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Environmental performance evaluation — Green debt instruments —

Part 1: Process for green bonds

Évaluation de la performance environnementale — Titres de créance verts —

Partie 1: Processus pour les obligations vertes

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Foreword

ISO (the International Organization for Standardization) is a worldwide federation of national standards bodies (ISO member bodies). The work of preparing International Standards is normally carried out through ISO technical committees. Each member body interested in a subject for which a technical committee has been established has the right to be represented on that committee. International organizations, governmental and non-governmental, in liaison with ISO, also take part in the work. ISO collaborates closely with the International Electrotechnical Commission (IEC) on all matters of electrotechnical standardization.

The procedures used to develop this document and those intended for its further maintenance are described in the ISO/IEC Directives, Part 1. In particular, the different approval criteria needed for the different types of ISO documents should be noted. This document was drafted in accordance with the editorial rules of the ISO/IEC Directives, Part 2 (see www.iso.org/directives).

Attention is drawn to the possibility that some of the elements of this document may be the subject of patent rights. ISO shall not be held responsible for identifying any or all such patent rights. Details of any patent rights identified during the development of the document will be in the Introduction and/or on the ISO list of patent declarations received (see www.iso.org/patents).

Any trade name used in this document is information given for the convenience of users and does not constitute an endorsement.

For an explanation of the voluntary nature of standards, the meaning of ISO specific terms and expressions related to conformity assessment, as well as information about ISO's adherence to the World Trade Organization (WTO) principles in the Technical Barriers to Trade (TBT), see www.iso.org/iso/foreword.html.

This document was prepared by Technical Committee ISO/TC 207, *Environmental management*, Subcommittee SC 4, *Environmental performance evaluation*.

A list of all parts in the ISO 14030 series can be found on the ISO website.

Any feedback or questions on this document should be directed to the user's national standards body. A complete listing of these bodies can be found at www.iso.org/members.html.

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Introduction

Industrialization, population growth and other global trends have resulted in environmental impacts with negative societal and economic consequences. Significant financial resources are required to confront these growing challenges. One approach to enhance and promote the financing of environmental improvements has been the development of green debt instruments such as, but not limited to, green bonds. For responsible investors and other interested parties, bonds designated as "green" are used to allocate funds exclusively towards projects, assets and supporting expenditures that can result in environmental benefits such as aligning with global climate goals and conserving natural resources. Such bonds may also support investors in reducing their exposure to financial risks associated with poor environmental management. For issuers and underwriters, green bonds are an attractive financial product with growing market appeal. However, issuers' and market participants' definitions as to what is "green" can vary greatly and are likely to change over time, presenting challenges to the credibility and growth of the market.

This document expands on the Green Bond Principles (GBP)[13] to provide specific requirements and guidance for the designation and verification of green bonds. The objective is to provide market participants and other interested parties with a common framework for designating a bond as "green". The intended result is to provide clarity in the marketplace and improve the credibility of bonds designated as "green". This is achieved by setting requirements for the allocation of funds to projects, assets and supporting expenditures and reporting requirements on the results of expected impacts. Examples of environmental objectives that may be associated with financing of bonds issued in conformity with this document can be found in 5.2.

The following process for issuing and managing a green bond has been defined within the GBP[13]:

a) use of proceeds;

b) process for project evaluation and selection;

c) management of proceeds;

d) reporting;

e) external review.

The objective of designating a bond as "green" is to promote investments that increase positive and reduce negative environmental impacts. Monitored environmental impacts should be specific, measurable, achievable, relevant, transparent and theoretically sound.

Robust information about the environmental impact or performance of projects, assets and supporting expenditures is important to investors and other interested parties. At the pre-issuance stage, investors want to know that an issuer has followed an appropriate process that justifies designating a bond as "green" and that the eligible projects, assets and supporting expenditures have the potential to deliver positive environmental outcomes. After green bonds have been issued, investors seek confirmation that the amount equivalent to the net proceeds has been allocated to eligible green projects, assets and supporting expenditures and, later, that project performance meets the eligibility criteria. Therefore, the role of the verification programme owners is important as they will verify the provisions of Clauses 5 and 6.

This document defines green bonds and specifies process steps for designating a bond as "green", including requirements for the identification of appropriate performance indicators. The requirements of this document address:

— eligibility criteria for the use of proceeds (see Clause 5);

— the management of proceeds (see Clause 6);

— environmental performance (see Clause 7);

— reporting (see Clause 8).

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Figure 1 outlines the relationship between the four parts of the ISO 14030 series.

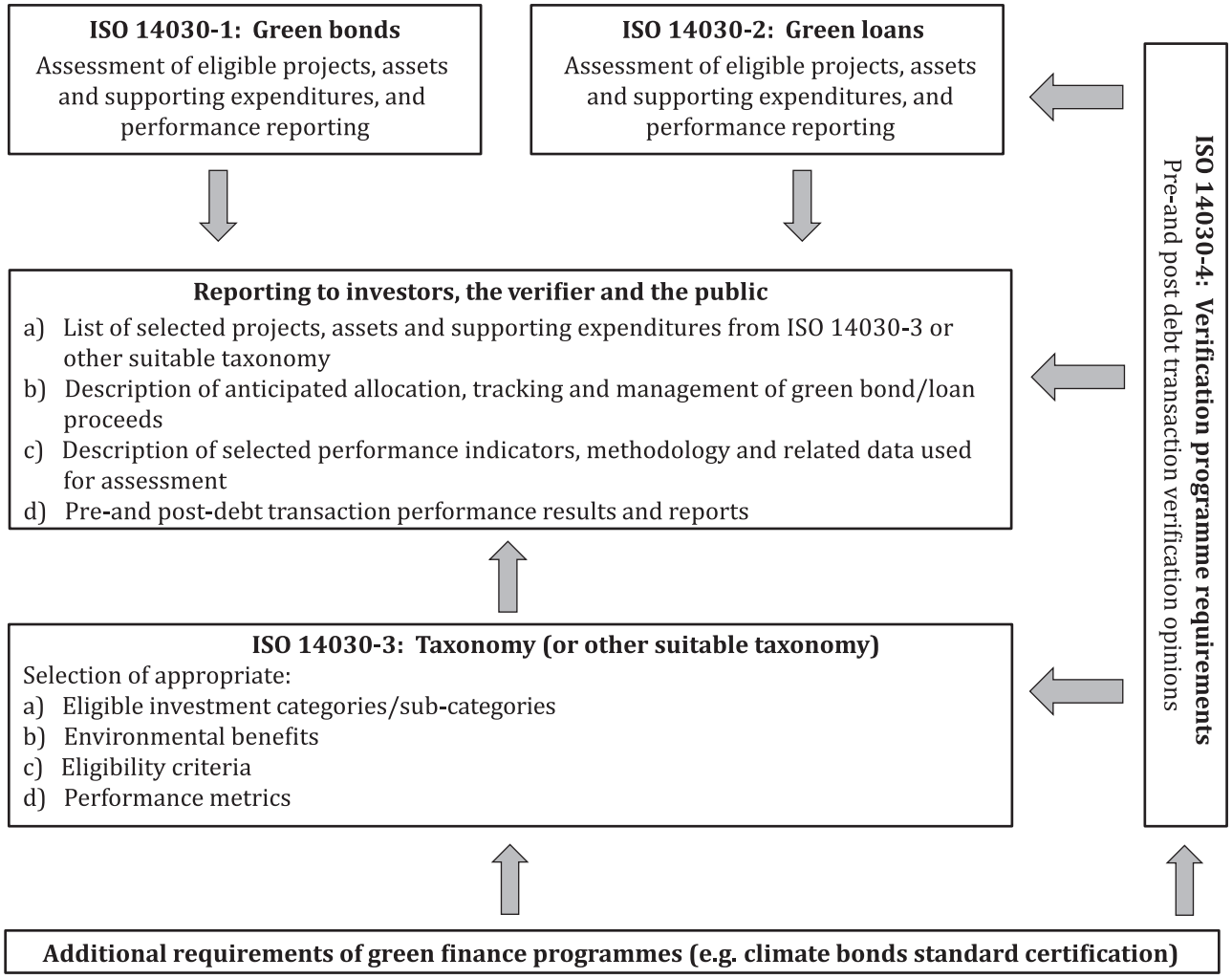


Figure 1 — Relationship between the parts of the ISO 14030 series

In this document:

— “shall” indicates a requirement;

— “should” indicates a recommendation;

— “may” indicates a permission;

— “can” indicates a possibility or a capability.

Information marked “NOTE” is for guidance in understanding or clarifying the associated requirement.

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Environmental performance evaluation — Green debt instruments —

Part 1: Process for green bonds

1 Scope

This document establishes principles, specifies requirements and gives guidelines:

— for designating bonds which finance eligible projects, assets and supporting expenditures as "green";

— for managing and reporting on the use of proceeds;

— for defining, monitoring and reporting on their environmental impacts;

— for reporting to interested parties;

— for validation and verification.

This document is applicable to any issuer of bonds.

2 Normative references

There are no normative references in this document.

3 Terms and definitions

For the purposes of this document, the following terms and definitions apply.

ISO and IEC maintain terminological databases for use in standardization at the following addresses:

— ISO Online browsing platform: available at https://www.iso.org/obp

— IEC Electropedia: available at http://www.electropedia.org/

3.1 Terms related to debt instruments

3.1.1
bond
type of *debt instrument* (3.1.3) that serves as legally enforceable evidence of a debt and the promise of its repayment within a specified term

Note 1 to entry: In this document, the term "bond" should be understood and read to include the intermediated debt instruments listed in Annex A.

3.1.2
green bond
bond (3.1.1) whose *net proceeds* (3.1.6) or an amount equivalent to the net proceeds will be exclusively applied to finance or refinance in part or in full new or existing *eligible projects, assets and supporting expenditures* (3.2.10)

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3.1.3
debt instrument
obligation that enables a party to raise funds by promising to repay a lender in accordance with the terms of a contract

Note 1 to entry: Annex A provides a non-exhaustive list of type of bonds and other intermediated debt instruments.

3.1.4
green debt instrument
debt instrument (3.1.3) whose *net proceeds* (3.1.6) or an amount equivalent to the net proceeds will be exclusively applied to finance or refinance in part or in full new or existing *eligible projects, assets and supporting expenditures* (3.2.10)

3.1.5
issuer
entity responsible for fulfilling the contractual obligations of the *bond* (3.1.1) or other *debt instrument* (3.1.3)

3.1.6
net proceeds
value of the *bond's* (3.1.1) or other *debt instrument's* (3.1.3) principal, minus expected or actual issuance costs and discounts

3.1.7
taxonomy
system for classifying investment categories or subcategories

3.2 Terms related to the environmental objective and performance of projects, assets and supporting expenditures

3.2.1
objective
result to be achieved

[SOURCE: ISO 14001:2015, 3.2.5, modified — The notes to entry have been deleted.]

3.2.2
environment
surroundings in which an organization operates, including air, water, land, natural resources, flora, fauna, humans and their interrelationships

Note 1 to entry: In this document, the phrase "in which an organization operates" should be understood as "inherent to or affected by the *eligible projects, assets and supporting expenditures* (3.2.10) of the *bond* (3.1.1) or other *debt instrument* (3.1.3)".

[SOURCE: ISO 14001:2015, 3.2.1, modified — Notes 1 and 2 to entry have been deleted and a new Note 1 to entry has been added.]

3.2.3
environmental objective
objective (3.2.1) set by the *issuer* (3.1.5) that relates to the *environment* (3.2.2)

3.2.4
environmental performance
performance related to the management of *environmental aspects* (3.2.5)

[SOURCE: ISO 14001:2015, 3.4.11, modified — Note 1 to entry has been deleted.]

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3.2.5
environmental aspect
element of an organization's activities or products or services that interacts or can interact with the *environment* (3.2.2)

Note 1 to entry: An environmental aspect can cause (an) *environmental impact(s)* (3.2.7). A significant environmental aspect is one that has or can have one or more significant environmental impact(s).

Note 2 to entry: Significant environmental aspects are determined by the organization applying one or more criteria.

[SOURCE: ISO 14001:2015, 3.2.2]

3.2.6
impact
result of a change or existing condition that may be adverse or beneficial

[SOURCE: ISO 15392:2019, 3.17]

3.2.7
environmental impact
impact (3.2.6) to or conservation of the *environment* (3.2.2), wholly or partially resulting from *eligible projects, assets and supporting expenditures* (3.2.10)

3.2.8
natural capital
stock of renewable and non-renewable natural resources (e.g. plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits to people

[SOURCE: Natural Capital Coalition[14]]

3.2.9
prevention of pollution
use of *processes* (3.3.3), practices, techniques, materials, products, services or energy to avoid, reduce or control (separately or in combination) the creation, emission or discharge of any type of pollutant or waste, in order to reduce adverse *environmental impacts* (3.2.7)

Note 1 to entry: Prevention of pollution can include source reduction or elimination; process, product or service changes; efficient use of resources; material and energy substitution; reuse; recovery; recycling, reclamation; or treatment.

[SOURCE: ISO 14001:2015, 3.2.7]

3.2.10
eligible projects, assets and supporting expenditures
projects, assets and supporting expenditures that meet the requirements of the eligibility criteria or satisfy the eligibility process test

Note 1 to entry: See 5.1 for requirements and 5.4 for *validation* (3.3.6).

Note 2 to entry: ISO 14030-3 provides examples of the projects, assets and supporting expenditures, and associated criteria for determining eligibility.

3.3 Terms related to performance evaluation

3.3.1
indicator
quantitative, qualitative or binary variable that can be measured or described, representing the status of operations, management, conditions or impacts

[SOURCE: ISO 14031:2021, 3.4.1]

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3.3.2
monitoring
determining the status of a system, a *process* (3.3.3) or an activity

[SOURCE: ISO 14001:2015, 3.4.8, modified — Note 1 to entry has been deleted.]

3.3.3
process
set of interrelated or interacting activities which transforms inputs into outputs

[SOURCE: ISO 14001:2015, 3.3.5, modified — Note 1 to entry has been deleted.]

3.3.4
activity data
quantitative measure of an activity that results in an *environmental impact* (3.2.7)

[SOURCE: ISO 14033:2019, 3.1.2]

3.3.5
quantitative data
numerical data item that includes its unit

[SOURCE: ISO 14033:2019, 3.1.3, modified — "or context for non-dimensional data" has been deleted from the end of the definition.]

3.3.6
validation
process (3.3.3) for evaluating the reasonableness of the assumptions, limitations and methods that support a statement about the outcome of future activities

[SOURCE: ISO 14065:2020, 3.3.16]

3.3.7
validator
competent and impartial person with responsibility for performing and reporting on a *validation* (3.3.6)

[SOURCE: ISO 14064-3:2019, 3.2.7]

3.3.8
verification
process (3.3.3) for evaluating a statement of historical data and information to determine if the statement is materially correct and conforms to criteria

[SOURCE: ISO 14064-3:2019, 3.6.2]

3.3.9
verifier
competent and impartial person with responsibility for performing and reporting on a *verification* (3.3.8)

[SOURCE: ISO 14064-3:2019, 3.2.6]

4 Principles

4.1 Transparency

Reports and communication on the environmental aspects are based on an open, comprehensive and understandable presentation of information.

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