

International standard for climate bonds to catalyse investment

# Assurance/Integrity/ Transparency

Assessing environmental integrity is hard work. An authoritative standard eases decision-making and focuses attention on credible climate change solution opportunities. The easier it is to use the faster the market will grow.

The International Climate Bonds Standards and Certification Scheme assures investors that their funds are being used to help deliver a low-carbon economy.

It allows investors and governments to easily prioritise climate bonds with confidence that the funds are being used to deliver a low carbon economy.

Certification is available for:

- Project bonds
- Corporate bonds (asset-linked)
- Portfolio bonds
- Asset-backed securities
- Sovereign (programmatic) bonds.

Criteria for renewable energy, infrastructure, bio-energy, IT and broadband, real estate, and forest bonds are being released.

The Standard is an *environmental standard*. It does not substitute for financial or other due-diligence.



# Climate Bond Certified

**“We are looking for investment-grade returns that also address climate change. The Climate Bond Standard will allow us to know that investment opportunities put before us will be the right ones to build a Low Carbon Economy.”**

— Jack Ehnes, CEO of California Teachers Retirement System

The Climate Bonds Standard and Certification Scheme is coordinated through the work of dedicated working groups, overseen by a Board representing institutional investors and environmental NGOs.

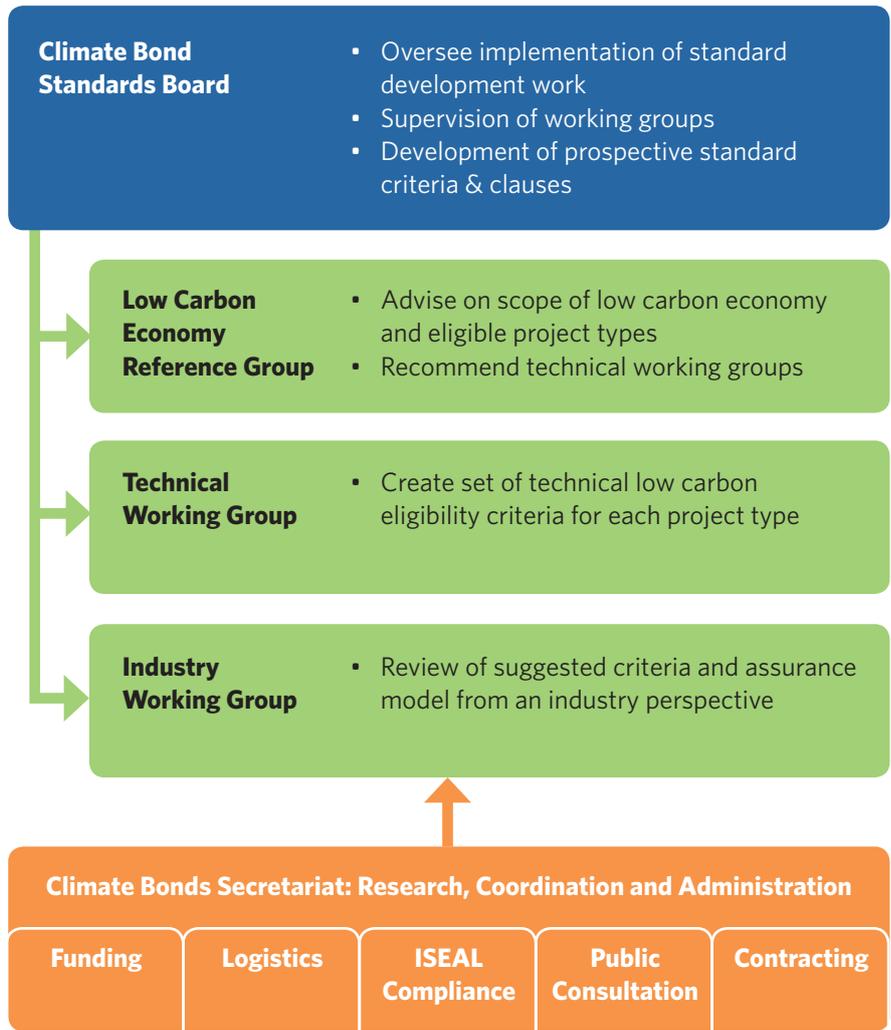
Members of the **Climate Bond Standards Board** are the California State Teachers’ Retirement System (CalSTRS); the Natural Resources Defense Council; the State Treasurer of California; the (Australian) Investor Group on Climate Change; the Carbon Disclosure Project; and the (US) Investor Network on Climate Risk.

A **Low Carbon Economy Reference Group** advises on investments needed to achieve a rapid transition to a low-carbon economy.

**Technical Working Groups** made up of participants from scientific communities, industry and NGOs develop certification eligibility criteria for each project type.

An **Industry Working Group** consults on structure and content, verification processes and practical diffusion. Members include representatives from: Standard & Poor’s, Aviva Investors, the IFC (a part of the World Bank Group), KPMG, PricewaterhouseCoopers, DNV and Calvert Funds Management.

**The Climate Bonds Standards Board**



**“Governments and investors around the world have a prime opportunity to transition to a sustainable, low-carbon economic growth path with the investment and employment benefits that entails. Climate Bond Standards offer a ready-made tool to assist this transition, in California and around the world.”**

— Bill Lockyer, California State Treasurer

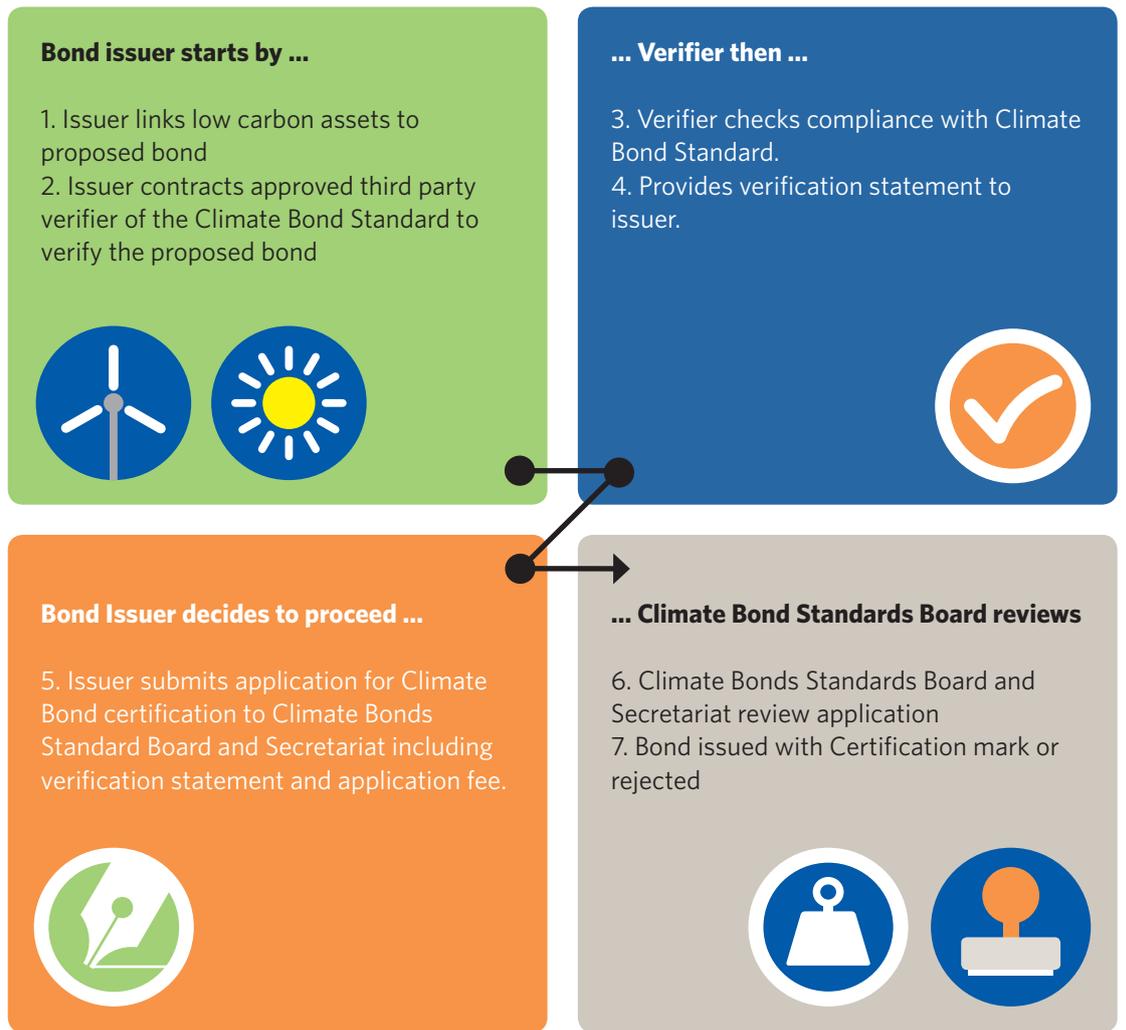
**3 reasons why climate bond standards are important**

**Climate** - Banking crises come and go. There were banking crises in England in 1836, 1839, 1847, 1857 and 1866 - they didn't stop England being the most powerful economy of the day. There have also been climate crises in the past. E.g. 55.8 million years ago in the Paleocene-Eocene Thermal Maximum, a large increase in atmospheric CO2 caused the planet to warm up by 6°C, leading to loss of 50% life on the planet. 6°C is the projected temperature increase under current emission trajectories.

**Bonds** - Bonds are one of the oldest financial products. They have been used to finance road building, railways and cities. Their need for long-term stable cash flows also suit the performance structures of renewable energy and energy efficiency projects.

**Standards** - The cost of capital is crucial to the competitiveness of renewable energy, due to the high capital, low running cost nature of renewables. The aim of the standard is to ultimately reduce that cost of capital. Many mainstream investors would like to invest in sustainable products but require assurance as to their integrity; a standard and certification of the bond can provide this and support liquidity by creating a recognizable universe of low carbon product. Governments can also use a standard and certification mark to target public funds, guarantees or insurance into de-risking investments.

**How it works**



**Organisations participating in the Industry Working Group include:**



**What sorts of bonds will be certified?**

The Standard allows for certification of bonds backed by or linked to low carbon assets. This includes: project development bonds; corporate bonds linked to a pool of loans to compliant assets, or to the physical assets themselves; and bonds issued by securitization vehicles of individual loans to finance physical assets or equity investments in physical assets.

**Key provisions of the Standards**

- Assurance around use of proceeds.
- Eligible low carbon physical assets. E.g. wind farms, manufacturing, related infrastructure.
- Traceability of funds.

**Costs**

To apply for certification costs one-tenth of a basis point (per annum) of the value of the bond. Bond issuers will also have to commission a third party review of their compliance with the Standard.

**Benefits of certification**

- Reach new investors.
- Signal your support for climate change solution investments.
- Remove cost to investor of environmental due diligence.

| Bonds  | Structures  | Examples   |
|--|---|--|
| <p><b>Corporate bond 'linked' to asset(s)</b></p> <p><b>Sovereign bond</b></p> | <p><b>Ring-fence value of assets to internal cost centre</b></p>                        | <p><b>Commercial Bank</b><br/>Issues bond against balance sheet, linked to portfolio of project loans</p> <p><b>Utility/Manufacturer</b><br/>Issues bond against balance sheet, linked to facility or wind farms</p> <p><b>Government</b><br/>Proceeds of bond ring-fenced to a qualifying program</p> |
| <p><b>Project development bond</b></p>   | <p><b>Special purpose vehicle owns the asset</b></p>                                    | <p><b>Project Developer</b><br/>Issues bond to finance construction and operation of wind farms</p>  |
| <p><b>Portfolio bond</b></p> <p><b>Covered bond</b></p>                        | <p><b>Securitisation vehicle of loans and/or assets</b></p> <p><b>Dual recourse</b></p> | <p><b>Aggregator</b><br/>Issues bond to re-finance pool of wind farms or wind loans</p>  |



Climate Bond Certified

