



# Issuing green bonds

**How KPMG can help**

[kpmg.com/sustainability](https://kpmg.com/sustainability)

# Green bonds offer new opportunities to raise capital

## KPMG professionals can help

Green bonds are taking off as the investment vehicle of choice for the private and public sectors to finance projects with environmental benefits, such as clean power, low-carbon transport and energy efficient buildings.

Green bonds have proved attractive to the growing number of investors with an interest in sustainable investment options and are generally oversubscribed. No wonder the labelled green bond market grew by almost 80 percent between 2016 and 2017, with a record-breaking US\$155 billion worth of bonds issued in 2017 alone.<sup>1</sup>

While most green bonds are issued by banks, it is increasingly common for corporations to issue their own bonds. Big brands in the technology, utilities, automotive and consumer products sectors are among those that have done so.

Along with the advantages, there are also challenges and uncertainties for green bond issuers as the market is still new (the first green bond was issued in 2007). Many organizations can benefit from expert advice to navigate the pitfalls or from independent assurance to maximize the credibility and appeal of their bonds.

KPMG member firms have a global network of advisory and assurance professionals with solid experience in supporting clients on green bond issuance across the globe. They have worked on some of the leading green bond issuances to date.

<sup>1</sup>Climate Bonds Initiative (2018) *Green Bond Highlights 2017*.

## Contact us to find out how KPMG member firms can help you



### Tomas Otterström

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With over 20 years of experience, Tomas has worked with dozens of institutional investors, asset management companies, and large corporates to understand and integrate environmental, social and governance (ESG) aspects into their investment policies, and measure the impact of this for their businesses.



### Manpreet Singh

Leader, Green and Social Bonds global network, KPMG International.  
Director, KPMG in India.

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Manpreet is an expert in environmental finance and has spent much of his career helping KPMG clients either to submit, or to assess, funding applications for climate-related projects. At KPMG in India, Manpreet has supported dozens of green bond issuances.

# How we can help

## KPMG member firms offer a range of services to support you during the lifecycle of your green bond.

01

### Review financing options:

KPMG professionals review and challenge your financing objectives and alternatives, enabling you to optimize the capital structure and make the most of debt market appetite. KPMG specialists can help determine a preferred funding route, and act as a sounding board for your management team.

02

### Design green bond criteria:

KPMG member firms can help you develop a green bond framework, 'green' criteria and specifications for the management of proceeds. KPMG professionals advise on project selection and evaluation, fund management processes and controls, and we benchmark your processes against industry best practice and evolving standards.

03

### Execution:

KPMG specialists advise on the presentation of your business's credit story and green credentials to potential investors, the issuance process of the debt, and liaison with stakeholders including credit rating agencies.

04

### Ongoing stakeholder management:

KPMG member firms can help you assess the performance of a green bond through independent bond investor studies, giving you unbiased insight into bondholders' perspectives and into the profile of bondholders.

05

### Third-party independent assurance:

To increase the credibility of the bond, KPMG professionals can provide assurance on the issuer's processes and controls for selecting green projects and managing proceeds, as well as on the issuer's progress reports.

06

### Monitoring and reporting:

KPMG specialists can help you develop performance indicators and project evaluation metrics to monitor and report on the financial and environmental outcomes of projects. KPMG member firms support you in reporting to your company's internal and external stakeholders.

# Key challenges in the evolving green bond market

**By ensuring that their green bond is well designed and that appropriate due diligence is in place, issuers and their investors can avoid risks which may otherwise undermine the financial attractiveness of the green bond. Common challenges in the green bond space include:**



## **The lack of a common definition of "green"**

There is not yet a universally accepted definition of what makes a bond "green" or "not green". So KPMG professionals recommend bond issuers adopt robust green criteria to ensure investor confidence and attract funding.



## **The complex green bond landscape**

With so many different green bond guidelines and standards available, ranging from the Green Bond Principles to green bond indices and sector-specific standards, navigating this landscape can be challenging and requires in-depth expertise.



## **The need to know how bond proceeds are spent**

Green bond investors are becoming more demanding and increasingly want independent assurance that bond proceeds have been monitored and managed appropriately.



## **The risk of 'greenwash'**

Bond issuers face reputational risks if bonds do not deliver the intended environmental benefits. Investors may seek penalties if the issuer breaks agreed green clauses.

## **How to issue a green bond: find out more**

KPMG International has published a research paper to help organizations understand the opportunities and challenges of issuing a green bond. It helps provide clarity on five important questions:

- 1 Should we label our bond 'green'?
- 2 How do we define what makes the bond 'green'?
- 3 What should we report on after issuing a green bond?
- 4 What type of external assessment should we seek?
- 5 How can we avoid accusations of 'greenwash'?



**Download the report from:**  
[kpmg.com/greenbonds](https://kpmg.com/greenbonds)

# Client stories

01

## First green bond in India

A large private bank in India sought to issue a green bond to finance renewable energy projects including solar, wind, hydro and biomass-based power. It was the first green bond to be issued in India and this provided an opportunity for the client to make a mark in the green bond market and set itself apart from its competitors.

Drawing on international green bond expertise and experience, KPMG in India provided third-party independent assurance as per the requirements of the Green Bond Principles (established by the International Capital Market Association or ICMA). Through KPMG's support, the client was able to ensure its green bond processes, controls and procedures were robust and credible.

The bond was heavily oversubscribed by investors including major banks and financial institutions. KPMG provided assurance on the client's annual reporting for the bond, in line with the requirements of the International Standard on Assurance Engagements 3000 (ISAE 3000), and continues to do so.

02

## Green bond to finance climate change projects in South Africa

The City of Cape Town, as part of its Climate Change Strategy, issued a 1 billion Rand (US\$76 million) green bond to raise capital for projects to prepare and protect the city against the effects of climate change. These projects included energy efficiency in buildings, water management and the rehabilitation and protection of coastal structures.

KPMG in South Africa provided pre-issuance assurance services to the City. This involved evaluating the bond management frameworks and green bond criteria, as well as reviewing the processes for managing and reporting on the use of bond proceeds. Based on KPMG's recommendations, the City was able to enhance its green bond frameworks, and its internal management and reporting processes.

The bond was significantly oversubscribed and international ratings agency Moody's gave it a GB 1 "excellent" rating, adding credibility to its green credentials and controls. The publication *Environmental Finance* named the bond as Green Bond of the Year in its Local Authority category.

03

## Assuring use-of-proceeds data for a major bank's real estate green bond

A major Dutch bank issued its first green bond to the value of €500 million (US\$590 million). The bond was focused on sustainable real estate, including mortgage loans for new residential buildings, residential green loans for solar panels and commercial loans for the construction of energy efficient buildings. To provide maximum credibility for investors, the bank asked KPMG in the Netherlands to review the use-of-proceeds data in its green bond report.

KPMG professionals reviewed documentation, evaluated the design and implementation of the reporting processes and controls, and interviewed staff responsible for managing the bond and reporting on the use of proceeds.

KPMG specialists issued an independent limited assurance report on the bank's own report on the use of bond proceeds. This assurance helped to enhance the credibility of the reported information and helped to demonstrate to bondholders that the proceeds were used in accordance with the client's green bond criteria.

