The Corporate Reporting Users' Forum

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Dear Ms. Agarwal

Concept paper for Issuance of Green Bonds in India

The Corporate Reporting Users' Forum welcomes the opportunity to comment on the above report. This is a step in the right direction as the constituents of the green revolution are growing exponentially. With global leaders focusing on making our world greener, there is growing interest and commitment from various quarters to incentivise green projects. Our responses pertaining to this paper are set out below:

Para 7(ii) – Project evaluation and selection

The general Green bond principles defined by the World Bank, IFC and ICMA provides a broad definition on Green bonds and lays out an inclusive list. With climate change becoming one of the biggest problems facing mankind, this list would potentially be ever growing. In such a scenario, having a list of projects to be included or excluded would act as a barrier to the whole market and stymie its growth. An alternative approach to selection and evaluation would be meeting common guidelines or standards as set up by a competent authority.

Investors, as also other stakeholders, would be concerned that a non-prescriptive and flexible definition could result in bond issuances which fall far short of the desired standards and guidelines. Certain basic standards should be met and controls set in place to ensure this is adhered to on an ongoing basis if we are to make green bonds a robust instrument of choice for businesses that indeed qualify for the same.

We recommend issuers/projects to meet a set of pre-defined guidelines/conditions/specifications for both pre- and post-issuance reporting and verification (including second opinion) of the quality of projects financed[1]. SEBI's step to mandate issuer to disclose the decision making process is a welcome move in that direction. However, more can be done in consultation with participants and advisors.

The green bonds label can help issuers attract a wider range of investors including those only focusing on environmental, social and governance (ESG) performance[2]. The drawback from an issuer perspective could be additional cost and monitoring, but considering the sizable upside, voluntary adoption/adherence is a good beginning for bond issuers.

Para 7(i) – Use of proceeds and Para 7(iii) Management of proceeds:

The suggestion to include an escrow account has to be thought through before implementation. This requirement could create more hurdles in a yet nascent market for green bonds in developing countries like India. Typically, if bond holders have strong covenants around use of proceeds towards its stated purpose/s, the company would voluntarily abide else they would have to face an event of default and ratings downgrades that may trigger cross default in its entire capital structure. Instituting an escrow would be more stringent for such issues. There is also the possibility that despite honouring the intended purpose of the escrow account i.e. funds used for the stated purpose/s, issuers could potentially still default on the green clauses for the bond i.e. unable to meet green standards for the projects.

Para 7(iv) Reporting:

Quarterly reporting from issuers are most common in bond markets. This becomes important in countries like India given the generally low level of disclosures pertaining to listed companies. In addition to the quarterly disclosure, we recommend the pre- and post-reporting requirements combined with some basic project specific disclosures. Typical reporting standards that can be considered are World Wide Fund for Nature (WWF), research providers such as MSCI ESG and Climate Bonds Initiative.

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[1] http://bmogamviewpoints.com/wp-content/uploads/2015/11/BMO-Responsible-Invest-Persp-Green-Bonds-V4.pdf

[2] http://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/sustainable-insight/Documents/sustainable-insight-gearing-up-green-bonds.pdf

A recent example would include, the European Investment Bank's (EIB) 2015 green bonds reporting newsletter which provides reporting guidelines for greenhouse gas emissions on a project basis. Several of the multilateral development banks like IFC etc. have been advocating impact/sustainable reporting on renewables and energy efficiency projects.

As the issue size grows, the level of assurance required for such bonds should be higher. For smaller issues, say less than USD 20 million (strictly indicative in nature considering liquidity and private placements), self-certification should be enough. However anything meaningful in size, say USD 100 million and above should warrant third party verification and auditing requirements.

To provide green bonds a level playing field and to compensate investors/issuers for additional disclosure/reporting and analysis, the said ESG/green disclosure should be made common for all issuers irrespective of project type and use of funds. This would incentivise issuers by creating more demand from green investors willing to accept bonds at a lower yield.

Initiatives towards developing green bond Indices, involving bonds that meet certain criteria like size, purpose, external assurance, etc. would encourage ETF's and Index funds to also participate in this market. Presently, there are a wide variety of such indices being launched by Barclays, S&P, Dow Jones, and MSCI etc.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organizations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organizations. The participants in the Forum that have specifically endorsed this response are listed below.

Rajesh Sehgal, CFA