TO: BANK OF AMERICA CORPORATION, CITIGROUP INC., CRÉDIT AGRICOLE CIB, JPMORGAN CHASE, BNP PARIBAS, DAIWA, DEUTSCHE BANK, GOLDMAN SACHS, HSBC, MIZUHO, MORGAN STANLEY, RABOBANK, SEB

10 APRIL 2014

OPEN LETTER TO SUPPORTING BANKS ON GREEN BOND PRINCIPLES

Dear Sir, Madam,

As you will know, BankTrack is a network of some 40 civil society organizations, working together to track the environmental and social impacts of the banking industry. As such we noted with interest the recent launch of the Green Bond Principles by a group of 13 banks, including yourselves, and would like with this letter to provide our reaction to the launch of these Principles.

Given the severity of the unfolding climate crisis, there is an urgent need, according to the International Energy Agency, the IPCC and the UN Environment Programme, to mobilize many trillions of dollars in order to catalyze the necessary swift transition to a low- or no-carbon economy. We believe that the banking sector, given its indispensable role in the allocation of finance, has a special responsibility to help facilitate this transition.

As such, we are encouraged by the rapid growth of the green bonds market, in so far as it is helping to channel finance towards genuine climate change solutions. We therefore give a cautious welcome to the Green Bond Principles as a measure intended to help scale up the deployment of capital for green projects.

However, we are concerned that the Principles represent only a set of expectations for issuers of labelled “green” bonds rather than any firm commitment on behalf of the signatory banks underwriting these bonds. This leaves supporting banks free to underwrite any bond issuances which may be wrongly or spuriously labelled as “green”, or which fall far short of the transparency and disclosure expectations
of the Principles. As such, we and our member organizations will be monitoring implementation of the Principles carefully to assess whether banks’ actions match the expectations they establish.

We are also concerned that the Principles leave far too much to the discretion of individual bond issuers, particularly regarding the definition of what constitutes a “green bond”, and on the matter of independent assurance, which we believe should be a minimum expectation.

We call on the banks supporting this initiative to revise the Green Bonds Principles to:

- include real commitments by banks to ensure high standards of transparency and disclosure for bond issuances they underwrite;
- reference clear and science-based definitions and criteria of what constitutes “green” under the Principles; and
- commit unambiguously to third party, independent verification of the information on sustainability and use of proceeds reported by Green Bond issuers.

Furthermore, we call on the signatory banks to match their commitment to extend the green bonds market with a commitment to rapidly and urgently curb their financing for the fossil fuel industry, including exploration, extraction and production of fossil fuels and related power generation. Without a rapid shift away from fossil fuels, other bank initiatives aimed at combatting climate change and keeping our planet’s temperature within safe limits cannot hope to succeed.

We would like to take this opportunity to provide more detail regarding these concerns, and offer our engagement in the process as it moves forward.

**USE OF PROCEEDS: THE DECISION NOT TO DEFINE GREEN PROJECTS**

We are supportive of the Principles’ clear recognition that it is the use of the proceeds of a bond which is the cornerstone of whether or not the bond is “green”, rather than the credentials of the issuer. However we are critical of the decision in the Principles “not to opine on the eligibility of Green Project categories”, based on “the diversity of opinion on the definition of Green Projects”. While this may have been an expedient decision in terms of maximizing banks’ take-up of the principles, we feel that this is an issue which needs to be tackled head on for the Principles to be recognized as a credible initiative. Lack of clarity risks setting the scheme up to fail. It would be similar to how vagueness surrounding the first wave of green consumerism led to often spurious environmental claims, public cynicism and backlash.
While the Principles currently “recognize” several broad categories for the use of proceeds, and reference independent standards for Green Bonds in their Appendix, they still effectively leave wide open the possibility of a signatory to the Principles underwriting a bond issuance which lies outside of any accepted “green” criteria. In order to establish confidence in the Principles by the general public, investors and watchdog organizations such as BankTrack, steps should be taken to ensure that the Principles will not be associated with the financing of destructive companies or projects, such as shale gas investments, food-based biofuels or high-methane leakage tropical dam projects. Finance for such projects under the principles would completely undermine both scientific and civil society confidence in this initiative.

Banks should commit to clearly and unambiguously abiding by credible science-based criteria for investments that can be called green, arrived at following a transparent and open process. We suggest the criteria of the Climate Bonds Initiative, referenced in the appendix to the Principles, as a useful starting point.

MORE CONCRETE COMMITMENTS NEEDED
While we recognize that the Principles form a voluntary document rather than a set of commitments, there are a number of areas where we would like to see the wording of the Principles strengthened.

Process for Project Evaluation and Selection: The Principles currently state that “If possible, issuers should work to establish impact objectives from the projects selected”. We would like to see clarification of the circumstances in which establishing impact objectives for green bonds would not be possible. We would also like to see the Principles take a “comply or explain” approach here, so that where such objectives are not possible, the reason should be clearly stated in the issuer’s reporting.

Reporting: The Principles currently state that reporting should detail “wherever possible the specific projects supported and the dollars invested in the project.” We believe that such reporting should be a basic minimum expectation of any Green Bond, and would like to see this reflected in the Principles. As above, we would like as a minimum to see clarification of the circumstances in which such reporting would not be possible, along with the use of a “comply or explain” approach.

We call upon the Principles to move towards an explicit commitment, rather than a voluntary set of guidelines, to more robustly promote transparency, disclosure and integrity in the bond market.
ASSURANCE: INDEPENDENT VERIFICATION SHOULD BE A MINIMUM STANDARD
The Green Bond Principles are particularly lacking on the question of assurance. The Principles point to a number of options for assurance, “in order of increasing rigor”, although none of these would be considered a requirement.

Of these options, the first – consultation with a second party such as a consultant (whereby the consultant’s recommendations may be kept private) – will provide no assurance to anyone other than perhaps the bond issuer itself, while the second option – publicly available reviews and audits – may provide reassurance, but only where the review is carried out by a qualified independent auditor. Only the final option – third party, independent verification / certification – appears clearly sufficient to provide observers with the necessary reassurance of the veracity and completeness of information reported under the Principles.

We call for the Principles to include verification by a qualified independent third party as a minimum expectation for all disclosure and reporting requirements. Such a requirement is vital to ensure that investors, civil society and other observers can trust and rely on the disclosures made by banks or issuers under the Principles.

GOVERNANCE OF THE PRINCIPLES
We welcome the indication in the Principles that its secretariat, when formed, will facilitate information exchange with stakeholders including non-governmental organizations. We look forward to hearing from the secretariat regarding the opportunity to provide further input into the development of the Principles.

BANKS’ LENDING FOR FOSSIL FUELS
While we welcome the work of supporting banks to increase the amount of capital available for projects with genuine environmental benefits, in order to have any credibility in this space, the global banking sector must urgently tackle the other side of the coin; its continued and largely unabated support for the extraction and production of fossil fuels and its use in energy generating facilities. In value terms this remains at least an order of magnitude greater than current levels of ‘green finance’.

Of the 13 banks supporting the Green Bond Principles, ten appeared in our recent “Banking on Coal” report among the top 20 banks financing coal mining between 2005 and 2013. This report also found such finance to be growing at an alarming pace: in 2012, banks’ financial contributions to the coal mining industry were 397% higher than in 2005, the year the Kyoto Protocol came into force.
If the Green Bond Principles are to contribute towards combating climate change and keeping our planet’s temperature within safe limits, supporting banks must rapidly curb their finance for fossil fuels.

We therefore call on banks to commit to a timely phasing out of finance for coal power, coal mining or coal infrastructure projects, commensurate with avoiding dangerous climate change. As a first step, banks should calculate the financed emissions associated with their loans, investments and other financial services, and following this, commit to reduce these financed emissions in line with climate targets.

We look forward to your response to these matters, and to the opportunity to discuss them further.

Yours sincerely,

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