

15th December 2015

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Dear Madam,

Re: Comments on Concept paper for issuance of Green bonds

AIWMI¹ and CCRA Community² appreciate the opportunity to comment on the Draft Guidelines on Issuance of Green bonds.

Executive Summary:

We applaud Securities and Exchange Board of India (SEBI) for its attempt to define and lay framework for the growing green bond market in India.

The comments below represent the views of members drawn from different categories of practitioners, including Credit Strategists, Managers, Loan Syndication and Trading Members, Debt asset managers, Treasury managers, Investors, banking professionals, Rating analysts and academics.

The comments are a result of discussions conducted by the members of advocacy committee of CCRA Global Community, and do not represent the views of any one individual or section of the industry.

We have endeavored to address some of your proposals below, specifically in cases where we think it would help Issuers or regulator to meet the spirit of the guidelines.

¹**The Association of International Wealth Management of India (AIWMI)** is a not-for-profit organization and a globally recognized membership association for finance professionals with affiliates in around 40 countries. AIWMI primarily focuses on the broad and strategic role of developing a more robust and forward-looking training infrastructure for the financial services sector and to promote more active industry involvement and collaboration in training and continuing education. AIWMI is offering advanced international certification programs along with a wide variety of high-quality executive education programs. AIWMI programs combine state-of-the-art knowledge and skills with practical experience and insights into the functioning of the financial sector. All AIWMI courses and educational events have an intense and pragmatic curriculum. Participants are exposed to the latest developments within the financial services sector. AIWMI plays a key role in guiding the development of the financial services sector. AIWMI works with key industry participants' viz. the Government, the Regulators, the Industries/Associations, the Corporate, the Media and the General Public to achieve its objectives. Besides enhancing technical competence and professionalism in the industry, AIWMI organizes events and facilitates discussions to promote best practices in leadership and talent development in the financial sector with an aim to become Asia's premier center of excellence for financial education. For more info visit www.aiwmindia.com or www.aiwm.org

²**The Certified Credit Research Analyst (CCRA)** is a comprehensive global education program designed to give an expert level understanding of Banking and credit markets to fresh graduates. It integrates the fundamentals of financial analysis, credit and Loan analysis, rating methodologies, credit strategy and structuring. It offers the tools a candidate needs to occupy key positions in the world of finance, private banking, credit ratings and fixed income domain. **The program is offered by AIWMI and NISM (National Institute of Securities Market, A SEBI Body) in India.**

General Comments and Proposals

Para 1: About Green Bonds

Comment 1: Green or Climate? - What's there in the name!!

World Bank defines Green bond as³:

“A green bond is a debt security that is issued to raise capital specifically to support climate-related or environmental projects. This specific use of the funds raised —to support the financing of specific projects— distinguishes green bonds from regular bonds. Thus, in addition to evaluating the standard financial characteristics (such as maturity, coupon, price, and credit quality of the issuer), investors also assess the specific environmental purpose of the projects that the bonds intend to support.”

The Climate Bond Initiative ⁴ defines Green bond as:

“A Green Bond is where proceeds are allocated to environmental projects. The term generally refers to bonds that have been specifically marketed as “Green””

In theory Green Bonds proceeds could be used for a wide variety of environmental projects, or even parks development; but in practice they have mostly been the same as Climate Bonds, with proceeds going to climate change projects. Lot of bonds targeted for climate change or green projects are not labeled as Green or Climate. Clarifying the same i.e. it is important on what the funds are being used for, vs. what are they being called would help both issuers and investors.

Currently, of the bonds issued for climate change, only 10-15% is labeled as Green. However if we incentivize the Institutional investors for the said investments, the market can grow, for E.g. Debt Mutual funds may be considered for some incentives for investing in such instruments.

It should be noted that these guidelines would be applied commonly for green or climate bonds as long as the end-use for them are categorized for one of the stated purposes falling into Green/climate category.

Para 7(ii) – Project evaluation and selection

The issuer of a Green Bond shall provide the details of decision-making process; it will/has followed for determining the eligibility of projects for using Green Bond proceeds. An indicative guideline of the details to be provided is as under:

- process followed/ to be followed for determining how the project(s) fit within
- the eligible Green Projects categories;
- the criteria, making the projects eligible for using the Green Bond proceeds; and
- Environmental sustainability objectives.

Comment 2: What is Green for you may not be Green for me?

- Since there is no standard definition of Green, and largely it's issue (specific bond issuance) driven, it's difficult to have a level of assurance on whether the bond is green or not. In order to boost investor confidence, assuring them that the funds are being used to deliver climate change solutions or green purpose is of utmost importance. While proposal related to disclosure of decision making process is a welcome step, it lacks the rigor required by institutional investors to get comfort.
- Auditing the use of proceeds is a common measure in almost all bond/loan cases, hence, for Green bonds, Issuers should be asked to get themselves or the project certified or accredited to certain common standards for green bonds principles. We are not suggesting that issuers should get certified for financial standards i.e.

³ <http://treasury.worldbank.org/cmd/htm/Chapter-2-Understanding-Green-Bonds.html>

⁴ The climate Bond Initiative (<http://www.climatebonds.net/climate-bonds-initiative>)

the obligation to perform financial due-diligence remains with investors, just as it does for other investments but the project or bond is certified green giving more confidence to investors. Currently most second opinion/verification agencies, grade the bonds into graded dark green, medium green or light green.⁵

- *The Investor Network on Climate Risk (a North American nonprofit organization convened by Ceres that advocates for leadership in sustainability) has articulated its “expectations” in a statement to guide issuers and other market participants*⁶.
- *Self-certification from issuer or merchant banker might be good at beginning for small issue size but will not help due to inherent conflicts of interest and hence a third party assurance is needed to enhance the marketability of the bond with investors. Also, for the whole process to work with transparency also, a Standard Taxonomy is needed for the said market. Also Labeled bonds typically have higher demands vs. non labeled bonds, as evident from past green bond issues and bids received.*
- Again the key point to note here is that green or climate bond certification is just a label, and not a change to the revenue streams or risk profile of the project (which would have a credit impact) like other green incentive schemes such as carbon credits or tax credits etc. So green bonds carry the identical credit profile to conventional ("brown") bonds of the same issuer, but having an external standard adherence would give comfort to large investors on the ultimate mandate they are investing for.

Some example of Standards which are available globally include

1. *Climate Bond Standard – London Based Non-profit standard setting body*

Climate Bonds Initiative is the only investor-focused not-for-profit organization in the world working to mobilize the largest capital market of all, the \$100 trillion bond market, for climate change solutions. We promote investment in projects and assets necessary for a rapid transition to a low-carbon and climate resilient economy. The strategy is to develop a large and liquid Green and Climate Bonds Market that will help drive down the cost of capital for climate projects in developed and emerging markets; to grow aggregation mechanisms for fragmented sectors; and to support governments seeking to tap debt capital markets.⁷ (In nature of certification standard)

2. *World Bank Green Bond Principles⁸ and impact factors. (in nature of guidelines)*

3. *IFC Green Bond Principles⁹ and Impact report (in nature of guidelines)*

Para 7(i) – Use of proceeds

Issuer shall define and disclose in their offer document, the criteria for identification as ‘green’ i.e. what projects, assets or activities will be considered ‘eligible for financing’ and quantum of funds to be spent on the projects/assets/activities. For assigning the status of the bonds as Green, the broad categories of areas where such monies may be invested may be one or more of the following:

- Renewable and sustainable energy (wind, solar etc.)
- Clean transportation (mass transportation)
- Sustainable water management (clean and/or drinking water, water recycling etc)
- Climate change adaptation
- Energy efficiency (efficient and green buildings)
- Sustainable waste management (recycling, waste to energy etc.)
- Sustainable land use (including sustainable forestry and agriculture, afforestation etc.)
- Biodiversity conservation

⁵ <http://www.ifc.org/wps/wcm/connect/bcee33804ab6827f8003cde9e68d4b0b/IFC+Final+version+2nd+Opinion+November+23.pdf?MOD=AJPERES>

⁶ <http://www.ceres.org/files/investor-files/statements-of-investor-expectations-for-green-bonds>

⁷ [http://www.climatebonds.net/files/files/CB%20Standard%20V1_0\(1\).pdf](http://www.climatebonds.net/files/files/CB%20Standard%20V1_0(1).pdf)

⁸ <http://treasury.worldbank.org/cmd/htm/WorldBankGreenBonds.html> and <http://treasury.worldbank.org/cmd/htm/World-Bank-Launches-Green-Bond-Impact-Report.html>

⁹ http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Finance/Investor+Information/Green_Bonds

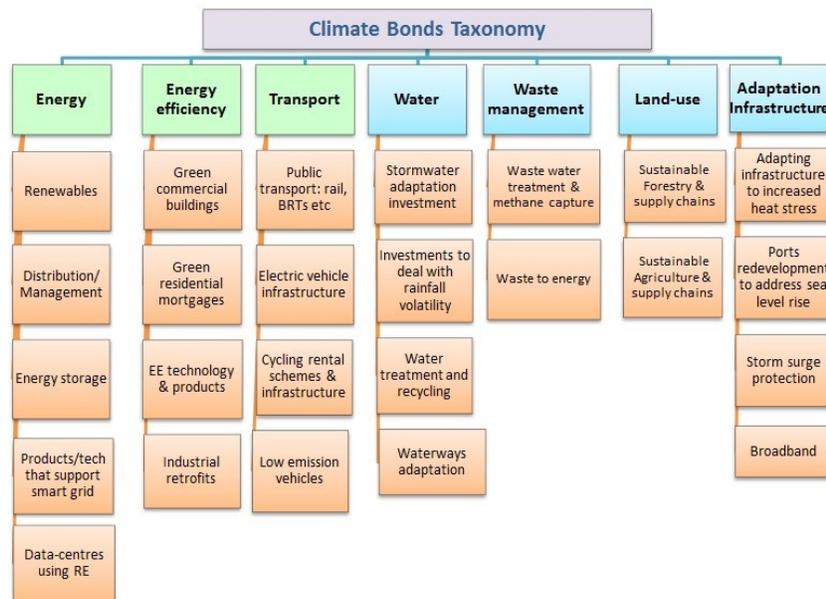
However, it is to be noted that this is an indicative list and may include other categories as specified by Board. Further, an issuer, if proposes to utilise a proportion of the proceeds of the issue of Green Bonds, towards refinancing of existing green assets, it shall be clearly provided in the offer document and wherever possible, shall also provide the details of the portfolio/assets/projects which are identified for such refinancing.

Comment 3: Refinancing

- Proceeds from labelled green bonds can fund new green projects or refinance existing green assets. Project developers need to be confident when investing in the early high-risk stage of projects that green projects can be refinanced easily and potentially at a better price. Allowing issuers to mention the same in usage of proceeds would only strengthen the process.

Comment 4: Need for a globally accepted Taxonomy (Evolving) – For unlimited growth potential

- For any security market to do well, we need to have proper information flow, allowing the users to have ability to analyze, compare and contrast with other markets and other investment avenues. The lack of proper information, categorization and other factors restrict flow of information to investors, regulators and society at large leading to slower or lesser than expected development.
- Having an Indicative list of proceeds use with disclaimers of going back to SEBI/Board each time for approval will not only be cumbersome but would also delay the entire process of developing an active bond market.
- It's important therefore to define the Taxonomy for the said market to develop helping create better benchmarks, allowing investors to aggregate information, do screening, monitoring and comparing along with performance evaluation and attribution for their portfolio.
- For the green bond market, we are enclosing here a sample¹⁰ of Taxonomy¹¹ to help align better the broad sectoral and other classification providing more clarity to issuers and other participants. Majority of the areas mentioned below are where we need long term investments in India.



¹⁰ At the UNEP report dated December 2015- 'Scaling Green Bond Markets - Guide for the Public Sector' http://www.climatebonds.net/files/files/GB-Public_Sector_Guide-Final-1A.pdf

¹¹ Detailed notes on Taxonomy can be found at <http://www.climatebonds.net/standards/taxonomy2>

Para 7(iii) Management of proceeds:

The proceeds of Green Bonds shall be credited to an escrow account, and shall be utilised only for the stated purpose, as in the offer document. The use of proceeds shall be tracked as per an approved internal policy of issuer and such policy shall be disclosed in the offer document/placement memorandum.

The utilisation of the proceeds may also be verified/supplemented by the report of an external auditor, or other third party, to verify the internal tracking method and the allocation of funds towards the projects, from the Green Bond proceeds.

Comment 5 – Escrow linked to Neutral Treasury

- Having an escrow account to manage proceeds till they are used for green projects is a welcome step and is needed to avoid mis-use of the funds raised for green projects. However this might be cumbersome for corporate issuers with small bond issuance. In some past cases, we have seen issuers trying to pay down ST-debt used for other operations with such proceeds. In this case, SEBI's precaution is commendable.
- SEBI should allow or clarify that the proceeds (Escrow) can be linked to a neutral short-term portfolio (for example a treasury portfolio with money market instruments) if the proceeds are not immediately deployed to eligible green projects.

Para 7(iv) Reporting:

In addition to reporting on the use of proceeds issuers shall also provide, at least on an annual basis, a list of projects to which Green Bond proceeds have been allocated. This may also include the details of the expected environmental impact of such projects. The environmental impact report may provide for qualitative performance indicators and, where possible, quantitative performance measures of the expected environmental sustainability impact of the specific project. However, where confidentiality agreements or competition issues limit the amount of detail that can be made available, information can be presented in generic terms.

Comment 6 – Information risk premium and lack of level playing field

- Issuer's annual reporting on the use of proceeds is a welcome step and initiative by SEBI. However we need to improvise and categorize pre and post issuance reporting with first level of assurance/check given from the issuer itself, followed by an independent second opinion and then ultimately validated by an auditing or verification agency. Referring to the Green bond League table¹², it is evident that almost 63% of the issued bonds had a second opinion taken from one of the agencies like CICERO, Vigeo, Oekem, DNV etc even though the issuer was very highly rated like World Bank or IFC or an established utility company.
- Currently, green bond issuers face the issue of incurring additional transaction costs associated with second opinions and certification and environmental disclosures. *SEBI can seek to level the playing field for transparency, disclosure and reporting costs between green and non-green bond issuance by extending the focus on disclosure requirements for green/Environmental metrics for all fixed income issuers.* This will not only provide an arbitrage to green bonds vs. non green bonds, but also increase the investor awareness of choosing between two bonds with same yields based on the green metrics. Similar disclosures have been helping analysts/investors in Equity market space with disclosure by companies on CSR, ESG and other sustainability reporting measures. *Global Reporting Initiative's (GRI)¹³ sector guidance makes reporting more relevant and user-friendly for organizations in diverse sectors.*
- World Bank also measures most projects on Green bonds impact factors to decide eligibility¹⁴ which may be adapted here.

¹² http://www.climatebonds.net/cbi/pub/data/bonds?items_per_page=All

¹³ GRI is an international independent organization that helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others. <https://www.globalreporting.org/standards/sector-guidance/sectorguidanceG4/Pages/default.aspx>

¹⁴ <http://treasury.worldbank.org/cmd/pdf/WorldBankGreenBondImpactReport.pdf>

- The same set of disclosures could be mandated for all debt issuers also under Debt Regulations 2008. In terms of reporting, we should identify some suggested basic metrics on Air quality, Carbon Disclosure, GHG Emissions, Water used/replenished, Energy saved, Emissions etc.
- The proposal also lacks details into Non-compliance issues. While, we can assume that such issues would be taken care by the Event of default clauses in the bond prospectus itself, however, Regulator can also mandate disclosures for such non-compliances to Exchange/Regulatory filings to general investor community.

Closing Remarks

SEBI has taken an important step in formulating the Green bond markets guidelines in India. CCRA global community and AIWMI appreciate the kind opportunity to comment on these proposed changes. We hope that SEBI finds the comments useful in analysing/deciding the proposals/framework. AIWMI and CCRA Global Community will be happy to provide deeper analysis on any of the issues discussed in this comment letter.

We would be very keen to engage further with SEBI via in person meetings, participate in any committee or otherwise to present our views.

If you have any further questions or seek clarification, please do not hesitate to contact Biharilal Deora at +91 99308 37335 or Biharilal@aiwmindia.com or Biharilal.deora@gmail.com

Sincerely yours,

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