While the green bond market is still in its nascent stage, the growth potential is enormous as both developed and emerging countries transition to more eco-friendly economies, and the range of issuers and investors, as well as the variety of bonds offered, continues to widen.

However, KPMG predicts that guidance and requirements may be tightened over the next two to three years. For the green bond market to mature, issuers should take a rigorous approach to effectively monitor and manage their green bond proceeds, uphold transparency and communicate regularly with stakeholders in order to preserve market integrity.

Recent Thought Leadership on sustainability:

WHAT is a green bond?
A green bond, like any other bond, is a fixed-income financial instrument for raising capital through the debt capital market. The key difference between a green bond and a regular bond is that the issuer publicly states it is raising capital to fund green projects, assets or business activities with an environmental benefit, such as renewable energy, low carbon transport or forestry projects.

WHY issue green bonds?
Many regular bonds have raised money for climate-aligned assets that would qualify as green without labelling them as such. In terms of pricing, most green bonds currently in the market bear similar financial characteristics to regular bonds from the same issuer since repayment is tied to the issuer. Green bonds, however, offer some potential benefits to issuers:

• Investor diversification and demand
• Closer engagement with investors
• Corporate reputation and awareness
• Improved internal awareness of sustainability
• Government support and incentives

WHY can issuers issue green bonds?
There is no restriction on the type of organisation that can issue green bonds. The “greenness” of a company does not matter, although this could be a concern for some investors and may attract accusations of ‘greenwashing’. Issuers may be supranational institutions, private corporates, banks or governments.

WHAT are green bonds suitable for my business? How do you issue green bonds?

A number of emerging countries, including China, are working to raise capital for climate-aligned projects. To do so, they are issuing green bonds. Any company looking to raise capital via the debt capital market may consider issuing green bonds.

The KPMG Survey of Corporate Sustainability Reporting 2015: Chinese Findings

Market highlights
• Size tripled between 2013 and 2014
• 2015 issuance amount: USD 42 billion
• A number of emerging countries, including China, kicked off their market in 2015

Outlook

Eight years ago, ‘green bonds’ did not exist. Fast forward to 2015, and the total issuance of green bonds during the year stood at USD 42 billion1. Green bonds are fast becoming an attractive option for organisations seeking to raise capital for projects, assets or other activities that benefit the economy, environment and society. Interest has reached new heights in recent years, with governments starting to promote the development of the green bond market, and investors flocking to ‘green’ investments. This has resulted in green bonds being constantly over-subscribed.

As green bond issuances continue to gain momentum, a growing number of businesses are asking: “Are green bonds suitable for my business? How do you issue green bonds?”
The green bond issuance process is similar to that of a regular bond, with an added emphasis on governance, traceability, and transparency designed to increase investors’ confidence in the green credential of the bond, and prevent accusations of ‘greenwashing’ to the issuer. Below is a simple outline of a generic green bond issuance process, which may be different depending on the jurisdiction. Guidance is given below on the steps that require extra attention from issuers of a green bond compared to a regular bond:

1. Review funding options
   - Issuers should review the business case for green bond issuance, consider how it matches with their financing objectives and sustainability strategy, and weigh the benefits against the specific challenges, which may include:
     - Issuance and ongoing tracking, monitoring and reporting costs
     - Keeping a ‘closeness’ to conventional bonds, including returns
     - Reputational risks associated with ‘greenwashing’ accusations
     - Heightened scrutiny of environmental credentials
     - Penalties for green default (whereby a bond is paid in full but the issuer breaks agreed green clauses)

2. Choose underwriter
   - Issuers should consider the experience and expertise of the underwriter in handling green bonds, as well as their ability to support tracking and reporting.

3. Registration/application
   - Issuers are required to register their green bond with the relevant authorities, following a specific process that ensures the bond meets the green criteria.

4. Information disclosure
   - Issuers must provide detailed information on the green bond and its use of proceeds, including the green projects or activities it supports.

5. Processes and controls for use/management of proceeds
   - Setting up robust management and controls for tracking and allocation of proceeds is recommended to ensure the proceeds are used in line with the terms of the bond. The following areas should be considered while designing the tracking mechanisms and processes:
     - Tracking of proceeds
     - Management of proceeds
     - Management of unallocated proceeds
     - Assurance

6. Ongoing reporting
   - Reporting on the allocation of proceeds and the environmental and/or social outcomes of the investments regularly during the life of the bond or projects invested in is increasingly expected by investors. In preparing for the disclosure of the green impact of the underlying assets or investments, issuers are recommended to consider:
     - Designing monitoring and evaluation processes in advance
     - Implementing key performance indicators (KPIs) and data collection systems to monitor environmental outcomes of projects over time
     - Seeking third-party assurance to reduce data quality risks and raise stakeholder confidence in disclosures

7. Allocation of proceeds
   - Issuers should ensure that the proceeds are allocated as intended and are used for the green projects they were designated for.

8. KPMG’s support throughout the life of a green bond
   - KPMG’s support includes assistance in choosing underwriters, designing green bond criteria and project selection process, developing green criteria and management of proceeds criteria, reviewing processes and controls, benchmarking green bond framework, and providing advice on the credit rating process, presentation to investors, commercial terms and reaching financial close.

In China, guidelines have been issued by the People’s Bank of China and the National Development and Reform Commission in December 2015. There is no universally agreed standard for a green bond and the kind of activities that can be funded. Issuers can look to several evolving guidelines and sources such as the Green Bond Principles, the Climate Bonds Standard, national guidelines, green bond indices and sector-specific standards for guidance in defining their green bond and the process used to determine the eligibility of projects.
While the green bond market is still in its nascent stage, the growth potential is enormous as both developed and emerging countries transition to more eco-friendly economies, and the range of issuers and investors, as well as the variety of bonds offered, continues to widen.

However, KPMG predicts that guidance and requirements may be tightened over the next two to three years. For the green bond market to mature, issuers should take a rigorous approach to effectively monitor and manage their green bond proceeds, uphold transparency and communicate regularly with stakeholders in order to preserve market integrity.

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WHY issue green bonds?
Many regular bonds have raised money for climate-aligned assets that would qualify as green without labelling them as such. In terms of pricing, most green bonds currently are priced not significantly different from conventional bonds. The focus for some issuers may be more on improved internal awareness of investor demand!

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2 Refers to the labelled green bond market, i.e. where the issuers and/or indices label the bond as green.