



PRACTITIONERS' WORKSHOP: THE FUTURE OF GREEN BONDS SUMMARY OF DISCUSSIONS

15 JUNE 9:00-18:00 – PARIS

France Stratégie – 18 rue de Martignac

I4CE – Institute for Climate Economics, in partnership with France Stratégie, the European Investment Bank (EIB), the World Wide Fund for Nature (WWF), and the Climate Bonds Initiative (CBI) organized a full-day practitioners' workshop on the future of the green bond market on June 15, 2017 in Paris.

This event gathered around 60 experts of the green bonds market coming from the private sector, public institutions, academia and NGOs. The event aimed at fostering a discussion on the future of the green bond market focusing on 4 main topics: external reviews, impact reporting, securitization and the role of the public sector in the green bonds market. These high-level discussions allowed participants to share expertise and debate on concrete recommendations to accelerate the development of the green bonds market while ensuring its environmental integrity.

Content of the discussions as summarized in this document will feed into I4CE's on-going study on green bonds funded by the Climate Works Foundation. The overarching objective of the study is to help policymakers and market actors put in place measures to increase the contribution of the green bond market to the low-carbon transition while ensuring its environmental integrity.

I4CE welcomes additional participation from stakeholders through either bilateral interviews or feedbacks and comments on this document and the intermediate note until September 2017. The final report of I4CE's study on the future of green bonds will be published by October 2017.

For any information, please contact Igor.Shishlov@i4ce.org and Morgane.Nicol@i4ce.org.

Event partners:



Introduction

Introduction remarks were made by Fabrice Lengart, Commissaire adjoint at France Stratégie, Hakan Lucius, Head of Stakeholder Engagement, Transparency and Civil Society at the European Investment Bank (EIB) with a keynote presentation by Morgan Despres, Head of Financial Regulation Policy and Coordination Division, Banque de France. These remarks clearly identified the risks that climate change poses for society, the economy and the financial sector and how transition risks need to be addressed. They laid out the broader challenges to financing the transition to a low-carbon economy – indicated what steps to date are being taken in France to increase the involvement of the financial sector (whether through improved non-financial disclosure, climate-related stress testing, labeling or improved climate finance tracking). They specifically pointed out the advances – and the remaining challenges – on ensuring that the development of the green bond market supports the financing of the low-carbon, climate-resilient transition. They also recalled the specific strengths of the use of different instruments, but also the limits of what can potentially be expected in terms of the use of non-traditional approaches such as monetary policy and how past experience have not always demonstrated a clear benefit for facilitating increased investment. Finally, it was highlighted that public authorities have to put in place ambitious climate policies, including the development of positive carbon pricing and reforming negative carbon pricing (fossil fuel subsidies), although these policies are not within the realm of financial authorities.

Session 1A: Green securitization (moderator: Sean Kidney, Climate Bonds Initiative)

This session aimed at facilitating a discussion around the rationale for supporting the growth of green securitization and how potential solutions could help overcome existing barriers to the development of this market. Regarding the rationale of green securitization, participants affirmed that securitization is a useful financial tool – for green assets as for other investments - to overcome the current squeeze in financing sources due to corporates and banks' deleveraging since the financial crisis. Two main types of small-scale green assets have the highest potential for securitization: mortgages for energy efficient buildings and loans for low-emission vehicles. It would be more complicated for other green assets, such as small wind farms, rooftop solar and loans for batteries to achieve a sufficient credit rating matching investors' expectations, given their shorter credit history and the less developed expertise in credit rating agencies to assess the securitization of these assets. Some participants also noted that green securitization will not systematically bring additional financing to LCCR investments. However, it will contribute to offload loans off primary lenders' balance sheets and therefore contribute to expand overall lending capabilities to green assets.

Workshop participants also discussed barriers to green securitization, existing initiatives and potential solutions to unlock green securitization. In Europe, the mechanics of securitization in general still need to be addressed through EU legislation and participants discussed about the recent STS securitization initiative by the EU Commission. For other types of assets than green mortgages, low emission vehicles loans and SME green loans a new credit rating methodology and historical data are needed. This could be provided or supported by financial regulators. There is also a need to better define which assets are green, standardize definitions, and track green assets in banks' portfolios.

Finally, for most participants, the most significant barrier to developing green securitization is the lack of pipeline of low-carbon and climate-resilient (LCCR) investments. Developing a new financial instrument will not have much impact on growing the pipeline, since the cost of financing is not what impedes the development of LCCR investments. Therefore green securitization will take time to grow. Nonetheless, it is important to start preparing this market now, to be ready for green securitization when the pipeline will have reached the needed threshold.

Session 1B: External review (moderators: Aldo Romani, EIB and Jochen Krimphoff, WWF)

This session aimed at facilitating a discussion among market stakeholders involved in the external review of green bonds on the potential for harmonization of taxonomies and creating a common language that would allow for better transparency and comparability of different green bond frameworks. The session was part of the ongoing work coordinated by the EIB and WWF that aims at creating a “Rosetta-Stone of taxonomies” in the area of mitigation that is shared by key actors and can be endorsed by policymakers. The final objective is to prepare a shared taxonomy that, after consultation, the EC HLEG can recommend for endorsement by the EC.

Practical next steps for the next 6 months include:

- EIB puts together a template, based on documents presented during the session, to be completed by each ‘external review provider’ to map taxonomies in the area of mitigation;
- EIB to compile a document to be presented to the HLEG (e.g., complementary to a white paper in cooperation with PBoC);
- Work together to improve correspondence tables, with the final report being available in November 2017 at the latest;
- Create a space where each provider presents its methodology (frameworks) to create a common understanding of the approaches (in particular through the ICMA Resource Centre).

Session 2A: Impact reporting (moderator: Peter Munro, ICMA)

This session aimed at facilitating a discussion among stakeholders around the topic of impact reporting in the green bond market and how it can contribute to ensuring its environmental integrity. Participants discussed the existing impact reporting frameworks, particularly in the areas of renewable energy and energy efficiency that were harmonized by ICMA under the GBP (templates available online). The new area water and wastewater management was added in 2017; MDBs were lead in preparing this framework. So far, harmonized impact reporting currently only covers three out of ten green areas as defined by GBP, although transportation and green buildings may be treated in the near future. These and other sectors may take some time to cover; in view of this additional resources may be welcomed in this area. Participants were supportive of this GBP guidance/template development process and did not propose major alternatives, with the possible exception of leveraging TCFD guidance.

The Group noted anecdotal market feedback suggesting that many green bond issuers do attempt impact reporting, even if only few organizations disclosed their impact reports to date. The workshop participants highlighted existing tools incorporating impact reporting such as, for example: green evaluation tools by S&P, or Sustainalytics’ portfolio carbon evaluation service. Nonetheless there was an appetite among participants to see more, better, more consistent and comparable, and more timely disclosure.

Particular attention was drawn to the need to balance short term impact evaluation (e.g. GHG emissions) and long-term transformative and strategic changes (alignment with a 2°C scenario). It was also highlighted that a dialogue with issuers is key to identify impact reporting approaches and metrics with new project types, such as adaptation. Additional investment will be needed to support robust impact assessment. The TCFD report provides certain sectoral starting points that may help clarify the needs of impact reporting.

Remaining technical issues include: decarbonization scenarios, regional/national context, impact assessment along the whole lifecycle of investments (though the latter's viability was questioned in the short term). Overall, impact reporting has to be developed not only for green bonds, but in a broader context of green finance, portfolio and climate disclosures.

Session 2B: Role of the public sector

This session aimed at facilitating a discussion among diverse stakeholders on the rationale and potential for an involvement of the public sector in the green bond market. For all workshop participants, the development of the green bond market is market-driven and should stay so. The public sector still has a role to play in order to ensure a smooth development of the green bond market. This can be done by setting best practices, in order to ensure environmental integrity so that the market does not fade away. Governments and public bodies could introduce disclosure requirements in the regulation or support market-led initiatives of standardized disclosure frameworks. They could also develop shared frameworks and methodologies to allow for comparability of the environmental impact of green bonds. Participants were however not in favor of a regulatory standard defining which assets are green, because it would not be easy to update and would require a public supervisory body to be set up. Sovereign issuances are another way of setting standards in the market, and in addition it contributes to grow liquidity in the market.

Workshop participants were also in favor of public initiatives aiming at growing the pipeline of green bonds, because it is nowadays the first barrier to the development of the green bond market. Among potential measures, participants noted the role the public sector could play in helping potential issuers to structure a green bond. Governments could also subsidize the additional costs incurred for issuing a green bond.

Other measures, such as tax incentives, monetary policies, subsidies, may create market distortions and participants were not in favor of implementing such public support measures. Additionally public sector measures aimed at developing the green bond market should not create imbalance between supply and demand. Public guarantee mechanisms would depend on context, assets' risks and the type of financial tool used – for example it would be easier on green securities. Finally the role that the public sector may play in the green bond market is context specific and depends notably on the maturity of bond markets, the maturity of the green assets pipeline and the existence of a significant market of green investors.

Annex 1: Agenda

Conference

09:00-09:30 - Registration & coffee

09:30-09:45 - Welcome remarks:

Fabrice Lengart, France Strategie, Hakan Lucius, EIB, Ian Cochran, I4CE

09:45-10:15 - Keynote presentation and Q&A: *Morgan Despres, Banque de France*

10:15-10:45 - Presentation of the ongoing I4CE study and Q&A: *Morgane Nicol and Igor Shishlov*

10:45-11:00 - Coffee Break

Parallel Sessions 1 (morning)

11:00-13:00 - 1A. Green securitization (*moderated by Sean Kidney, CBI*)

11:00-13:00 - 1B. External reviews (*moderated by Aldo Romani, EIB and Jochen Krimphoff, WWF*)

13:00-14:00 - Lunch

Parallel Sessions 2 (afternoon)

14:00-16:00 - 2A. Impact reporting (*moderated by Peter Munro, ICMA*)

14:00-16:00 - 2B. The role of the public sector (*moderated by Ian Cochran, I4CE*)

16:00-16:15 - Coffee break

16:15-17:00 - Presentation of summaries of parallel sessions by moderators

17:00-17:15 - Concluding remarks (*Ian Cochran, I4CE*)

17:15-18:30 - Networking cocktail

Annex 2: List of participants

Accreditation Services International	Marnie Bammert
AFD	Laurent Bergadda
Amundi	Martin Lebelles
Banque de France	Morgan Despres
Banque de France	Emmanuel Buttin
Beyond Ratings	Olivier Rech
BNP Paribas CIB	Stephanie Sfakianos
Bureau Veritas	Vishal Goel
CDC	Frédéric Bonnardel
CDC	Elisabeth Cassagnes
CICERO	Kristina Alnes
CICERO	Harald Lund
Climate Bonds Initiative	Diletta Giuliani
Climate Bonds Initiative	Sean Kidney
Climate Bonds Initiative	Rob Fowler
Climate Bonds Initiative	Anna Creed
Climate Policy Initiative	Gireesh Shrimali
Deloitte	Daniel Bressler
Deloitte	Anne-Claire Imperiale
Direction Générale du Trésor	Isabelle Camilier-Cortial
EPIC Sustainability	Suryanarayana Murthy Kondreddi
Ernst&Young	Pauline Becquey
European Investment Bank	Aldo Romani
European Investment Bank	Kristyna Pelikanova
European Investment Bank	Hakan Lucius
European Investment Bank	Eugene Howard
European Investment Bank	Peter Anderson
European Investment Bank	Dominika Rosolowska
Fitch Ratings	Monica Klingberg Insoll
France Stratégie	Baptiste Perrissin-Fabert
France Stratégie	Maud Frangi
France Stratégie	Fabrice Lenglard
French Ministry of Environment	Julie Evain
I4CE	Morgane Nicol
I4CE	Ian Cochran
I4CE	Igor Shishlov
I4CE	Hadrien Hainaut
I4CE	Lola Gouiffes
ICMA	Peter Munro
ICMA	Valérie Guillaumin
IFC	Berit Lindholdt
KFW	Doris Kramer
Lux SE	Jane Wilkinson
Mirova	Mathilde Dufour
Moody's	Vanessa Robert
Moody's	Mehdi Ababou
Oekom	Marie-Bénédicte Beaudoin
Oekom	Alexander Russel
OECD	Rob Youngman
OECD	Rodney Boyd
OECD	Hideki Takada
PricewaterhouseCoopers (PwC)	Olivier Muller
Research Institute for Environmental Finance	Yoshihiro Fujii
S&P's Global Rating Services	Miroslav Pektov
S&P's Global Rating Services	Jessica Williams
Sustainalytics	Elisa Galvan-Mondié
Vigeo-Eiris	Adriana Cruz Felix
Vigeo-Eiris	Paul Courtoisier
WWF	Jochen Krimphoff
WWF	Krystel Corsagni