

GREEN BOND HANDBOOK:

A STEP-BY-STEP GUIDE TO ISSUING A GREEN BOND



AN INITIATIVE OF

GB-TAP Green Bond Technical
Assistance Program



IN PARTNERSHIP WITH



GREEN BOND HANDBOOK:

A STEP-BY-STEP GUIDE TO ISSUING A GREEN BOND



Creating Markets, Creating Opportunities

Acknowledgement

The Green Bond Handbook has been developed at the initiative of the International Finance Corporation (IFC) Green Bond Technical Assistance Program (GB-TAP) which aims to stimulate the supply of green bonds in emerging markets by creating and disseminating best practice and knowledge as global public goods. The GB-TAP is a multi-donor program managed by IFC and in partnership with the State Secretariat for Economic Affairs of Switzerland SECO; the Swedish International Development Cooperation Agency, SIDA; and the Ministry of Finance of Luxembourg. The program has two overarching goals: to facilitate capital flows from responsible investors in developed countries into green projects in emerging economies; and to grow markets by stimulating the demand for and supply of green bonds in emerging markets.

About IFC

IFC—a member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2021, IFC committed a record \$31.5 billion to private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity as economies grapple with the impacts of the COVID-19 pandemic. For more information, visit www.ifc.org

© International Finance Corporation 2020. All rights reserved.
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
Internet: www.ifc.org

The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. IFC encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly, and when the reproduction is for educational and non-commercial purposes, without a fee, subject to such attributions and notices as we may reasonably require.

IFC does not guarantee the accuracy, reliability or completeness of the content included in this work, or for the conclusions or judgments described herein, and accepts no responsibility or liability for any omissions or errors (including, without limitation, typographical errors and technical errors) in the content whatsoever or for reliance thereon. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries. The findings, interpretations, and conclusions expressed in this volume do not necessarily reflect the views of the Executive Directors of The World Bank or the governments they represent.

The contents of this work are intended for general informational purposes only and are not intended to constitute legal, securities, or investment advice, an opinion regarding the appropriateness of any investment, or a solicitation of any type. IFC or its affiliates may have an investment in, provide other advice or services to, or otherwise have a financial interest in, certain of the companies and parties (including named herein).

All other queries on rights and licenses, including subsidiary rights, should be addressed to IFC Communications, 2121 Pennsylvania Avenue, N.W., Washington, D.C. 20433.

International Finance Corporation is an international organization established by Articles of Agreement among its member countries, and a member of the World Bank Group. All names, logos and trademarks are the property of IFC and you may not use any of such materials for any purpose without the express written consent of IFC. Additionally, "International Finance Corporation" and "IFC" are registered trademarks of IFC and are protected under international law.

TABLE OF CONTENTS

1. Executive Summary

2. How To Use This Handbook

Part 1 - Background and Theory

1. Why Issue a Green Bond?

- Endorsement of Strategy
- Transitioning the Organisation
- Diversification of Funding
- Anticipating Investor Needs

2. Getting Organised – Internal and External Resources

- Building an internal Green Bond Project Team
- External resources

3. Sequence and Timeline to Market

- Timeline with key milestones

4. Building A Green Bond Framework (GBF)

- What the GBF is and why it is essential
- Step-by-step process
- Timeline

Part 2 - Practice – Designing and Executing a Green Bond

Practice 1: Structuring a Green Bond Aligning the Bond with the Green Bond Principles (GBPs)

Step 1: Use of Proceeds; Finding Eligible Assets (Pillar 1 of GBPs)

- Summary
- Learnings
- Key Next Steps

Step 2: Project Evaluation and Selection (Pillar 2 of GBPs)

- Summary
- Learnings
- Key Next Steps

Step 3: Management of Proceeds (Pillar 3 of GBPs)

- Summary
- Learnings
- Key Next Steps

Step 4: Reporting (Allocation and Impact) (Pillar 4 of GBPs)

- Summary
- Learnings
- Allocation Reporting
- Impact Reporting

Practice 2: Issuing a Green Bond

- 1) Final Checklist
- 2) Marketing and Distribution
- 3) Post-Issuance Obligations

Appendix

Green Bond Principles In Greater Depth

1. EXECUTIVE SUMMARY



The Green Bond Handbook is a step-by-step guide on how to prepare and execute a successful Green Bond issue for Financial Institutions.

Since the market is already well-served by pertinent and timely research, this living document is intended to be a practical guide for potential issuers. The Green Bond Handbook is designed as a tool through which to disseminate Best Practices. The Handbook has been compiled by market practitioners with deep practical experience of working with issuers and investors and will be updated periodically to reflect innovation in practice in the Green Bond market. This Handbook focuses on structuring a Green Bond which is compliant with the International Capital Market Association (ICMA) Green Bond Principles which is adopted by 95% of issuers.



What is a Green Bond?

"Green Bonds are any type of bond instrument where the proceeds or equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects and which are aligned with the four core components of the Green Bond Principles" (ICMA, *Green Bond Principles*, 2021 Edition).

Green Bonds can be issued in different structural formats. There are Green Revenue Bonds, Green Project Bonds and Green Securitised Bonds. But by far the most commonly issued Green Bond is the Standard Green Use of Proceeds Bond, defined by ICMA as 'a standard recourse to the issuer debt obligation aligned with the Green Bond Principles (GBPs).

Throughout the Handbook we will focus on this type of Use of Proceeds Bond ("UoP Bond").

What are the ICMA Green Bond Principles?

It is important to note that the GBPs are not a set of 'rules'. They are a set of 'Voluntary Process Guidelines for Issuing Green Bonds'. As 'guidelines' rather than 'rules' they have allowed the Green Bond market the flexibility to grow while establishing a framework of market integrity around which issuers, underwriters, investors, and other market participants can coalesce.

What Is the Key Difference Between Issuing a UoP Green Bond and an Equivalent Non-Green Bond?

As a 'standard recourse to the issuer debt obligation' a UoP Green Bond can share the same financial characteristics as an equivalent non-Green Bond in terms of seniority, maturity, ratings and interest rate. As such, it can be issued off an issuer's existing documentation platform. The difference is in the 'alignment with the GBPs'. Through a separate document, the Green Bond Framework, an issuer of a UoP Green Bond articulates which assets it will (re)finance with the proceeds of issue, how it will select those assets, how it will manage the proceeds of issue and how it will report on the allocation of funds and the impact of the chosen investments. These additional commitments are structured around the guidelines of the GBPs. However, it is also important to note that non-compliance with any of the commitments articulated in the Green Bond Framework does not constitute a legal default on the part of the borrower (although such action may well cause considerable reputational damage to the issuer). Acts of default will be as defined in the legal documentation of the bond.

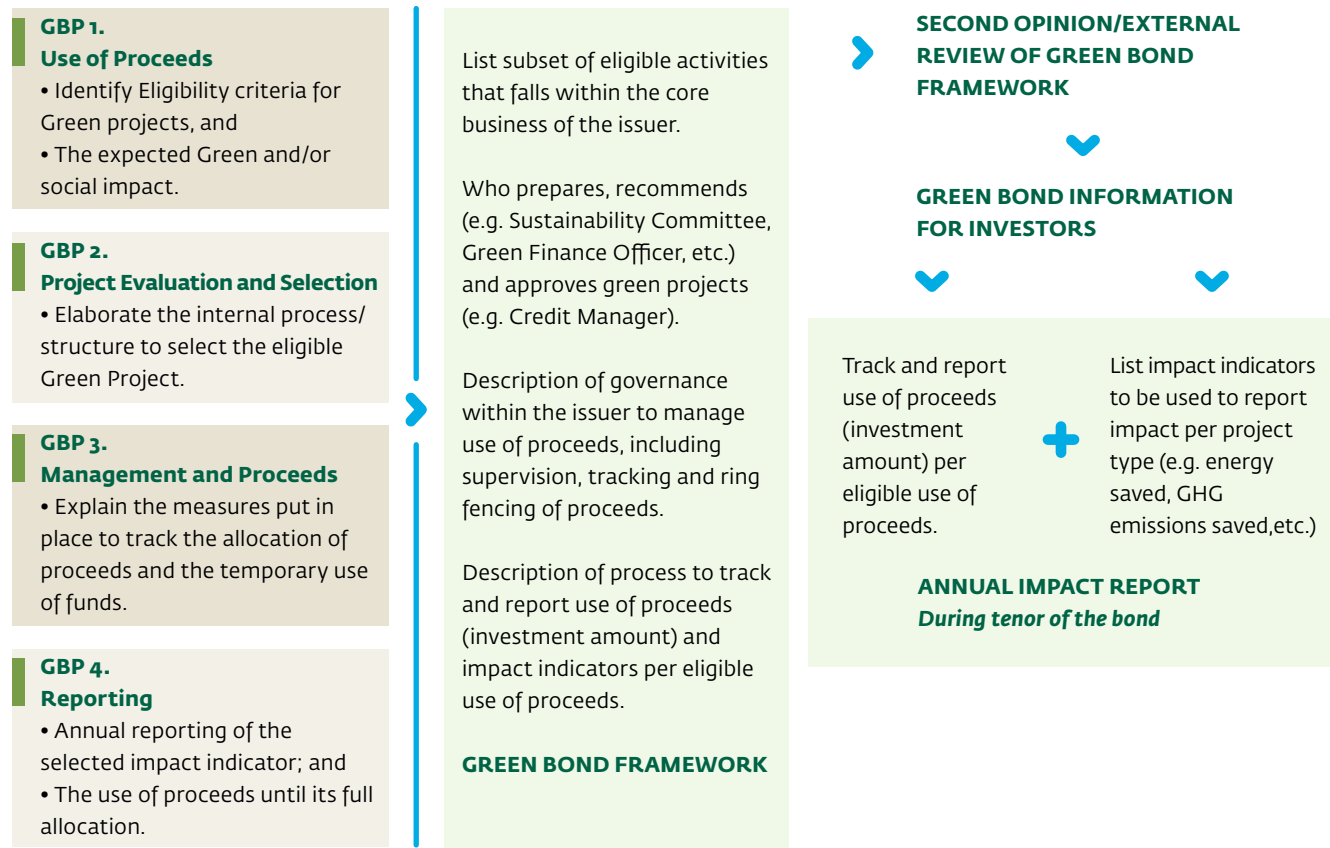
The Green Bond Principles are adopted by

95%

of issuers.

The Process of Issuing a Green Bond

The flow chart below illustrates the key steps in the process of issuing a Green Bond. The Handbook is designed to guide a new issuer through these steps.



The Green Bond Handbook has been developed at the initiative of the International Finance Corporation (IFC) Green Bond Technical Assistance Program (GB-TAP) which aims to stimulate the supply of green bonds in emerging markets by creating and disseminating best practice and knowledge as global public goods.

The GB-TAP is a multi-donor program managed by IFC and in partnership with the State Secretariat for Economic Affairs of Switzerland SECO; the Swedish International Development Cooperation Agency, SIDA; and the Ministry of Finance of Luxembourg.

The program has two overarching goals: to facilitate capital flows from responsible investors in developed countries into green projects in emerging economies; and to grow markets by stimulating the demand for and supply of green bonds in emerging markets.



Green Bonds facilitate capital flows from responsible investors in developed countries into green projects in emerging economies.

2. HOW TO USE THIS HANDBOOK



This Handbook has a simple aim: to guide you, the issuer, in the most practical and straightforward way, towards issuing a successful debut Green Bond. This version of the Handbook has been designed for use by Emerging Market Financial Institutions.



We have divided the Handbook into two sections:

i) Background and Theory; and ii) Practice.

You may think of this process as a journey with a beginning, middle, and an end.

- At the **beginning** of your journey you will need to seek and receive authorisation from your Executive management to proceed with the issue. After all, the issue of a Green Bond is a strategic financing that will change clients' perception of the issuer.
- In the **middle** of your journey, you will need to put in the hard work to get the bank ready organisationally and to structure your bond, particularly through the process of constructing the Green Bond Framework.
- At the **end** of your journey you will design a marketing plan, engage with investors and, all being well, issue a successful Green Bond which has the potential to transform the bank and expand its appeal to include ESG-focused investors.

We have designed the Handbook to help you on this journey. Specifically:

- Each chapter begins with a **Chapter Summary** which gathers the key points you need to know about the subject in question.
- After the Chapter Summary, we present in more depth the **Learnings** that you need to know as an issuer to move forward in your journey; for example, on Asset Selection or Treasury Management. If we think it would be helpful to explore a subject more broadly or from a different perspective, then we have included links to other publications, but our aim is to keep our guidance short and practical.
- At the end of each Chapter, we present a series of **Key Next Steps**. These are focused on the practical steps that you need to take, as an issuer, to move forward to the next stage of your journey. These may be organisational, structuring-related, or concerning the ongoing construction of your Green Bond Framework. Workstreams are suggested along with proposed timelines.

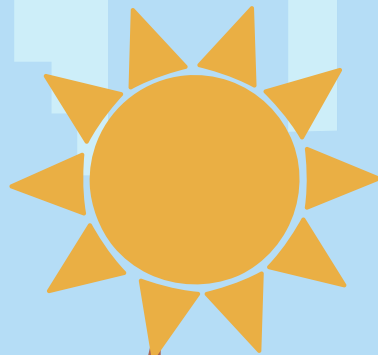
If you follow our chapters, we believe you have all the information you need to build and issue a successful Green Bond.

In the section Key Steps and Timeline to Market we present a schematic of this journey along with a suggested timeline from start to completion.

PART 1 - BACKGROUND AND THEORY



There are multiple positive reasons for an emerging market financial institution to issue a Green Bond.



1. WHY ISSUE A GREEN BOND?



Chapter Summary

We believe there are multiple positive reasons for an emerging market financial institution to issue a Green Bond:

- There is no greater or more visible endorsement of a bank's sustainability strategy than the issue of a Green Bond.
- In issuing a Green Bond, a bank also signals it is increasing its own ESG risk awareness, reorienting its business model, and restructuring its balance sheet.
- An issuing bank has a chance to tap into a dedicated and increasing supply of capital and to diversify and enlarge its investor base.
- Following the issuance of a Green Bond, a bank's investor engagement will typically increase.
- The creation of an internal Green Bond Project Team. heightens awareness of and focus on sustainability issues throughout the bank.
- Green Bonds offer pricing to the issuer that is largely comparable to that of a non-green equivalent bond.
- There is evidence of Green Bonds' superior performance in secondary markets.
- An issuer can achieve greater visibility for its bond by listing it on one of the dedicated green bond sections of a stock exchange.
- Visibility and liquidity can be further enhanced through a bond's inclusion in a Green Bond Index.

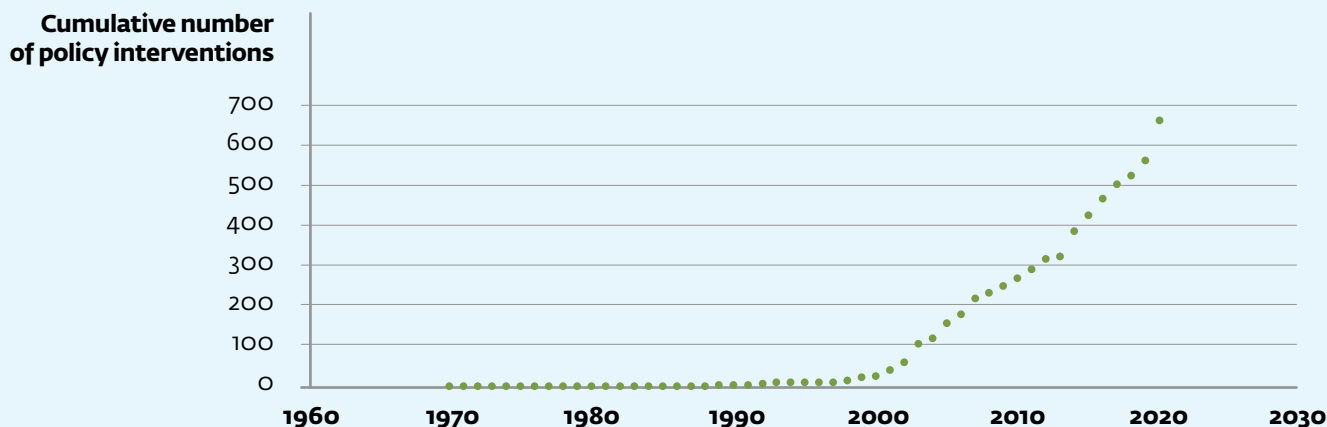
We believe there are many compelling reasons for an emerging market Financial Institution to issue a Green Bond. It is important to note (for reasons we elaborate below) that a Green Bond is a strategic financing which will require the buy-in of the whole organisation, including the CEO and probably the Board. To help prepare the case for issuance to present to the Board, we list some of the principal reasons for a Green Bond issuance below.

Strategy

- **There is no greater or more visible endorsement of a bank's sustainability strategy than the issue of a Green Bond.** It is a visible manifestation of a bank's commitment to its own transition journey and sustainability goals.
- **In issuing a Green Bond, a bank also signals that it is reorienting its business model and restructuring its balance sheet.** In defining the eligibility of assets through the Use of Proceeds criteria, the bank is signalling what type of assets the bank will originate and fund. This will have not just a positive signalling effect upon investors but will also positively change the bank's own internal organisation and business model. Issuers refer to this as the 'transformational' effect of Green Bond issuance.

Investor Considerations

- Before considering investor questions, it is worth trying to put oneself in the shoes of an investor. In March, 2021, The UN Principles for Responsible Investment (UN PRI) noted that in 2020, in terms of global responsible investment policy, over 120 new or revised policy instruments were issued globally. This was a record and a more than 30% increase over 2019.¹



Source: UNPRI

- The majority of these policy initiatives were generated in the EU, but as economic blocs throughout the world pursue their own climate goals, investors – whether dedicated ESG investors or not – are increasingly being required to consider the ESG content and reporting of their own portfolios.
- Investor demand for high quality Green Bonds will increase. The Climate Bonds Initiative (CBI) calculated that US\$ 290 billion of Green Bonds were issued in 2020, a 9% increase over 2019, and that there were \$1 trillion of Green Bonds outstanding at the end of 2020.² **An issuing bank has a chance to tap into this dedicated and increasing supply of capital and to diversify and enlarge its investor base.** All things being equal, a bank's existing investors will buy its Green Bond if the Green Bond's financial features are the same as a non-Green equivalent (typically the case for a Use of Proceeds type bond). Evidence suggests that new 'green' investors with an ESG/Sustainability strategy will also be attracted, although the definition of what constitutes a 'green' investor is still relatively subjective. Initiatives such as the EU Taxonomy Regulation should bring more clarity to this type of definition.
- Following the issuance of a Green Bond, a bank's investor engagement will typically increase.** This was a key finding of the Climate Bonds Initiative's Green Bond Treasurer Survey 2020.³ Banks will now have the opportunity to engage with fixed income investors on climate risk management, sustainability, and transition in addition to credit.

¹ <https://www.unpri.org/pri-blog/regulation-database-update-the-unstoppable-rise-of-ri-policy/7352.article>

² https://www.climatebonds.net/system/tdf/reports/cbi_sd_sotm_2020_o4d.pdf?file=1&type=node&id=5635

³ <https://www.climatebonds.net/files/reports/climate-bonds-gb-treasurer-survey-2020-14042020final.pdf>

Internal Organisation

- In order to successfully issue a Green Bond, a bank will need to form a Project Team drawn from different teams and disciplines across the bank (see our section below *Getting Organised and Coming to Market*). The Project Team may contain, for instance, colleagues from Treasury, Loan Administration, Sustainability, and IT. ***The creation of a Green Bond Project Team heightens awareness of and focus on sustainability issues throughout the bank and enhances team work by getting colleagues across the institution to work together who may never have done so before.***

Cost of Funding

- In primary markets, does a Green Bond price inside a Non-Green Bond with exactly the same features, giving the issuer a pricing advantage? Are investors prepared to pay more for the 'green features' of a bond? A number of studies have been carried out with regard to these topics, although they are difficult to carry out because of sampling inconsistency and a lack of data availability. Most evidence suggests that there is little to no pricing advantage for an issuer as asset owners and investors still respect their fiduciary duty to obtain the optimum return for their own investors. However, there is increasing anecdotal evidence from investors and bank underwriting syndicates that the sheer volume of demand for Green Bonds is pushing pricing inside non-green equivalent bonds. This effect may be accentuated if investors are compelled by regulation to give greater weight to ESG factors within their own portfolio choices. Furthermore, evidence also suggests that primary market pricing is rarely, if ever, worse than a non-green equivalent bond. ***Green Bonds offer the issuer pricing largely comparable to that of a non-green equivalent bond.***
- ***There is evidence of Green Bonds' superior performance in secondary markets.*** Green Bond investors tend to have more of a 'buy and hold' nature and typically hold onto their investments in periods of greater market volatility whilst other investors might be more inclined to trade in and out of their holdings.

Visibility

- An issuer can achieve greater visibility for its bond by listing it in one of the dedicated green bond sections of a stock exchange. In January 2020, Climate Bonds Initiative noted that there were 17 such dedicated sections globally.⁴ An issuer should take advice from its underwriting bank(s) on the choice of exchange for listing as well as taking into account the listing venues used for its previous bond offerings.
- Visibility and liquidity can also be enhanced through a bond's inclusion in a Green Bond Index such as the S&P Green Bond Index or the Barclays MSCI Green Bond Indices. Each index will have its own criteria for a bond's inclusion and a prospective issuing bank should take guidance from its structuring agent / underwriter to ensure the proposed features of the bond meet the criteria of the chosen index.

⁴ <https://www.climatebonds.net/files/reports/climate-bonds-gb-treasurer-survey-2020-14042020final.pdf>

2. GETTING ORGANISED – INTERNAL AND EXTERNAL RESOURCES



Chapter Summary

Internal Resources

- As a Green Bond financing is a strategic financing and contains characteristics over and above those of a standard, non-green equivalent bond – such as pre-determined eligible assets, a process for project evaluation and selection, reporting inter-alia – the structuring process will need to draw upon internal resources outside the usual areas of Treasury and Legal. It is therefore important to put in place a Green Bond Project Team (GBPT).
- We believe that the GBPT should ideally comprise representatives from: Treasury, Sustainability, Loan Administration, Origination, IT, Reporting, Investor Relations, and Legal.

External Resources

- An early appointment should be that of structuring underwriter / structuring agent to work out, with the issuing bank, a timetable to issuance. This should contain milestones at which other external appointments need to be made.
- Other subsequent external appointments made in consultation with the underwriter should be the external reviewer, auditors, reporting consultants.



Internal Resources – The Green Bond Project Team (GBPT)

As previously mentioned, a Green Bond is a strategic financing in that it signals a bank's transition journey and sustainability strategy to the wider world. The process leading up to issuance needs to be carefully managed to make sure that the issue is both a financial and strategic success. **As a Green Bond financing contains characteristics over and above those of a standard, non-green equivalent bond – such as pre-determined eligible assets, a process for project evaluation and selection inter-alia and reporting – the structuring process will need to draw upon internal resources outside the usual areas of Treasury and Legal. It is therefore important, once the decision has been**

taken to proceed with the issuance of a Green Bond, to put in place your Green Bond Project Team (GBPT) (a prototype team may already have been put in place as part of the scoping work in advance of the decision to issue). The creation of such a team, apart from being key to the structuring and launch of a successful Green Bond, has additional benefits in that it adds to internal organisational cohesion around sustainability.

In this section we provide suggestions for which members of the bank should be part of the Green Bond Project Team.

Treasury

We believe that Treasury should take the lead in the GBPT as a Green Bond will share many of the features and processes of a non-green bond and will form part of the bank's overall financing programme. Treasury will also be responsible for the Management of Proceeds of the Green Bond issue – the subject of Pillar 3 of the Green Bond Principles.

Sustainability

The Sustainability Department should be responsible for ensuring that the objectives and mechanics of the Green Bond are aligned with the overall bank Sustainability Strategy. Additionally, the representative from Sustainability can take responsibility for the drafting of the Green Bond Framework in liaison with the bank's chosen underwriter(s)/ structuring agent.

Loan Administration Department (LAD)

LAD – or an equivalent department – is usually the unit responsible for retaining records of the bank's lending portfolio and programmes and the different features, terms, and conditions of loans outstanding. A bank will usually back its initial Green Bond at least partially with assets that are already on balance sheet. The bond will typically be a mix of new and re-financed assets. *As the bank starts to search for eligible assets to include under Pillar 1 (Use of Proceeds) of the Green Bond Principles, LAD will probably be the starting point for such a search.*

Origination / Lending Units / Business Development

The teams involved in the origination of future lending for the bank will have a critical role in ensuring that these assets will be eligible for inclusion in the initial or future Green Bonds. They play a key role in creating a virtuous circle between eligible asset origination and green funding, thereby future proofing the bank's balance sheet and business model. These teams will be responsible for ensuring that a pipeline of eligible assets is built with which to supplement the pool of existing eligible assets that are already on-balance sheet and which can be refinanced within the established 'look back period'. They will probably be part of the Committee that the bank will form under Pillar 2 of the GBPs (Project Evaluation & Selection) and be responsible for bringing newly generated assets to that committee for evaluation on an ongoing basis.

IT

The IT Department will play an important role in finding eligible assets on the bank's systems. Although each bank's systems for logging, detailing, and monitoring the loan portfolio will be different, IT should be an important partner with LAD in retrieving eligible assets. Furthermore, as the bank develops eligible lending products and programmes to fit within the Green Bond Framework – for example, green mortgage loans – IT will be able to devise systems for 'tagging' these new assets so that the bank can quickly retrieve them and finance them with the proceeds of the Green Bond issue.

Reporting

A representative from the teams responsible for the bank's reporting should form part of the GBPT as the bank will have to put in place systems for reporting on Allocation and Impact. Reporting should also be responsible for engaging and liaising with any external auditors who may be required to audit certain processes such as Allocation or Management of Proceeds.

Investor Relations (IR)

IR should be represented on the GBPT to lead the bond marketing process with the bank's underwriters. There will be new dimensions to this process - not least the need to communicate about the GBF, the external review, the characteristics of the Green Bond and how this aligns with the bank's overall Sustainability Strategy. This will be in addition to the usual credit aspects of an investor update. ***On an ongoing basis the IR representative should check that the decisions being taken on the structure of the Green Bond are incorporated within the bank's wider fixed income communication strategy.***

Legal

For a bank that already has an established issuance platform – such as a Medium Term Note (MTN) programme – the additional documentation requirements for a Green Bond are not significant. Typically, a one-page supplement addressing Use of Proceeds is required. ***Legal can therefore be brought in at a relatively late stage to liaise with the bank's underwriter(s) regarding documentation requirements.*** For a bank that has not issued in any format before, Legal should be consulted early on so that a programme or stand-alone documentation can be put in place.



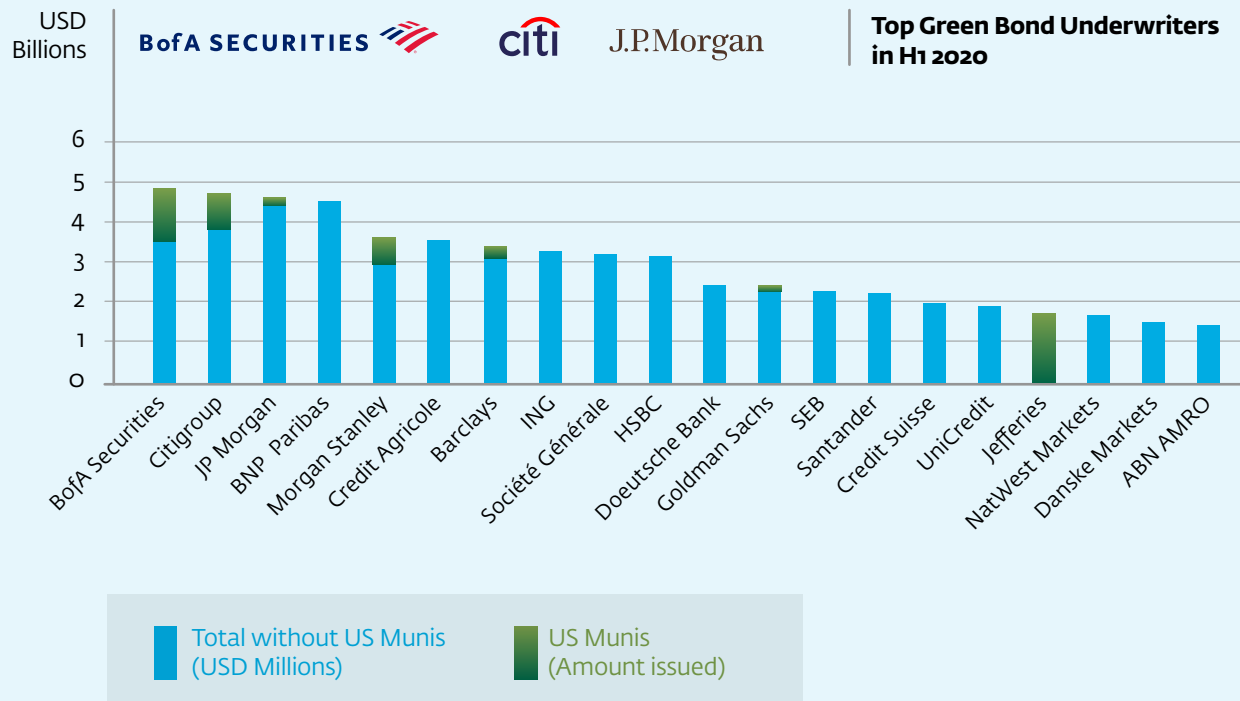
External Resources

Only after the GBPT has been put in place do we recommend that the bank reach out and appoint the necessary external counterparties. Indeed, a key role for the GBPT is to debate and determine which external counterparties should be selected. Below we detail some of the important external counterparties that will need to be engaged:

Underwriter(s) / Structuring Agent

The bank may have a variety of reasons for wanting to appoint an independent structuring agent (e.g. relationship reasons, independence from underwriters). Or, underwriters may be just too busy to become engaged in the structuring process, which typically begins a number of months before issuance. *Nevertheless, at some point, the underwriter(s) will have to become involved because they will have to check that the bond is marketable in its chosen format.* There is no point in structuring a wonderful Green Bond which no investor wants to buy! The bank should therefore make the following considerations in addition to its own ongoing bank relationships:

- ▶ *The selection of the underwriter responsible for structuring should be an early appointment. One of their first tasks should be to work out, with the issuing bank, a timetable to issuance. This should contain milestones at which other external appointments need to be made.* They should be present at periodic meetings / calls at which the structure of the bond is discussed and moved along, making sure that it will be readily welcomed by investors in the chosen market(s) and meets the criteria of any chosen indexes. Other relationship banks can be added later purely for distribution purposes and to reward them if the issuing bank feels the need to do so.
- ▶ *The structuring underwriter should have a clear track record in structuring successful Green Bonds within the market.* Underwriter league tables are available (see below for Climate Bonds Initiative league table at H1 2020 – latest available).



- ▶ **The underwriters should have an up-to-date map of the ESG investor landscape within the chosen markets with a detailed knowledge of individual investor preferences and criteria.** The underwriter responsible for arranging the bank's investor outreach – typically in a series of roadshow meetings in virtual or face to face format, perhaps supplemented by a global call to reach investors who were not part of the roadshow – should be able to put in place meetings that will produce orders from existing and new investors enabling seamless execution, optimum pricing, and investor diversification.
- ▶ **The underwriters should have an excellent knowledge of the landscape of external reviewers and be able to advise on which form of external review is best suited to the bank's objectives.** The majority of external reviews are provided in Second Party Opinion (SPO) format. The underwriters should be able to arrange for the issuing bank to meet with a number of providers.
- ▶ **Finally, the underwriters should guide the issuing bank in the listing of the Green Bond.** The bank may already have an established listing venue, but the underwriter should be able to provide guidance on which venue might be best suited to the purposes of the bank.

External Reviewers

- *As discussed above, the structuring underwriter(s) should provide guidance and assistance in arranging the External Review. The most popular form of External Review is the Second Party Opinion (SPO).* A Climate Bonds Initiative survey of Group Treasurers⁵ found that 85% of External Reviews commissioned were in the form of SPO. Some major providers of SPOs are below:



There are also smaller providers of SPOs which may be present only in local markets. The structuring underwriter should be able to advise whether use of a smaller player would enable sufficient access to investors.

- *The underwriter should be able to guide the issuer on what form of External Review to seek.* The underwriter should know investor preferences in this area. We believe that a well-considered and structured SPO will allow the issuer to reach a greater range of investors, and it is increasingly uncommon for a Green Bond to be issued without any form of External Review. The GBPs do not make obtaining an External Review mandatory, but other frameworks such as the EU Green Bond Standard will make the obtaining and publishing of an External Review mandatory.
- *The issuer, under guidance from the underwriter, should also decide whether it wishes to obtain any supplementary validation of its Green Bond.* A key function of the SPO is to review if the Green Bond is in compliance with the GBPs; however, the issuer may also decide that it wishes to meet the criteria of other reviewers. For example, Certification under the Climate Bonds Standard or compliance with the evolving EU Green Bond Standard. The underwriter might advise that obtaining these extra labels might enable the issuer to reach a wider investor base. However, such decisions around choices on which review to obtain (see Section on Pillar 1 for further discussion) can have resource and cost implications as well as an impact on the size of the pool of eligible assets. For example, some assets eligible for inclusion under the parameters of the GBPs might not be eligible for inclusion under the EU Taxonomy.

⁵ <https://www.climatebonds.net/files/reports/climate-bonds-gb-treasurer-survey-2020-14042020final.pdf>

Auditors

- *The issuing bank should reach out to its auditors to make sure they are in a position to audit or provide some form of attestation for the parts of the process where the issuing bank wants to demonstrate robust best practice.* These may typically be for: Management of Proceeds (Pillar 3) and Allocation Reporting (Pillar 4).

Impact Reporting Consultants

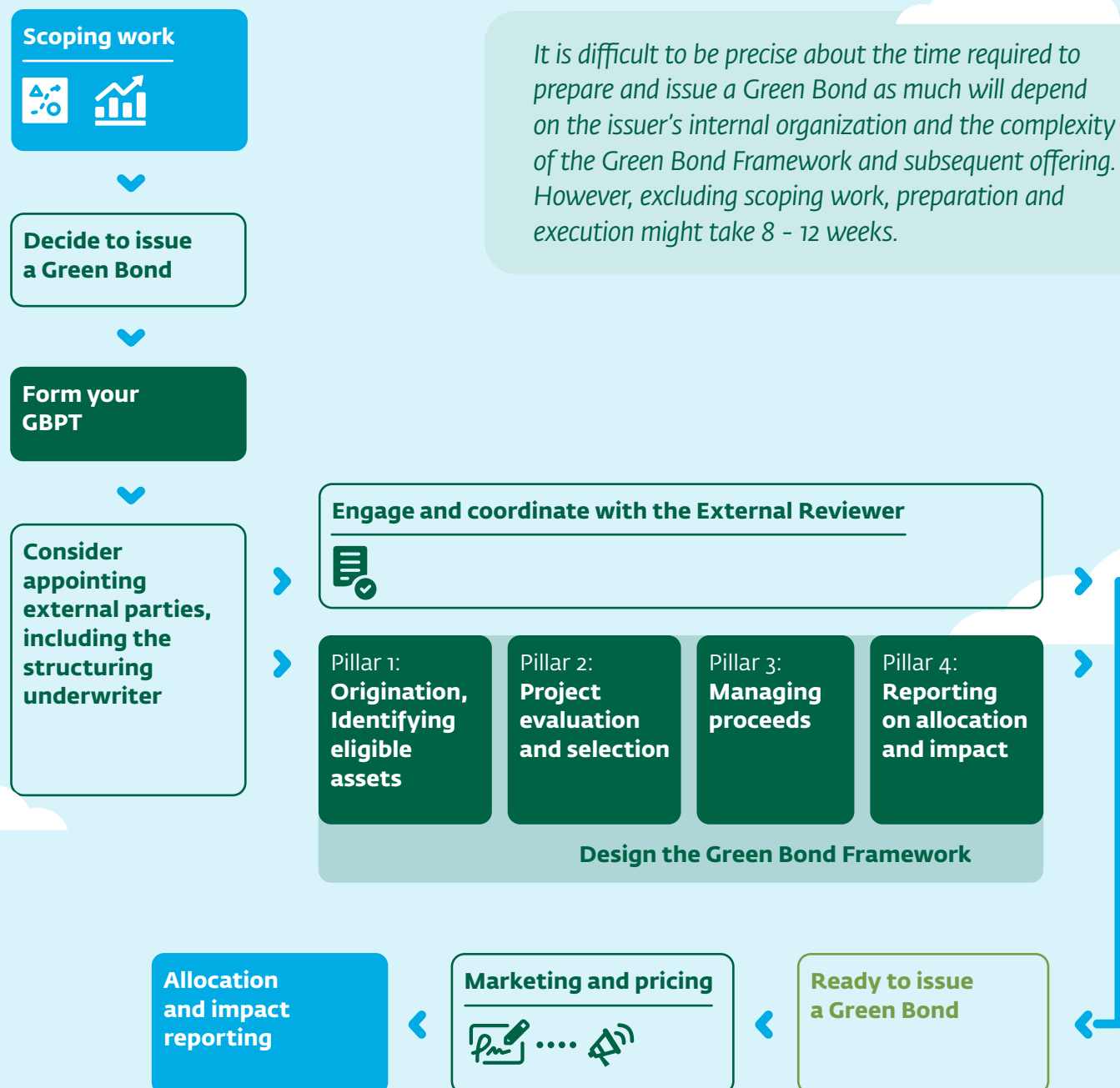
- *Many issuing banks – particularly smaller ones – do not have the internal resources or the expertise necessary to implement impact reporting processes.* In this case, external consultants may be required.



Key Next Steps

- As soon as the decision to issue has been made, put in place the bank's Green Bond Project Team (GBPT)
- The first external appointment made by the GBPT should be that of a structuring underwriter
- With the underwriter, work out a timetable to issuance with key milestones at which points other external appointments should be made, such as:
 - External Reviewers
 - Auditors
 - Reporting Consultants

3. SEQUENCE AND TIMELINE TO MARKET



4. BUILDING A GREEN BOND FRAMEWORK



Chapter Summary

- The Green Bond Framework (GBF) is the document that sets out the 'green' characteristics of the bond to be issued, the processes that the issuer will follow in the evaluation and selection of eligible projects, and the reporting commitments of the issuer towards investors.
- The GBF will usually be structured around the four pillars of the Green Bond Principles (GBPs).
- A key objective of the GBF is to demonstrate that the bonds issued will be in conformity with the GBPs – of critical importance to investors.
- The GBF will also usually begin with a section on the issuer's Sustainability Strategy and how this is linked to the Green Bond issue. Investors increasingly want to understand how the green bond issuance fits within an Issuer's overall Sustainability Strategy. Issuers are also encouraged to disclose any taxonomies, green standards or certifications referenced in project selection.
- The GBF should be a document that allows the issuer the maximum flexibility to issue bonds within certain pre-determined parameters without needing to restructure the GBF on an issue-by-issue basis.
- The GBF will be the key document to be used by an External Reviewer in determining whether the bond to be issued is in compliance with the Green Bond Principles. In publishing its review, the External Reviewer will explicitly declare whether the GBF is in compliance with the GBPs and this is of key interest to investors.
- It is standard practice for issuers to publish their GBF.
- The GBF and the External Review announcing compliance of the GBF with the GBPs are therefore key marketing documents.

The Green Bond Framework (GBF) is the document that underpins every Green Bond issuance. It plays multiple roles in the issuance process:

- **The GBF is the document that sets out the 'green' characteristics of the bond to be issued.** (Financial/legal terms and conditions are not included in the GBF).
- **The GBF will usually be structured around the four pillars of the Green Bond Principles (GBPs):** Pillar 1) Use of Proceeds; Pillar 2) Project Evaluation and Selection; Pillar 3) Management of Proceeds; Pillar 4) Reporting. Therefore in the GBF the issuer is announcing which assets it will use to underpin its Green Bond, the process by which it will select those assets, how it will manage the proceeds and how it will report on the allocation of proceeds and the impact of projects chosen. **A key objective of the GBF is to demonstrate that the bonds issued will be in conformity with the GBPs – of critical importance to investors.**
- **The GBF will also usually begin with a section on the issuer's Sustainability Strategy and how this is linked to the Green Bond issue. Investors increasingly want to understand both the Issuer Strategy and the Issuer Transaction and how these fit together.**
- **The GBF should be a document that allows the issuer the maximum flexibility to issue bonds within certain pre-determined parameters without needing to restructure the GBF on an issue-by-issue basis.** Constant amendments to the GBF can be costly and time consuming. For example, changing Pillar 1 (Use of Proceeds) might necessitate a further appraisal by the External Reviewer to determine that the GBF is still in line with the GBPs.

• **An example of this flexibility would be the creation of a Sustainability Bond Framework. Such a framework would typically allow the borrower to issue either Green, Social or Sustainability (Mixed) Bonds off the same framework platform.** The Framework would set out the parameters for each type of issuance. In such a framework the main differences would be in the Use of Proceeds section which would contain both Green and Social assets.

for each type of issuance. In such a framework the main differences would be in the Use of Proceeds section which would contain both Green and Social assets.

• Issuers may also choose to incorporate other value additive features into their framework such as an assessment of how the eligible assets map to the UN Sustainable Development Goals. ICMA has published a document that sets out such a potential mapping.⁶ See also for instance the BOAD Sustainability Bond Framework published in January 2021.⁷

• **The GBF will be the key document to be used by an External Reviewer in determining whether the bond to be**

issued is in compliance with the Green Bond Principles. In publishing its review, the External Reviewer will explicitly declare whether the GBF is in compliance with the GBPs and this is of key interest to investors.

• The GBF is, therefore, integral to investor decision making. **It is standard practice for issuers to publish their GBF.**

Publication of the GBF is not mandatory under the GBPs although is strongly recommended. (It will be mandatory under the EU Green Bond Standard, for example).

• **The GBF and the External Review announcing compliance of the GBF with the GBPs are therefore important marketing documents.** Most issuers choose to release these documents at the time that they begin their investor marketing and to use or reference them during investor roadshows.



Key Next Steps

It is never too early to start to build your GBF. This should be a living document that is constructed and evolves throughout the bond structuring as assets are identified and chosen and processes are set down and finalised. We therefore recommend the following steps:

- *When you have taken the decision to issue and have formed your Green Bond Project Team (GBPT), identify a team member - ideally situated within the Sustainability Department - to take ownership of the GBF design process.*
- › *Initiate the writing of the GBF (probably in partnership with and under guidance from the bank's underwriters / structuring agent). It is always useful to also consider peer frameworks for examples of latest best practice. Leading underwriters should be aware of these.*
- › *Bring the GBF to completion or at least to the point where a solid draft is ready to be shared with the External Reviewer. Initial feedback from the External Reviewer may allow the issuer to make changes that will ensure compliance with the GBPs.*
- › *Reflect the ongoing findings and decisions of the GBPT in the GBF.*
- › *Manage completion and release of the GBF once finalised and the external review process is completed and in line with marketing strategy.*
- › *Hold regular meetings / calls with the underwriters / structuring agent to move the formulation of the GBF along and to ensure compliance with the GBPs.*

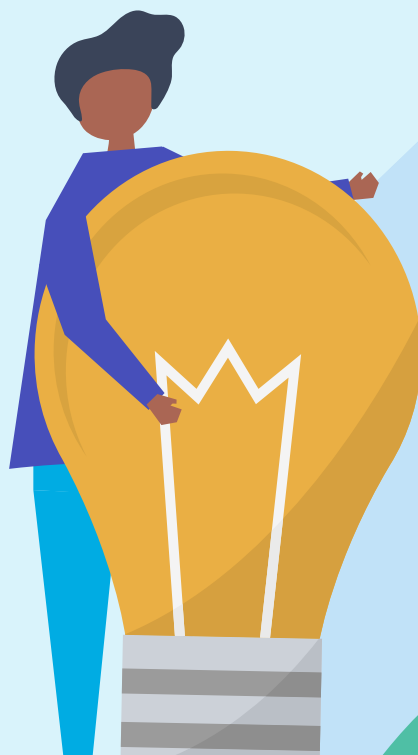
⁶ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Mapping-SDGs-to-Green-Social-and-Sustainability-Bonds-2020-June-2020-090620.pdf>

⁷ <https://www.boad.org/en/sustainability-bond-framework/>

PART 2 - PRACTICE - DESIGNING AND EXECUTING A GREEN BOND



Finding eligible assets is the starting point and cornerstone of any successful Green Bond issue.



PRACTICE 1 – STRUCTURING A GREEN BOND

Please see Annex 1 'Green Bond Principles In Greater Depth' for more detail of the GBPs. In the first part of this section, we deal with the practical steps necessary to **structure** a Green Bond to be compliant with the GBPs. In the second part we deal with the steps to **issue** the Green Bond.

STEP 1 | Use of Proceeds; Finding Eligible Assets (Pillar 1 of GBPs)



Chapter Summary

Pillar 1 – Use of Proceeds

- For the identification of assets already on balance sheet, the issuing bank should draw on the internal expertise and resources within its Green Bond Project Team (GBPT).
- There is no rule on the maximum look back period but market preference is probably 3-5 years (although there have been issues with a longer look back period). The issuer therefore needs to screen its eligible assets to determine which sit within or without the parameters of the look back period.
- The issuer should have good visibility on its future lending programmes and opportunities.
- A typical balance between existing and future assets might be in the region of 50/50. A bond backed 100% by existing assets might be questioned in the market because it lacks 'additionality'.
- It is important to have a buffer of eligible assets over and above the face amount of the outstanding bond(s). This is because assets which are included in the bond at issuance may mature naturally or become ineligible for other reasons and 'drop out' of the bond. Such assets can then be replaced by assets from within the buffer.
- It is not uncommon to see a clause in a GBF in which the issuer commits to invest all proceeds in eligible assets within a period of 12 months from issuance. This is because investors do not want to see their investment sitting inactive in cash.
- An issuer should not select assets that it will not be able to report on during its Impact Reporting (under Pillar 4).

Finding eligible assets is the starting point and cornerstone of any successful Green Bond issue. You should think of a Green Bond issuance as a straight through process from: i) originating and finding eligible assets (Pillar 1) through; ii) establishing internal processes for the selection of those assets and the management of proceeds (Pillars 2&3) through; reporting on the allocation of the funds raised and impact of those assets (Pillar 4). With regard to impact reporting, it is important to note that this is not mandatory under the GBPs. However, it is more and more expected by investors and is becoming a key success factor in the issuance of a successful Green Bond. **So an important early consideration is to not include any assets in Pillar 1 which you will not be able to report on.**

Below are the broad categories of assets eligible under Pillar 1 of the GBPs:



- Renewable energy
- Energy efficiency (green buildings)
- Pollution prevention and control
- Environmentally sustainable management of living natural resources and land use
- Terrestrial and aquatic biodiversity conservation
- Clean transportation
- Sustainable water and wastewater management
- Climate change adaptation
- Eco-efficient and/or circular economy adapted products, production technologies and processes

It is important to remember that the GBPs do not provide any key performance criteria or technical screening criteria for these asset groups. By that we mean quantitative performance thresholds applied to the assets which will be monitored and reported by the issuer and ultimately evaluated by investors. Other taxonomies – such as the Climate Bonds Initiative Taxonomy or the EU taxonomy – provide a detailed list of such criteria according to asset class / project. CBI has also supplemented its Taxonomy with a list of dedicated Sector Eligibility Criteria Documents which provide specific eligibility requirements by sector. Nominated assets and projects must meet these specific sectoral criteria if the bond is to achieve CBI Certification.

This Handbook focuses on structuring a Green Bond which is compliant with the ICMA Green Bond Principles. However, it may be that for other reasons an issuer is also targeting certification from another body – such as the Climate Bonds Initiative or under the emergent EU Green Bond Standard. Therefore, as a practical consideration, if the issuing bank is targeting certification under these schemes then it should take the criteria of these different bodies into account when setting out to find eligible assets already on its balance sheet or to be generated in future lending programmes. These criteria might have a meaningful impact upon the amount of eligible assets available to the issuer. The structuring underwriter or agent should be able to provide guidance on what sort of criteria / standards will generate an appropriate level of interest from investors. But from this point onwards we will assume that the issuing bank aims to be compliant with the GBPs only.

Case Study – Energy Bank



For this hypothetical example, we will take a hypothetical bank, Energy Bank, which has assets related to Renewable Energy (Solar) and Energy Efficiency (Green Buildings). It has decided that these asset types are likely to form the Use of Proceeds (UoP) section (Pillar 1) of its Green Bond Framework. The bank now needs to set about finding those assets that are already on balance sheet and determining that there are enough assets in the pipeline to create a successful debut issue. Based on initial estimates of asset pool size, the lead underwriter has advised Energy Bank that it should aim to make a liquid, benchmark sized issue of \$500mn with a 5-year maturity comprising both existing and future assets because this will attract maximum investor attention. Here we present a series of practical steps:

Step 1

For the identification of assets already on balance sheet, Energy Bank should draw on the internal resources within its Green Bond Project Team (GBPT). For example, Loan Administration should hold records of the terms and conditions of existing lending programmes (e.g. green mortgages that observe a certain level of energy performance) or one-off project type lending (e.g. solar power installations). IT may have a key role in going into the bank's internal systems to find and identify suitable assets, particularly important if the bank has undergone a series of mergers where different IT systems have had to be bolted together; Sustainability Dept would have a role in determining whether the assets meet the pre-determined criteria. Treasury should also be involved to report on how these assets are being funded currently and how this aligns with the new financing to be raised under the Green Bond. In summary, the bank needs to assemble a team with sufficient expertise and knowledge of the bank's programmes and systems to be able to conduct an 'audit' of existing assets to determine the amount of potentially available eligible assets.

Step 2

Another consideration when selecting assets already on balance sheet is what is known as the 'look back period'. The look back period is the maximum age of the assets that can be used in the issuer's Green Bond. The look back period will also be specified in the issuer's GBF. There is no rule on the maximum look back period but market preference is probably 3–5 years (although there have been issues with a longer look back period). Energy Bank therefore needs to screen its eligible assets to determine which sit within or without the parameters of the look back period.

Step 3

Energy Bank also needs to have good visibility on its future lending programmes and opportunities. From within the GBPT, the **Origination / Lending** teams should be able to provide valuable information on future business flows and the creation of eligible assets. Are there likely to be upcoming opportunities in renewable energy lending? What opportunities are there to lend into commercial real estate projects which match the pre-determined eligibility criteria (such as a certain level of LEED or BREEAM certification)? What are the likely future flows of eligible green mortgages?

Step 4

It is important to achieve an optimum balance between existing and future assets for the following reasons:

- Investors typically want to see a balance between existing or refinancing and future assets. This is because they value 'additionality', the knowledge that their investment will finance future assets that contribute to the green agenda. Refinancing will not as such add to greening the economy because the investment has already been made. **A typical balance between existing and future assets might be in the region of 50/50. A bond backed 100% by existing assets might be questioned in the market.**
- **It is important to have a buffer of eligible assets over and above the face amount of the outstanding bond(s). This is because assets which are included in the bond at issuance may mature naturally or become ineligible for other reasons and 'drop out' of the bond.** These assets will then need to be replaced with other eligible assets. A comfortable buffer of available eligible assets / amounts outstanding might be 2x. Therefore in our hypothetical example of a \$500mn debut issue a comfortable amount of existing and future assets for Energy Bank would be \$1000mn. The GBF should also state the maximum time period within which any maturing assets will be replaced by fresh eligible assets (for example, six months).
- **It is important to have clear visibility on the future pipeline of eligible assets.** In our example of Energy Bank's \$500mn bond to be financed 50/50 by existing/future assets, it is important to know that the future assets will become readily available within the near term. As part of the GBF, Energy Bank will specify what are the short-term liquid assets to which proceeds may be allocated pending allocation to eligible assets – typically cash, government bonds, commercial paper (this is the subject of Pillar 3 – see later). Upon receipt of the full \$500mn of Green Bond proceeds, Energy Bank's Treasury will therefore allocate \$250mn to existing eligible assets and \$250mn to short-term liquid assets. But investors typically do not want to see their investment held in cash for a long period of time. They want to see it put to work in eligible assets. **Therefore it is not uncommon to see a clause in a GBF in which the issuer commits to invest all proceeds in eligible assets within a period of 12 months from issuance.**

Step 5

It is important to think ahead to the reporting required under Pillar 4 – particularly Impact Reporting. At this early-stage Energy Bank should draw on the Reporting resources available within the GBPT to engage specialised external resources where necessary to develop the Impact Reporting Framework.

**Key Next Steps****Pillar 1 – Use of Proceeds**

- Assemble the GBPT and create a sub-team and launch a project within the team to find eligible assets already on balance sheet that match the bank's chosen asset classes. The sub-team should ideally comprise Loan Administration, Origination and IT at a minimum but its composition will vary according to the operational workings and structure of each bank. The sub-team should report back to the GBPT periodically on progress. Set a timeline of, say, one month in which to complete the project.
- Ask the Reporting function whether it is adequately equipped to provide Impact Reporting on the selected asset types and if not, engage external consultants.
- Ask the Origination / Lending teams to produce a detailed pipeline of eligible assets divided into one year 'buckets'.
- Based on the findings of the teams, determine the 'look back period' for eligible assets and also the maximum period before which cash proceeds of issue need to be invested in eligible assets.
- Start to draft the Use of Proceeds (Pillar 1) section of the Green Bond Framework and circulate within the GBPT and to structuring underwriters as appropriate.

STEP 2 | Project Evaluation and Selection (Pillar 2 of GBPs)



Chapter Summary

Pillar 2 – Project Evaluation and Selection

- The major recommendation under Pillar 2 of the GBPs is that the issuer should set out the process by which they evaluate and select the individual assets within the green project categories identified in Pillar 1.
- The issuer should set up a committee, or a series of committees, to establish and manage the process for Project Evaluation and Selection.
- Each issuer can determine its own committee structure and process according to its own organisational and governance structure.
- The composition of each committee along with its roles and required actions should be detailed along with the frequency of the evaluation process.
- Issuers are 'encouraged' by the GBPs to describe how the selected projects fit within the issuer's wider sustainability strategy, goals, and objectives.

The major recommendation under Pillar 2 of the GBPs is that the issuer should set out the process by which they will ensure that the assets they select to back the Green Bond will match the eligibility criteria established in Pillar 1.

The key steps to take in this section and to document in your Green Bond Framework are the following:

- **The issuer should set up a committee, or a series of committees, to establish and manage the process for Project Evaluation and Selection.** There is no one model for this committee structure and process but the important point is that it should be credible and transparent to investors. A suitable, hypothetical committee structure and process might be the following:
 - An **Asset Selection Committee**, comprising members of Loan Administration (existing assets), Origination (new assets) and Sustainability gather together a portfolio of assets that they believe match the eligibility criteria established under Pillar 1. They take the portfolio of assets to....
 -a **Green Bond Committee**, comprising other members of the GBPT particularly Treasury, other relevant, independent members of the bank and possibly some external, independent counterparties, who check the assets against the eligibility criteria and either accept or reject the individual assets. For issuers who are subsidiaries of a larger bank (particularly one with its own GBF or where the subsidiary is issuing off the parent bank GBF platform), the parent bank would probably choose to be involved at this stage. The Green Bond Committee may then take the assets to....

- ▶ a **Climate Finance Committee**, specially constituted for this purpose and comprising senior individuals familiar with both the GBF and the bank's sustainability strategy, for final checking and sign off.

Each bank can determine its own committee structure and process according to its own organisational and governance structure. Additionally, if the bank is a subsidiary of a parent that already has a GBF in place then the subsidiary might also incorporate its parent into this process. The composition of each committee along with its roles and required actions should be detailed along with the frequency of this process – perhaps every 3 or 6 months.

Pillar 2 also states that the issuer should 'clearly communicate to investors':

- *The environmental sustainability objectives of the eligible Green Projects and;*
- ▶ *Provide information, if relevant, on the alignment of projects with official or market-based taxonomies, related eligibility criteria, including if applicable, exclusion criteria; and also disclose any green standards or certifications referenced in project selection.*
- ▶ *Have a process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s). Such mitigants may include clear and relevant trade-off analysis undertaken and monitoring required where the issuer assesses the potential risks to be meaningful.*

Issuers are also 'encouraged' to describe how the projects selected fit within the issuer's wider sustainability strategy, goals, and objectives. As previously stated, ESG investors are interested in both the transaction and the strategy of the issuer.



Key Next Steps

Pillar 2

- Within the GBPT establish a sub-group to drive forward Pillar 2 requirements. This sub-group could be led by Sustainability with representation from Investor Relations, Reporting and access to the parent bank (where applicable). The sub-group should initiate and perform the following tasks over the course of one month:
 - ▶ Design a committee structure [the governance] that suits the bank and will provide clear and transparent reassurance on project evaluation and selection to investors.
 - ▶ Review and report on any social impacts associated with the chosen environmental projects (this will be an ongoing task).
 - ▶ Determine how often the committees will meet to evaluate and select assets.
 - ▶ Prepare a section for the GBF on how the chosen projects fit into the wider sustainability strategy of the bank (IR).
 - ▶ Take advice from the structuring underwriter on whether an audit of the process would be beneficial.
 - ▶ Start to draft the Pillar 2 section of the GBF, building out from the work undertaken on Pillar 1.

STEP 3 | Management of Proceeds (Pillar 3 of GBPs)



Chapter Summary

Pillar 3 – Management of Proceeds

- Pillar 3 addresses how the issuer manages the proceeds of issue, once received, and how this process is communicated transparently to investors.
- Pillar 3 and the management of proceeds is clearly an area to be managed by the Treasury function within the issuer.
- Investors want clear proof that their money has not been used to fund other, non-green projects which do not form part of the Pillar 1 'Use of Proceeds'.
- The GBPs recommend that issuers obtain external validation of their Pillar 3 process from an external body, such as an auditor. This practice has become increasingly widespread.
- The issuer should declare in the GBF what forms of temporary investment will be permitted until the full proceeds of issue can be deployed in eligible assets.
- Most issuers commit to holding the unallocated proceeds either in cash, government bonds, or other highly liquid short-term assets.

Pillar 3 addresses how the issuer manages the proceeds of issue, once received, and how this process is communicated transparently to investors. The GBPs state:



"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."⁸

Pillar 3 and the management of proceeds is clearly an area to be managed by the Treasury function within the issuer. The wording of the GBPs in this context recognise that the Treasuries within different issuers will have different ways of managing and tracking cash. If creating a sub-account or a sub-portfolio is administratively burdensome for an issuer then the wording 'or otherwise tracked by the issuer in an appropriate manner...' offers sufficient flexibility for each issuer to manage the proceeds in whichever way it chooses provided that the system chosen is robust and transparent to investors. **Investors want clear proof that their money has not been used to fund other, non-green projects which do not form part of the Pillar 1 'Use of Proceeds'.** This is the critical thing.

⁸ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Green-Bonds-Principles-June-2018-270520.pdf>

Other components of Pillar 3 are the following:

- The proceeds of Green Bond issuance can either be managed on a bond-by-bond basis or on an aggregated basis if there is more than one Green Bond in issue.
- **The GBPs recommend that issuers obtain external validation of their Pillar 3 process from an external body, such as an auditor. This practice has become increasingly widespread.**
- **The issuer should declare in the GBF what forms of temporary investment will be permitted until the full proceeds of issue can be deployed in eligible assets.** In our hypothetical Energy Bank example above, where Energy Bank issues a \$500m Green Bond to be backed 50/50 by existing and future assets, Energy Bank will be able to immediately allocate \$250m to assets already on balance sheet but will have \$250m of cash which it will only be able to allocate to future eligible assets once these have been originated. Therefore the issuer needs to make clear to investors which temporary investments will be permitted pending allocation. **Most issuers commit to holding the unallocated proceeds either in cash, government bonds or other highly liquid short terms assets such as commercial paper.** Some issuers also commit to only invest in instruments carrying an ESG rating of a certain standard. This reassures investors that their funding will not be deployed in non-green projects pending allocation to eligible assets.



Key Next Steps

Pillar 3

- Within the GBPT, Treasury should take the lead in the following tasks:
 - Discuss and design a system for tracking, monitoring, and ultimately reporting on management of proceeds that works for the bank's own systems and accounting providing that this is robust and transparent to investors
 - Determine which types of investment will be eligible as temporary investments pending allocation of proceeds to projects under Pillar 1
 - With Reporting, approach auditors to provide an attestation of the robustness of the Management of Proceeds process
- Set a timeline of one month in which to complete this process
- Start to draft the Pillar 3 section of the GBF, building upon the work undertaken on Pillars 1&2

STEP 4 | Reporting (Allocation and Impact) (Pillar 4 of GBPs)



Chapter Summary

Pillar 4 – Reporting (Impact and Allocation)

- Pillar 4 provides recommendations on how issuers should report to investors in the two key areas of i) Allocation and ii) Impact

Allocation Reporting

- Allocation Reporting is concerned with the reporting by issuers to investors of the projects which have been financed with the proceeds of the Green Bond(s).
- The GBPs recommend that the Allocation Report should be compiled and published annually until all proceeds of the bond have been allocated to eligible projects.
- It is common practice for issuers to obtain verification of their Allocation Report, particularly when all proceeds have been allocated.

Impact Reporting

- Impact reporting is concerned with communicating to investors the expected and/or achieved environmental impact of the projects financed by the Green Bond.
- The impact report should illustrate the expected and/or achieved environmental impact as a result of projects to which green bond proceeds have been allocated.
- Issuers should refer to and adopt, where possible, the guidance and impact reporting templates provided in the **Harmonised Framework for Impact Reporting**. [GBPs 2021]

Pillar 4 provides recommendations on how issuers should report to investors in the two key areas of i) Allocation and ii) Impact. We will therefore divide this chapter between Allocation and Impact Reporting.

Allocation Reporting

Allocation Reporting is concerned with the reporting by issuers to investors of the projects which have been financed with the proceeds of the Green Bond(s).

The GBPs recommend that the Allocation Report should be compiled and published annually until all proceeds of the bond have been allocated to eligible projects. (The issuer should also 'make, and keep, readily available up to date information on the use of proceeds to be renewed annually' and 'on a timely basis in case of material developments' [GBPs 2021]). The Report should contain:

- A list of the projects to which proceeds have been allocated.
- A description of the projects.
- The amounts allocated.

Impact Reporting

Impact reporting is concerned with communicating to investors the expected and/or achieved environmental impact of the projects financed by the Green Bond.

The GBPs state: *'The annual issuer report should include a list of the projects to which Green Bond proceeds have been allocated, as well as a brief description of the projects, the amounts allocated, and their expected impact;'* therefore, impact reporting is strongly recommended and high on investor agendas as they wish to know the funding they provide will have a positive environmental impact. It is also increasingly the focus of regulatory initiatives such as TCFD, the EU non-financial disclosure regime, etc.

Measuring environmental impact is an evolving science that lacks standardisation, although much work is taking place to achieve standardisation. In this context and also given that the GBPs' list of 'approved' eligible asset categories does not contain the quantitative technical criteria of other taxonomies such as that of the EU, there is a certain amount of latitude afforded to the issuer. The GBPs state that:



"The GBPs recommend the use of qualitative performance indicators and, where feasible, quantitative performance measures and disclosure of the underlying methodology and/or assumptions used in the quantitative determination."

What does this mean?

This means that:

- *The impact report should illustrate the expected environmental impact made possible as a result of projects to which green bond proceeds have been allocated.*
- *The expected environmental impacts should be based on ex-ante estimates of the impact of a project once it has been established.*
- If for any reason the issuer cannot report on a project by project basis then a portfolio basis is acceptable.
- *The choice of methodology underlying these estimates is for the issuer to decide but must be made transparent in the report.*
- If issuers decide to undertake ex-post analysis of actual achieved impacts then it is recommended that these are included in the report. However, it is accepted that – even given best endeavours – achieved impacts may differ from expected impacts.

Impact Reporting is a complex, evolving area. ICMA first published a handbook entitled Harmonised Framework For Impact Reporting⁹ in 2015. This has been periodically updated, the last time being in June, 2021. This handbook sets out the core principles for effective Impact Reporting but also provides guidance and suggested reporting metrics by sector. Individual Working Groups within the ICMA establishment have worked over the years to develop these reporting metrics and sectors now covered are the following:



- Renewable Energy
- Energy Efficiency
- Sustainable Water and Wastewater Management
- Waste Management and Resource Efficiency
- Clean Transportation
- Green Buildings
- Biodiversity
- Climate Change Adaptation
- Circular Economy and/or Eco-Efficient Projects

We recognise that assets from these sectors provide the foundations for many Green Bonds. The GBPs recommend the ICMA handbook as a starting point for the establishment of the Impact Reporting process. ('Issuers should refer to and adopt, where possible, the guidance and impact reporting templates provided in the Harmonised Framework for Impact Reporting' [GBPs 2021]). Furthermore, under each sector, the handbook provides a template which suggests the format under which an issuer might produce its report.

This handbook also provides guidance and suggested reporting metrics by sector.



⁹ <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Handbook-Harmonised-Framework-for-Impact-Reporting-June-2021-100621.pdf>



Key Next Steps

Pillar 4

Allocation Reporting

- The Reporting team member within the GBPT should be tasked with designing and implementing a system for Allocation Reporting, which should be done in conjunction with Treasury, which is responsible for monitoring the flow of funds from the Green Bond issue.
- Set a time limit of one month for this sub-project.

Impact Reporting

- It is acknowledged that the reporting of project related environmental impacts is often not part of the core competencies of a bank. Therefore the bank should assess at an early stage whether sufficient expertise and/or relevant data is available in-house or whether the bank should seek external input.

Once this decision has been taken the Reporting team member of the GBPT should:

- Consider the asset categories that are going to underpin Pillar 1 of the Green Bond and determine what metrics can be used to provide the ex-ante estimates of impact.
- Reference should be made to the ICMA Handbook on Harmonised Framework for Impact Reporting.
- Using the ICMA templates devise a framework for impact reporting.
- Start to draft the Pillar 4 section of the GBF, building out from the work undertaken on Pillars 1, 2, & 3.

PRACTICE 2 – ISSUING A GREEN BOND

Having put in place your internal Green Bond Project Team, made your external appointments and structured your Green Bond Framework you are now ready to move to issuance of your Green Bond. We therefore divide this section between **Final Checklist, Marketing and Distribution, and Post-Issuance Obligations**.



1) Final Checklist

At this point in the process the lead underwriter has a critical role in guiding the issuer through the final stages of the process. Before moving to marketing and distribution the following should be checked off:

- Check that the GBF is fully completed to the satisfaction of the issuer and that the underwriter(s) believe that its terms will be attractive to investors. Check that it is ready to be posted on the issuer's website and shared with investors and stakeholders in the wider world.
- Check that the Second Party Opinion (SPO) is ready and confirms compliance with the Green Bond Principles.
- Check that all the appropriate legal documentation is in place. This will depend upon the market and currency of choice and whether it is a public issue or private placement. The Legal Team of the underwriter should work closely with the Legal Team of the issuer to put documentation in place. As described earlier, the documentation process should be largely the same as for a non-Green Bond equivalent issue apart from the addition of a one page memorandum describing Use of Proceeds.
- Check that appropriate decisions have been taken on the financial characteristics of the bond: maturity; seniority; rating. For senior 'use of proceeds' bonds the rating should be the same as a non-Green Bond equivalent but, as is usual with rating agency practice, the rating agency(ies) of choice will have to formally assign their rating. The underwriter should be able to help to manage this process.
- Check that decisions have been taken on listing the bond. As described above, there are now 17 stock exchanges that have designated Green Bond listing spaces. Discuss with the underwriter which exchange best suits the liquidity and visibility objectives of the bank. The underwriter should then manage the listing of the bond.



2) Marketing and Distribution

After all the preparations in the middle of the Green Bond journey this is the moment when the underwriter needs to show their skill in execution. The issuer will have a number of key priorities, amongst which will most likely be:

- To achieve a seamless execution in a period without market disruption.
- To achieve the most cost-effective pricing.
- To start to build a Green Bond curve (if multiple issuances are anticipated).
- To achieve widespread investor interest through a well targeted marketing process.
- To diversify the issuer's investor base, adding new ESG investors.

With these aims in mind, the issuer should address the following with the underwriter:

- The underwriter should use its market knowledge to propose an execution window where the market of choice is open to the credit standing of the issuer and investors are open to new proposals. As with any bond issue, the issuer should propose a window where the market is generally robust, will not be subject to public holidays or extended holiday periods, is not potentially vulnerable to uncertain economic announcements and is as free as possible from competing supply. The issuer will want to avoid a situation where a bond issue, once announced, has to be withdrawn. This is potentially damaging to reputation and standing.
- Before arranging a series of investor meetings, the issuer and underwriter should decide on one of the following two options:
 - A deal specific roadshow: which takes place after the announcement of the intention to issue the Green Bond.
 - A non-deal roadshow: this takes the form of a general presentation of the credit and ESG credentials of the issuer but without announcing a specific transaction. This format allows the issuer to present itself to investors without having pre-committed to a transaction. Based on the general feedback from investors, the underwriter and issuer can then decide whether to follow up and move ahead with a transaction.

- Whichever of the options above is taken, the underwriter should be able to propose and put together a roadshow / series of meetings (in virtual or face to face format) with key investors in the market that is being targeted by the issuer. The issuer will want to access new ESG investors and a good underwriter will know this landscape and be able to deliver meetings.
- The underwriter may also propose a 'global call' to attract investors who could not be part of the targeted roadshow. This may also attract non-ESG or existing investors who are solely interested in a credit update on the issuer.
- Once a live transaction is announced to the market, the issuer can then meet with investors to present the proposed terms of the bond. It can also take the opportunity to present its Green Bond Framework and Second Party Opinion to investors and to post these on its website.
- The underwriter should work with the issuer to put together a concise investor presentation. The presentation should focus on three key aspects:
 - The issuer's overall ESG strategy: investors are focused not just on the transaction but on the issuer strategy and how the bond fits into this.
 - The transaction: a description of the Green Bond. This can most effectively be done by following the format of the Green Bond Principles. The financial characteristics of the bond should also be addressed.
 - An overall credit review of the issuer: new investors will probably welcome this more than existing investors who may be more up to date with the issuer's credit. However, an update on a new set of results or a rating change, for example, may be of interest to both new and existing investors. Ultimately this is a section that can be addressed if an investor requests it.
- Once the issuer and underwriter are satisfied that sufficient demand has been built and that a solid book has been built, the bond can be priced and distributed to investors.



Congratulations – you have successfully issued your debut green bond!



3) Post-Issuance Obligations

The issuer's primary obligations going forward post-issuance are to implement the systems devised for Allocation and Impact Reporting.

Please refer to section above Step 4: Reporting (Allocation and Impact) (Pillar 4 of GBPs).



Conclusions

Earlier in this Handbook, we described the process of issuing a Green Bond as being similar to embarking on a journey with a beginning, a middle and an end. Now that you have successfully structured, marketed and issued your inaugural Green Bond you have reached the end of that initial journey (apart from your post-issue obligations!). Congratulations!

However, as one journey ends another often begins. Issuing a Green Bond is part of the ongoing ESG journey of your organisation. In issuing you have contributed to its strategic transformation. Staff and other stakeholders will be more aware of the bank's ESG evolution, the balance sheet will be reoriented to the origination of new eligible assets and you will have opened up a new dialogue with an expanded investor base. And, of course, many banks go on to issue multiple Green Bonds so this may be only the initial part of a longer journey.

We aim to update and maintain this Handbook as a living document to provide relevant guidance as the market evolves. We will also be publishing a Green Finance Reference Guide (GFRG). The GFRG will provide links to important sources of knowledge and best practice within the market and will be a companion guide to the Handbook.

APPENDIX

THE GREEN BOND

PRINCIPLES IN

GREATER DEPTH



To view the 2021 Edition of the
Green Bond Principles [click here.](#)





Chapter Summary

- The International Capital Markets Association (ICMA) acts as Secretariat to the Green Bond Principles (GBPs).
- It is important to note that the GBPs are not a set of 'rules' but rather a set of 'Voluntary Process Guidelines for Issuing Green Bonds'.
- 'The Green Bond Principles promote integrity in the Green Bond Market through guidelines that recommend transparency, disclosure and reporting' (ICMA).
- The GBPs are 'collaborative and consultative in nature based on the contributions of Members and Observers of the Green Bond Principles' (ICMA).
- The GBPs do not have their own taxonomy – i.e. a detailed list of eligible assets with technical performance criteria – and instead provide a broad set of asset categories to guide issuers on eligible asset selection for the purpose of 'Pillar 1 – Use of Proceeds'.
- According to the GBPs, it is not mandatory for an issuer to obtain an External Review for its Green Bond; however, it is strongly recommended.
- When providing an External Review, one of the key roles of the Reviewer (e.g. a Second Party Opinion (SPO) provider) is to confirm that the Green Bond in question complies with the Green Bond Principles.
- **An issuing bank's Green Bond Framework should be designed and constructed to be compliant with the Green Bond Principles.**

The Green Bond Principles (GBPs) were devised, founded, and published by members of the Green Bond investment bank underwriting community in 2014. Realising that it was not their role to administer guidelines for the market, **they passed the administration of the GBPs to the International Capital Markets Association (ICMA) who act as Secretariat to the Green Bond Principles.**

The Green Bond Principles has its own governance structure and Working Groups, led by the Executive Committee. See [here](#) for a fuller explanation of the GBPs governance structure.

It is important to note that the GBPs are not a set of 'rules'. They are a set of 'Voluntary Process Guidelines for Issuing Green Bonds'. As 'guidelines' rather than 'rules' they have allowed the Green Bond market the flexibility to grow while establishing a framework of market integrity around which issuers, underwriters, investors, and other market participants can coalesce.

'The Green Bond Principles (GBPs) 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 needed to increase capital allocation to such projects. With a focus on the use of proceeds, the GBPs aim to support issuers in transitioning their business model towards greater environmental stability through specific projects'. (ICMA).

There are also Social Bond Principles which are applicable to bonds with a purely social oriented Use of Proceeds and Sustainability Bond Guidelines which are applicable to 'mixed' bonds containing both green and social assets. These have recently been supplemented by the Sustainability-Linked Bond Principles which address the market for sustainability-linked bonds.

• **The GBPs are 'collaborative and consultative in nature based on the contributions of Members and Observers of the Green Bond Principles'.**

• **The GBPs have four core components, or 'pillars'.** These are:



- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

• **The GBPs do not have their own taxonomy, i.e. a detailed list of eligible assets with technical performance criteria. Rather, to guide issuers on eligible asset selection for the purpose of 'Pillar 1 – Use of Proceeds', the GBPs have created a set of broad categories.** These are:



- Renewable energy
- Energy efficiency
- Pollution prevention and control
- Environmentally sustainable management of living natural resources and land use
- Terrestrial and aquatic biodiversity conservation
- Clean transportation
- Sustainable water and wastewater management
- Climate change adaptation
- Eco-efficient and/or circular economy adapted products, production technologies and processes

• **According to the GBPs, it is not mandatory for an issuer to obtain an External Review for its Green Bond. However, it is strongly recommended.**

• **When providing an External Review, one of the key roles of the Reviewer (for example a Second Party Opinion (SPO) provider is to confirm that the Green Bond in question complies with the Green Bond Principles.** This provides valuable reassurance to investors and other market participants that the Green Bond adheres to established market guidelines.

• **An issuing bank's Green Bond Framework should be designed and constructed to be compliant with the Green Bond Principles.** This 'labelling' is a requirement of the majority of ESG fixed income investors, index providers, and dedicated listing venues.

GREEN BOND HANDBOOK:

A STEP-BY-STEP GUIDE TO ISSUING A GREEN BOND

AN INITIATIVE OF

GB-TAP Green Bond Technical
Assistance Program



IN PARTNERSHIP WITH

