## Speaking points

### Roundtable with banks & investors:

- **Wed, 18 Oct, 8.30-10.45 am (breakfast meeting)**
- **Location:** Bankers’ Club (room Balcones, 16 de Septiembre 27, Cuauhtémoc, 06000 Ciudad de México)

### Theme 2: Safeguarding integrity in the green bond market in Mexico: The relevance of sound external reviews and impact reporting

For many years CICERO produced reports that targeted policy makers with the hope that governments should solve the climate change problem. But as you are all well aware of, even with the Paris agreement, a significant gap exists between what policy makers are willing/able to do and what scientists tell us is necessary to avoid dangerous climate change. In addition many physical impacts that scientists had originally anticipated over a much longer time horizon are being observed today across the globe. This is the case for sea level rise, which is also complicated by interactions with extreme weather events like windstorms, sea-surges, floods, droughts and heat waves. Climate risk has become a financial risk.
There are however some positive developments such as the green bond market, designed to fill the policy gap. This year we are celebrating a 10 years anniversary. In the last decade, green bonds have spread around the world and become a real global market. CICERO recently provided a 2\textsuperscript{nd} Opinion for the Chinese bank ICBC, biggest in the world, when they issued internationally for the first time. We also provided the 2\textsuperscript{nd} Opinion for the first green sukuk when issued in Malaysia this summer.

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The key question in this rapidly growing market is what makes a bond green?

Is it green to invest in energy efficiency in a refinery? Could it be green to invest in an airport? Is it green to invest in renewable energy if the electricity sector is already 100 percent renewable? These are questions investors in the green bond marked are discussing.

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Are definitions clear enough and is there enough transparency for green bonds?

There is no globally agreed definition or standard for what types of projects can be financed by a green bond. The investors decide if they want to buy the bond or not. The Green Bond Principles (ICMA) however, signed by all the important stakeholders outline voluntary guidance for issuing green bonds, focusing on delineated accounting and transparency but with little on what green project types should be eligible. Climate Bond initiative has their standards that issuers that covers part of the market are complying to.

There is also still approximately 30% of the current green bond market that has not undergone an independent review of its green label. However not the case here in Mexico where all issuers have had some sort of review. Great that stock exchanges now require external reviews to be listed (London, Luxembourg, Mexico, Oslo etc.). Still an issue how you define external review. Important that it is an independent review. The reviewer should therefore not both do consultancy on framework and provide 2nd Opinions.
Work on taxonomies and standards should facilitate rather than replace the dialogue between issuers, verifiers and investors about what is green in the green bond market. In our view creating a common language for investors, scientist and companies is key. The green bond market is about capacity building. The goal is that all investors consider and understand climate risk when they make investment decisions. The Respol bond was a controversial issuance but caused a healthy lively discussion in the market on whether these investments would actually reduce emissions in the long run or just prolong the life of the refineries. This dialogue happens without interference from heavy political and bureaucratic processes. What is key is to have enough transparency to allow for these discussions.

The long-term goal of low carbon societies will eventually require a near phase out of fossil fuels, and marginal climate improvements today should not come in the way of more future oriented solutions that eventually require a near phase out fossil fuels. One should avoid investments in projects that lead down ‘blind alleys’. Taxonomies if not continuously updated runs the risks of misleading the market.
We think that providing transparency on shades of climate risk is a better approach than defining green or not green, similar to how credit rating agencies approach financial risks. It is not very common to say that an investment is either financial risky or not risky. When we do 2nd opinions in the green bond market we allocate a shade to the bonds; dark, medium or light green. The shading depends on how well the investments stand out in a 2050 perspective, how exposed the investment is to climate risk. We wanted to facilitate a longer term thinking by investors guided by climate science.

In addition to defining and discussing what is green investors call for assurance and impact reporting. Investors have different mandates. Their views and motivations for participating in the green bond market differ significantly. Some greenish funds have a strong impact focus, while e.g. large pension funds rather use green bonds as a tool to reduce their climate risk exposure.
We need to develop appropriate reporting frameworks to build necessary trust in the green bond market and provide information that is useful for all investor groups. There are work going on in groups established under the GBPs. MDBs have been frontrunners in providing good impact reports. However important not to overcomplicate.

We should avoid the bureaucratic pitfalls of the carbon market and not automatically favour big short term emission reductions over longer term solutions. For renewable energy companies or electric car companies there might be enough to report on sold cars or installed capacity, without going into more complicated discussions of measuring emission reductions. If only CO2-emissions are reported, there is a big risk to sum up numbers that are not addable. Transparency on methodology and baselines used is key.

There will for sure be some rotten eggs as we go along in this green bond market, but we should always aim at avoiding them. We can’t accept an up scaling that doesn’t deliver on environmental integrity. Bad projects will have reputational effects and damage confidence in green bonds, thereby inhibit further growth of the market.