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INVESTMENT INDUSTRY ASSOCIATION OF CANADA
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IIAC Green Bond Conference Summary

Tuesday October 1, 2019 - The National Club

OVERVIEW

Leading Canadian and international experts came together at the National Club on October 1st to share their insights on sustainable investing, the challenges and opportunities for issuers and investors in green bond markets, and policies and frameworks that will help to drive future growth. Discussion was focused on the Canadian marketplace, but also included valuable international perspectives.

INVESTORS PRIORITIES AND NEEDS

Panelists outlined what large institutional investors look for when they invest in a green bond and how green bonds feature as part of the wider Environmental, Social and Governance (ESG) initiative for institutional investors. Panelists summarized ESG traits and their impact on their suite of funds and on investing decisions of individuals and institutions.

It was noted that the issuance departments of Canadian financial institutions are seeking to provide greater liquidity and want to see ESG expansion into different sectors of the economy. They believe greater financial issuance in larger benchmarks will create greater liquidity in terms of green products, and green certification will help open more financial products to the market. For investors, the investment value must be attractive versus the risk taken.

There has been a surge in demand for green products from pension funds and other stakeholders as availability of these products increased. It was noted that a CSA Working Group has been created and is closely factoring in the cost and price of such products as its ultimate goal is to move closer towards voluntary common standards. The CSA guidance alone will not completely change the investment strategies employed by firms and individuals, but a convergence to standardization will certainly help the sector.

In Canada, there is a need to transition some industries from brown to green, and there is an argument that Canada needs to develop its own unique green bond taxonomy because the evolving voluntary regulations in other parts of the world are likely be too restrictive to be applied here. As earlier indicated, credit agencies are publicly stating that sustainable investments are directly linked to financial performance.

ISSUERS PRIORITIES AND NEEDS

The green bond issuance process was explained from beginning to end to illustrate that for new issuers, the amount of work, cost and uncertainties on the path to becoming a green bond issuer are greater than a traditional bond issue.

Panelists outlined the paths to ESG issuance and spoke about the model being implemented by the National Australia Bank and QBE Insurance in Australia. In many aspects, the Australian landscape is very similar to Canada – both countries are resource rich and similar regulations are present in comparable industries. As for life insurers, the panelists recognized they are mainly focused on health, but innovation also plays a critical role in this space.

Panelists mentioned that the entire process of creating a green bond and making it available in the market for end users is a three to four-month exercise. Panel member Manulife alone has invested over US$13 billion in renewable energy and energy efficiency since 2002. It also has a US$1.1 billion portfolio of certified sustainably managed forest assets and in recent years have invested US$1 billion annually in green investments. Manulife's first green bond issue was in Singapore dollars (SG $500 million), for 3% 12-year non-call 7 year subordinated debentures in 2017, and was followed by a second issue in Canadian dollars (C$600 million), for 3.317% 10 year non-call 5 year, subordinated debentures in 2018. OPG is Ontario's largest clean energy generator and its inaugural green bond issuance in 2018 was valued at $450 million, for 3.838% 30-year bonds. OPG's second green bond issuance took place in 2019 for 4.248% 30-year bonds. Over 90% of OPG's generation is free of carbon emissions, making it one of the largest zero-carbon generators in North America.

The panelists also spoke about how secure these products are and said that in the unlikely event that a bond stops being green, it is structured such that it does not pose any regulatory risks. In the current market, green bonds are more established compared to gender equality bonds. In particular, in Asian economies, green bonds are an increasingly viable option for investors.

EVOLUTION OF STANDARDS AND GUIDELINES

Efforts have been made globally to define green bond definitions, but there has unfortunately been some fragmentation of market as different issuers and regions have created their own definitions and voluntary standards. Panelists from Sustainalytics, Vigeo and Moody's discussed these varying green bond standards in different jurisdictions around the world.

It was quickly pointed out that there is widespread lack of coherence in policies and procedures governing the green bond space. Second party opinion providers, such as the firms represented on the panel, have played an important role in the green bond space.

It was also discussed how the market needs and wants something that provides incremental progress towards sustainability. Transition bonds and shades of green were discussed.

Moody's stated that it is placing more importance on ESG and taking these factors into account when conducting its analysis to assign credit ratings. ESG participation is becoming a central part of rating firm's taxonomy.

GLOBAL AND DOMESTIC GREEN BOND MARKETS

The panelists highlighted recent trends in the Global and Canadian marketplace and the interactive discussion between issuers and investors that takes place. Panelists from the province of Ontario, City of Toronto and the World Bank spoke about global and domestic green bond markets. The panelist provided assurance the green bond program is here to stay, and has given thought to issuing green bonds in foreign currencies.

The World Bank picked Canada as a place for investment due to high investor demand and to maintain a presence in a market where there were guaranteed opportunities. It carefully studied the Canadian taxonomy and the CSA's mission in order to enter markets to achieve the green goal while keeping costs low. The World Bank has several green projects in member countries that focus on energy efficiency, wind power, solar power, waste management and transport efficiency, among others. The lender has raised over US$13 billion through 157 bonds in 21 currencies while spearheading the goal of transparency. The World Bank stated that disclosure and transparency is very important for investors when seeking to invest in green bonds.

Representatives from Ontario and Toronto both referenced the benchmark curve when speaking about the pricing of green bonds, and said considerable research had been conducted before entering the market. Ontario is currently the largest issuer of Canadian dollar green bonds – $4 billion in issuance from 2014 to 2019. In 2019 alone, Ontario issued green bonds totaling $950 million. Ontario is also a member of the Green Bonds Principles (GBP) group which is maintained by the International Capital Markets Association. In the green space, the city of Toronto focuses on projects related to energy efficiency, climate adaptation and resilience, green buildings, and sustainable water and wastewater management projects, among others.

The panelists agreed that green bonds are priced competitively and that investors realize the costs because they compile metrics themselves before making a decision. Green bond demand has had healthy growth in recent years, not just from individuals, but from institutions. Lastly, the panelists said that an impact analysis is incorporated into all green bond project reporting and fluid discussions are held with the environmental and energy divisions within their organizations on an ongoing basis.

GREEN AND TRANSITION TAXONOMY

Discussion centered around the need for the development of a green and transition taxonomy for Canada. This would lead to a National Standard of Canada, defining a central role for Canada to play nationally and globally in the creation of a global transition taxonomy. The importance of Canada's international participation on the ISO Technical Committee 322 for Sustainable Finance was highlighted. It was stressed that Canada is a resource rich nation and must take responsibility and play a global role as it holds credibility and expertise in this space, however, much work needs to be done.

Canadian expertise must be additive to global frameworks that are in place, such as those under the EU and CBI. This can be brought about through sustainable finance and information and expertise sharing. The panelist briefly spoke about how it is surprising that Canada is not a part of the ISO Technical Committee and said its existing taxonomy is not in line with Canada's current position. The panelist noted that the Big Six banks, pension funds, industry associations, natural resources companies and individual investors all have a role to play in the green bond market and in ensuring its smooth transition and ongoing development.

KEYNOTE SPEAKER – JEFF RUBIN

In the keynoted address, Mr. Rubin stated that last year, clean energy was at an all-time high, but global emissions are on the rise again. While developed countries are moving away from using coal as an energy source, coal is thriving in some Asian economies, especially China due to somewhat lax environmental regulations.

The increase in global emissions is also due to ineffective policies, particularly in Japan (replacing Fukushima capacity) and India. Coal is known to be the largest carbon polluter in the world. A gradual shift to wind and water as energy sources will help lower emissions in the future. Looking at the United States, coal consumption has decreased drastically over the last 10 to 15 years, to a four decade low, as its harmful effects have come to light, but also due to much higher oil production due to fracking, which also has environmental issues.

Lastly, Mr. Rubin said that even though climate change is being highlighted at important forums by governments and environmental organizations, there needs to be an international comprehensive focus on climate change by all governments to reduce carbon emissions to stated goals.