



The **Green Bond** Principles 2017



2 June 2017



Voluntary Process Guidelines for Issuing Green Bonds

Introduction

The Green Bond market aims to enable and develop the key role debt markets can play in funding projects that contribute to environmental sustainability. The Green Bond Principles (GBP) promote integrity in the Green Bond market through guidelines that recommend transparency, disclosure and reporting. They are intended for use by market participants and are designed to drive the provision of information needed to increase capital allocation to such projects. With a focus on the use of proceeds, the GBP aim to support issuers in transitioning their business model towards greater environmental sustainability through specific projects.

Issuance aligned to the GBP should provide an investment opportunity with transparent green credentials. By recommending that issuers report on the use of Green Bond proceeds, the GBP promote a step change in transparency that facilitates the tracking of funds into environmental projects, while simultaneously aiming to improve insight into their estimated impact.

The GBP provide high level categories for eligible Green Projects in recognition of the diversity of current views and of the ongoing development in understanding of environmental issues and consequences, while liaising when needed with other parties that provide complementary definitions, standards and taxonomies for determining the environmental sustainability of projects. The GBP encourage all participants in the market to use this foundation to develop their own robust practices, referencing a broad set of complementary criteria as relevant.

The GBP are collaborative and consultative in nature based on the contributions of GBP Members and the wider community including Observers, and are coordinated by the Executive Committee. They are updated typically once a year, reflecting the development and growth of the global Green Bond market.

The 2017 Edition of the GBP

This edition of the GBP benefits from the input of the Autumn 2016 consultation of GBP Members and Observers, as well as from the working groups coordinated by the GBP Executive Committee which reflected on the key themes that surfaced from the consultation. There was also an emphasis on widening the working groups beyond the GBP Executive Committee to participants with relevant expertise from GBP Members and Observers. This update also aims to reflect ongoing feedback from the wider Green Bond stakeholder community and to take into account recent market developments.

The 2017 update remains framed by the same four core components (Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting). It also continues to underline the importance of the use of the recommended templates framing issuer alignment with the GBP and the content of external reviews available at the Resource Centre at www.icmagroup.org/gssbresourcecentre. The 2017 edition reflects overall the growing maturity of the GBP with limited changes compared to 2016.

The GBP 2017 includes a new introduction. Green Project categories under the Use of Proceeds section are updated and complemented, and new language aims to reflect innovations introduced, including in connection with recent sovereign Green Bond issuance. Clarifications are made on the recommendations for issuer communication on their Process for Project Evaluation and Selection, and Management of Proceeds. In conjunction with this 2017 update, additional guidance is also provided on impact reporting, with suggested metrics for sustainable water and wastewater projects.

Green Bond Definition

Green Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects (see section 1 Use of Proceeds) and which are aligned with the four core components of the GBP. Different types of Green Bonds exist in the market. These are described in Appendix I.

It is understood that certain Green Projects may have social co-benefits, and that the classification of a use of proceeds bond as a Green Bond should be determined by the issuer based on its primary objectives for the underlying projects. (Bonds that intentionally mix green and social projects are referred to as Sustainability Bonds, and specific guidance for these is provided separately in the [Sustainability Bond Guidelines](#).)

It is important to note that Green Bonds should not be considered fungible with bonds that are not aligned with the four core components of the GBP.

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 with 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 expected disclosures that will facilitate transactions.

The GBP recommend a clear 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 emphasise the required transparency, accuracy and integrity of information that will be disclosed and reported by issuers to stakeholders.

The GBP have four core components:

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

1. Use of Proceeds

The cornerstone of a Green Bond is the utilisation of the proceeds of the bond for Green Projects (including other related and supporting expenditures, such as R&D), which should be appropriately described in the legal documentation for the security. All designated Green Projects should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer.

In the event that all or a proportion of the proceeds are or 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, and, to the extent relevant, the expected look-back period for refinanced Projects.

The GBP explicitly recognise several broad categories of eligibility for Green Projects with the objective to address key areas of environmental concern such as climate change, natural resources depletion, loss of biodiversity, and air, water or soil pollution.

The following list is intended to be indicative and captures the most commonly used types of projects supported or expected to be supported by the Green Bond market. Green Projects may relate to more than one category. The

categories, listed in no specific order, include, but are not limited to:

- renewable energy (including production, transmission, appliances and products);
- energy efficiency (such as in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products);
- pollution prevention and control (including waste water treatment, reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/emission-efficient waste to energy, value added products from waste and remanufacturing, and associated environmental monitoring);
- environmentally sustainable management of living natural resources and land use (including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection or drip-irrigation; environmentally sustainable fishery and aquaculture; environmentally-sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes);
- terrestrial and aquatic biodiversity conservation (including the protection of coastal, marine and watershed environments);
- clean transportation (such as electric, hybrid, public, rail, non-motorised, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions);
- sustainable water and wastewater management (including sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation);
- climate change adaptation (including information support systems, such as climate observation and early warning systems);
- eco-efficient and/or circular economy adapted products, production technologies and processes (such as development and introduction of environmentally friendlier products, with an eco-label or environmental certification, resource-efficient packaging and distribution);
- green buildings which meet regional, national or internationally recognised standards or certifications.

While the GBP's purpose is not to take a position on which green technologies, standards, claims and declarations are optimal for environmentally sustainable benefits, issuers and other stakeholders can refer to examples through links listed on the Resource Centre at www.icmagroup.org/gssbresourcecentre. Furthermore, there are many institutions that provide independent analysis, advice and guidance on the quality of different green solutions and environmental practices. Definitions of green and green projects may also vary depending on sector and geography.

2. Process for Project Evaluation and Selection

The issuer of a Green Bond should clearly communicate to investors:

- the environmental sustainability objectives;
- the process by which the issuer determines how the Projects fit within the eligible Green Projects categories identified above;
- the related eligibility criteria, including, if applicable, exclusion criteria or any other process applied to identify and manage potentially material environmental and social risks associated with the Projects.

Issuers are encouraged to position this information within the context of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability.

Issuers are also encouraged to disclose any green standards or certifications referenced in Project selection.

The GBP encourage a high level of transparency and recommend that an issuer's process for project evaluation and selection be supplemented by an external review (see External Review section).

3. Management of Proceeds

The net proceeds of the Green Bond, or an amount equal to these net proceeds, 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 the issuer in a formal internal process linked to the issuer's lending and investment operations for Green Projects.

So long as the Green Bond is outstanding, the balance of the tracked proceeds should be periodically adjusted to match allocations to eligible Green Projects made during that period. The issuer should make known to investors the intended types of temporary placement for the balance of unallocated proceeds.

The GBP encourage a high level of transparency and recommend that an issuer's management of proceeds 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 External Review section).

4. Reporting

Issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and as necessary thereafter in the event of material developments. This should include a list of the Projects to which Green Bond proceeds have been allocated, as well as a brief description of the projects and the amounts allocated, and their expected impact. Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the GBP recommend that information is presented in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories).

Transparency is of particular value in communicating the expected impact of projects. The GBP recommend the use of qualitative performance indicators and, where feasible, quantitative performance measures (e.g. energy capacity, electricity generation, greenhouse gas emissions reduced/avoided, number of people provided with access to clean power, decrease in water use, reduction in the number of cars required, etc.), and disclosure of the key underlying methodology and/or assumptions used in the quantitative determination. Issuers with the ability to monitor achieved impacts are encouraged to include those in their regular reporting.

Voluntary guidelines aiming at a harmonised framework for impact reporting exist for energy efficiency, renewable energy, water and wastewater projects (see guidance documents in the Resource Centre at www.icmagroup.org/gssbresourcecentre). The guidelines include templates for the format of impact reporting at a project and at a portfolio level that issuers can adapt to their own circumstances. The GBP encourage further initiatives, to help establish additional references for impact reporting that others can adopt and/or adapt to their needs. Guidelines for additional sectors are under development.

The use of a summary reflecting the main characteristics of a Green Bond or a Green Bond programme, and illustrating its key features in alignment with the four core components of the GBP may help inform market participants. To that end, a template can be found on www.icmagroup.org/gssbresourcecentre which once completed can be made available online for market information (see section on Resource Centre below).

External Review

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

- 1) **Consultant Review:** An issuer can seek advice from consultants and/or institutions with recognised expertise in environmental sustainability or other aspects of the issuance of a Green Bond, such as the establishment/review of an issuer's Green Bond framework. "Second party opinions" may fall into this category.
- 2) **Verification:** An issuer can have its Green Bond, associated Green Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.
- 3) **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against an external green assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties/certifiers.
- 4) **Rating:** An issuer can have its Green Bond or associated Green Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Green Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Green Bond frameworks/programmes.

An external review may be partial, covering only certain aspects of an issuer's green bond or associated Green Bond framework or full, assessing alignment with all four core components of the GBP.

The GBP recommend public disclosure of external reviews, or at least an executive summary, for example by using the template available at www.icmagroup.org/gssbresourcecentre which once completed can be made available online for market information (see section on the Resource Centre below). The GBP encourage external review providers in any case to disclose their credentials and relevant expertise, and communicate clearly the scope of the review conducted.

The GBP take into account that the timing of an external review may depend on the nature of the use of proceeds and publication of reviews can be constrained by business confidentiality requirements.

Resource Centre

Recommended templates and other GBP resources are available at the Resource Centre www.icmagroup.org/gssbresourcecentre. Completed templates can be made available online for market information at the Resource Centre by following the instructions at the link above.

Appendix I - Types Of Green Bonds

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):

- **Standard Green Use of Proceeds Bond:** a standard recourse-to-the-issuer debt obligation aligned with the GBP.
- **Green Revenue Bond:** a non-recourse-to-the-issuer debt obligation aligned with the GBP in which the credit exposure in the bond is to the pledged cash flows of the revenue streams, fees, taxes etc., and whose use of proceeds go to related or unrelated Green Project(s).
- **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, and that is aligned with the GBP.
- **Green Securitised Bond:** a bond collateralised by one or more specific Green Project(s), including but not limited to covered bonds, ABS, MBS, and other structures; and aligned with the GBP. The first source of repayment is generally the cash flows of the assets. This type of bond covers, for example, asset-backed securitisations of rooftop solar PV and/or energy efficiency assets.

Note:

It is also recognised that there is a market of environmental, climate or otherwise themed bonds, in some cases referred to as “pure play”, issued by organisations that are mainly or entirely involved in environmentally sustainable activities, but that do not follow the four core components of the GBP. In such cases, investors will need to be informed accordingly and care should be taken to not imply GBP features by a Green Bond reference. These organisations are encouraged to adopt where possible the relevant best practice of the GBP (e.g. for reporting) for such existing environmental, climate or otherwise themed bonds, and to align future issues with the GBP.

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.



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