

Bloomberg Barclays MSCI Green Bond Index Consultation

A. Develop Specific Criteria for Inclusion of Green Mortgage Backed Securities (MBS)

Questions:

Green MBS raise a broader question on whether we want to include impact based products or products that are already green. Do you agree that we need to develop a specific criteria for inclusion of green MBS, to be included at full weight?

Response:

We support the development of specific criteria (which could also specify different weightings in relation to the criteria) for inclusion of green MBS provided they are aligned with the Green Bond Principles (e.g. on use of proceeds, project evaluation and selection, monitoring of proceeds and reporting).

B. Revise Treatment of Pure Play Bonds

Question:

Do you agree with aligning Index rules with ICMA and removing the exemption on Principles 2 and 3 for pure play bonds?

Response:

For the avoidance of doubt, the Green Bond Principles 2018 address the issue of Pure Play in Note 1, as follows:

“It is recognized that there is a market of environmental, climate or otherwise themed bonds, in some cases referred to as “pure play”, issued by organisations that are mainly or entirely involved in environmentally sustainable activities, but that do not follow the four core components of the GBP. In such cases, investors will need to be informed accordingly and care should be taken to not imply GBP features by a Green Bond reference. These organisations are encouraged to adopt where possible the relevant best practices of the GBP (e.g. for reporting) for such existing environmental, climate or otherwise themed bonds, and to align future issues with the GBP.”

In other words, for a pure play bond to be aligned with the GBP, it needs to align with all four principles without exception. We believe that the Index rules therefore should be aligned with the GBP, and any exemptions removed.

C. Biomass Should Be Sustainably Sourced

Question:

Do you agree with the proposal to include only sustainable biomass projects in the Index?

Response:

The GBP provide Eligible Green Project Categories that are not explicit at this level of detail. MSCI could consider in this case the guidance provided by green classifications such as the EU Taxonomy under development.

D. Enhance the Criteria for Large Dams from Sustainable Water Projects

Question:

Do you agree with the proposal to enhance the criteria for large water storage dams?

Response:

The Eligible Green Project Categories of the GBP are not explicit at this level of detail. We note however that the proposal for large water storage dams would be consistent with the criteria for hydropower and in line with the objective of the Index to “contribute to climate change mitigation”.

E. Additional Questions for Feedback

Which areas would you look at for alignment between EU taxonomy and the Index?

Question:

Should the Index methodology move towards alignment with the EU taxonomy?

Response:

The EU Taxonomy is still being developed, and it is too early to have certainty on how the Taxonomy will be integrated into operation and legislation. One example to note is that the Taxonomy is based on green (and sustainable) activities whereas the GBP is based on Green Projects. That said it would be opportune to create via the methodology, the conditions for transparency of the Index on the weight percentage that is aligned with the EU taxonomy.

Would you agree that CNY denominated bonds should be assessed as per Index methodology?

Question:

As CNY denominated bonds are added to the Global Aggregate index, would you agree that these bonds should be assessed as per current Index methodology? Or, do you believe that we should make special exceptions for Chinese bonds that align to local standards, and include them in the Index?

Response:

CNY bonds should be assessed on the same Index methodology as other green bonds. There should be no double standard.

What should be the aim of the energy efficiency criteria?

Question:

What should be the aim of the energy efficiency criteria?	Advantages/Disadvantages
Fund limited sectors defined in the methodology. E.g. fund public transport, buildings energy efficiency, smart grids.	Adv: Clear methodology, non controversial sectors Disadv: Limited as type of issuers and bonds grow
Fund only energy efficiency projects that will achieve carbon reduction in line with the Science Based Targets across all sectors i.e. projects aligned to Science Based Targets	Adv: Index will include only bonds funding contribution to low carbon transition, inclusive of different sectors Disadv: Some bonds may fund sectors that are not inherently green and may have other negative externalities (e.g. biodiversity loss)
Develop a middle path and fund: - Efficiency increase & carbon reduction aligned to SBT	Adv: Index will include only bonds funding low carbon transition, inclusive of different sectors

<p>- Exclude negative externalities like potential biodiversity loss. This will be assessed on a case by case basis</p>	<p>Disadv: judgement on negative externalities maybe subjective in some cases</p>
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Response:

We would support methodologies that are aligned with the GBP and its Eligible Project Categories. In this respect, it would appear that the first methodology would be consistent, and possibly the second, but there is insufficient detail on each option to provide a more definitive answer.