

Green Bonds

Green Bonds are growing in prominence internationally and in New Zealand, as investors seek transparent and credible green investments and issuers wish to demonstrate their commitment to addressing environmental issues and diversify their investor base.

In August 2017 International Finance Corp, a member of the World Bank Group, issued New Zealand's first Green Bond. The proceeds of the bond will be used to support investments in renewable energy, energy efficiency and other areas that reduce greenhouse gas emissions. In the same month, Contact Energy Limited launched its green borrowing programme, committing to apply the proceeds of a number of its existing borrowings and debt programmes to renewable generation and other eligible green assets.

What is a Green Bond?

There is no legal definition of Green Bond. Any kind of debt instrument issued by any kind of issuer can be "green" if the proceeds are exclusively applied to finance or re-finance, in part or in full, new and/or existing green projects.

Green Bonds have been issued in different forms. The most common is a full recourse debt security where the proceeds must be applied for a specific green purpose. Yet it is possible for a Green Bond to take other forms, such as non-recourse revenue bonds, project bonds and securitised bonds.

Standards for Green Bonds

To address investor concerns about transparency and the integrity of Green Bonds, issuers can voluntarily comply with published standards. The most prominent standards are:

- the Green Bond Principles (GBPs): The GBPs are established by an Executive Committee comprising issuers, investors and underwriters and are supported and published by [ICMA](#).
- the Climate Bonds Standard: The Climate Bonds Standard is established by the [Climate Bonds Initiative](#), an investor-focused not-for-profit organisation promoting large scale investment in low-carbon industries. The Board is supported by an industry working group which consults on the structure and content of the Standard and comments on proposed certification and verification processes for standard compliance.

The Green Bond Principles are fairly high level and are able to be verified by the issuer itself, although the GBPs recommend that an issuer has its compliance verified by an external party. The GBPs have four core components:

1. Use of proceeds

It is the use of proceeds that sets a Green Bond apart from other bonds. The GBPs contain a list of project categories that may be suitable for Green Bond financing. The projects address environmental matters such as climate change, natural resources depletion, loss of biodiversity and pollution.

2. Process for project evaluation and selection

The GBPs encourage a high level of transparency regarding the environmental benefits of the Project and the process carried out by the issuer to determine that the selected Project is an eligible Green Project.

3. Management of proceeds

The GBPs encourage a high level of transparency regarding the proper allocation of the proceeds of a Green Bond to the selected Project.

4. Reporting

The GBPs encourage issuers to provide regular reports regarding the use of proceeds and the expected impact of the selected Project.

The Climate Bond Standards take the GBPs one step further, to create a system for the certification of bonds and other debt instruments as "Certified Climate Bonds". The key features of the Climate Bond Standards underpin the value of the certification, including:

- alignment of the Climate Bond Standards with the GBPs;
- mandatory requirements for the use of proceeds, tracking and reporting;
- specific eligibility criteria for the green projects that the proceeds of the funding are applied to (for example, there are existing approved criteria for various types of energy generation (solar, wind, geothermal), low carbon buildings, transport and water-related investments with criteria for other green projects currently under development, including hydropower, bioenergy, land use, marine and waste management); and
- an assurance framework applied by approved independent verifiers applying clear procedures.

Documenting Green Bonds

As Green Bonds are simply debt instruments, Green Bonds can typically be issued under existing debt programme documents. That is, it is not usually necessary to prepare bespoke programme documents in order to issue Green Bonds.

In addition to the programme documents, it will be necessary for an issuer of Green Bonds to:

- formally record the processes for identifying and verifying the green uses of the proceeds; managing the proceeds; and reporting on the use of the proceeds, in each case, in compliance with the applicable Green Bond principles and standards; and
- if the issuer wishes to have the Green Bonds certified, disclose certain information about these processes and the green projects that the proceeds will be applied to in the relevant offer documents for the Green Bonds.

For more information, please contact one of our experts.

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Please contact us on +64 9 367 8000 or +64 4 499 9555 to discuss any of the content in this update, or how we could help you or your clients.

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