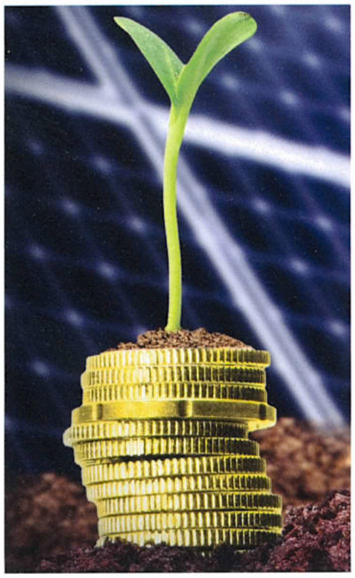

TACKLE CLIMATE CHANGE WITH GREEN BONDS

By Matthew Zipchen

A recent report from HSBC estimates we will need to make $10 trillion in clean-energy investments in the next decade if we are to avoid the worst effects of climate change. With the world bond market worth more than $150 trillion (compared to the equity market at about $50 trillion), it's essential we access the debt markets to make these needed energy investments.

As part of the 2014 Canadian Responsible Investment Conference May 26 to 28 in Toronto, I attended a session called "Green Bonds: Mobilizing Long-term, Climate Change Capital – Real or an Illusion?" Prior to the panel, I assumed "green bonds," or at least those touted by the government and the banks, were an illusion—or at least nothing new. Bonds associated with an asset class that happen to have an environmental benefit, like a hydro dam, have been available for decades. So why the "green" label now?

Based on the panel discussion, it is clear there is a difference as there are both unlabelled and labelled green bonds. Bonds that finance a hydro dam for example are unlabelled green bonds; they're a financial instrument that happens to facilitate an environmental benefit. A labelled green bond, such as Export Development Canada's $300-million green bond offering in January 2014, is explicitly designed to produce specific environmental benefits in addition to their traditional financial ones.

There aren't many standards yet for labelled green bonds, but they're coming soon. TD Bank Group claims to be the first commercial bank in Canada to offer a bond dedicated to funding green initiatives after the bank launched its $500-million TD Green Bond in March 2014, set to mature on April 3, 2017. TD is also developing very specific metrics for their "green" performance. As the market matures, one could envision a day where a bond's financial yield is actually tied to its green "yield," such as a climate bond whose interest is directly tied to greenhouse-gas reductions.

While the emergence of green bonds are a step in the right direction, it seems we have a long way to go before traditional pools of capital like banks, pension plans, and insurers will be interested in this class of assets, and even longer before the average Canadian has access to them.

The problem with the majority of these bonds is that they are mostly limited to institutional investors. The retail market is therefore starved for green and ethical investments. There are Ontario-based co-operatives, such as SolarShare and ZooShare, that offer green bonds directly to the everyday investor, but there are few other examples. The co-ops' initial success is proof of the demand for these products. (SolarShare issued a $10-million bond offering and has already raised $4 million from the public to finance community-based solar electricity projects across the province.)

We need more products like this if we're truly going to mobilize capital to adapt to climate change.

Matthew Zipchen
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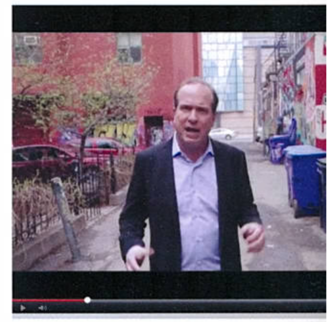

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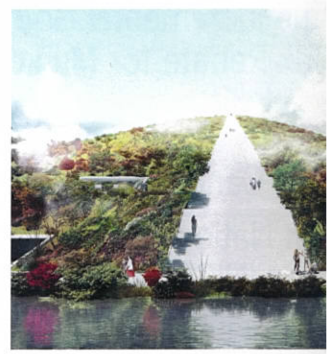

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