



A Statement of Investor Expectations for the Green Bond Market

Introduction

Recent success in the development of the Green Bond market has elicited calls from the investment community to develop and adhere to clarity in standards and procedures. This document is intended to provide guidance to issuers of green bonds.

The Ceres Investor Network on Climate Risk (INCR) has convened a working group of existing and potential green bond buyers to outline a “Statement of Investor Expectations” for bonds labeled green. There is consensus among this group that:

- A green bond is a fixed income instrument whose proceeds finance projects that generate significant identifiable climate or other environmental benefits and whose use is predefined and made transparent to the investor
- Bonds that finance credible green projects while remaining consistent with fiduciary considerations enable investors to incorporate environmental objectives into their investment strategies and, as such, are likely to attract increased investor interest
- The Green Bond Principles (GBP) set forth appropriate common criteria concerning eligibility, disclosure, transparency and impact reporting for green bonds

We support adherence to the GBP by issuers and underwriters. Additionally, we address four key issues that can benefit from further definition and structure:

1. Eligibility: General Criteria for Green Projects
2. Initial Disclosures and Intended Use of Proceeds
3. Reporting on Use of Proceeds and Project Impacts / Benefits
4. Independent Assurance

While we acknowledge that implementing these guidelines may have additional costs to issuers, we urge issuers to follow them to the extent feasible.

1. Eligibility: General Criteria for Green Projects

We expect that green bonds will support projects that fit within the eligible categories listed by the GBP and that these projects will have material, positive net benefits for the climate or the environment.

Where proceeds are used to reduce greenhouse gas (GHG) emissions we encourage issuers to compare their targeted impacts to publicly available standards or benchmarks. These are offered by various organizations including green bond issuers such as the European

Investment Bank, the International Finance Corporation, and the World Bank, as well as nonprofit groups such as the Climate Bonds Initiative and the World Resources Institute. Reference to and consistency with such independent standards will enhance the credibility of a green bond issue.

Projects that are not primarily climate-focused should 1) significantly contribute to conservation and/or sustainable and efficient management of natural resources, 2) reduce waste or pollution, or 3) otherwise enhance environmental quality and contribute to sustainable living. Reference to recognized independent standards is desirable.

Certain projects that fall within the GBP categories may benefit the environment in important ways but also degrade it in others. Examples include energy efficient shale and oil sands operations; large-scale hydro, nuclear power generation and other environmentally disruptive electric power projects; seawater desalination; and GHG reductions from coal-fired power plants. As investors, we will exercise additional diligence when evaluating bond offerings for environmentally marginal projects that are labeled “green.”

We welcome the issuance of green bonds by all entities. However, specific projects that help perpetuate fossil-fuel utilization and emissions come with a greater burden of disclosure of exceptional climate benefits and may be better served by issuing conventional bonds rather than by bonds designated as green. This will minimize “greenwash” concerns and reputation risk to issuers and investors.

2. Initial Disclosures and Intended Use of Proceeds

In order to classify a green bond as such, issuers need to provide investors with specific information prior to issuance. Chief among these disclosures are the categories of projects to which issuers intend to allocate the funds; the framework for deciding which projects should receive green bond funding; the criteria for assessing environmental benefits; and the environmental impacts issuers expect their projects to generate.

- Designated green projects should provide clear environmental benefits that can be described, assessed and, when possible, quantified. This can take the form of supporting environmental studies, projections of expected impacts, internal research and third party assessments. For green securitized bonds, as long as the proceeds are dedicated to promote climate or other environmentally sustainable purposes, actual collateral need not qualify as “green.”
- Issuers should provide information to investors about the percentage of bond proceeds being used for new project funding versus refinancing, especially to projects that were already financed prior to the start of the issuer’s green bond program.
- Issuers should describe the management process for tracking proceeds from the

green bond offering. This can take a variety of forms, such as a sub-portfolio, a separate bank account or sub-account. Issuers will outline how proceeds will be transparently tracked and how this will be communicated to investors, at least annually. Audits verifying such internal tracking methods and allocation of funds from proceeds are encouraged.

- Green bond proceeds should be applied or allocated to eligible projects within a reasonable period of time after issuance, appropriate to the maturity of the bond.
- Issuers should declare their plan for reporting project impacts and how to disseminate this information as further outlined below.
- We recommend separate presentation of the information described above that allows investors to compare this information between issuers.

3. Reporting on Use of Proceeds and Project Impacts/Benefits

We expect issuers to provide annual updates on the use of green bond proceeds for eligible projects and reports of the estimated impact or benefits of projects supported by the green bond financing.

- The use of proceeds can be reported on a project-by-project or aggregate basis, and can be provided together with the issuer's impact report.
- Issuers should communicate to investors, at least annually, information concerning the beneficial climate, environmental and other impacts of their projects.
- Impact reports should be publicly available and include expected results according to estimates developed when projects are in the design, construction and/or implementation phase. To make such reporting easy for investors to understand, a simplified set of indicators concerning impact is recommended. Where available, references to more detailed supporting documentation should be noted and made available if requested.

To remedy the current absence of standards concerning impact reporting, we welcome and encourage initiatives, including those by early green bond issuers, to help establish models for impact reporting that others can adopt and/or adapt to their needs.

4. Independent Assurance

Given the complexity of assuring the use of proceeds for green bonds, additional levels of oversight concerning proceeds tracking and selection of eligible green projects are helpful to investors.

To address this need, several credible auditors and climate and environmental, social, governance (ESG) institutions have been participating as helpful independent assurers in the Green Bond market. We encourage support from financial auditors in tracking bond proceeds to stated eligible project categories and opinions from climate and ESG experts concerning selection of green projects and their expected environmental benefits. This additional level of scrutiny can provide comfort to bond investors that additional outside due diligence has been conducted to the extent feasible. This approach should help promote the integrity of this growing market.

Second party outside opinions on an issuer's green bond program give investors further confidence that:

1. The criteria for selecting projects having climate and/or other environmental benefits are in line with sound climate and environmental analysis and consistent with relevant standards for eligible projects that are referenced
2. The selected eligible projects fall within the categories of investments commonly recognized to address the targeted environmental problem (e.g., GHG emissions, reduction in energy use, water pollution) based on information available from recognized sources, such as academic institutions, international organizations or other entities having environmental and climate expertise
3. Issuers have an appropriate governance structure with guidelines and systems in place to support the selection, monitoring and assessment of the projects
4. Issuers have the capacity to assess or measure and report on the impact or agree to outsource the impact assessment and reporting to an appropriate third party

When issuers rely on internal expertise and/or opinions of retained consultants, additional disclosure about the project selection criteria, use of proceeds and anticipated impacts are recommended.

Summary

The undersigned investors consider consistency in standards and procedures helpful to the development of a robust Green Bond market and view adherence to the GBP to be an essential step in this direction. We intend that, by providing additional guidance, this statement will contribute towards a common framework for investors, issuers and underwriters of green bonds. We see a growing investor appetite for green bonds that help fund the transition to a low carbon, sustainable economy, and we encourage new issuers to consider financings consistent with the expectations we outline above.

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