



## The Green Bond Framework – Definitions & Selection

Green Bonds in Mexico - Workshop I: Definition, Selection & Verification  
Mexico City, 10 October 2016

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# What are Green Bonds?



## GREEN BOND DEFINITION




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



# Green Bonds – on the market for almost a decade









Launches its first Green Bonds  
**SEK 2,325,000,000**  
6-year 3.5% Green Bonds  
Investing to reduce global warming


Sole Lead Manager  


Key Investors

Senior Co-Manager  


Co-Manager  






# Green Bonds – in response to investor demand

1500 investors with AUM of USD 62 trillion aim to integrate ESG in their investment decisions

## Increasing number of investors signing off on the 6 Principles for Responsible Investments (PRI) <sup>(1)</sup>

- 1 Incorporate ESG<sup>(2)</sup> into investment analysis and decision making process
- 2 Incorporate ESG into ownership policies and practices
- 3 Seek appropriate disclosure on ESG by entities in which we invest
- 4 Promote acceptance and implementation of the Principles within the industry
- 5 Work together to enhance our effectiveness in implementing the Principles
- 6 Report our activities and progress towards implementing the Principles



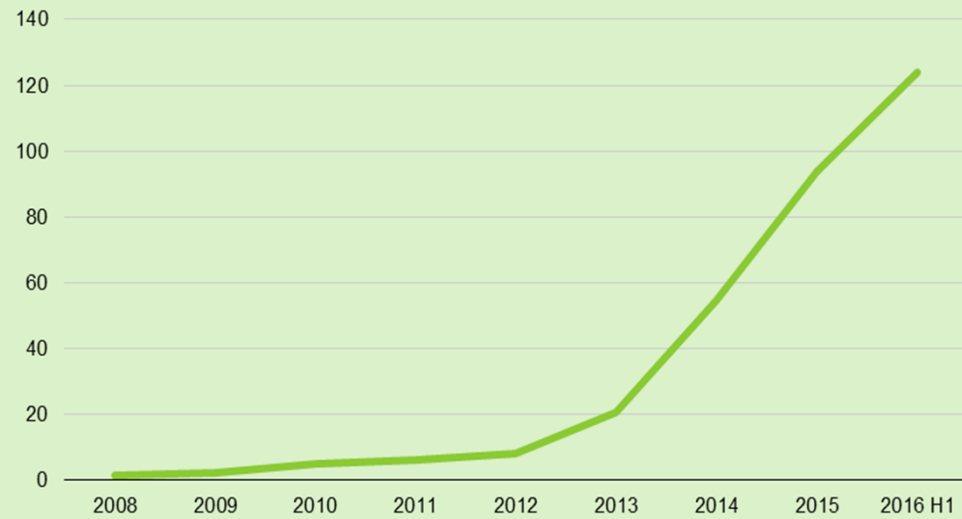
Source: Unpri.org

(1) PRI is an investor driven initiative in partnership with UNEP Finance Initiative and the UN Global Compact

(2) ESG=Environmental, Social & Governance

# Global Green Bond market update

Total cumulative issuance (USDbn)



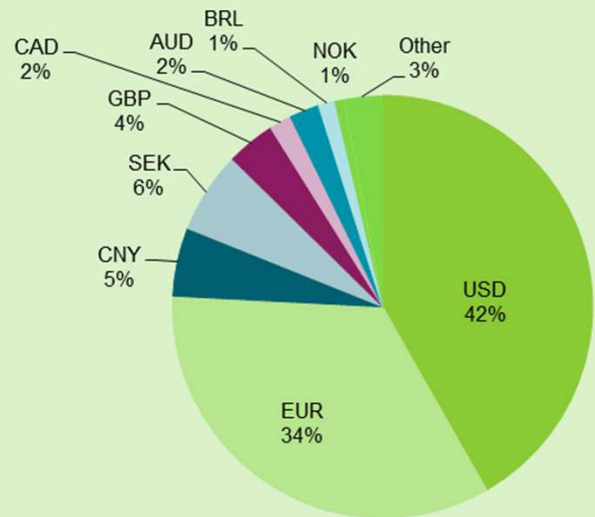
Source: Bloomberg

Amount issuance per year and sector (USD bn)



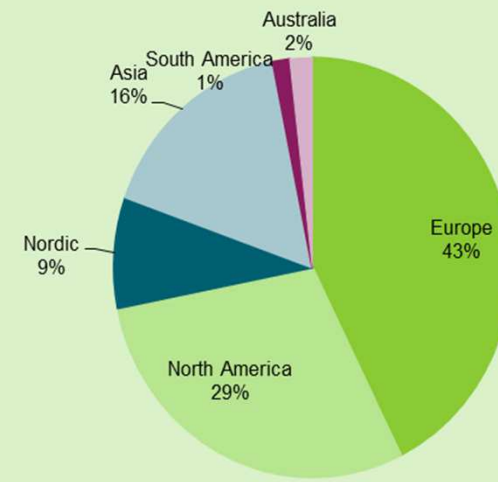
Source: Bloomberg and SEB

Total cumulative currency split (USDbn)



Source: Bloomberg and SEB

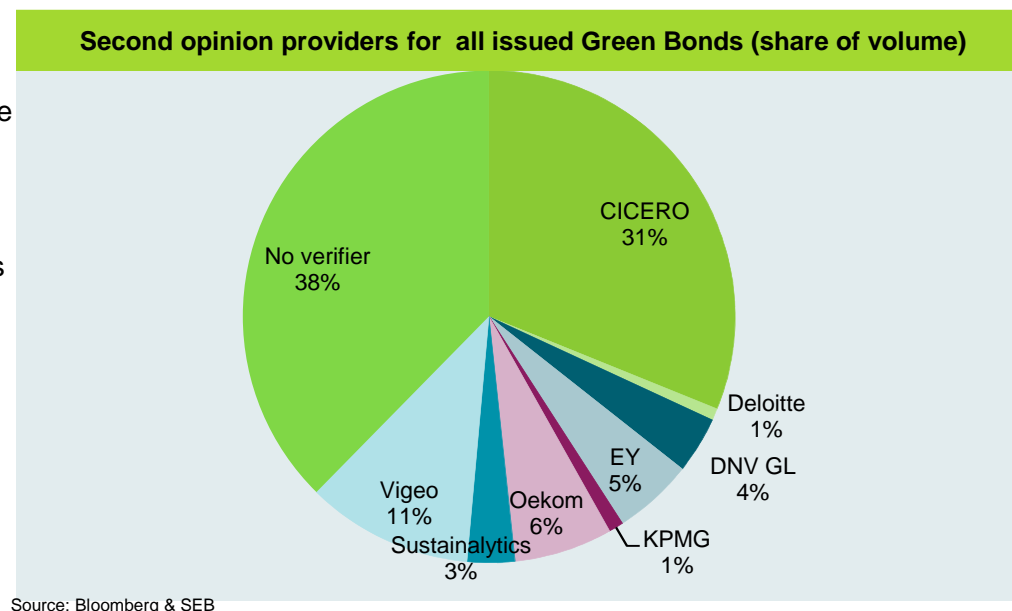
Total amount issued by region



Source: Bloomberg and SEB

# Quality assurance through Second Opinions

- CICERO (Center for International Climate and Environmental Research in Oslo) has introduced Shades of Green for their Second opinions to enhance transparency around their evaluation
- The underlying methodology has not changed with the introduction of Shades of Green
- CICERO remains the largest second opinion provider to Green Bond frameworks in the market
- The Second opinions are done by scientist within the climate area



## CICEROs has introduced Shades of Green

**Dark Green**

**Implementing a 2050 climate solution today**  
Example: Investments in renewable energy such as solar or wind

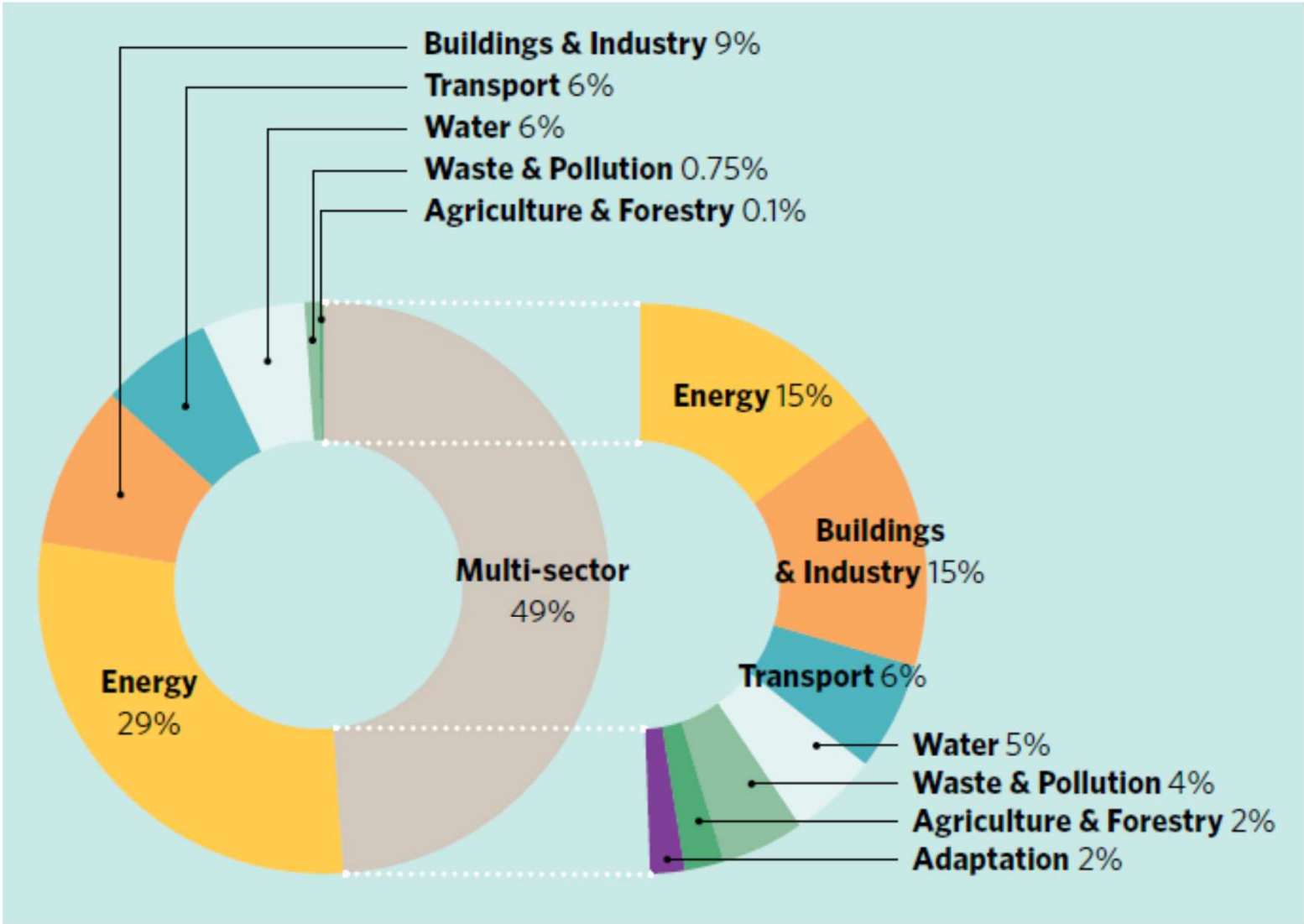
**Medium Green**

**On the way to a 2050 climate solution**  
Example: Investments in sustainable buildings with good energy efficiency ratings

**Light Green**

**Short-term gains but not a long-term climate solution**  
Example: Energy efficiency improvements in industry that result in short-term reductions of greenhouse gas emissions but do not shift away from a fossil fuel-based economy

# Where is Green Bond money used?



Source, Climate Bonds Initiative. The State of the Market in 2016

# Green Bond underwriters – league table

## Selected Green Bond issues underwritten by SEB

**KFW**  
Kreditanstalt für Wirtshaftsförderung  
5 year EUR 1.5 billion  
0.375%  
July 2019  
Joint Lead  
**SEB**

**NWB) BANK**  
NEERLANDSE WATERSTAFBANK B.V.  
5 year EUR 500m  
0.625%  
July 2019  
Joint Lead  
**SEB**

**ING**  
5 yr EUR 500mm / 3 yr USD 800m  
0.75% / 2.00%  
Nov 2020/ Nov 2018  
Joint Lead Manager  
**SEB**

**HSBC**  
5 year EUR 500m , 0.625%  
Dec 2020  
Joint Green Structuring Advisor  
Joint Lead Manager (no books)  
**SEB**

**IIFC**  
USD 1 billion  
0.625% fixed bond  
November 2016  
Joint Lead  
**SEB**

**IFC**  
USD 500m  
0.750% fixed bond  
October 2016  
Joint Lead  
**SEB**

**THE WORLD BANK**  
SEK 3,250m  
3.500% fixed bond  
November 2014  
Sole Lead  
**SEB**

**European Bank**  
for Reconstruction and Development  
USD 250m  
1.625% fixed bond  
April 2018  
Joint Lead  
**SEB**

**SKANSKA**  
5 year SEK 850m  
FRN  
April 2019  
Sole Bookrunner  
**SEB**

**SCA**  
Care of Life  
5 year SEK 1bn/500m  
2.500% / FRN  
April 2019  
Sole Bookrunner  
**SEB**

**KBN** Kommunalbanken Norway  
USD 500m  
0.750% fixed bond  
Nov 2016  
Joint Lead  
**SEB**

**European Investment Bank**  
SEK 2,100m  
3.000% fixed bond  
April 2019  
Joint Lead  
**SEB**

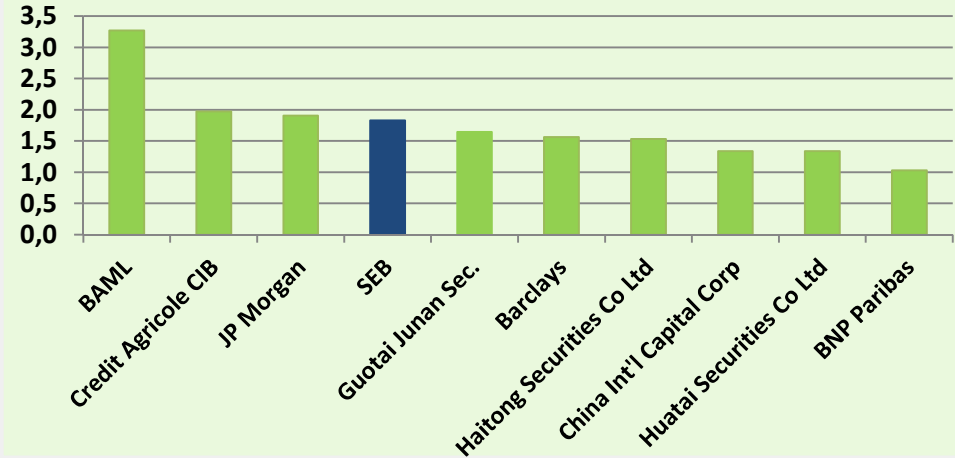
**NiB**  
5 year SEK 1 billion  
0.625%  
January 2021  
Sole Lead  
**SEB**

**VASAKRONAN**  
SEK 1,300m  
1.774% / FRN  
May 2016  
Sole Lead  
**SEB**

**EDC**  
USD 300m  
0.875% fixed bond  
January 2017  
Joint Lead  
**SEB**

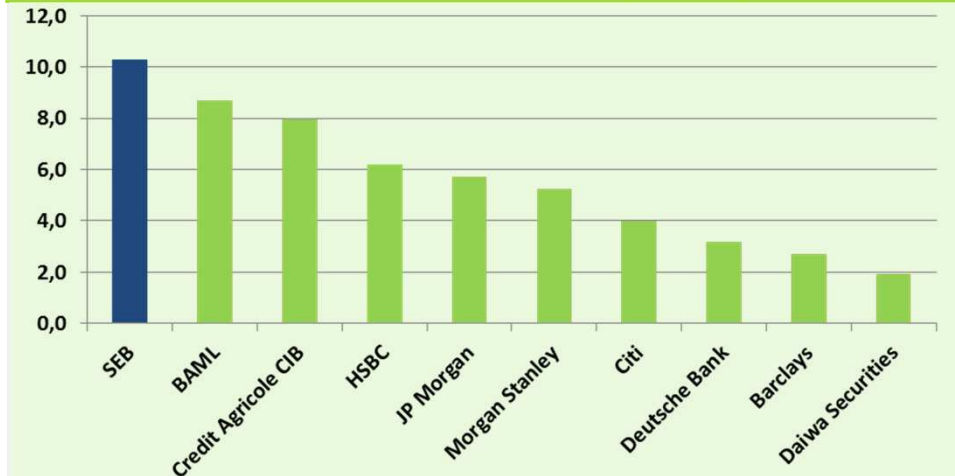
**Korea Eximbank**  
USD 500m  
1.750% fixed bond  
February 2018  
Joint Lead  
**SEB**

## Top 10 underwriters 2016 1H (USDmn)



Source: Bloomberg

## Top Green Bond Underwriters 2007- 2015 (USDbn)



Source: Bloomberg



# The five pillars of Green Bonds

- 1 **Define** – What is Green
- 2 **Select** – Who decides
- 3 **Verify** – Credibility from external, independent environmental experts
- 4 **Monitor** – Keep track of proceed with an earmarked account
- 5 **Report** – Transparency through annual reporting to investors

# The Green Bond Principles – a voluntary guideline

## Overview

In efforts to develop standards for the green bond market, On January 13. 2014 a consortium of major banks developed a set of voluntary guidelines called the Green Bond Principles “GBP”.

- ▶ These were updated in March 2015, in June 2016 and continue to evolve.

### Use of Proceeds:

- ▶ Issuer should declare the eligible green project categories upfront, providing clear environmental benefits.

### Process of Selection:

- ▶ Issuer should outline the process of selection and work to establish impact objectives.

### Management of Proceeds:

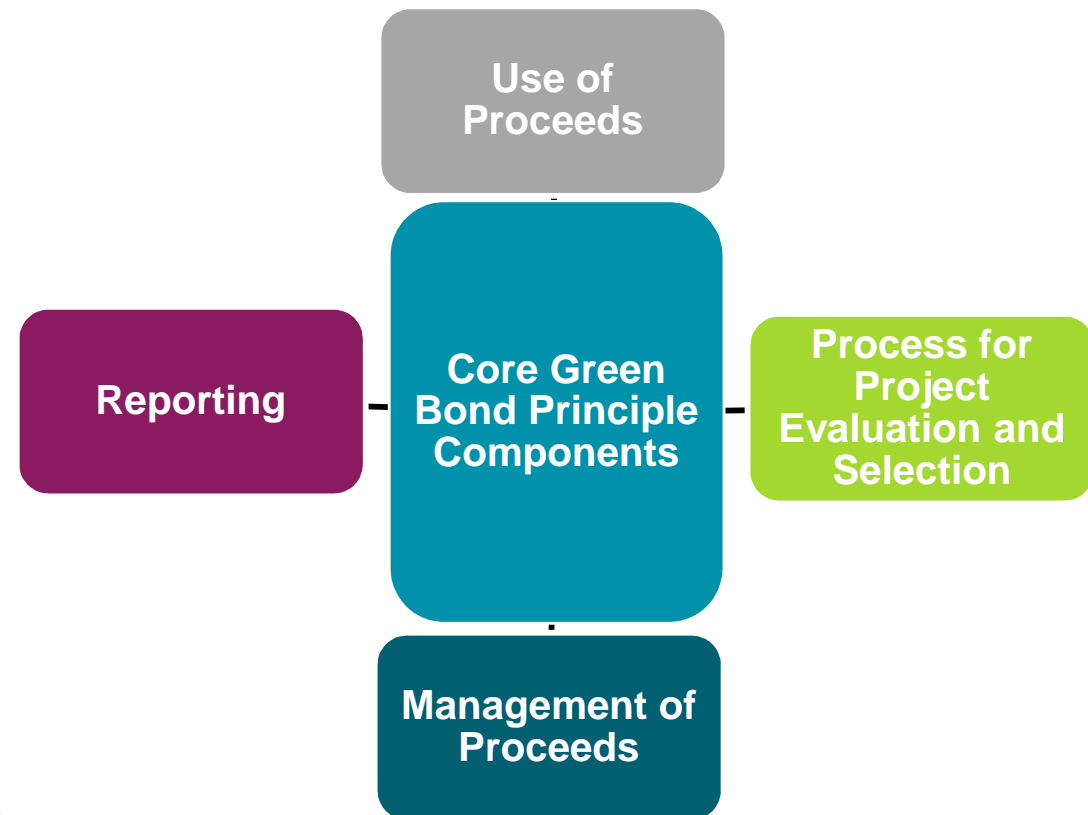
- ▶ Funds should be segregated or otherwise tracked. External auditors should verify.

### Reporting:

- ▶ Issuers should report at least annually on projects and where feasible, the impact of the specific investment. Issuers are recommended to familiarize themselves with impact reporting standards.

### External Review:

- ▶ The GBP encourage a high level of transparency and recommended that issuers use an external review to confirm the alignment of their Green Bonds with the key features of the GBP



# Key documents - examples

## Green Bond Framework



### Kommuninvest – Green Bonds Framework

12 January 2016

#### 1. EARMARKED ACCOUNT

An amount equal to the net proceeds of the issue of the Notes will be credited to a special account that will support Kommuninvest's lending for Eligible Loans. As long as the Notes are outstanding and the special account has a positive balance, at the end of every fiscal quarter, funds will be deducted from the special account and added to Kommuninvest's lending pool in an amount equal to all disbursements from that pool made during such quarter in respect of Eligible Loans. An amount equal to the special account balance will be held in cash. Green Bonds, Swedish covered bonds, Municipality and/or Government risk with a minimum, average credit rating of A- by Standard & Poor's or corresponding credit rating by another rating agency approved by Kommuninvest.

## Second Opinion

23 November 2015

### 'Second Opinion' on IFC's Green Bond Framework

#### Contents

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## Annual investor reporting

# Green Bond

## IMPACT REPORT

JUNE 2016



## The Green Bond Principles



### Green Bond Principles, 2016

Voluntary Process Guidelines for Issuing Green Bonds

16 June 2016

#### INTRODUCTION

Green Bonds raise funds for new and existing projects with environmentally sustainable benefits. The Green Bond Principles (GBP) are voluntary process guidelines that recommend transparency and disclosure, and promote integrity in the development of the Green Bond market. They are intended for broad use by the variety of actors participating in the market and are designed to provide the information needed to increase capital allocation to environmentally sustainable purposes without any single arbiter.

# Greening Capital Markets – What's in it for You?

## Investors

- Achieve intelligence on climate related issues inside existing management structure
  - Risk management
  - Climate stress
  - Regulations
  - Technology transition
- Live your values - competitiveness

## Issuers

- Strengthen the financial position:
  - Investor diversification
  - Deepened dialogue
- Establish a targeted dialogue between operations (projects), Finance and Management
- Live your values - competitiveness

## Society

- Activate (mobilize) human capital inside finance for society goals



## Management of Proceeds, Earmarked account – Key trade-offs in creating a Green Bond Framework

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# Use of Proceeds - the Green Bond universe

Examples of the Green Bond universe		
<b>Mitigation &amp; Environmental preservation</b>	✓ Renewable Energy	<ul style="list-style-type: none"> <li>▪ Wind</li> <li>▪ Solar</li> </ul>
	✓ Energy Efficiency	<ul style="list-style-type: none"> <li>▪ Building efficiency incl. environmental certification systems such as LEED, BREEAM or equivalent</li> <li>▪ SmartGrids</li> </ul>
	✓ Sustainable Waste Management	<ul style="list-style-type: none"> <li>▪ Recycling</li> <li>▪ Waste to energy</li> </ul>
	✓ Sustainable Land Use	<ul style="list-style-type: none"> <li>▪ Sustainable agriculture</li> <li>▪ Sustainable forest management</li> </ul>
	✓ Biodiversity Conservation	<ul style="list-style-type: none"> <li>▪ Protection of fauna</li> <li>▪ Nature reserve management</li> </ul>
	✓ Clean transportation	<ul style="list-style-type: none"> <li>▪ Public transportation and related infrastructure</li> <li>▪ Alternative fuel vehicles</li> </ul>
	✓ Sustainable Water Management	<ul style="list-style-type: none"> <li>▪ Water and waste water treatment</li> <li>▪ Energy recovery from waste water</li> </ul>
<b>Adaptation</b>	✓ Climate Change Adaptation	<ul style="list-style-type: none"> <li>▪ Flood protection</li> <li>▪ Disaster warning systems</li> </ul>

# Selection Process – safe guarding environmental integrity

## Overview

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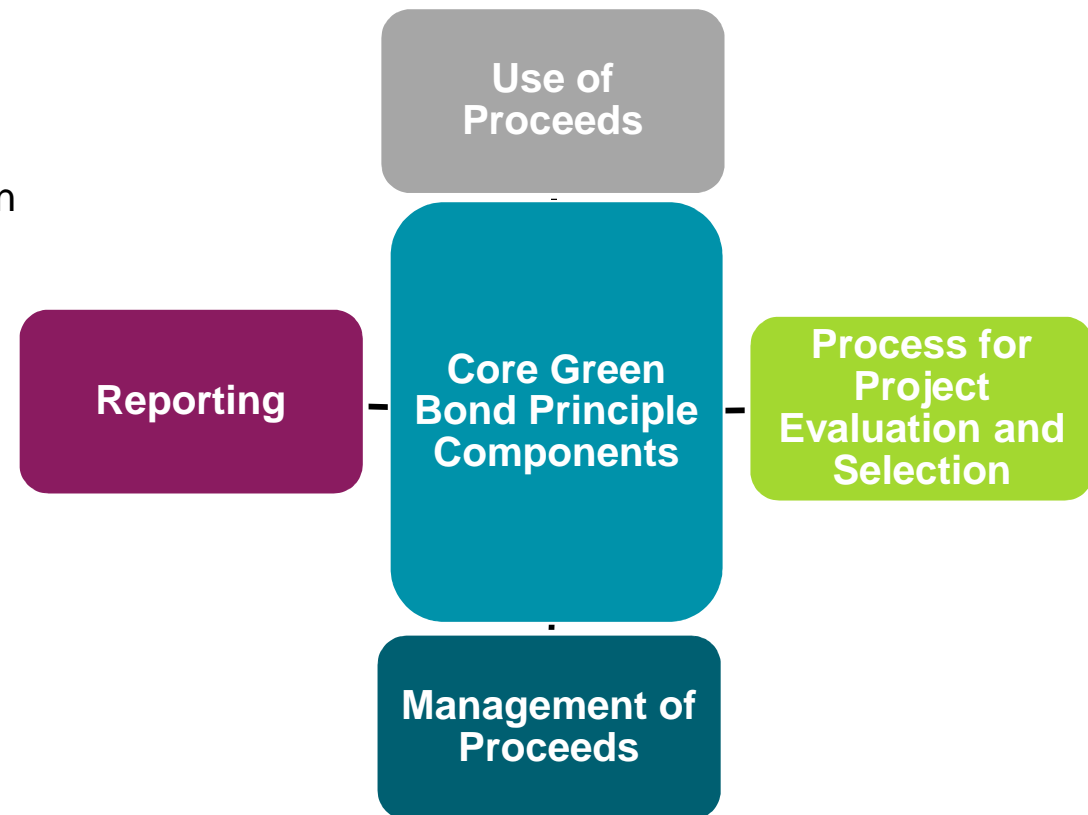
## Process of Selection:

- ▶ The issuer of a Green Bond should outline:
  - a process to determine how the projects fit within the eligible Green Projects categories identified above;
  - the related eligibility criteria; and
  - the environmental sustainability objectives.

## Management of Proceeds:

## Reporting:

## External Review:



# Management of Proceeds

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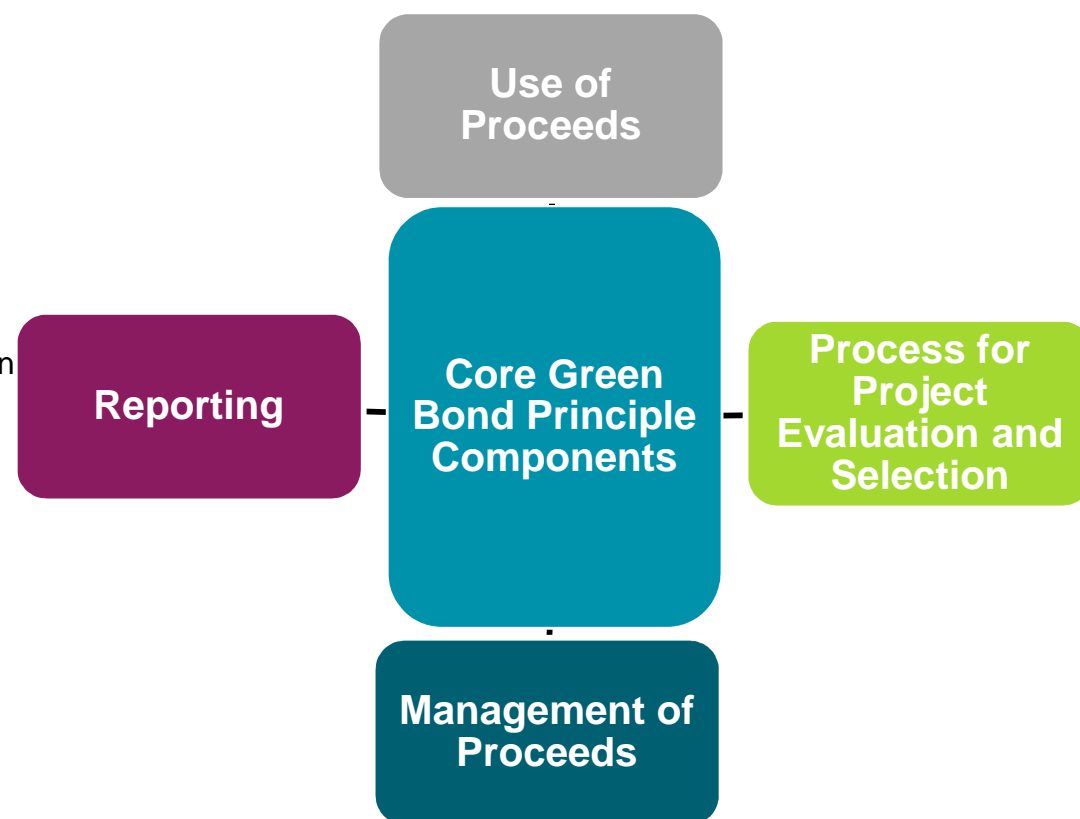
Process of Selection:

Management of Proceeds:

- ▶ The **net proceeds of Green Bonds 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 a formal internal process linked to the issuer’s lending and investment operations for Green Projects. So long as the Green Bonds are outstanding, the balance of the tracked proceeds should be **periodically adjusted** to match allocations to eligible Green Projects made during that period. The issuer should make known to investors the intended types of **temporary placement** for the balance of unallocated proceeds.
- ▶ The GBP encourage a high level of transparency and **recommend** that an issuer’s management of proceeds be supplemented by the use of an auditor, or other third party, to **verify the internal tracking method and the allocation of funds** from the Green Bond proceeds (see External Review section).

Reporting:

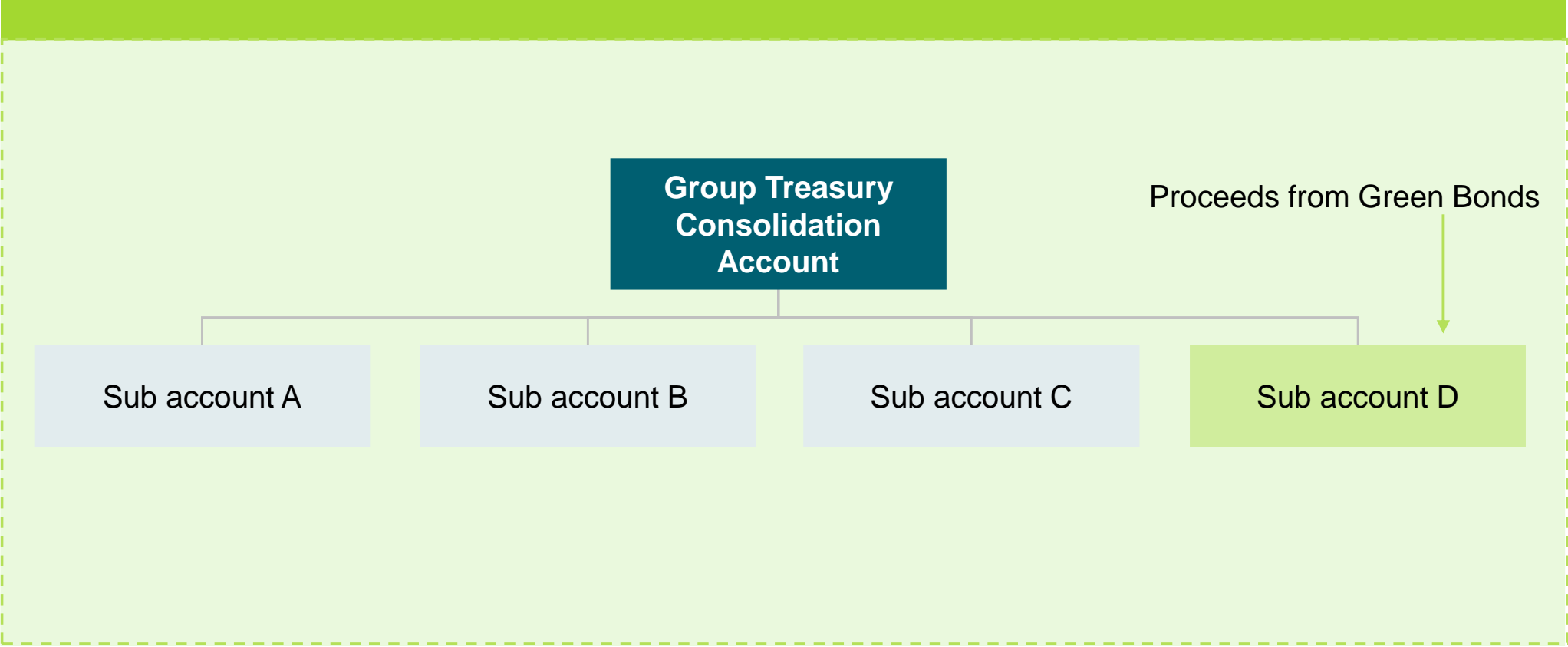
External Review:





# Traceability – Earmarked account

Seamless integration of Green Bond proceeds into existing liquidity structure





## Case Study 1: Definitions, Selection and Verification in a typical Green Bond Process

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# A typical Green Bond issuance process

## 1. **Internal decision** to finance Green Projects with Green Money

- Internal driver: treasury – sustainability - management

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  - Financial and environmental divisions must join forces
  - Trade off: volume vs. quality

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  - Additional work or synergies with other reporting and communication?



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7. Coordinate **communication**, internal as well as external
  - Press release, web page and intra net, add in business paper, conferences and events
8. Prepare the **transaction** to maximize beneficial impact
  - Maximize investor diversification, road show, maturity etc.

# Strong media attention for Green Bond issuers and investors



## Swedish bank SEB tops green bond league table

A Swedish bank is beating major global players as top underwriter to the green bond market

SEB remains biggest green bond underwriter in first quarter of 2014



### Cicero, SEB to broaden exclusive relationship

Cicero, the Oslo-based climate research institute, is to end its exclusive relationship with SEB in the green bond market. Talks are under way that would enable other banks — probably starting with one or a few — to start using Cicero's services as an adviser. SEB hopes this will involve creating a wider certification platform for green bonds.

Skanska sells first green bond to strong demand



### Bonds Tied to Green Investments are Booming

March 22, 2014

Source: The Economist

Eco-investments with impact

March 2014: Green bonds are set to play a vital role in funding environmentally friendly projects in the fight against climate change. Christopher Flensburg, head of sustainable products at SEB, the Swedish bank, discusses their future with Chris Flood of FTfm

## Bond 'Infrastructure' to Aid Clean Energy: SEB

BY ANGUS MCCRONE, BLOOMBERG NEW ENERGY FINANCE



World politics Business & finance Economics Science & technology

Green bonds

### Green grow the markets, O

The market for green bonds is booming. But what makes a bond green?

Green bonds grow with SCA deal, Skanska expected tomorrow



KfW enters green bond arena with aplomb



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**Thank you!**

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