

# Green bonds: international standards and case studies

Mushtaq Kapasi, ICMA  
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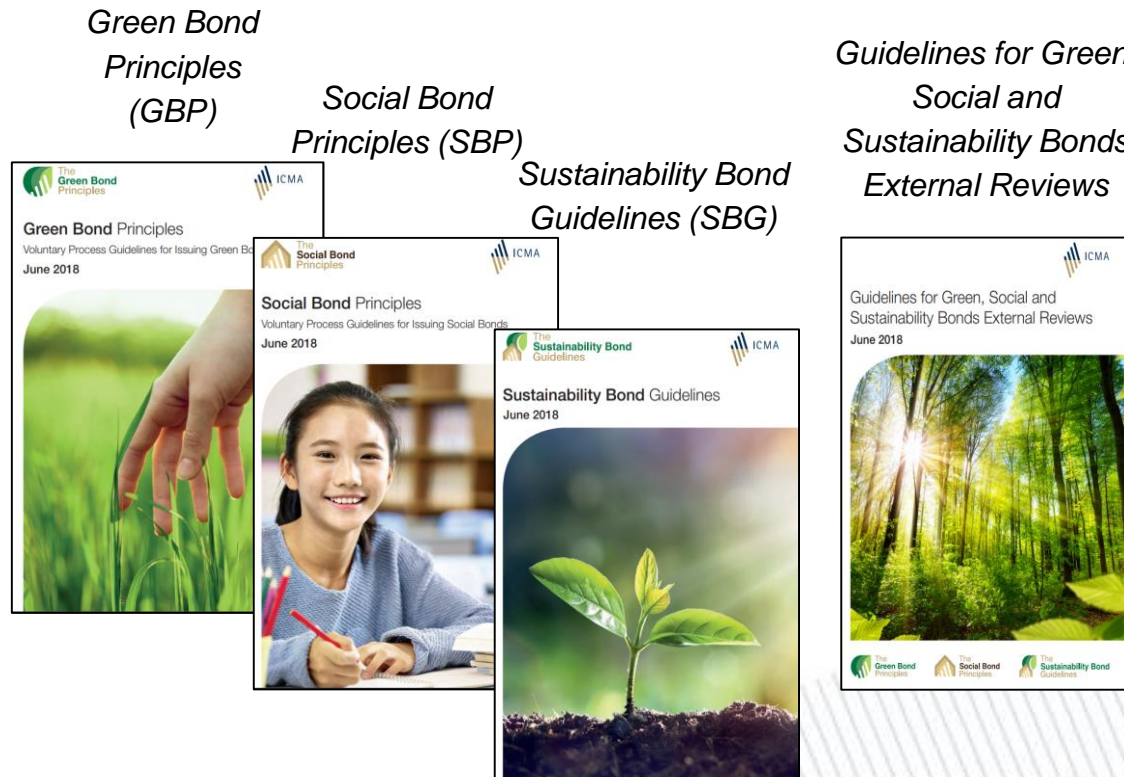
# GLOBAL AND REGIONAL REGULATIONS



## Globally recognised standards

-- best market practice for issuing **Green, Social and Sustainability Bonds**

- ICMA's GBP, SBP and SBG



Four core components of the Principles:

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

- Guidelines for External Reviews provide voluntary guidance relating to professional and ethical standards for external reviewers, as well as to the organisation, content and disclosure for their reports.

## Globally recognised standards

-- best market practice for issuing **Green, Social and Sustainability Bonds**

- Related reference documents

*Handbook -  
Harmonized  
Framework for  
Impact Reporting*



*Harmonized  
Framework for  
Impact Reporting  
Social Bonds*



*Guidance  
Handbook*



*Green Project  
Mapping*



*High-Level  
Mapping to  
the SDGs*



## Globally recognised standards

-- best market practice for issuing **Green, Social and Sustainability Bonds**

### ■ Guidance Handbook



#### 1. Fundamentals

- 1.1 Is there a definition of Green, Social and Sustainability Bonds?
- 1.2 Who can issue a Green, Social or Sustainability Bond?
- 1.3 Is there an official list of each Green, Social or Sustainability Bond issued?
- 1.4 Do the GBP provide clear standards for defining what projects or activities qualify as Green? Are the GBP project categories comprehensive?
- 1.5 What are the advantages of issuing a Green bond?
- 1.6 What is an external review and is it required?
- 1.7 Can Green, Social or Sustainability Bonds “default” by not following the GBP/SBP/SBG recommendations anymore?
- 1.8 Can a Green Bond be issued by an issuer that has low ESG ratings, exposure to controversial issues or controversial sectors/technologies (such as fossil fuels or nuclear energy)?
- 1.9 Can ‘pure play’ companies issue Green Bonds? Are all bonds from pure play companies automatically Green Bonds?
- 1.10 What is the difference between Green Bonds, climate bonds, environmental bonds, social bonds, sustainability bonds and ESG bonds?
- 1.11 Is there a difference between a Social Bond and a social impact bond?

#### 2. Governance and Membership

- 2.1 How can I become a Member or Observer of the GBP and SBP, and enter into active dialogue with the community?
- 2.2 How is the Executive Committee elected?
- 2.3 Are the GBP/SBP a regulatory institution?

#### 3. Core Components of the GBP/SBP

- 3.1 Use of Proceeds
- 3.2 Management of proceeds
- 3.3 Reporting

#### 4. Market and Technical Issues

- 4.1 Is there any statistical research now available to prove that Green, Social or Sustainability Bonds perform better than conventional bonds?
- 4.2 How can investors recognize the eligibility of a bond as a Green, Social or Sustainability Bond when the issuer doesn't refer to the GBP/SBP?
- 4.3 Are there any additional requirements for Green sukuk?
- 4.4 Are there any additional requirements for Green perpetual (callable) bonds?
- 4.5 Can a project bond be a Green Bond?
- 4.6 Are Green Bonds becoming a separate asset class?
- 4.7 Guidance on fungibility considerations
- 4.8 Can an issuer launch a Green Bond Framework without having an MTN program?

#### 5. Other Market and Official Sector initiatives

- 5.1 Why are there regional green bond standards, such as the ASEAN GBS? Does GBP/SBP Executive Committee support the development of these regional standards?
- 5.2 What is the GBP/SBP Executive Committee's position on the differences between the GBP and regional standards?
- 5.3 How do the GBP align with international climate change related initiatives, such as the Paris Agreement, or the Sustainable Development Goals (SDGs)?

# Global and regional regulations

## Regional standards:

Introduced by ASEAN Capital Markets Forum:

	Regional standards	Launched in	Aligned with
	ASEAN Green Bond Standards	Nov 2017	ICMA GBP
	ASEAN Social Bond Standards	Oct 2018	ICMA SBP
	ASEAN Sustainability Bond Standards	Oct 2018	ICMA SBG







- 11 ASEAN qualified issues (MY = 4 / SG = 2 / TH = 2 / PH = 3) as of 19 July 2019

Source: List of issued ASEAN Green, Social and Sustainability Bonds, The ASEAN Capital Markets Forum

## Regional standards:



- Eligible social projects (indicative) under ASEAN SBS:
  - (i) Affordable basic infrastructure;
  - (ii) Access to essential services;
  - (iii) Affordable housing;
  - (iv) Employment generation;
  - (v) Food security;
  - (vi) Socioeconomic advancement and empowerment.
  - Projects which involve activities that pose a negative social impact related to alcohol, gambling, tobacco and weaponry are excluded

Source: The ASEAN Social Bond Standards,  
The ASEAN Green Bond Standards



- Eligible green projects (indicative) under ASEAN GBS:
  - (i) Renewable energy;
  - (ii) Energy efficiency;
  - (iii) Pollution prevention and control;
  - (iv) Environmentally sustainable management of living natural resources and land use;
  - (v) Terrestrial and aquatic biodiversity conservation;
  - (vi) Clean transportation;
  - (vii) Sustainable water and waste water management;
  - (viii) Climate change adaptation;
  - (ix) Eco-efficient and/or circular economy adapted products, production technologies and processes;
  - (x) Green buildings.
  - Fossil fuel power generation projects are excluded

# CASE STUDIES





### ICBC's first green bond



- Industrial and Commercial Bank of China (ICBC), the largest bank in the world by assets and a frequent issuer in the international market, issued the first green bond (USD 2.15 billion) in September 2017 through the Luxembourg Branch
- Luxembourg Branch helped ICBC Head Office to set up the Group's Green Bond Framework with Second Party Opinion given by Cicero against GBP and by Beijing Zhongcai Green Financing against Chinese green bond standards
- ICBC has developed a Green Bond Framework under which it plans to finance and refinance, in whole or in part, eligible green assets.

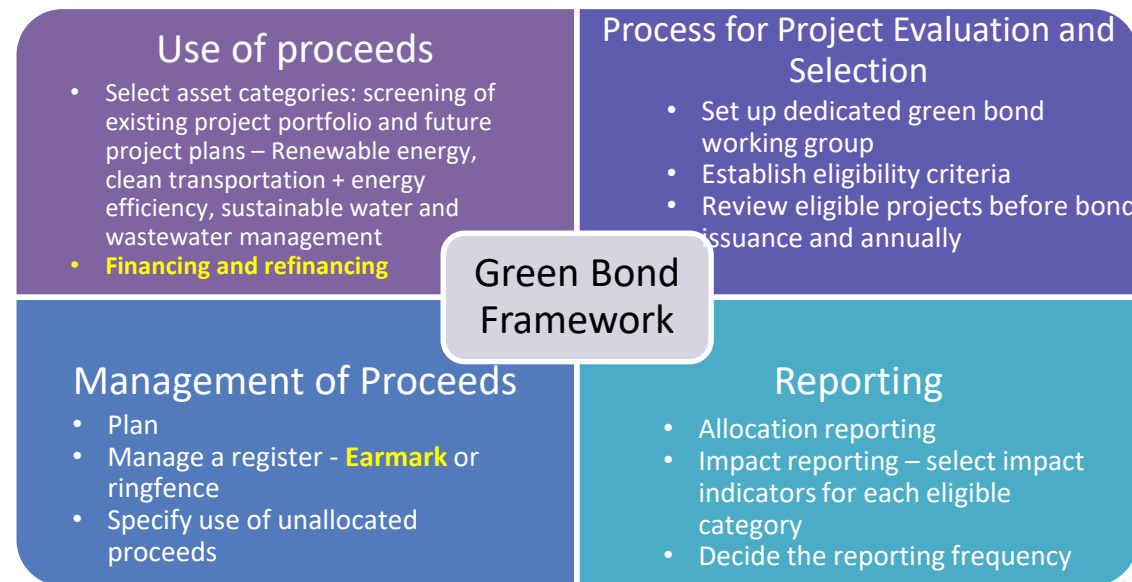
Source: ICBC

## ICBC's first green bond



### ■ Journey of green bond issuance:

- Develop a Green Bond Framework, used by the whole Group by decentralized funding centers
  - Understand your portfolio, build your green profile, tell your green vision and story



- External review: **Second Party Opinion/Verification/Certification/Rating** - a service provider: expertise, international recognition, local language knowledge
- Similar bond issuance process
- Roadshow
  - Credit + **greenness (framework)**

## ICBC's first green bond



- Advantages of issuing green bond
  - Pricing est. 4-7 bps tighter than the secondary trading
  - Diversified investor base (orderbook):
    - Green bond – 70% European investors; strong interest from “green” investors
    - Other bonds – 70% Asian investors
  - Possible policy support from regulator (e.g. bank’s RWA calculation)
  
- Challenges of issuing green bond
  - Impact reporting: Data of cross-border projects/assets based on different local standards require methodology adjustment to allow addition of impact measurement results
  - Investor relations: More investor inquiry for green bonds after issuance and ongoing reporting
  - One-off green bond framework setup and expenses for external review (minimal)

### Hong Kong and China Gas Co. – green bond



香港中華煤氣有限公司  
The Hong Kong and China Gas Company Limited

#### ■ External Review report by Sustainalytics – extracts:

- INTRO: “Hong Kong and China Gas” ...engages in the production, distribution and marketing of gas in Hong Kong and Mainland China... with a more recent focus on the development of new energy projects

...will issue a green bond and use the proceeds to finance and/or refinance expenditures related to non-fossil fuel energy investments in the following areas: (i) landfill gas projects; (ii) biomass waste-to-energy projects, (iii) waste treatment projects; (iv) wastewater treatment projects; and (v) any other eligible projects targeting the production of energy from renewable or sustainable sources and/or improvements in the energy efficiency of the company’s nonfossil fuel operations.

Sustainalytics held conversations with ...management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as the management of proceeds and reporting aspects of the issuer’s green bond framework. Sustainalytics also reviewed relevant public documents and non-public information.

Source: Sustainalytics, 2017

### Hong Kong and China Gas Co. – green bond



#### ■ External Review report by Sustainalytics – extracts:

##### • Opinion Summary

...Green Bond Framework is transparent and robust and aligns with four pillars of the Green Bond Principles 2017.

Some considerations for this assessment include:

- Sustainalytics is of the opinion that, **although Hong Kong and China Gas is a fossil-fuel based company, it has demonstrated an intention to transition away from less-brown fossil-fuel sources (such as natural gas) to a waste-to-energy approach.** In Sustainalytics' view, such a transition could be strengthened by adding quantitative and timebound targets

...Waste Treatment, Waste-To-Energy projects, Wastewater Treatment, along with Renewable Energy and non-fossil-fuel-based Energy Efficiency projects, are recognized by the Green Bond Principles as categories with clear environmental benefits.

...Green Bond Committee, ...senior executive team as well as the Chief Financial Officer, are in charge of the final approval of the eligible projects...Moreover, ...a Green Development Steering Committee ...chaired by the company's Executive Director and Chief Operating Officer...Both of these committees have 'C-level' involvement, which Sustainalytics views as market best practice.

Source: Sustainalytics, 2017

### Starbucks – sustainability bond



- Framework overview:
  - For this sustainability bond, a framework has been created that follows the four key pillars of the Green Bond Principles 2016 and that aligns with the Social Bond Guidance 2016. By issuing this sustainability bond, Starbucks will finance projects in the coffee growing regions that aim to promote socio-economic advancement and environmental sustainability. The following section summarises Starbucks' sustainability bond framework, including the use of proceeds, process for project selection, the management of proceeds, and reporting.
- Source: Sustainalytics March 2017
  
- Starbucks offered the first U.S. Corporate Sustainability Bond in May 2016. The issuance marked the first time a U.S. Corporation offered a Sustainability bond focused on educational and sustainable agricultural initiatives to further diversify the company's investor base. The high interest and success of the initial issuance was a catalyst for the company's first foreign (yen-) denominated issuance of a Sustainability bond.
- Starbucks will publish annual updates of the allocation of the proceeds throughout the term of the sustainability bond until the proceeds have been fully allocated to projects meeting the eligibility criteria. These updates will be reported publicly on the Starbucks website at [www.starbucks.com](http://www.starbucks.com) and may include additional descriptions of select projects funded with sustainability bond proceeds, and, where possible, their environmental and/or social impacts.

Source: Starbucks March 2017

# OUTLOOK



## Outlook of green, social and sustainability bond market

### ■ Growing market demand

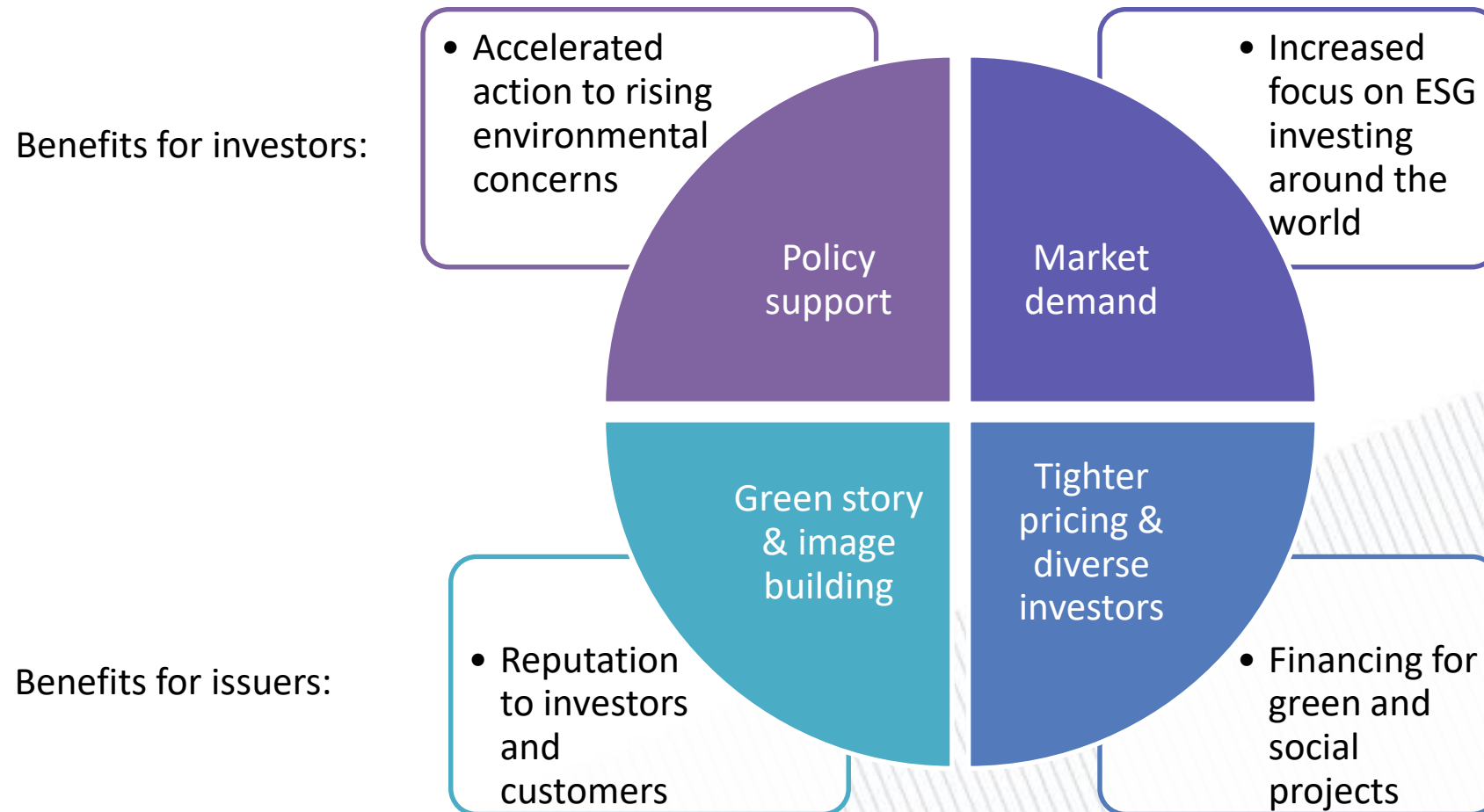
- Number of funds committed to ESG, green and sustainable finance is increasing rapidly
  - Globally: Number of signatories committed to the UN Principles of Responsible Investment increased from 523 with total US\$ 18 trillion in 2009, to over 2,300 with US\$ 86 trillion by March 2019 (Source: UN PRI)
  - US: AUM of sustainable funds tripled from less than USD 30 billion in 2009 to nearly USD 90 billion in 2018 (Source: Morning Star)
- In March 2018, IFC and Amundi launched a US\$1.42 billion fund, the Amundi Planet Emerging Green One, the world's largest green bond fund, to buy green bonds from banks in emerging markets, now traded on the Luxembourg Stock Exchange. IFC invested US\$256 million during 2018 in the fund. (Source: The Asset, Mar 2018)
- The Exchange Fund, managed by the Hong Kong Monetary Authority, with a total asset of over HK\$4 trillion (US\$530 billion), will give priority to green and ESG investment, including further grow its green bond portfolio. (Source: HKMA, May 2019)
- The Network for Greening the Financial System (NGFS), with over 40 central banks and supervisors, also recommended integrating sustainability factors into CB's own-portfolio management in a 2019 report. (Source: A call for action climate change as a source of financial risk, NGFS, Apr 2019)

### ■ Pricing and cost

- Possible pricing tightening driven by market demand
- Cost subsidy in some markets
  - Hong Kong
  - Singapore
  - Chinese local governments and central bank



## Outlook of green, social and sustainability bond market



# CONTACTS



## ▪ ICMA Asia Pacific

- Mushtaq Kapasi: +852 2531 6590 – [Mushtaq.Kapasi@icmagroup.org](mailto:Mushtaq.Kapasi@icmagroup.org)

## ▪ Market Practice and Regulatory Policy

- Green and Social Bonds  
[greenbonds@icmagroup.org](mailto:greenbonds@icmagroup.org)  
[socialbonds@icmagroup.org](mailto:socialbonds@icmagroup.org)  
[sustainabilitybonds@icmagroup.org](mailto:sustainabilitybonds@icmagroup.org)

## ▪ Membership and Communications

- Allan Malvar – Managing Director, Head of Membership, Executive Education and Corporate Communications – [allan.malvar@icmagroup.org](mailto:allan.malvar@icmagroup.org)
- Sanaa Clause – Director, Head of Business Development – [sanaa.clause@icmagroup.org](mailto:sanaa.clause@icmagroup.org)

## ▪ Executive Education

- Marc Granville, Director, Business Development – [marc.granville@icmagroup.org](mailto:marc.granville@icmagroup.org)



# Thank you

Any further questions?