



The  
**Green Bond**  
Principles





## 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.

This edition of the GBP benefits from the input of the 2015 summer consultation of GBP Members and Observers, as well as of the subsequent working groups created by the GBP Executive Committee to reflect on the key themes that surfaced from the consultation. It also aims to reflect ongoing feedback from the wider Green Bond stakeholder community and to take into account recent market developments.

The 2016 update continues to be framed by the same four core components (Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting). A particular effort has been made this year to recommend best practice on information sharing and external reviews including through proposed templates. This is designed to help investors, and the market generally, to establish the alignment of issuances with the GBP. Project eligibility is discussed in the Green Project categories under the Use of Proceeds section and has been expanded to include more details and reference to other external resources. Additional detail has also been included on reporting guidelines.

Finally, this update of the GBP acknowledges the application of the “use of proceeds” bond concept to themes beyond the environment, such as bonds financing projects with social objectives, or with a combination of social and environmental objectives. A number of such Social or Sustainability Bond transactions share common key features with Green Bonds. Guidance for Issuers of Social Bonds has therefore been developed to confirm the relevance of the GBP in this context and facilitate their application to provide transparency and disclosure to this emerging segment. A copy of this document is available at [www.icmagroup.org/socialbonds.org](http://www.icmagroup.org/socialbonds.org)

## 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.

Different types of Green Bonds exist in the market. These are described in Appendix I. It is important to note that Green Bonds should not be considered fungible with bonds that are not aligned with the four core components of the GBP.

## Green Bond Principles

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 by clarifying the approach for issuance of a Green Bond. The GBP are intended for broad use by the market: they provide issuers with guidance on the key components involved in launching a credible Green Bond; they aid investors by promoting availability of information necessary to evaluate the environmental impact of their Green Bond investments; and they assist underwriters by moving the market towards expected disclosures which will facilitate transactions.

The GBP recommend a clear process and disclosure for issuers, which investors, banks, investment banks, underwriters, placement agents and others may use to understand the characteristics of any given Green Bond. The GBP emphasize the required transparency, accuracy and integrity of information that will be disclosed and reported by issuers to stakeholders.

The GBP have four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

### 1. Use of Proceeds

The cornerstone of a Green Bond is the utilization of the proceeds of the bond for Green Projects which should be appropriately described in the legal documentation for the security. All designated Green Project categories should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer.

In the event that all or a proportion of the proceeds are or may be used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced.

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The GBP explicitly recognize several broad categories of eligibility for Green Projects aiming to address key areas of concern such as climate change, natural resources depletion, loss of biodiversity and/or pollution control. The list is intended to be indicative and capture the most commonly used types of projects supported or expected to be supported by the Green Bond market. These categories, listed in no specific order, include, but are not limited to:

- renewable energy (including production, transmission, appliances and products);
- energy efficiency (such as in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products);
- pollution prevention and control (including waste water treatment, greenhouse gas control, soil remediation, recycling and waste to energy, value added products from waste and remanufacturing, and associated environmental monitoring analysis);
- sustainable management of living natural resources (including sustainable agriculture, fishery, aquaculture, forestry and climate smart farm inputs such as biological crop protection or drip-irrigation);
- terrestrial and aquatic biodiversity conservation, (including the protection of coastal, marine and watershed environments);
- clean transportation (such as electric, hybrid, public, rail, non-motorized, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions);
- sustainable water management (including sustainable infrastructure for clean and/or drinking water, sustainable urban drainage systems and river training and other forms of flooding mitigation);
- climate change adaptation (including information support systems, such as climate observation and early warning systems);
- eco-efficient products, production technologies and processes (such as development and introduction of environmentally friendlier, eco labelled or certified products, resource efficient packaging and distribution).

While the GBP's purpose is not to take a position on which green technologies, standards, claims and declarations are optimal for environmentally sustainable benefits, issuers and other stakeholders can refer to examples through links listed on the GBP webpages at [www.icmagroup.org/greenbonds](http://www.icmagroup.org/greenbonds). Furthermore, there are many institutions that provide independent analysis, advice and guidance on the quality of different green solutions and environmental practices. Definitions of green and green projects may also vary depending on sector and geography.

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## 2. Process for Project Evaluation and 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.

The GBP encourage a high level of transparency and recommend that an issuer's process for project evaluation and selection be supplemented by an external review (see External Review section).

In addition to information disclosed by an issuer on its Green Bond process, criteria and external reviews, Green Bond investors may also take into consideration the quality of the issuer's overall profile and performance regarding environmental sustainability.

## 3. 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).

## 4. Reporting

Issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and as necessary thereafter in the event of new developments. This should include a list of the projects to which Green Bond proceeds have been allocated, as well as a brief description of the projects and the amounts allocated, and their expected impact. Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the GBP recommend that information is presented in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories).

Transparency is of particular value in communicating the expected impact of projects. The GBP recommend the use

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of qualitative performance indicators and, where feasible, quantitative performance measures (e.g. energy capacity, electricity generation, greenhouse gas emissions reduced / avoided, number of people provided with access to clean power, reduction in the number of cars required, etc.) with the key underlying methodology and / or assumptions used in the quantitative determination. Issuers with the ability to monitor achieved impacts are encouraged to include those in their regular reporting.

Leading International Financial Institutions have developed a reference framework for impact reporting (“Working towards a harmonized framework for Green Bond impact reporting” available at [www.icmagroup.org/greenbonds](http://www.icmagroup.org/greenbonds)) that outlines core principles and recommendations and puts forward core indicators for two sectors: energy efficiency and renewable energy. The framework includes templates for impact reporting at a project and portfolio level that other issuers can adapt to their own circumstances. The GBP welcome this initiative, and encourage further initiatives, to help establish additional references for impact reporting that others can adopt and/or adapt to their needs.

The use of a summary reflecting the main characteristics of a Green Bond or a Green Bond programme, and illustrating its key features in alignment with the four core components of the GBP may help inform market participants. To that end, a template can be found on [www.icmagroup.org/greenbonds](http://www.icmagroup.org/greenbonds) which once completed can be made available online for market information (see section on GBP Resource Centre below).

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## External Review

It is recommended that issuers use an external review to confirm the alignment of their Green Bonds with the key features of the GBP as defined above. There are a variety of ways for issuers to obtain outside input to the formulation of their Green Bond process and there are several levels and types of review that can be provided to the market. Such guidance and external reviews might include:

- 1) **Consultant Review:** An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental sustainability or other aspects of the issuance of a Green Bond, such as the establishment/review of an issuer’s Green Bond framework. “Second opinions” may fall into this category.
- 2) **Verification:** An issuer can have its Green Bond, associated Green Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.

- 3) **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against an external green assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- 4) **Rating:** An issuer can have its Green Bond or associated Green Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Green Bond ratings are separate from an issuer’s ESG rating as they typically apply to individual securities or Green Bond frameworks / programmes.

An external review may be partial, covering only certain aspects of an issuer’s green bond or associated Green Bond framework or full, assessing alignment with all four core components of the GBP.

The GBP recommend public disclosure of external reviews, or at least an executive summary, for example by using the template available at [www.icmagroup.org/greenbonds](http://www.icmagroup.org/greenbonds) which once completed can be made available online for market information (see section on GBP Resource Centre below). The GBP encourage external review providers in any case to disclose their credentials and relevant expertise, and communicate clearly the scope of the review conducted.

The GBP take into account that the timing of an external review may depend on the nature of assets financed (new projects or refinancing of existing assets) and publication of reviews can be constrained by business confidentiality requirements.

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## GBP Resource Centre

Recommended templates and other GBP resources are available at the GBP Resource Centre at [www.icmagroup.org/greenbonds](http://www.icmagroup.org/greenbonds). Completed templates can be made available online for market information at the GBP Resource Centre by following the instructions at [www.icmagroup.org/greenbonds](http://www.icmagroup.org/greenbonds).

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## Appendix I - Types Of Green Bonds

There are currently four types of Green Bonds (additional types may emerge as the market develops and these will be incorporated in annual GBP updates):

- **Green Use of Proceeds Bond:** a standard recourse-to-the-issuer debt obligation for which the proceeds shall be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer and attested to by a formal internal process that will be linked to the issuer's lending and investment operations for eligible Green Projects. It is recommended that the issuer make known to investors the intended types of temporary placement for the balance of unallocated proceeds.
- **Green Use of Proceeds Revenue Bond:** a non-recourse-to-the-issuer debt obligation in which the credit exposure in the bond is to the pledged cash flows of the revenue streams, fees, taxes etc., and the use of proceeds of the bond goes to related or unrelated Green Project(s). The proceeds shall be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer and attested to by a formal internal process that will be linked to the issuer's lending and investment operations for eligible Green Projects. Pending such investment or allocation, it is recommended that the issuer make known to investors the intended types of temporary placement for the balance of unallocated proceeds.
- **Green Use of Proceeds Project Bond:** a project bond for a single or multiple Green Project(s) for which the investor has direct exposure to the risk of the project(s) with or without potential recourse to the issuer.
- **Green Use of Proceeds Securitized Bond:** a bond collateralized by one or more specific Green Project(s), including but not limited to covered bonds, ABS, MBS, and other structures. The first source of repayment is generally the cash flows of the assets. This type of bond covers, for example, asset-backed securitizations of rooftop solar PV and/or energy efficiency assets.

It is also recognized that there is a market of environmental, climate or otherwise themed bonds, in some cases referred to as "pure play", issued by organisations that are mainly or entirely involved in environmentally sustainable activities, but that do not follow the four core components of the GBP. In such cases, investors will need to be informed accordingly and care should be taken to not imply GBP features by a Green Bond reference. These organisations are encouraged to adopt where possible the relevant best practice of the GBP (e.g. for reporting) for such existing environmental, climate or otherwise themed bonds, and to align future issues with the GBP.

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## Disclaimer

*The Green Bond Principles are voluntary process guidelines that neither constitute an offer to purchase or sell securities nor constitute specific advice of whatever form (tax, legal, environmental, accounting or regulatory) in respect of Green Bonds or any other securities. The Green Bond Principles do not create any rights in, or liability to, any person, public or private. Issuers adopt and implement the Green Bond Principles voluntarily and independently, without reliance on or recourse to the Green Bond Principles, and are solely responsible for the decision to issue Green Bonds. Underwriters of Green Bonds are not responsible if issuers do not comply with their commitments to Green Bonds and the use of the resulting net proceeds. If there is a conflict between any applicable laws, statutes and regulations and the guidelines set forth in the Green Bond Principles, the relevant local laws, statutes and regulations shall prevail.*

# Green Bond Principles: Community and Governance

## Who supports the Green Bond Principles?

As of June 2016, 117 institutions representing all participants in the GB market have joined the GBP as members and 71 organizations have received GBP observer status (lists of current members and observers are available at: [www.icmagroup.org/greenbonds](http://www.icmagroup.org/greenbonds)).

Membership is open to institutions that have issued, underwritten or placed, or invested in a Green Bond. Members elect the Executive Committee, decide on changes to GBP governance, and provide input to updates to the Principles.

Observer status is designed to welcome organizations that are not yet in the market and/or are active in the field of green finance such as but not limited to NGOs, universities, auditors, and service providers. Observers are informed of GBP developments and are included on consultations regarding updates to the GBP.

## What is the Governance framework for the Principles?

The Governance framework for the Green Bond Principles (GBP Governance) was initially published in April 2014 and has been updated in June 2015. It is available at: [www.icmagroup.org/greenbonds](http://www.icmagroup.org/greenbonds). Under its rules, it is the GBP Executive Committee that decides on updates of the GBP with the input of Members and Observers through annual consultations that are organised by the GBP Secretariat. The Executive Committee was expanded from 18 to 24 organisations early September 2015 and represents a balanced distribution of leading Green Bond investors, issuers and underwriters.

Half of the members of the Executive Committee are renewed each year by a vote of GBP members. The current composition of the Executive Committee can be found at [www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/executive-committee](http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/executive-committee)

## Secretariat

The International Capital Market Association (ICMA) serves as Secretary providing support to the GBP including advice on governance and other issues. The Secretariat's duties also include facilitating information exchange with issuers, investors, underwriters, and other stakeholders; as well as gathering input for the annual update of the Green Bond Principles.

## Contact

For information, or to find out how to participate in the Green Bond Principles, please contact the GBP Secretariat at [greenbonds@icmagroup.org](mailto:greenbonds@icmagroup.org)



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