors have especially focused on those Green Bonds that have allowed them to gain transparent access to a diversity of underlying environmental projects while providing them with the simplicity of credit exposure to a clearly identified issuer with an established risk profile.

The second edition of the GBP represents an incremental evolution from the previous standard and aims to provide further clarity on what can be expected from issuers. Amongst others, a comprehensive high level definition of Green Bonds has been included and the recognized broad categories of eligible projects have been updated. A particular effort has also been made to define and clarify assurance. The GBP continue to reflect the diversity of opinion on the definition of Green Projects. Other modifications have been made throughout to improve readability and confirm intent.

Green Bond Definition

Green Bonds are any type of bond instruments where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible Green Projects and which follows the 4 Green Bond Principles. Green Projects are defined as projects and activities that will promote progress on environmentally sustainable activities as defined by the issuer (see Green Bond Principle 1.) and in line with the issuer's project process for evaluation and selection (see Green Bond Principle 2.). The management of Green Bond proceeds should be traceable within the issuing organization (see Green Bond Principle 3.) and issuers should report at least annually on use of proceeds (see Green Bond Principle 4.).

Different types of Green Bonds exist in the market. These are described in Appendix I.

Green Bond Principles

The Green Bond Principles (GBP) are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond. The GBP are intended for broad use by the market: they provide issuers guidance on the key components involved in launching a credible Green Bond; they aid investors by promoting availability of information necessary to evaluate the environmental impact of their Green Bond investments; and they assist underwriters by moving the market towards standard disclosures which will facilitate transactions.

The GBP recommend a concrete process and disclosure for issuers which investors, banks, investment banks, underwriters, placement agents and others may use to understand the characteristics of any given Green Bond. The GBP emphasize the necessary transparency accuracy and integrity of environmentally sustainable information that will be disclosed and reported by issuers to stakeholders and that may be increasingly used for strategic decision making by investors.

The GBP have four components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

For market information purposes at the time of issuance, the GBP encourage the use of a summary reflecting the main characteristics of a Green Bond or a Green Bond programme, and articulating the four components above.

1. Use of Proceeds

The cornerstone of a Green Bond is the utilization of the proceeds of the bond which should be appropriately described in the legal documentation for the security. All designated Green Project categories should provide clear environmentally sustainable benefits, which, where feasible, will be quantified or assessed by the issuer.

There are several categories and sets of criteria defining eligible Green Projects already in existence in the market that can be used as a guide. Issuers and other stakeholders can refer to examples through links listed in the GBP webpages at www.icmagroup.org/greenbonds.

The GBP explicitly recognize several broad categories of potential eligible Green Projects aiming to address key areas of concern such as climate change, natural resources depletion, biodiversity conservation and/or pollution. These broad categories are including, but not limited to:

- Renewable energy
- Energy efficiency (including efficient buildings)
- Sustainable waste management
- Sustainable land use (including sustainable forestry and agriculture)
- Biodiversity conservation
- Clean transportation
- Sustainable water management (including clean and/or drinking water)
- Climate change adaptation

In the event that a proportion of the proceeds may be used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced.

2. Process for Project Evaluation and Selection

The issuer of a Green Bond should outline the decision-making process it follows to determine the eligibility of projects using Green Bond proceeds. This includes, without limitation:

- a process to determine how the projects fit within the eligible Green Projects categories identified in the Green Bond Principles;
- the criteria making the projects eligible for using the Green Bond proceeds; and
- the environmental sustainability objectives.

The GBP encourage a high level of transparency; to this end, this process for project evaluation and selection can be supplemented by a review by a second party (see Assurance section).

In addition to information disclosed by an issuer on its Green Bond process, criteria and assurances, Green Bond investors may also take into consideration the quality of the issuer's overall framework and performance regarding environmental sustainability.

3. Management of Proceeds

The net proceeds of Green Bonds should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process that will be linked to the issuer's lending and investment operations for Green Projects. So long as the Green Bonds are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible green investments or loan disbursements made during that period. Pending such investments or disbursements to eligible Green Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.

The GBP encourage a high level of transparency that can be supplemented by the use of an auditor, or other third party, to verify the internal tracking method and the allocation of funds from the Green Bond proceeds (see Assurance section).

4. Reporting

In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which Green Bond proceeds have been allocated including - when possible with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmentally sustainable impact.

The GBP recommend the use of qualitative performance indicators and, where feasible, quantitative performance measures of the expected environmental sustainability impact of the specific investments (e.g. reductions in greenhouse gas emissions, number of people provided with access to clean power, reduction in number of cars required, etc.). Where confidentiality agreements or competition issues limit the amount of detail that can be made available, information can be presented in generic terms.

The GBP acknowledge that there are currently no established standards for impact reporting on Green Projects, and welcome and encourage initiatives, including those by leading Green Bond issuers, to help establish a model for impact reporting that others can adopt and/or adapt to their needs. Until more harmonization is achieved, transparency is of particular value, including disclosure of methodologies and key underlying assumptions.

Assurance

It is recommended that issuers use external assurance to confirm their alignment with the key features of Green Bonds as defined above. There are a variety of ways for issuers to obtain outside input to the formulation of their Green Bond process and there are several levels and types of independent assurance that can be provided to the market. Such guidance and assurance might include:

- (i) **Second party reviews and consultation:** for example, an issuer can seek advice from consultants and/ or institutions (“second party”) with recognized expertise in environmental sustainability to review or to help in the establishment of its process for project evaluation and selection including project categories eligible for Green Bond financing. The reviews and reports of the second party are private, and may be made publicly available only at the discretion of the issuer.
- (ii) **Audits:** Issuers are encouraged to have independently verified or audited certain aspects of their Green Bond process, such as the internal tracking method and the allocation of funds from proceeds. The verification can be provided by qualified third parties, or by internal and/or external auditors. These independent reports and audits may be put in the public domain at the discretion of the issuer.
- (iii) **Third-party certifications:** Second-party standards intended for use by qualified third parties to certify Green Bonds are in use or in development. The GBP are supportive of the development of and use of such standards for the certification of Green Bonds as they are defined above.

Appendix I

There are currently four types of Green Bonds (additional types may emerge as the market develops and these will be incorporated in annual GBP updates):

- **Green Use of Proceeds Bond:** a standard recourse-to-the-issuer debt obligation for which the proceeds shall be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer and attested to by a formal internal process that will be linked to the issuer’s lending and investment operations for eligible projects. Pending such investment or disbursement, it is recommended that the issuer make known to investors the intended types of eligible investments for the balance of unallocated proceeds.
- **Green Use of Proceeds Revenue Bond:** a non-recourse-to-the-issuer debt obligation in which the credit exposure in the bond is to the pledged cash flows of the revenue streams, fees, taxes etc., and the use of proceeds of the bond goes to related or unrelated Green Project(s). The proceeds shall be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer and attested to by a formal internal process that will be linked to the issuer’s lending and investment operations for eligible projects. Pending such investment or disbursement, it is recommended that the issuer make known to investors the intended types of eligible investments for the balance of unallocated proceeds.
- **Green Project Bond:** a project bond for a single or multiple Green Project(s) for which the investor has direct exposure to the risk of the project(s) with or without potential recourse to the issuer.
- **Green Securitized Bond:** a bond collateralized by one or more specific projects, including but not limited to covered bonds, ABS, and other structures. The first source of repayment is generally the cash flows of the assets. This type of bond covers, for example, asset-backed securitizations of rooftop solar PV and/or energy efficiency assets.

Green Bond Principles: Community and Governance

Who supports the Green Bond Principles?

As of October 2015, 103 institutions representing all participants in the GB market have joined the GBP as members and 54 organizations have received GBP observer status (lists of current members and observers are available at: www.icmagroup.org/greenbonds).

Membership is open to institutions that have issued, underwritten or placed, or invested in a Green Bond. Members elect the Executive Committee, decide on changes to GBP governance, and provide input to updates to the Principles.

Observer status is designed to welcome organizations that are not yet in the market and/or are active in the field of green finance such as but not limited to NGOs, universities, auditors, and service providers. Observers are informed of GBP developments and are included on consultations regarding updates to the GBP.

What is the Governance framework for the Principles?

The Governance framework for the Green Bond Principles (GBP Governance) was initially published in April 2014 and has been updated in June 2015. It is available at:

www.icmagroup.org/greenbonds. Under its rules, it is the GBP Executive Committee that decides on updates of the GBP with the input of Members and Observers through annual consultations that are organised by the GBP Secretariat. The Executive Committee was expanded from 18 to 24 organisations early September 2015 and represents a balanced distribution of leading Green Bond investors, issuers and underwriters.

GBP Executive Committee as of September 2015

Investors

- ACTIAM N.V.
- Blackrock, Inc.
- California State Teachers' Retirement System (CalSTRS)
- KfW
- Natixis Asset Management / Mirova
- Standish Mellon Asset Management Company LLC
- TIAA-CREF Asset Management
- Zurich Insurance Group

Issuers

- EDF S.A.
- Engie
- European Bank of Reconstruction and Development (EBRD)
- European Investment Bank (EIB)
- International Finance Corporation (IFC)
- Unibail-Rodamco SE
- Unilever
- World Bank

Underwriters

- BofA Merrill Lynch
- Citi
- Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. ("Rabobank")
- Credit Agricole CIB
- HSBC
- JPMorgan Chase & Co.
- Morgan Stanley and Co International PLC
- Skandinaviska Enskilda Banken AB (SEB)

This Executive Committee will remain in place until new elections to be organised at the time of the 2016 GBP General Meeting, where 12 seats will be up for renewal.

Secretariat

The International Capital Market Association (ICMA) serves as Secretary providing support to the GBP including advice on governance and other issues. The Secretariat's duties also include facilitating information exchange with issuers, investors, underwriters, and other stakeholders; as well as gathering input for the annual update of the Green Bond Principles.

Disclaimer

The Green Bond Principles are voluntary process guidelines that neither constitute an offer to purchase or sell securities nor constitute specific advice of whatever form (tax, legal, environmental, accounting or regulatory) in respect of Green Bonds or any other securities.

The Green Bond Principles do not create any rights in, or liability to, any person, public or private. Issuers adopt and implement the Green Bond Principles voluntarily and independently, without reliance on or recourse to the Green Bond Principles, and are solely responsible for the decision to issue Green Bonds.

Underwriters of Green Bonds are not responsible if issuers do not comply with their commitments to Green Bonds and the use of the resulting net proceeds. If there is a conflict between any applicable laws, statutes and regulations and the guidelines set forth in the Green Bond Principles, the relevant local laws, statutes and regulations shall prevail.

Contact

For information, or to find out how to participate in the Green Bond Principles, please contact the GBP Secretariat at greenbonds@icmagroup.org



ICMA Paris
Representative Office

62 rue la Boétie
75008 Paris
France

Tel: +33 1 70 17 64 70
Fax: +33 1 49 26 05 71

greenbonds@icmagroup.org
www.icmagroup.org

